Internationalization of small firms with scarce resources:

finding potential markets and entry modes

Case: FunSquare Ab.

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Title of Thesis: Internationalization of small firms with scarce resources: finding potential markets & entry modes. Case: FunSquare Ab.

Abstract: The aim of this thesis is to build a new model for searching potential foreign markets, which is applied to the identification of potential markets for a recently established furniture startup company. Furthermore, foreign market entry modes and marketing activities for small firms are being discussed with the intent of guiding the company in its initial internationalization processes.

This thesis functions as a guiding tool for small firms that are considering internationalization. The information brought up in this thesis fits especially well with international new ventures, and other small firms that are facing challenges due to their limited resources, as the theme throughout this work is how to internationalize when resources are scarce.

In the study, a mixed-methods approach is used to both analyze existing models for market search, and to search for freely available data that is needed to conduct a search for potential markets. No monetary resources can be used in the implementation of the new model, which is a constrain that to my knowledge, does not exist in any current market selection models.

The research indicates that relatively accurate results of potential markets can be gained without using any monetary resources in the collection of the needed data. However, the market search that was conducted in this study, strongly suggests that using some resources to obtain specific data about different market sectors improves the overall accuracy of the results.

Key words: Internationalization, international new venture, startup, market selection, entry methods, small firm, scarce resources.

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1   INTRODUCTION

Even though trade between nations can be traced back thousands of years, and multinational enterprises have their origins in the international activities of medieval bankers (Young, et al., 1989), the most dramatic and fast changes in international operations have occurred in the past 60 years. Within these 60 years, the export rate of goods has grown exponentially, and the whole scenery of international business has experienced fundamental changes. Trade barriers have been reduced, more effective systems for communications and logistics have been invented, and the internet has provided a worldwide platform that connects even the most distant markets with each other (Knight & Cavusgil, 2004; Chetty & Campbell-Hunt, 2004).

Only a few decades ago, the international business arena was mostly dominated by large multinational companies with vast resources that smaller firms were not able to compete with. Consequently, the literature on internationalization was dominated by internationalization strategies and models built around these giants (Kjellman et al., 2004). However, as trade barriers started to fade away and the communication between markets became more efficient, more opportunities began to rise even for smaller firms. More and more small firms found opportunities in niche markets, where the potential earnings were significant for them, yet not large enough to attract huge corporations (Aspelund et al., 2007). Steadily, the amount of internationalizing small firms started to grow. The attractiveness of these small niche markets also contributed to the emergence and growth of the so called international new ventures, or born globals, which can be described as firms that are internationally active right from their inception (Bouncken et al., 2015; Knight & Cavusgil, 2004).

However, small firms face a multitude of challenges when going international. Scarce resources alone put them in a significant disadvantage compared to larger companies, and the lack of experience and know-how of international markets and processes therein, may lead to wrong decisions and ultimately, costly failures (Arbaugh et al., 2008). Yet, in many cases internationalization is the only viable option for survival. Small firms competing in niche markets within their local environments are limited by the size of their home markets. The opportunities for growth may therefore quickly stagnate, which is

why internationalization becomes the only viable option for further growth. In some cases, especially with born globals, there might have never been a suitable home market for the products or services that are provided by the company. Instead, the products have deliberately been produced to meet the demands of foreign niche markets.

Internationalization provides significant opportunities for success and rapid growth, yet many small firms fail in their international attempts and are forced to draw back their operations (Arbaugh et al., 2008). Some firms however, do succeed. Similarities between internationally successful small firms have been studied. Some studies indicate that the management of a firm plays a crucial role in international performance (Kjellman et al., 2004; McDougall et al., 2003), while other studies emphasizes the importance of networks, highly differentiated products and niche market seeking (Knight & Cavusgil, 2004; Aspelund et al., 2007). Thus far however, the characteristics of successful internationalization of small firms is still under controversy and much debate (Rialp et al., 2005).

Evidently, the number of internationalizing small firms has been growing for the past few decades and still, continues to grow. This has led to a growing interest among researchers to study the reasons behind small firm internationalization and the processes by which internationalization is done (Kjellman et al., 2004). A significant part of the studies has been dedicated to the understanding of the growing phenomenon of international new ventures, often referred to as born globals, which are firms that internationalize aggressively right from their inception (McDougall et al., 2003). For decades, the traditional way of internationalizing was a gradual process, where organizations tended to first broaden their operations to nearby countries, after which they increased their international involvement and commitment in sequential stages (Kjellman et al., 2004; Johanson & Vahlne, 2009). This traditional view of internationalization processes has been challenged by born globals, as they tend to leap over stages that are presented in the traditional models. Furthermore, born globals rarely establish a significant market-position in the home market before going international, instead they leap to foreign markets early after inception (Bouncken et al., 2015).

Despite the growing interest towards born globals and the internationalization of small firms in general, there are still significant gaps in knowledge concerning the way these

ventures internationalize and what factors contribute to successful internationalization (Rialp et al., 2005). Even though the traditional models of internationalization have also faced critique, they are still widely recognized as valid within the internationalization of larger organizations (Rialp et al., 2005). However, no such consensus has been achieved concerning born globals or other small firms, which is why further research is needed.

1.1 Problem discussion

According to Buckley, Doh and Benischke (2017), international business researchers tend to focus too much on identifying gaps in existing literature, instead of producing new work based on the real world. Even though the world has witnessed major changes in the past few decades, and continues to do so, much of the literature is still fixed on theories from the last century (Buckley et al., 2017). In this thesis, an attempt is made to connect theory with the current outside world and solve some practical problems that many internationalizing small firms are facing due to their limited resources. To solve such problems, or at least to give guidance or suggestions, some areas of the research must look outside the already existing theories and models.

When talking about the internationalization of small firms in general, no matter if the firm is a startup company, a company that has been competing in the home market for several years, or a born global company, there is usually one common problem: scarce resources. Company resources may refer to individual knowledge, know-how, existing networks, innovation, physical resources and of course, financial resources. Perhaps the most crucial differences between big corporations and small firms, or, at least, the most visible, are the available financial resources (Knight & Cavusgil, 2004).

The scarcity of financial resources reduces the amount of available options for internationalization. The conventional way of expanding incrementally into foreign markets may prove to be a well-suited method for larger companies, yet, in many cases, impossible for smaller firms. Larger companies can rely on incomes from their home market, while slowly building up subsidiaries and marketing channels in foreign environments (Gabrielsson & Kirpalani, 2004). Yet, small firms lack such resources and therefore other means of internationalization must be found. However, small firms, especially born globals, tend to be less bureaucratic and significantly more flexible than larger companies (Knight & Cavusgil, 2004). Because of the lower levels of bureaucracy,

decisions can be implemented faster and deals with other parties can be made more quickly. Furthermore, higher flexibility makes it easier to adapt to foreign markets. These attributes enable fast internationalization to more distant markets.

Small firms rarely follow the same models of internationalization that are used by larger companies; instead, they tend to leap over stages in the models or find their own, unique paths to the international markets. However, no matter what models are used, or which steps are taken, there is always one question that needs answering: where?

The choice of a target market is one of the most important decisions within an internationalization process (Fish & Ruby, 2009), which is why large companies tend to use extensive amounts of resources in finding the most potential markets. Yet the process by which unbiased decisions can be made, requires a large initial sample of markets and lots of data. Usually, the necessary data is expensive, and, moreover, special expertise is needed to effectively handle and analyze the data (Young et al., 1989). Unfortunately, small firms rarely have the necessary resources to obtain the needed data to conduct reliable evaluations of potential markets; instead, the market selection is often a reaction to the external environment, where for example existing contacts may influence the decision (Ozturk et al., 2015). Furthermore, small firms often rely on their instincts when choosing a market, which is why the most potential markets may remain undetected (Alon, 2004). These unsystematic approaches have been found to be underperforming compared to systematic approaches (Ozturk et al., 2015), which is a clear indication that small firms need to conduct more precise market evaluations in their internationalization processes. As necessary data is expensive and expertise is needed to perform precise market evaluations, the task is challenging for small firms. However, as small firms are often competing in niche sectors, the processes of finding suitable markets may differ from the ones that are used by larger companies. This fact may be perceived as an opportunity to create new and innovative solutions that can provide precise-enough market evaluations, without having to rely on massive amounts of data.

Besides finding a suitable market, a firm must also decide what method is used to sell the products to foreign customers. This decision is also crucial, as choosing a wrong entry method can have long-term negative consequences on the firm's performance (Brouthers & Nakos, 2004). For small firms, the choice is often made between indirect export, direct

export, licensing, contract manufacturing, and joint ventures. In general, if a less risky strategy is chosen, then more of the control over the products is lost, and vice versa. The decision is therefore mostly influenced by the firm's existing resources and how much customer support is needed (Burgel & Murray, 2000). Ideally, a firm would like to have as much control over the products as possible, yet scarce resources often eliminate the option for total control. Generally, small firms tend to use either direct or indirect exporting in their internationalization processes (Hessels & Terjesen, 2010). Especially indirect exporting has gained attention from researchers as it is the least risky method of internationalization. Also, using intermediaries to sell goods or services to foreign markets makes it easier for small firms to overcome gaps in knowledge and to find customers (Hessels & Terjesen, 2010). However, if indirect exporting is chosen, then most of the control over the goods is lost and parts of the profits fall into the hands of other parties.

The literature on small firm internationalization has mainly been connected to born globals, wherein technologically advanced firms have gained most of the attention. Thus far, generalizations can be made on factors that contribute to the existence and rapid growth of born globals. However, there are still controversies concerning factors that contribute to successful internationalization of these ventures (Rialp et al., 2005). Even though born globals have gained much attention from researchers, surprisingly little attention has been paid to the market search processes and to the foreign market entry modes of these ventures (Burgel & Murray, 2000; Ozturk et al., 2015).

1.2 Purpose and problem formulation

The purpose of this thesis is to give guidance to a new furniture startup company, FunSquare Ab, in their decisions concerning internationalization. There are three separate aims of this study:

- Building a new model for the identification of potential foreign markets, which will be applied to identify potential markets for FunSquare
- Suggestions for entry methods to the foreign markets
- Suggestions for marketing activities in the chosen foreign markets

The theme throughout this thesis is what methods for internationalization can be used by small firms with scarce resources.

The search for potential markets, or market screening, is a complex process in which vast amounts of data are gathered and analyzed. Usually, it is a process done in several stages, where each consecutive stage narrows down the number potential markets. Some market screening models have been presented for small firms, yet the data, which is needed to use these models, is expensive. Therefore, the focus in this study lies in finding or developing a model, by which small businesses can find suitable international markets for their goods or services without using any monetary resources in the process. The model that is produced, is then used to find the most suitable market or markets for the company FunSquare Ab. Thereafter, suggestions for entry methods and marketing activities are presented by investigating and analyzing existing literature. To achieve these objectives, the following questions need to be answered:

- In what way should existing market screening models be modified, so that no monetary resources are needed in obtaining the necessary data while sufficiently precise results can still be gained?

- What are the most suitable market entry methods for the startup company FunSquare Ab?

- What cost-efficient marketing activities in the target market have the most potential of being effective?

1.3 Description of case firm: FunSquare Ab

FunSquare Ab is a Finnish startup company that was founded in March 2017 by Johan Backas and Dine Renfors. Since its inception, the company has been developing a multifunctional furniture, designed to suit the growing trend of compact urban living.

In its current state, the company is developing the final touches to its product, which should be finalized and ready for production in the summer of 2018. According to the founders of the company, the manufacturing of the product is likely to be outsourced to Poland, where suitable expertise has been found and where manufacturing costs are

considerably lower than in Finland. The lower manufacturing costs would evidently lower the price of the final product, thus leading to a broader potential customer base.

The product

The product is a table that can be quickly transformed into a bed, and back again. Much work has been done to ensure that the product functions properly both as a bed and a table, without losing any of the fundamental properties of the two items. The good quality of the product also enables a smooth, fast and easy transformability, which only takes seconds to perform. The final product will weigh 80 kilograms, and the price will be around €1,500.

Following the models of IKEA, the product is sold in a compact package that can be transported effortlessly to apartments and then assembled by the customers themselves. Compact packaging also enables lower costs in logistics, as less room is needed for the transportation of the products.

The need for internationalization

The initial idea of FunSquare was to design a product that would serve the need of effectively utilizing expensive square meters in urban apartments where people are living in small spaces. According to Lennard (2014), the urbanization trend has created a phenomenon where more and more people are living in smaller properties. Simultaneously, the demand for space saving items such as more compact beds or furniture has grown. In their home market, Finland, the problem of living in cramped spaces is not as evident, as it is several other countries where cities are huge and people are not able to afford any extra living space. The largest group of potential customers can therefore only be found outside the borders of the company's home-country, which is why the international market is able to provide far wider opportunities for success.

1.4 Delimitations

This thesis discusses the identification of potential target markets, entry methods, and suitable marketing activities for a Finnish startup company. However, the focus of the study is on finding potential target markets and building a suitable model for that purpose. Geographically, the market search will be limited to Europe, as the startup company wishes to begin their internationalization process in Europe, from which experience and

knowledge can be gained before entering more distant markets. To answer the questions presented in the problem formulation, and to follow the main theme of the thesis, focus lies in theories related to small firms.

At the moment, the startup company has one product, a multifunctional table, around which all the company's activities are concentrated. Thus, the market-seeking, the entry methods, and the marketing activities are examined and evaluated based on the characteristics of this flagship product.

Furthermore, the startup company already has a partner, responsible for developing marketing activities within the home market (Finland), which is why the suggestions for marketing activities will be limited to only account for activities in the foreign target market.

1.5   Structure

The literature review begins with an overview of general theories and models of internationalization, to give the reader some perspective on why general theories are not entirely applicable to the internationalization of small firms. Thereafter the literature becomes more concentrated on small firms, where the topics include: born globals; driving factors and barriers for internationalization; and factors that affect the performance of small firm internationalization. Finally, viable entry modes and market screening models for small firms with scarce resources are presented. In the methodology chapter, the chosen methods for the research are presented and justified. Next, the results of the research are put together and presented. The chapter for results begins with an overlook of the problems in existing models for market search, after which a new model for market search is constructed and then implemented to identify the most suitable European markets for FunSquare. In the same chapter, suggestions for entry modes and marketing activities are presented. The chapter for results is then followed by a chapter engaged in discussing the results and presenting implications for further research.

2   LITERATURE REVIEW

The following chapter presents internationalization theories and models, starting with an overview of the most commonly cited and recognized models, after which the focus is shifted towards models that are connected to small firms, where resources are scarce. The reason for presenting widely acknowledged models is to gain perspective on the different approaches on internationalization that have been made in the past, which makes the understanding of more recent models more profound. After reviewing literature concerning small firm internationalization, which hopefully will give the reader a holistic view about the current state of the research regarding the subject, the chapter will continue by reviewing viable market entry methods for small firms, after which focus is placed on models concerning market selection.

2.1   General overview of internationalization models

On a broad scale, the literature on the internationalization of firms can be divided into two streams of research: the economic approach and the process approach to research (Andersson, 2000; Benito & Gripsrud, 1992).

The economic approach focuses on the company and its environment, with the assumption that companies choose rational solutions and have access to perfect information (Andersson, 2000). Examples of theories based on the economic approach are: the eclectic paradigm, transaction-cost approach (Andersson, 2000; Dunning, 1988) and international product life-cycle model (Olafsson & Hermannsdottir, 2009).

The process approach, on the other hand, focuses on the impact of experiences that are gained in the international arena. Here individual learning and the top managers play a crucial part, as decisions are based on prior experiences (Andersson, 2000). Models within this field are typically composed of different stages, where each stage contributes to the learning process and, hence, steers the next decision. Among the best-known theories following the process approach are the Uppsala internationalization model (Andersson, 2000), and the innovation-related internationalization models (Olafsson & Hermannsdottir, 2009).

Next, models from both the economic approach and the process approach will be presented, followed by critical views on the models. The eclectic paradigm and the

Uppsala model are chosen as examples, as these models are among the mostly cited ones, and have influenced the literature on internationalization to a high degree.

2.1.1 The Eclectic Paradigm

John Dunning's eclectic paradigm was published in 1979 and was originally introduced as a framework for examining international production and foreign direct investment decisions (Dunning, 1988; Kjellman et al., 2004). Since its first publication, the model has received some modifications, yet in its original form it suggests that the extent, form and pattern of international production is influenced by three advantages (Dunning, 1988):

1. The firm's competitive advantage. More precisely, the firm's ownership advantages over firms in the target country, which may either be assets, meaning for example superior technology, or transaction advantages, meaning the firm's ability to coordinate assets across borders more efficiently than its competitors (Dunning, 1988; Kjellman et al., 2004). The most successful firms enjoy both assets and transaction advantages, yet to gain justifiable competitive advantages, the ownership advantages must be both sustainable and unique (Kjellman et al., 2004).

2. Internalization advantage. In this second factor, it is determined whether it is better for the organization to produce the product itself, which would add value to their output, or to make a contract with a third party, which would for example mean outsourcing or licensing. If it is more profitable to undertake the production, in other words, to use internal modes of operation, then an internalization advantage has been achieved (Dunnin, 1988; Kjellman et al., 2004).

3. The third advantage is concerned with the "where" of production. The location of the production is chosen based on location-specific advantages that fit with the firm's strategy. These advantages may be market potential, similarity in culture, investment risk and lower production costs (Kjellman et al., 2004).

Hence, according to the eclectic paradigm, an internationalization strategy is mostly based on the firm's competitive advantage and the circumstances in the target country.

Criticism

The eclectic paradigm's broad appeal is a major reason for its long-term presence in explaining various sectors and types of activities. Its simplicity and general nature have made it a widely used theory among scholars and economists. However, it has also been the object of substantial criticism (Cantwell & Narula, 2001).

All three different factors or advantages in the theory have been under criticism, and even their independency has been widely challenged. Economists and scholars argue that these advantages cannot be separated from each other, as for example a firm's actions towards locational variables may indeed change the firm's overall ownership advantages (Dunning, 2001), which puts advantage one and three under the same category, and, hence, they are not entirely independent.

Apart from the interdependencies, a highly criticized factor is the internalization of the firm. As the theory states, a firm should produce the product itself to add more value to its operations, yet more and more firms in today's environment are relying on external networks. This trend has occurred across industries and has been especially noticeable in the areas of innovation and technology (Cantwell & Narula, 2001). Alliances and outsourcing are now cornerstones of a firm's strategy, which indicates that internalizing is not the preferred strategy for a majority of today's businesses (Cantwell & Narula, 2001).

All in all, despite the criticism, the eclectic paradigm is one of the major theories within internationalization and has inspired numerous other theories (Cantwell & Narula, 2001).

2.1.2   *The Uppsala internationalization model*

In the mid-1970s, researchers at Uppsala University made empirical observations that contradicted the international literature of the time. In the former literature, firms made their optimal market entry strategies by analyzing costs and risks in the target market and compared those to their own resources (Johanson & Vahlne, 2009). Johanson and Vahlne (1977) noticed that a significant part of Swedish companies began their internationalization by exporting, after which deals with intermediaries took place, and when sales grew, the agents were replaced by their own sales organizations. If the growth continued, the companies would then start manufacturing in the foreign market (Johanson & Vahlne, 2009). What they saw was a frequently occurring process of

internationalization that was done in several stages. These findings led to the introduction of the Uppsala model, first published in 1977 (Johanson & Vahlne, 1977).

The stages in the model are the following:

1. No regular export activities

2. Export via independent representatives (agents)

3. Establishment of an overseas sales subsidiary

4. Overseas production/manufacturing units

The essential concept of the Uppsala model is thereby an internationalization process made in sequential stages, where commitment and involvement in the foreign market increases by each stage (Kjellman et al., 2004; Johanson & Vahlne, 2009). Furthermore, it is assumed that when the search for new alternatives begins, the search is directed towards alternatives that are as similar as possible to the existing operations. The uncertainty of outcome also increases with distance, which is why firms are more likely to begin their internationalization processes in nearby countries, where the markets are familiar to the domestic market (Nordström, 1991; Kjellman et al., 2004). The term psychic distance is used to describe differences between culture, economy, language, political and legal systems. Firms are thereby likely to initiate their internationalization in markets where the psychic distance is low compared with the home market (Johanson & Vahlne, 2009). However, as knowledge about foreign markets grows over time, so does involvement in them.

All in all, the Uppsala model represents a model where experiences and knowledge play crucial parts. Yet, gradual internationalization is not an exclusively Swedish phenomenon. Several studies including studies on American, Japanese, Turkish, Australian and German firms, have reported similar results (Nordström, 1991). However, the Uppsala researchers did not claim that the model could explain each firm's choice of market or all the individual establishment chains within, yet the evolutionary process of internationalization is claimed to be the most commonly seen process (Nordström, 1991).

Criticism

Research has provided the Uppsala model with considerable empirical support, yet there is some criticism of the model as well. First off, the model seems to be less valid in certain sectors such as the high-technology sector and the service sector, which are not motivated by market-seeking (Kjellman et al., 2004). Also, perhaps the most crucial critique regards the fact that firms are no longer taking cautious steps when going international; instead, the process has become more spectacular. Firms are leaping over stages in the establishment chain and entering distant markets far more quickly than before (Nordström, 1991; Kjellman et al., 2004).

The reasons for quicker internationalization of firms are many. An obvious one is easy access to information and market knowledge. Internet alone provides a vast sea of information, but there are also several consult agencies that can provide information about competitors, market potentials, distribution systems, possible modes of entry, and so forth. Even students in business schools and universities are taught about international business and, hence, knowledge in the area is far wider than before. This in turn means that the knowledge creation in firms is not restricted to a slow process that can only be achieved by experience in the international arena (Nordström, 1991; Kjellman et al., 2004).

As a lot of criticism was directed at the Uppsala model's inability to describe and assess the importance of the changed external environment of firms, Johanson and Vahlne reformulated their original model to also include networking as a main aspect of internationalization (Johanson & Vahlne, 2009). The revised model recognizes that knowledge is developed in relationships, and that trust-building is a critical part of the internationalization process. Besides the add-ons, the revised model follows the main principles of the original one (Johanson & Vahlne, 2009).

The unifying reason for criticism

Even though both the eclectic paradigm and the Uppsala model continue to be featured prominently in literature concerning internationalization, changes in the international environment have been the fundamental reasons for the criticism of these models.

The world is still far from being homogenous, yet the differences between countries and the gaps in international knowledge has significantly narrowed from the time when these models were introduced (Nordström, 1991: Knight & Cavusgil, 2004). People and

companies have access to far more information now than they had in the past. This has even led to major changes in internationalization, as firms are entering distant markets in early stages of their existence and far more emphasis has been put on outsourcing and licensing activities (Kjellman et al., 2004).

2.2 International new ventures – Born globals

The volume of international business has increased enormously during the past few decades and even the international environment has changed drastically. The speed, quality and efficiency of international communication, transportation and logistics have dramatically increased, which in turn has reduced business transaction costs and facilitated high growth in international trade (Knight & Cavusgil, 2004; Kjellman et al., 2004; Moen & Servais, 2002). These changes, along with lower trade barriers, have created a trend where more and more small companies start their internationalization right after their inception (Knight & Cavusgil; Moen & Servais, 2002; Bouncken et al., 2015). These new ventures, often referred to as born globals, first emerged in countries with small domestic markets, yet are now appearing all around the globe in large numbers (Knight & Cavusgil, 2004).

2.2.1 Definition

There are multiple empirical definitions of born globals, yet a specific and coherent definition is still to be made. Evers (2010), for example, suggests 25 % of total sales in foreign countries in the first year of trading, which she based on McDougall and Oviatt's operational definition on international new ventures, while Chetty and Campbell-Hunt (2004) used a definition that states 75% export intensity within two years of inception. In general, however, a born global is a company that starts international activities immediately or early after its inception, and does it with high speed, degree and scope (Bouncken et al., 2015).

2.2.2 Why do born globals emerge?

As stated earlier, the international business environment has changed and therefore it is possible to internationalize quickly and even with scarce resources. The Internet in particular has provided easy access to worldwide customers, distributors, network partners and suppliers (Chetty & Campbell-Hunt, 2004). Globalization has even made the world more homogenous regarding consumer buying preferences, which has made it

easier for companies to develop products and to position themselves in foreign markets (Knight & Cavusgil, 2004). Another crucial reason is that small companies quite frequently compete in niche sectors, where the home market is too small or saturated for sufficient revenues. In these cases, the global market provides the needed opportunity for growth (Evers, 2010).

Apart from the external environment, there are also internal factors that have influenced the emergence of born globals. The typically small size of new ventures provides them with flexibility, which can be a huge benefit compared to larger firms. Products can be developed quickly, and changes in the internal environment can be made without bureaucracy, resulting in improvements to the firm's competitive offerings and routines (Knight & Cavusgil, 2004). It is also argued, that born globals mostly emerge in knowledge-intensive sectors, such as high-tech, where both knowledge and innovation play crucial roles in the development of competitive advantages. High flexibility and the lack of bureaucracy, again, prove to be factors that contribute toward an internal environment where innovativeness is more encouraged (Knight & Cavusgil, 2004).

2.2.3 *Internationalization of the born-global firm*

Born globals are characterized by limited financial and tangible resources (Knight, 2015). Consequently, born globals need to find alternative solutions for internationalization as they cannot follow the same costly processes that larger companies go through. They have to improvise and find cost-efficient solutions to reach their target audiences.

The strategies of born globals have been compared to the traditional stages model (Uppsala model by Johanson and Vahlne 1997). Yet, born globals do not spend years gaining international knowledge and neither do they follow the traditional stages that the model describes (Moen & Servais, 2002). Instead, born globals tend to have rich international knowledge from the beginning and they leap to the global phase early after inception (Bouncken et al., 2015). Even the psychic distance between markets is not as crucial as the Uppsala model indicates (Bouncken et al., 2015; Moen & Servais, 2002). Yet, there is no single strategy that is applicable for born globals in general, as the type of born globals vary significantly. To illustrate the differences in basic orientations and generic strategies of born globals, the major findings in a 2005 study by Knight and Cavusgil are presented next.

2.2.4 *Four clusters of born globals*

In a 2005 empirical study by Knight and Cavusgil, hundreds of born-global firms were grouped based on their basic orientations and generic strategies (Knight & Cavusgil, 2005). Four broad clusters of born globals were found:

1. Entrepreneurial strategy and technology leaders

2. High-tech focusers

3. Entrepreneurs emphasizing cost-leadership

4. Poor performers "stuck in the middle"

Firms in the first cluster excel in differentiation and focus strategies. They have unique products, which can be easily positioned, and they target niche markets. Firms in the first cluster scored highest in international performance and well in cost-leadership.

The High-tech focusers also rely on differentiation and focus. They scored high on technological leadership, yet worst on cost-leadership. Cost-leadership reflects attempts to compete with prices, which might for example be done by low production costs and administrative costs, by which the overall prices of the products are lowered.

Companies in cluster three are using a cost-leadership strategy, yet they are weakest in the technological leadership rank. Their international performance is close to cluster two.

Companies in the last cluster do not seem to follow any major strategy particularly well. They rank low in almost every category and their international performance is substantially lower compared to the other clusters. (Knight & Cavusgil, 2005)

Overall, companies in the first cluster perform better in the international market than companies in the other clusters. A noteworthy factor is that these companies appear to be pursuing multiple strategies simultaneously. They have unique products, cost-effective approaches, innovative marketing and tend to possess an entrepreneurial orientation, which can be described as innovativeness and managerial vision (Knight & Cavusgil, 2005). It can also be noted, that a strategy based on cost-leadership might in some cases be successful yet tends to occur in isolation from differentiation. Firms competing for cost-leadership are subject to severe price competition, which in turn can lower profit margins and, hence, make them less profitable in the long-term (Knight & Cavusgil,

2005). Furthermore, as born globals are small, they are less able to compete in scale and volume, which makes a strategy solely based on cost-leadership ill-advised. As the study indicates, clusters where strategies are mostly based on cost-leadership (3 and 4), tend to perform poorly. In contrast, firms emphasizing differentiation and focus strategies are overall achieving better international performance (Knight & Cavusgil, 2005).

2.2.5   Dominant frameworks of born-global research

From the empirical standpoint, international new ventures or born globals have mostly been ignored until the early 1990s. Since then, several studies have emerged, yet with different empirical approaches (Rialp et al., 2005). The most dominant dimensions of research in this area are:

1. Individual-level variables

2. Firm-level variables

3. National-level variables.

Individual-level variables are generally concerned with the individual attributes of the founder or the leaders of the international new ventures. These attributes include having an international entrepreneurial orientation, a learning orientation and having previous international knowledge and experiences (Knight, 2015; Bouncken et al., 2015). Furthermore, learning itself can be divided into market-focused learning, applied to create capabilities for accessing niche markets, and internally-focused learning, by which competitive and knowledge-intensive products can be developed (Weerawardena et al., 2007). All in all, the individual-level variables are mainly concerned with knowledge and learning, where previous knowledge is perceived as an advantage and the ability to constantly learn is perceived as crucial for sustainable performance (Knight, 2015; Weerawardena etl.al., 2007).

The firm-level variables are mainly connected to the resource-based view, which continues to be a dominant framework in the research of born-global internationalization (Bouncken et al., 2015). The resource-based view is based on the theory that to gain competitive advantage, a firm's resources must be rare and difficult to imitate and transfer. These traits must also endure over time, which is why intangible resources such as management skills and organizational knowledge is perceived as particularly important

(Karra, Phillips & Tracey, 2008). Apart from the internal perspective, the environmental perspective is also crucial, as firms need to develop capabilities that allow them to respond quickly to changes in the external environment (Karra, et al., 2008). Several studies within this field have demonstrated a link between rare or unique resources of a firm and the scope and progress of internationalization (Bouncken et al., 2015). Another firm-level variable that has gained much attention is the network perspective. Due to their limited resources, born globals have developed strategies to overcome the limitations, one of which is the active use of networks and alliances. With the help of these, a firm's internal knowledge can be developed and knowledge about foreign markets can be attained (Freeman & Cavusgil, 2007).

The national-level variables are nation-specific factors that contribute towards the rapid growth of born globals. The amount of emerging born globals seems to be highest in small countries with advanced economies. A reason for this might be that the national markets in these smaller countries are not big enough in the niche sectors that born globals tend to compete in, which is why they seek to internationalize early (Bouncken et al., 2015).

In conclusion, the traditional models of internationalization are not sufficient in explaining the internationalization processes of born globals. Studies in this field have mainly focused on individual knowledge and learning, the resource-based view, and on the importance of networks (Rialp et al., 2005; Bouncken et al., 2015). From the findings of these studies, generalizations can be made on why born globals emerge in such vast quantities, yet the research on factors that lead to successful internationalization is still unsatisfactory (Rialp et al., 2005).

2.3 Internationalization of a small firm – Driving factors

There are a lot of risks involved for a small firm to internationalize. The scarce resources alone put them in significant disadvantage compared to multinationals, and the incomplete knowledge about the international markets makes it even more difficult to effectively sell products or services to their foreign target audiences. Yet, despite all this, the number of internationalizing small firms is immensely growing. What is it then that makes the home market so unsatisfactory to these new ventures, and the foreign ones so desirable?

According to the Uppsala model, firms will pursue international activities only when their domestic markets have matured (Johanson & Vahlne, 1977). Yet, it seems that in many cases, the domestic market is matured already at the inception of a small firm, or perhaps there never was a viable domestic market to begin with. This phenomenon has created a strong push factor for several small firms, as they have developed niche products or services that require a specific set of customers that cannot be found in the domestic market (Knight, et al., 2001; Evers, 2010). This is mostly occurring in small, open domestic economies where the market is not able to provide the needed opportunities (Evers, 2010).

As the global economy has become more efficient, synchronized and homogenous, the barriers for going international have significantly reduced (Evers, 2010). This has even led to the phenomenon that firms ignore their domestic markets from the outset and target distant niche markets instead. Targeting distant niche markets is thereby affected by both saturated or non-existent domestic markets and the simplicity in internationalizing. Furthermore, as the international markets have become fairly homogenous, there is not even a need for highly specialized products, as the same customer preferences can be found in several different countries. Even the same marketing can be used in different countries, which significantly reduces costs (Evers, 2010).

The industry structure influences the pace of new venture formation. Research suggests that the concentration of an industry and the evolutionary stage of an industry can be directly linked to the formation of new ventures (Evers, 2010; Fernhaber et al., 2007). Evolutionary stage refers to stages that industries go through, which are introduction stage, growth stage and maturity. When in the growth stage, demand grows rapidly, and the industry becomes more legitimate. In the growth stage, market opportunities are also greatest for new ventures, and as the market is not yet matured, the competitive pressure has not reached its highest level. Consequently, this is the time when most new ventures pursue internationalization (Evers, 2010; Fernhaber et al., 2007). Furthermore, if the home-industry is highly concentrated, and therefore also highly competitive, then ventures are forced to chase opportunities abroad for survival (Evers, 2010). Even the existing patterns of internationalization in an industry sector may have an influence, as practices are often imitated by new entrants. New ventures entering industries with high

levels of internationalization are influenced by the norms and, thus, also choose to internationalize (Fernhaber et al., 2007).

2.4   Internationalization of a small firm – Barriers

Even though small firms internationalize in a growing rate, there are still many firms that are reluctant to step outside their domestic markets. For small firms, the risks for internationalizing are high, and some barriers may be perceived as too heavy to overcome, especially when resources are scarce. Besides scarce financial resources, examples of barriers include national laws and regulations, insufficient knowledge and experience, lack of international connections and cultural differences (Arbaugh et al., 2008; Baum et al., 2011).

External barriers

External barriers can be divided into three categories: home-based market barriers, host-based market barriers, and industry-level barriers (Kahiya, 2013). The home-based market barriers are barriers that are found in the firm's home-country, which are creating an institutional environment where internationalization is not encouraged. These barriers manifest in several ways: lack of local banks with international expertise, lack of tax-incentives, lack of government sponsored export stimuli and inconsistent government policy (Kahiya, 2013). Moreover, if a country's geographic location is isolated, then internationalization becomes even more challenging.

The host-based market barriers can be either unfavorable operating conditions or foreign restrictions and regulations. Unfavorable operating conditions include the pace of business in the foreign country, unfavorable economic climate, political instability, corruption and bureaucracy. Examples of foreign restrictions and regulations are tariff barriers, import permits and licenses, and other documentations needed to perform business (Kahiya, 2013). Consequently, it is vital for firms to have both knowledge and understanding about the operating conditions in different environments, as the way business is done and the pace of business varies significantly between countries (Kahiya, 2013). In general, however, restrictions and regulations are slowly yet systematically fading out, and the world is increasingly moving towards free trade.

Industry-level barriers are connected to the industry structure and to the nature of competition. These include unfavorable industry-wide regulations, falling international market prices, and limited technology. The competition-based barriers are linked with the overall competition in the industry (Kahiya, 2013). However, as small firms often compete in niche markets, they are rarely affected by industry-level barriers.

Culture

Even though the business world has become more homogenous and similar buying preferences can be found in various parts of the world (Knight & Cavusgil, 2004), there are still wide cultural differences between countries, and even within countries. If even large multinational corporations are constantly making culture-related mistakes, especially when marketing to foreign countries (Ferraro, 2002), then it is safe to assume that also small firms are prone to missteps. However, as an initial barrier for internationalization, culture is not as significant as for example the external market barriers. It is also suggested that a firm's international success is more dependent on the firm's relationships and networks in the target country, rather than the target country or the characteristics of the culture (Coviello & Munro, 1995).

Lack of knowledge and experience

A common entry barrier for internationalization is the lack of knowledge of international markets (Arbaugh et al., 2008: Kahiya, 2013). The insufficient knowledge about regulations, language, technical standards and general information, make entrepreneurs and managers more careful with their decisions, and, as a result, internationalization may never become a viable option (Arbaugh et al., 2008). However, the level of international knowledge has increased among managers, and the access to knowledge is far better today than it was a few decades ago (Kjellman, et al., 2004). Consequently, the motivation to internationalize is oftentimes a more crucial factor than the lack of knowledge, as the needed information can be attained without too much effort. In other words, if the manager sees internationalization as positive and has the needed motivation to start the process, then the lack of knowledge is a problem that can be corrected. Research suggests that managers with previous international experience have significantly more positive perceptions of the international environment than managers without experience (Arbaugh

et al., 2008). Prior experience has also been found to enhance the pace and degree of internationalization (Baum et al., 2011).

Networks

The lack of international network contacts is another crucial barrier for small firms. International network contacts can for example be suppliers, buyers and other companies that the firm has beneficial relationships with. International contacts can provide insights into foreign markets, deliver information about cultural differences and help firms penetrate the desired market segments (Baum et al., 2011). Even information about regulations and legislation can be gained from contacts. Therefore, the lack of contacts can be perceived as a significant disadvantage.

2.5 Successful internationalization of small firms

The literature on small firm internationalization is wide, yet there are no widely accepted theoretical frameworks within this field that could summarize or bring together the major differences between internationalization of small firms and the internationalization of larger companies. Instead, the literature is built up from various perspectives, where each perspective represents only a part of the entirety. The most frequently applied theoretical frameworks are individual knowledge and learning, resource-based theories and network-based theories (Bell et al., 2004; Rialp et al., 2005). From the research thus far, generalizations can be made on why small firms internationalize in such growing numbers. However, the characteristics of successful internationalization of small firms is still under some degree of controversy and debate among researchers (Rialp et al., 2005). A large part of the authors within this field have, nevertheless, elaborated their own views on the key determinant success factors (Rialp et al., 2005). Within this chapter, some of these success factors are presented.

Niche markets and differentiation

Small firms do not have the needed resources to compete with large companies in commodity markets. The scarce resources significantly limit the options for marketing, sales, and effective distribution systems, which places small firms in a crucial disadvantage in comparison with larger players (Aspelund et al., 2007). Because of these reasons, small firms are often pursuing specific niche markets, where competition is less

intense, yet opportunities are significant. As was seen in the 2005 study by Knight and Cavusgil, where born globals were placed into different clusters based on their strategies, focus and differentiation strategies were generally the most lucrative strategies for internationalization (Knight & Cavusgil, 2005). Several other researchers within this field have also emphasized the importance of niche market seeking and the significance of differentiation (Rialp et al., 2005; Aspelund, et al., 2007; Bell et al., 2004). However, not all small firms or international new ventures are niche-focused. Cases of widely successful internationalizations within commodity markets have also been presented. Yet in most of these cases, the industry has been in a phase of extremely high growth, and therefore the opportunities for success have also been far better (Aspelund, et al., 2007).

The importance of the manager

Several studies concerning internationalization of small firms and new ventures have found a link between the performance of the firm and the manager or founder of the firm (Kjellman, et al., 2004; McDougall et al., 2003; Aspelund, et al., 2007). Several reasons for this have been presented, yet perhaps the most crucial ones are the overall international orientation, and the skills and knowledge gained from former international experience.

The international orientation of the manager is naturally important, as the manager is the one who steers operations and motivates the rest of the workforce (Kjellman et al., 2004). Equally if not even more important is the former international experience. International experience can lead to better market knowledge, opportunity identification, and better networking skills (McDougall et al., 2003), all of which contribute towards greater possibilities for success. Former international experience can even make the manager more knowledgeable in foreign cultures, which further can be considered as an advantage (Kjellman et al., 2004).

The manager's network and contacts have also been argued to play a crucial role in the success of a new venture. Besides providing valuable information about foreign cultures and legislation, the business network has also been argued to have a significant effect on what markets are chosen and which entry modes are selected (Aspelund, et al., 2007). The market selection is thereby argued to be a process where external factors such as the opportunity for growth is first evaluated, after which the selection of a market is mostly affected by the existing networks (Aspelund, et.la., 2007).

Pace of internationalization

Several studies have found a positive connection between early internationalization and performance (Aspelund et al., 2007). Research suggests that early internationalizing firms have a higher international sales share than firms internationalizing years after their inception. Even the growth rate in both international sales and total sales are higher in firms that internationalize soon after inception (Autio et al., 2000). This can be explained by the reduced flexibility that older firms often face after several years of doing business in the domestic market. It is argued that when firms grow older, learning impediments are developed. These impediments then reduce the abilities to successfully grow in new environments. In contrast, newer firms have a more proactive culture, where international challenges are faced more eagerly, and as the environment is also flexible, decisions can be made quickly (Autio et al., 2000). In conclusion, empirical evidence supports the notion of rapid internationalization involvement being positively related to performance. Furthermore, the positive relationship has mainly been found in firms that are capable of strategic change and are able to gain knowledge and learn from their international ventures (Aspelund et al., 2007). These traits can be attributed to the overall international orientation of the firm, the firm's culture, and to the flexibility of the firm.

Innovation

Innovation in the context of successful small firms or new ventures is not only connected to new innovative products. As young and small firms normally have scarce financial, human, and tangible resources, innovative ways of doing business must be found in order to compete with larger players (Aspelund, et al., 2007). Generally, a lucrative path is to differentiate and find niche market sectors where competition is low and opportunities are significant. However, the marketing of the products also plays a crucial role in the success of new ventures. A common feature among some successful new ventures is their way to tactically utilize key marketing elements to target foreign customers with differentiated goods (Knight & Cavusgil, 2004). By using innovative marketing that with high precision reaches target audiences, the cost of marketing can be significantly reduced. The literature on small firm internationalization highlights numerous success factors, yet according to Knight and Cavusgil, innovative processes that drive the development of new innovative products, is perhaps the most crucial one (Knight & Cavusgil, 2004).

Conclusion

The research on specific characteristics of successful internationalization of small firms is still controversial and under much debate (Rialp et al., 2005). However, some aspects and factors are more approved than others. The importance of the manager, and the significance of networks have been found to be linked with performance. Common factors among successful international small firms also include highly differentiated products, niche market seeking and the level of innovation (Knight & Cavusgil, 2004; Aspelund, et al., 2007). Early internationalizing firms seems to be more successful in the international arena than older firms, as older firms develop internal characteristics that makes it more difficult to react rapidly to external changes (Autio et al., 2000). According to the empirical implications so far, an international small firm with most potential for success would have these characteristics: flexibility, internationally oriented manager with previous experience, highly differentiated products, high level of innovation, a wide business network, and it would compete in a niche market.

2.6 Viable market entry strategies for small firms & international new ventures

Even though international new ventures have received much attention from researchers over the past decade, relatively little attention has been dedicated to the foreign entry modes of these firms (Burgel & Murray, 2000). Evidently, further research in this area is needed, as the entry mode is considered as a crucial strategic decision, influencing the performance of a firm (Brouthers & Nakos, 2004). A wrong choice of entry mode can have long-term negative effects on the firm's performance and ultimately its survival, as money and other resources are directed towards a faulty method. As the resources are scarce, small firms need to evaluate whether it is better to choose a low-risk entry strategy, in which a large part of the control is lost, or a riskier strategy, in which more control and monitoring can be gained. According to Burgel & Murray, the choice is largely dependent on the existing resources and the support requirements of the customer (Burgel & Murray, 2000). Ideally, firms would like to have as much control over their operations as possible, yet for many small companies some of the control must be handed over to someone else.

In this chapter, viable market entry options for small firms with scarce resources are presented. These entry options are direct and indirect exporting, licensing, contract manufacturing and joint ventures.

2.6.1 *Indirect export*

Exporting is generally considered as the least risky method of internationalization. If a firm uses indirect export, their products are being sold to foreign markets by export intermediaries, located in the home market (Albaum et al., 2005). This means that no special activities need to be undertaken by the firm, as the export operations, including documentation, physical movement of the products and distribution channels for sales, are carried out by others (Young, et al., 1989). Indirect export is therefore the least risky method even in exporting, and it can be done in various ways. Usually indirect exporting occurs through an exporting house or a trading company. The exporting house, for example, buys directly from the firm and then arranges the export of the goods (Young, et al., 1989). Because of the low level of risk and easiness of indirect export, many firms tend to start their international operations by using this method. The method is also suitable for companies with scarce resources because of its inexpensiveness. However, the easiness comes with a downside, as most of the control of the products, marketing and sales are out of reach of the firm. If the middleman prefers to market and sell other, perhaps more profitable products instead, then there is little that can be done by the firm or the manufacturer (Albaum & et al., 2005). Problems may arise specifically in situations where a product requires special efforts in marketing, which the middleman is rarely willing to provide (Albaum et al., 2005).

By using export intermediaries, knowledge about foreign markets can be gained and they often help their clients to identify customers and distribution providers (Hessels & Terjesen, 2010). Compared to direct export, indirect export involves lower levels of risk and resource commitment, which is why it can be considered as a viable option for firms with scarce resources (Hessels & Terjesen, 2010). However, as parts of the profits goes to the intermediaries, and a huge part of the control is lost, the indirect method becomes less attractive.

2.6.2 *Direct export*

The majority of small businesses use direct exporting as their method of internationalization (Hessels & Terjesen, 2010). When exporting directly, a firm sells its products to an importer or a buyer, without the use of any middlemen. The firm is thereby responsible for building up contacts, marketing, conducting market research, handling

documentations and transportation, establishing pricing policies, and so forth (Young, et al., 1989). Hence, a lot more commitment is needed when compared to indirect exporting.

Because the intermediaries are eliminated, the potential profits are greater. Furthermore, as the marketing and sales is conducted by the firm itself, the total control over processes and performance lies in the hands of the firm (Young, et al., 1989). It is also significantly easier to get direct feedback from customers, which enables faster responses to customer wants and needs. However, direct exporting takes more time and money than many small firms are able to afford.

There are several factors that affects the choice of export mode. Some factors are internal, such as the know-how and the marketing power of a company, and some are external, such as the characteristics of the target market or governmental policies that, in some extreme cases, discourage all kinds of exports to a certain market (Albaum et al., 2005). One factor that inevitably comes into play is the characteristics of a product. Some products are highly technical and therefore service work both before and after sale is required, making direct exporting a more viable option than indirect exporting. Size, weight, and even temperature of a product may indicate the need for special handling. Intermediates might not have the suitable resources to handle these kinds of products and therefore their services cannot be used (Albaum, et al., 2005). All in all, there are a lot of factors at play when choosing a method of export, and it is rare to find a method where all determinants point at the same direction. The management must therefore evaluate the alternatives using their own business and products as a starting point (Albaum et al., 2005).

2.6.3 *Licensing*

Licensing can be described as a permission given from one firm to another, allowing the latter to engage in an activity that, without the agreement, would be forbidden or illegal (Young, et al., 1989). A foreign licensor can for example provide access to technologies or know-how to a local licensee, in exchange for a financial compensation. Typically, the financial compensation is payed in royalties, which means that a certain portion of the sales goes to the licensor. A licensing agreement may relate to the following (Young et al., 1989; Albaum et al., 2005):

- Patents, which might be for technology, manufacturing processes, packaging, etc.

- Trademark, brand names, logos

- Copyright

- Know-how and trade secrets

A licensing agreement may comprise a wide variety of other elements, or a combination of some of the above. The licensee pays the licensors royalties or fees, which varies depending on the agreement. Usually however, the agreement involves the following payments (Young et al., 1989: Albaum et al., 2005):

- Initial payment: a sum payed to obtain the rights and the possible transfer of machinery, parts, blueprints, knowledge, etc.

- Annual minimum: an amount that must be paid annually to the licensor as a minimum guarantee.

- Royalties: usually a percentage of the net selling price – 3 to 5 percent is common – or a fixed amount of money, for example €3 for each sold item.

- Additional fees: to cover possible additional expenses.

Licensing offers several benefits for the licensor. First off, licensing is a low-cost strategy to enter foreign markets, as large capital outlays are avoided when the licensor utilizes the licensee's management, capital equipment and knowledge of the foreign market. Furthermore, risks are avoided as most of the risks falls into the arms of the licensee (Young, et al., 1989). Licensing also provides a steady income, as royalties are continuously payed to the licensor (Albaum et al., 2005). Licensing is therefore a particularly well-suited strategy for small manufacturers and others who have limited financial and labor resources. However, in order to start licensing in the first place, a firm needs some kind of leverage and competitive advantage that others are willing to pay for. A good invention alone may not be sufficient, as it must be protected by a patent to gain leverage. Otherwise, other companies might just steal the idea or innovation and start producing the product or service themselves, without any need for agreements. Even

protected innovations can be imitated and changed just to the point where the existing patents no longer apply. If the imitator in this case has a significant market position, then the original innovator might not be able to compete at all (Teece, 1986).

2.6.4 Contract manufacturing

Contract manufacturing is a form of outsourcing, where the hiring firm's products are being assembled or produced by a foreign manufacturer (Young, et al., 1989). The products can be either sold in the market where they are produced or shipped from there to other markets. The marketing and the distribution of the products are still handled by the hiring firm (Albaum et al., 2005)

For the past few decades, contract manufacturing has been a widely used strategy particularly within the electronics industry, where a large part of the production is done by Asian contractors yet sold in both Europe and the US under familiar brand names such as Apple, Dell or Compaq (Albaum et al., 2005). Contract manufacturing offers several advantages, such as lower costs; minimum investment of cash, time and talent; control over marketing activities; it allows labelling a product as "locally made" and many risks are avoided by using this method (Albaum, et al., 2005). Furthermore, if the products are sold in the same market as they are produced, then costs in both tariffs and transportation are avoided.

The risks of contract manufacturing are similar to the ones in licensing. Know-how is handed over to the foreign manufacturer; hence, the manufacturer learns how to build a high-quality product and, thus, a potential competitor is born. The lack of control over the quality of the products is another concern (Albaum, et al., 2005).

In a 2013 study by Mohiuddin and Su, the advantages of offshore outsourcing for small and medium-sized Canadian firms were evaluated (Mohiuddin & Su, 2013). According to the study, significant increases in revenues were found in all firms. Furthermore, the findings of the study indicate that companies with low-tech products, such as furniture or shoes, gain significant advantages in offshore outsourcing. Partly because of the low manufacturing costs, which evidently increase profit margins, but also because a large part of the work is outsourced and therefore more resources can be placed on, for example, research and development, marketing, and their core competences (Mohiuddin & Su,

2013). The study, however, only measured 13 different companies, which is far too few if generalizations are to be made.

2.6.5 *Joint ventures*

Joint ventures can take many forms and various definitions of joint ventures exist. Typically, however, in a joint venture, two or more firms agree to contribute capital and resources to a common project, where the potential profits are then shared according to the size of each firm's contribution (Albaum et al., 2005; Young, et al., 1989). An example of a joint venture is when two companies from different countries, generally one being local, form a new company to produce products or to provide services. This can also be called a cross-national joint venture (Pothukuchi et al., 2002).

Joint ventures are a great way for small firms with limited resources to enter foreign markets as the resources and risks are minimized. Management skills and experience from a local partner make it easier to adapt to an unfamiliar business environment, which reduces uncertainty (Albaum et al., 2005). Distribution channels in the foreign market can also be accessed through the local partner, and as a joint venture increases the amount of resources, it is easier to gain a strong market position (Young, et al., 1989). However, cross-national joint ventures can also be problematic. The cultural differences between two foreign firms often leads to failure or unsatisfactory performance. In fact, an estimated 37-70% of international joint ventures are reported to end in costly failures (Pothukuchi, et al., 2002). Additional disagreements may arise from differing dividend policies or management philosophies. Consequently, the success of a joint venture is highly dependent on the communication and cooperation between the parties (Albaum et al., 2005).

2.6.6 *Concluding remarks on entry mode decisions*

As the research on small firm entry modes is still marginal, no coherent models or schemes have been made that could show or explain what the right entry mode for a specific firm would be (Burgell & Murray, 2000; Musso & Francioni, 2014). From the research thus far, only broad implications can be drawn on factors that might influence the entry mode decisions. These factors include, for example, the characteristics of the product, the available resources, existing networks, and the need for operational control. However, even though the research on small firm entry modes lacks empirical evidence,

the knowledge of the entry modes themselves, and therein, the pros and cons of each entry mode, provide enough information for firms to make rational, firm-specific entry mode decisions.

2.7   The search for potential markets – Market screening

When multinational firms decide to expand their operations to even farther markets, they can use their former experience and vast resources to gain data and conduct precise calculations on potential markets, after which the most potential markets are carefully evaluated and finally, a decision on where to expand is made (Young et al., 1989). Small firms however, do not have the necessary resources to gain sufficient data, nor are they able to conduct in-depth analyses of potential markets (Alon, 2004). In many cases, the task of finding potential markets may be too intimidating for small firms, which is why some decide to abandon the idea of internationalization altogether (Fish & Ruby, 2009). After all, there are close to 200 nations around the world with varying markets, threats and possibilities.

The market screening process is often done in several stages, where each consecutive stage has the purpose of narrowing down the number of potential markets. For example, a company may choose to implement three stages, where the first stage reduces countries or markets where restrictions, legislation, or cultural reasons may strongly interfere with business. In the second stage, the remaining countries are evaluated according to the potential growth of the markets, competition in the markets, and the costs of doing business in each market. In the final stage, only a handful of countries or markets should remain, which are then carefully studied and evaluated in accordance with the business that is going to be implemented. Finally, the most potential market or markets are chosen (Young et al., 1989; Rahman, 2003). This is a highly simplified model of the process, which in reality takes a long time and lots of resources to implement. Because of the huge amount of data needed, and the expertise to effectively handle and analyze the data, this method can only be implemented by larger companies with significant resources (Young et al., 1989). Nevertheless, by using this method, unbiased decisions can be made, which even smaller firms should strive for. Therefore, this formal and systematic approach can be used as a standard against the more superficial evaluations that small firms are able to afford (Young, et al., 1989).

A crucial element for making unbiased decisions is the size of the original sample. Larger firms may even have close to 200 different markets in their preliminary screening sample, from which unsuitable markets are eliminated step by step. Small firms however, often rely on their instincts and may, for example, only have a few countries or markets in their preliminary sample. Consequently, a significant amount of potential markets is never evaluated, and the most potential markets may remain undetected (Alon, 2004). As the choice of market is one of the most crucial decisions in internationalization, and paramount for the success of a firm (Fish & Ruby, 2009), it is vital to find markets with the most potential.

2.7.1 International market screening for small firms

Even though the literature on market screening has mainly focused on large companies, a few studies have been made that accounts for smaller firms. Within these studies, some models have been presented (Alon, 2004; Young, et al., 1989; Fish & Ruby, 2009). They all have limitations and are not providing as specific or comprehensive results as can be attained from the methods used by larger companies. Yet, they serve as valuable tools for those with less resources. Similarities between models for smaller firms and models used by bigger companies can be found. Usually, the models in both cases are built in stages, where each stage narrows down the number of potential markets (Rahman, 2003). However, models connected with small firms have less variables in each stage, making the final results less comprehensive.

The market selection for internationalization is not always a systematic process. Particularly for small and medium sized firms, the market selection is often a reaction to the external environment. A product order from a foreign country may spark the internationalization process, or existing contacts may drive the decision to internationalize in a specific country (Ozturk, et al., 2015). However, nonsystematic market selections have been found to be underperforming in comparison to systematic approaches. In fact, a significant positive relationship has been found between systematic market seeking processes and export performance (Ozturk, et al., 2015).

2.7.2 Models for small firms

Next, three separate market screening models, specifically designed for small firms will be presented. In the table below, the models' general characteristics are highlighted. The

models are presented in an order in which the more complicated models are presented first, and the simplest model presented last.

Table 1: Market selection models

Rahman's 2-step model (2003)	Alon's 6-step model (2004)	Young, et al. 4-step model (1989)
1. **Size attractiveness** **-** (Macro-economic indicators; other macro-level indicators; micro-level indicators; firm's int. business capabilities.) 2. **Structural attractiveness** - (Cost indicators; structural compatibility indicators; policy indicators; firm policy guidelines.)	**1. Export of related products** **2. Website hits** **3. Customers' globalization** **4. Market potential** **5. Ease of entry** **6. Evaluation of the most promising markets**	**1. Company-specific factors** **2. Economic evaluation** **3. Market conditions** **4. Competitive evaluation**

Rahman (2003) developed a two-stage model based on market screening processes that have been done by successful international Australian companies (Rahman, 2003). In the model, the first stage is composed of both macro and micro-level variables, with the intention of assessing the attractiveness of the market size. The macro variables are for example gross national product, population size, rate of inflation, and product-significant demographics. By using micro-level variables, such as synergies with the existing markets, international marketing capabilities, and the firm's competitive advantages, the firm can evaluate how well their own competencies match with the different countries in the sample (Rahman, 2003). In the second stage, the structural attractiveness of the remaining markets is assessed. Factors such as cost of doing business, marketing costs and copyright laws are researched. After assessing the structural attractiveness, only a few potential markets remain, and a decision can be made (Rahman, 2003).

Rahman's two-stage model is a somewhat simplified model compared to models used by multinational companies. Even the data for the model may be easily accessible. However, as Rahman even mentions in the article, the data is expensive to obtain (Rahman, 2003) and therefore the model is not suitable for small firms with scarce resources. Even though the model takes a significant number of variables into consideration, there are still

uncertainties and gaps in the final results, which are filled up by the management's "gut feelings" (Rahman, 2003).

A more reasonable option for small firms with scarce resources, is a screening model presented by Alon (2004), where the process is divided into six steps: 1) examining the product exports; 2) analyzing website hits; 3) following the customers' globalization; 4) ranking markets in terms of market potential; 5) dividing markets in terms of ease of entry; and 6) evaluating and prioritizing the most promising markets.

This model differs from the model presented by Rahman (2003) in the type of data that is gathered. In the six-step model, all the data that is gathered is related to the company that is performing the market screening. When examining product export, only products with close connections to the company's products are examined. And when analyzing website hits, the company's own website is being analyzed. From which data of foreign users can be used to highlight countries with the most interest in the company's products (Alon, 2004). Using this model is less expensive than for example using Rahman's (2003) model. Yet again, some resources must be used in order to gather all the necessary data. Furthermore, as related exports are being analyzed as the first step, only a fraction of all the potential markets will show up in the initial sample. This means that many potential markets may remain undiscovered. Also, to analyze a company's webpage means that a company needs a running webpage with significant traffic. Otherwise there are no results to be gained. Many international new ventures searching for viable foreign markets may not even have a website, or if they do, then usually the amount of hits from foreign countries is not enough for highlighting significant interest from specific countries. Nevertheless, this model shows how the market screening process can be altered from the conventional ones, and that there are cost-efficient ways for finding suitable markets without having to rely on gut feeling alone.

As has been proved by the models presented, small companies are not able to conduct as specific market evaluations as bigger companies with substantial resources. If, however, a small firm wants to conduct a market screening process by using close to no monetary resources, then a simple elimination process can be useful. In a simple elimination process, four criteria are evaluated: 1) company specific factors; 2) economic evaluation; 3) market conditions; and 4) competitive evaluation (Young, et al., 1989).

Company specific factors are changeable depending on the company itself, but they might include the following: English is an acceptable business language; the country does not have a different working week; and close proximity to the home market (if for example heavy products are to be shipped). In the economic evaluation, several countries can be dropped off the list if, for example, only economically developed markets are chosen. When analyzing market conditions, the list can further be shortened as countries with tariff barriers, import restrictions and other barriers are dropped. After these three stages, the list of markets should be relatively short and therefore a more detailed examination on competitiveness in each market can be conducted (Young, et al., 1989).

2.7.3 *Concluding remarks on market search*

Due to their limited resources, small firms are not able to conduct as specific and accurate market screening processes as larger companies are able to. However, the current models for small firms all have some distinguishable problems. The models by both Rahman (2003) and Alon (2004) require the use of monetary resources and moreover, the models have constraints that make them unsuitable for many small firms. The model presented by Young et al. (1989) on the other hand, can be widely applied to different firms, yet the data and the results that can be gained are relatively superficial. Therefore, there is a need for a model that could provide more company or product-specific results, yet without using monetary resources in the collection of the needed data. Because of the information that can be found on the internet, the amount of available data is far more substantial today than it was at the time when the model by Young et al. (1989) was presented. Consequently, the platform on which to build a new model is considerably wider now than it was a few decades ago.

3 RESEARCH METHODOLOGY

The following chapter will focus on the methods that are used to construct the new market selection model. After discussing general elements in creating market selection models and presenting the philosophical worldview that will be followed, the chapter will continue by presenting how the theory will be related to reality and what research approach is chosen for the study. The suggestions for entry methods and marketing activities are made with the intent of guiding the startup company FunsSquare in their international activities. Therefore, these suggestions are formed primarily based on the characteristics of the company's flagship product, and with a strong emphasis on scarce resources.

3.1 Building market selection models

There are two generally used methods for building new market selection models. One of the methods is to find out what companies have done in the past, and build a model based on those former activities. The other method is to develop a model with the underlying premise of what should be done, instead of what has been done.

The models of both Alon (2004) and Rahman (2003) are built around activities that have been done by companies in the past. Alon (2004) describes how a high technology company, with highly differentiated products, searched for suitable markets, and the model was constructed based on those activities. Rahman (2003) explored how successful Australian companies searched for potential markets and built his model in accordance with the patterns that he found.

A model introduced by Ozturk et al. (2015) was not developed in the same way as the two previous examples. Instead, the researchers developed a model with the underlying premise of what managers should do when selecting markets. The researchers studied literature and noticed that an important perspective was missing. Rather than concentrating on country-level macro variables, Ozturk et al. (2015) presented the idea of concentrating on industry-specific consumer expenditure and income elasticity, which would provide a more focused starting point to the market selection model. When all the steps in the model were finalized, the model was tested by using it to find potential markets to three separate companies. The model by Ozturk et al. (2015) is, however,

designed for larger companies, which is why it is not presented as a viable model for small firms.

The model created in this thesis is built up by a similar process as the model presented by Ozturk et al., (2015). Niche market seeking is presented as a new perspective, currently absent from existing models. The model is then constructed with this new perspective as a base, together with the notion that no monetary-resources are allowed, which, to my knowledge, is not present in any existing models. The model is then used and at the same time tested by applying it to finding potential markets to the startup company FunSquare Ab.

3.2 Philosophical worldview

What research methods are being used in a study are strongly influenced by the research design that is chosen. Research methods can for example be data collection and data analysis, which are fundamental parts of the research design called quantitative method (Creswell, 2014). The choice of the research design, whether it is quantitative, qualitative, or a mixed-method, is on the other hand based on the assumptions of the philosophical worldview that the researchers choose to follow. There are numerous philosophical worldviews, yet according to Creswell (2014), these four worldviews are the most frequently discussed and used in modern research: postpositivism, constructivism, transformative, and pragmatism. Understanding the underlying philosophical worldview in any given study makes it easier to understand the chosen research design and the chosen methods, as they are all linked together.

The study in this thesis will look at the world from a pragmatic perspective. Pragmatism, as a philosophical worldview, centers around the idea of solving problems using whatever methods that can give the most reliable outcomes. Unlike postpositivism, where the creation of knowledge is mostly bound to data and measurable evidence, where even the evidence is always considered to be imperfect, the pragmatic researchers have more freedom in choosing the methods, techniques and procedures to best meet their needs and purposes (Creswell, 2014). This is also why mixed-methods are often chosen in the realms of pragmatism. Another aspect of pragmatism is that more value is put on things that work in the real world than on things that might be perceived as truths. Therefore, ideas should not only be measured by whether they are right or wrong, but also, by whether they work

or not. Pragmatism seeks to link action and truth, without trading one off for the other (Fendt et al., 2008). Buckley et al., (2017), implied that current business research focuses too much on finding gaps in existing literature, instead of producing new work based on the real world, which is why much of the literature is still fixed on theories developed in the last century (Buckley, et al., 2017). By implementing a more pragmatic perspective to some part of business research, which invites deep commitment to practice (Fendt et al., 2008), the gap between theory and practice could possibly be narrowed, and, hence, the practical relevance of research could be enhanced.

As the study in this thesis evaluates different aspects simultaneously (current market screening models, literature on internationalization, and existing data), with the aim of finding solutions that are practically relevant, the pragmatic view on research suits the aims of the study better than other philosophical worldviews.

3.3   Deductive, inductive or abductive?

One of the main questions within research is how to relate theories and reality with each other (Patel & Davidson, 2003). This is one of the central problems in philosophy and in scientific works in general. However, there are three concepts that provide alternative ways of relating theory to reality: deduction, induction and abduction (Patel & Davidson, 2003).

If a researcher is working deductively, his or her research is commonly based on an existing theory, from which hypotheses are formulated and then empirically tested. The deductive research approach is supposedly the most objective of the three approaches. However, as the work is based on existing theories, the work is strongly steered and influenced by the theories and therefore it is rare that new findings will be discovered (Patel & Davidson, 2003). The inductive approach is on the other hand, connected to the formulation of generalizations, or theories. A researcher may for example discover patterns in human behavior from observations, and from these patterns, generalizations are made. However, the results and generalizations are often influenced by the researcher's own ideas and perceptions, which causes subjectivity (Patel & Davidson, 2003). The abductive approach can take many forms, yet it can be seen as a way of generating explanations from a set of observations. We constantly use abductive reasoning in our everyday lives. For example, when we see a half-eaten bread on the

kitchen counter, we abduce that our roommate left it there, probably because he or she was in a hurry to get to work. Sherlock Holmes is frequently used as an example of a man using abductive reasoning, as he constantly generates explanations from observations. The abductive approach can however, only produce plausible, not certain conclusions (Schvaneveldt & Cohen, 2010). In research, the abductive approach is used when, for example, existing theories cannot provide sufficient base for certain hypotheses. Such examples can be found in Copernican heliocentric theory, Darwin's theory of evolution, and in Einstein's theory of relativity (Schvaneveldt & Cohen, 2010).

The approach in this study can mostly be described as abductive, yet with some deductive elements. To illustrate this, a separation is made between the abductive, and the deductive elements.

Deductive approaches

- The deductive approach is used in finding out to what extent the existing models can be used without having to pay for the needed data. This is done by testing the models and by trying to find the data that is needed. If a step cannot be done without having to pay for the data, then that step cannot be included in the model generated in this thesis.

- If a new step, or solution is added to the new model, then that step must also be deductively tested, to fit the criteria of no monetary recourses.

- All the variables that are chosen to the new model are chosen by a process of trial and error. It can be seen as an iterative process, where several rounds of analysis are done, to see which variables are the best-fitting.

Abductive approaches

- The criteria of no monetary resources and niche market seeking have been developed by connecting general elements of small firms with the search for potential markets.

- Steps that are taken from existing models and used in the new model are chosen abductively, with strong emphasis on practicality.

- Steps that are added to the model, yet are absent from any other models, are chosen abductively. Again, strong emphasis is on practicality and the plausibility of them working in "the real world".

3.4 Research approach

The researcher's decision between quantitative, qualitative or mixed-methods approaches, is influenced by the purpose of the study. From a simplified perspective, researchers typically choose a quantitative approach when dealing with numerical data, a qualitative approach when the research requires textual data, and a mixed-methods approach when the research questions require both numerical and textural data (Williams, 2007).

In this study, both textural data and numerical data are needed to answer the main research question. Therefore, a mixed-methods approach is chosen. When building the model for foreign market selection, existing literature on market selection is studied and connected to available numerical data, to find out the extent of which the models can be used without having to pay for the data. The new model that is constructed is based on the notion of niche market seeking, as literature on small firm internationalization constantly highlights the connection between small firms and niche markets. Therefore, this study also focuses on finding freely available data that could indicate the potentials of niche markets.

The mixed-methods approach suits the pragmatic philosophical worldview and the notion that abductive reasoning is used when constructing the new market selection model.

Suggestions for entry methods and marketing activities are on the other hand, based on literature and the characteristics of the multifunctional furniture. A qualitative approach is used to answer the research questions connected to entry methods and marketing activities.

Before the writing of this thesis began, a qualitative interview was conducted with the founders of the case company. The interview was conducted qualitatively, and in an unstandardized way, to find out what kind of information the company wishes to gain from the thesis, and to learn important facts about the company.

3.5 Interview with the case company: FunSquare Ab

Before the interview, a few e-mails had been exchanged between myself and the founders of FunSquare Ab. It was clear even before the interview that the company wanted to internationalize, and that internationalization was the frame within which this thesis was going to be placed. However, the specifics were not clear. In the emails, some possible topics were suggested, yet the final decision were to be made in the interview that was conducted in October 2017.

The qualitative interview with the founders of the case company was conducted on the 10th of October 2017. The interview took place in Turku, Finland, and lasted for about two hours, between 10 a.m. and 12 p.m. Besides myself, two other people were present at the meeting: Johan Backas and Dine Renfors, who are the founders, and currently, the only employees in the company. The language used in the interview was Swedish, and the interview was recorded.

The main goal with the interview was to find a topic to this thesis, one that could benefit the company in their internationalization process, but also one that could provide something new or noteworthy to the literature on internationalization of small firms in general. Another goal of the interview was to gain as much knowledge as possible about the company, and some background knowledge about the founders, so that there would be no need to conduct a second interview of the same sort.

For the interview, I had prepared various questions with different levels of standardization. The questions were both meant to keep the conversation within certain boundaries, and to be sure that no important questions or aspects were forgotten during the interview. Even though some questions were direct and standardized, the interview was conducted in an unstandardized fashion, where the interviewees answered questions in their own pace and with their own words. The leaflet with the prepared questions can be found in the appendix.

After this interview, I have met the founders on a few occasions. Within these meetings, I have had the chance to see and try how their product works. These meetings have also functioned as an opportunity to exchange ideas and to receive information about recent

developments in the operations of the company. These meetings have, however, not been recorded or analyzed.

3.6 Results from the interview & facts about FunSquare Ab

During the interview conducted in October 2017, I suggested two possible topics for this thesis, and listened to the founders' opinions about the topics and what they seemed was most important to their internationalization process. The topics that I suggested was:

1. Internationalization strategies for startup companies with scarce resources. (Within this topic, factors such as entry methods, using connections as help for internationalization, and general strategies of internationalization connected to small firms and startup companies, would have been studied.)

2. Finding the most suitable markets using minimal resources.

The founders' opinions were that it would be important to find the most potential markets, but at the same time it would be beneficial to gain some knowledge on how these markets should be entered. What seemed to be most important was to create some concrete boundaries, within which they could then operate. After some discussion, it was decided that the topic would include both finding potential markets, which would be the main focus, and gaining some knowledge or suggestions on alternative ways of entering foreign markets as a small startup-firm.

3.6.1 The company

FunSquare was founded in March 2017. It operates from Turku and is currently developing the final touches to its product that will be launched in Finland, in the spring of 2018. The product is a multifunctional furniture that can be used both as a bed and as a table.

The company is still in its relatively early days, and before launch, the company needs to perform a few important activities, such as creating a webpage, developing a marketing plan, and raising some additional funding.

The founders of the company are first-time entrepreneurs, with limited international experience, which is why it is crucial to provide these entrepreneurs some assistance with international activities.

Funding

The company received initial funding from the Finnish Funding Agency for Technology and Innovation (Tekes), which currently operates under the name Business Finland. Most of the funds have been allocated for product development. The company will most likely apply for additional funding for internationalization from the same organization. Crowdfunding is also going to be used as a source of funding, from which, hopefully, additional funds can successfully be raised.

Webpage and marketing activities

FunSquare is working together with Novia University of Applied Sciences, with the aim of receiving assistance on their webpage development and marketing activities in Finland.

Vision

The idea for the product was created as a result of one of the founders' own living conditions, and the fact that in recent years much emphasis have been placed on small, or tiny, urban apartments where there are no room for large, separate pieces of furniture. According to the founders, a future vision would be to enter the Asian market, especially Japan, where Scandinavian design is appreciated and large numbers of people live in small apartments. However, before entering such distant markets, there is a need to gain experience and see how well the product succeeds in the European market.

Patents

The company has applied for a patent concerning the mechanism, which is used to transform the furniture. The patent is still pending, yet it would be a valuable achievement to get an approval. If the patent is approved, then copying the product would become much more difficult. Furthermore, if the product is to be licensed in the future, then a patent would serve as a valuable competitive advantage.

The product

Some details may still be changed in the product before launch. However, in its current state, the bed that can be transformed into a table has the following features:

- Size: length (212 cm), width (95 cm), height (75 cm)

- Weight: 85 kg

- Packaging: one piece of product in three different packages (two 220 cm $\times$ 70 cm $\times$ 10 cm; one 220 cm $\times$ 50 cm $\times$ 10 cm)

- Price: €1,000 – €1,500.

At the moment, the transformable bed is the only product that the company is developing. In future, more pieces of multifunctional furniture are likely going to be added to the product portfolio. The packaging of the product follows the idea of IKEA, where the product is compactly packaged and meant to be assembled by the customers. Compact packaging lowers transportation costs and allows the product to be carried into small apartments where small elevators or narrow staircases hinder the movement of large pieces of furniture.

Production

FunSquare has designed the product and oversees all other operations besides manufacturing the product. The manufacturing will be outsourced, most likely to Poland, where furniture manufacturing is of high quality, yet inexpensive. Moreover, Poland is relatively centrally located in Europe, which enables short transport distances to many European countries. Several Polish manufactures have already been contacted by the company.

4 RESULTS

In this chapter, the new model for finding potential markets is presented and used to find the most promising markets for the case company, after which suggestions for entry methods and marketing activities are presented.

The chapter begins with highlighting problem areas in the existing models, which are mostly related to the use of monetary resources in obtaining the needed data. These problem areas will clarify why the existing models do not work as efficient tools for finding suitable markets for the startup company FunSquare Ab.

4.1 Problems in existing models for small firms

The illustration below shows the parts of the models where the needed data requires the use of monetary resources or other resources that are problematic (in red). Underneath the illustration, a more detailed explanation is provided.

Table 2: Problems in existing models

Rahman's 2-step model (2003)	Young, et al. 4-step model (1989)	Alon's 6-step model (2004)
1. **Size attractiveness** - (Macro-economic indicators; other macro-level indicators; micro-level indicators; firm's int. business capabilities.) 2. **Structural attractiveness** - (Cost indicators; structural compatibility indicators; policy indicators; firm policy guidelines.)	1. **Company-specific factors** 2. **Economic evaluation** 3. **Market conditions** 4. **Competitive evaluation**	1. **Export of related products** 2. **Website hits** 3. **Customers' globalization** 4. **Market potential** 5. **Ease of entry** 6. **Evaluation of the most promising markets**

In Rahman's (2003) model, the factors that are presented in the model above are further divided into 49 different variables. The macro-economic indicators are for example divided into GNP; GNP growth rate; rate of inflation; currency reserve; stability of exchange rate; population size; size of middle class; literacy rate; product significant demographics (Rahman, 2003). Evidently, the number of variables is large, and a huge

amount of work is needed to gather all the necessary data. Furthermore, the factors highlighted in red are areas where monetary resources are needed to obtain the data.

The model presented by Young et al. (1989) is the only model that can be used without the use of any monetary resources. However, the first three steps in the model eliminate markets based on highly general data, which do not account for how well a company's products suit the markets. Only in the last step, when around 5–10% of the original sample is left, is the actual suitability between the markets and the products or services evaluated. This means that the model does not provide accurate enough results.

In Alon's (2004) model, the first problem is website hits. As has been mentioned before, a firm needs to have a website with significant international traffic to gain sufficient data for this step. In the step "customers' globalization", both customers' buying behaviors and the performance of competing companies are evaluated. However, the data that is needed for this step is relatively specific, and for the most part, not freely available. Hence, monetary resources are needed to access the data.

All the above-mentioned models perceive markets as countries, which means that most of the data that is used in the elimination of the markets is data about entire countries. Small firms, however, may not perceive potential markets as countries, but instead as cities. When the managers of FunSquare were asked about markets that they perceive as potential, they answered London and Stockholm, capitals, instead of countries. Furthermore, data about entire countries may be prone to huge variations. Average macro-economic data about Russia, for example, may significantly differ from macro-economic data about Moscow. Variations within countries may in some cases be larger than variations between countries, which is why data about cities or capitals may produce more accurate and valid results. For bigger companies, with intentions of competing on a country-level, the data about entire countries is naturally relevant, yet for smaller companies, more exact results can be gained by using city or capital-specific data.

4.2 Constructing the new model

After evaluating the different models of small firm market selections, with emphasis on how much of the needed data can be obtained without using any monetary resources, only one model stands out. The model proposed by Young et al. (1989), where a simple

elimination process is used, is a model to which most of the data needed can be obtained without any monetary costs. Furthermore, the model is not bound by the same level of parameters as is, for example, the model presented by Alon (2004), which makes the model more easily adaptable. However, to fit my proposed criteria of no monetary resources and niche market seeking, some parts of the model must be modified. Therefore, I propose a change in the two first steps of the model, which in its current state, eliminates the number of potential markets by both evaluating macro-economic factors, and company-specific factors. Macro-economic factors, which for example may indicate national market trends or market sizes on a national level, are rarely explanatory for small firms trying to compete in niche markets. This notion is even brought up by Young et al. (Young et al., 1989: 55). With this notion in mind, I propose that the initial steps in the model would be changed so that the elimination would be based on factors connected to the niche markets that are sought after, instead of focusing too much on general macro-economic factors. The idea is not to eliminate macro-economic factors altogether, but to only focus on such factors that are connected to the company or its products. This change would immediately eliminate markets where the suitable niche market cannot be found, or more importantly, eliminate markets where there is no demand for such a market, thus leaving out markets where general macro-economic factors such as growth in BNP or population size may have indicated suitability, yet would have still been eliminated further down the process.

My proposed model follows the idea of gradually eliminating unsuitable markets, yet using different criteria than the previous models, and therefore also different variables in the process. Next, this model is presented along with arguments on why certain steps and variables have been chosen.

4.3 The model

The model I propose is developed using the model proposed by Young et al. (1989) as a base. However, it is also influenced by other models within the field. This new model eliminates unsuitable markets by using five steps in the process:

1. **Economic evaluation** (eliminating markets which are economically unsuitable)

2. **Niche market evaluation** (examining factors that indicate the potential demand of the preferred niche market)

3. **Entry-barriers** (trade barriers, tariffs, other restricting factors)

4. **Ease of entry** (socio-economic structure, language, culture)

5. **Competitive evaluation.**

4.3.1 Step 1: Economic evaluation

In the first step, economically unsuitable markets are eliminated. This can be done by for example analyzing data about median or average income in different markets. Preferably, the bar for eliminating markets should be set relatively low, to ensure that the eliminated markets are, in fact, unsuitable. The level in which markets are eliminated is also highly dependent on the company products and what target customers are sought after. Moreover, for small firms competing in niche markets, data about capitals may provide more accurate results than country-level data.

4.3.2 Step 2: Niche market evaluation

Generally, market selection models focus on evaluating market sizes and potential growths of the markets, where for example macro-variables such as gross-national product, population size and inflation rate are used as determining factors. However, the total market sizes may in many cases be irrelevant for smaller firms, especially for those competing in niche markets. For these firms, the potential size of the niche market, and the potential growth of that specific market, are more relevant. In most cases, however, it is impossible to find data that could show the exact demand or size of a niche market, or even to find any data that is gathered from that specific market area. Consequently, focus must be placed on analyzing more general data of related market sectors, and thereafter, finding indications on the potential demand for the niche market.

One way to find indications of the potential niche market is to examine exports of related products. This is also the first step in Alon's (2004) model. If a firm has products connected to organic hygiene for example, then the export volume of similar kinds of products, or other organic products, such as food or cleaning products, may give the firm a good sense of the potential demands in organic products. In this case, the more that is imported to a certain market, the better are the potentials for a lucrative niche market. It

is arguable that high export intensity indicates a highly competitive marketplace, even a saturated one. For companies competing in commodity markets, this might be true, yet for companies competing in niche markets, there is more reason to conclude that high export intensity of related products gives more opportunity for success, not less. Partly because of the higher demand, but also because firms in niche markets are only competing in minor sectors, which can be highly unsaturated even though the overall marketplace is competitive.

Besides the export intensity of similar products, there are various other factors that can give implications on the size and the potentials of a niche market. Continuing with the example of products connected to organic hygiene, general information and data concerning people's attitudes towards organic products or data showing the percentage of people buying organic products, may strongly indicate the potentials of a certain market. Furthermore, recent changes in people's attitudes and buying preferences may also indicate the potential growth of the specific market. Besides indicating potential markets, data of this sort can eliminate a wide range of markets where there is no demand, or no significant demand for organic products. Thus, the number of potential markets can effectively be reduced.

The key is to locate factors on which data exist, ones that can either be used directly as indicators of the potential demand in the niche market or used as indicators of the demand in the market sector, within which the niche market is located. The absence of potential demand means that the market is unsuitable for the firm, thus the market is eliminated from further steps in the market selection process.

The factors that should be sought after are dependent on the firm itself and its products or services. If relevant indications can be found by examining related product exports, then that method should be used. If not, then other influencing factors should be located and evaluated. Such factors include trends in the market sector, people's buying habits of similar products, and the existence and size of the market sector. The existence and size of the market sector in which a niche market is sought after is particularly important. If for example a firm manufactures and sells high-end poker tables, then before anything else, it is crucial to investigate if poker is played at all in different markets. Markets where poker is not played at all can immediately be eliminated from further steps in the process.

In conclusion, the second step in this market elimination model can be done by choosing one, or a combination of the following:

1. Examining related product exports

2. Evaluating the potential size and growth of the market sector (in which the niche market is located)

3. Finding factors that indicate the potential demand for the products or services.

By examining these factors, the results become more relevant to the company and its products, compared to results gained by concentrating on broad macro-economic factors. However, as the variables for *potential size of the market sector* and *factors indicating potential demand* cannot be accurately stated, as they vary depending on the company characteristics, the company itself must decide which variables to use. By giving the company freedom to decide the variables, more accurate results can be gained, as the variables reflect the kind of markets or demands the company wishes to find. However, it also means that this step might be prone to errors, if wrong or ill-suited variables are chosen. Still, even if the variables that are chosen by the company are not the best fitting variables, it is difficult to imagine a scenario where the variables would be chosen so carelessly that the results would be worse than when choosing only general macro-economic variables.

4.3.3 Step 3: Entry barriers

The third step in the model has the function of eliminating markets where there are noticeable entry barriers that would hinder market entry, or even make it impossible. These barriers might for example be tariffs, import restrictions, or other legal restrictions.

For companies operating within the EU, with products that are neither controversial or dangerous, this step can for the most part be neglected.

4.3.4 Step 4: Ease of entry

Markets differ in terms of easy of entry, especially to small firms as international capabilities such as knowledge of different cultures or the languages that can be used are generally more restricted than in larger companies (Alon, 2004). Therefore, it becomes important to evaluate whether or not certain markets pose challenges that can hinder business activities or make them more difficult. This step is also included in the six-step

model presented by Alon (2004), and a similar step is used as the first step in the model presented by Young et al. (1989), yet under a different name (company specific factors). Consequently, the specifics of this step have been influenced by both models.

What factors are evaluated depends on the firm characteristics and the products or services of the firm. In some cases, a long distance between the home market and international markets may be a hindering factor, if for example heavy products are to be shipped or because the time difference between the markets is considered a challenge. Other firms might be more interested in evaluating similarities and differences in culture or language, if those are regarded as more influencing factors. As guiding tools of which preferably more than one is chosen, I present the following:

- Distance between the home market and the potential foreign market (if it is considered as a hindering factor)

- Cultural distance from the firm perspective (cultural norms that affect how business is done, or other norms that might influence, for example, the speed of doing business)

- Cultural hurdles from the product or service perspective (if the characteristics of the product or service is ill-suited for markets where for example certain religions or norms dominate, then these markets should be eliminated)

- English as an acceptable business language (or another language that is preferred by the firm)

4.3.5   Step 5: Competitive evaluation

When reaching this final step of the market selection process, only a few potential markets should remain for further examination. In the evaluation of the remaining markets, the firm itself oversees the factors that should be looked more closely into, which are highly dependable on the products or services and the firm characteristics. To illustrate some possible actions, a firm might want to look more closely into possible retailers, locations or partners in the remaining markets, and perhaps evaluate the cost of doing business in the different markets and separately evaluate the potential advantages of each market. In a broader sense, the competitive evaluation has the purpose of evaluating how easily a firm could compete with other companies in the market.

4.4   FunSquare Ab: Target customers

Before starting the market screening process, the target customers should be defined and other factors that influence the choice of a foreign target market should be stated.

Target customers

The multifunctional furniture that will be launched in the summer of 2018 is specifically designed for compact urban living. The initial idea of designing such furniture derived from the notion that people in urban areas are choosing to live in smaller apartments than before, which has created a demand for multifunctional furniture specifically designed for effectively utilizing square meters in small apartments. The price of the product will be around €1,500, which means that the target customers must enjoy a certain level of economic welfare. Hence, the target customers are people living in small apartments, yet with an income that allows them to spend around €1,500 on a piece of multifunctional furniture. By a certain level of abductive reasoning, the most prominent markets are markets where both the cost of apartments and the level of income are high.

Other influencing factors

- Production. The production will most likely take place in Poland, which means that countries located near Poland might have an advantage (if it reduces transportation costs).

- Weight of the product (80 kg). In transportation mode, the product is packaged in a compact way, yet the size and the weight of the package mean that longer distances will most likely increase transportation costs.

- Design. The design of the product can be described as Scandinavian, with its simplistic elements and neutral colors. Depending on the trends and norms in a market, this might either be an advantage or a disadvantage.

4.5   The search for potential markets: applying the new model

The model that has been suggested will now be applied to find the most promising markets for FunSquare Ab. Each step in the model has the purpose of eliminating unsuitable markets from further steps, until only the most promising markets remain. Below, the model is comprised into its five steps.

Table 3: The new model

The Constructed model	
Step 1: Economic evaluation ➤ Variables: Median, or average income. **Step 2: Niche market evaluation** ➤ Variables: 1. Related products exports. 2. Potential size/growth of market sector. 3. Indicators of potential demand **Step 3: Entry-barriers** ➤ Variables: Tariffs, import restrictions, legal restrictions.	**Step 4: Ease of entry** ➤ Variables: 1. Distance between home – and foreign market. 2. Cultural distance. 3. Cultural hurdles. 4. Business language **Step 5: Competitive evaluation** ➤ Generally done by the company ➤ Closer look at competitive advantages in each market.

4.5.1 *Step 1: Economic evaluation*

Because the target customers of FunSquare enjoy a certain level of economic welfare, markets where the amount of such customers is low, can be eliminated from further steps. However, to ensure that only unsuitable markets are eliminated, the level at which markets are eliminated based on their economic conditions is set relatively low.

As a variable, I have chosen to use the level of average net salary in country capitals. A focus on capitals have been chosen because capitals, as markets, are large enough for small firms and the data about capitals provide more specific and coherent information than data about entire countries. Furthermore, as the product of FunSquare is specifically designed for urban areas, country capitals are well-suited to the purpose.

In the following table, countries in which the average net salary in the capital is less than €900, are eliminated from further steps. Also, countries with a population less than 100,000 are eliminated.

Table 4: Economically suitable and unsuitable markets

Over €900	Under €900 (eliminated)
Austria, Belgium, Czech Republic, Denmark, France, Germany, Island, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, Sweden, Switzerland, UK.	Albania, Andorra, Armenia, Azerbaijan, Belarus, Bulgaria, Bosnia and Herzegovina, Croatia, Cyprus, Estonia, Georgia, Greece, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Makedonia, Malta, Moldova, Montenegro, Monaco, Portugal, Romania, Serbia, San Marino, Turkey, Ukraine, Vatican City.

Average monthly net salary in country capitals. Source: Numbeo.com

4.5.2 Step 2: Niche market evaluation

Without any monetary resources, it is difficult to find specific data that could indicate the demand for multifunctional furniture. Market studies about trends and other more specific studies exploring the European furniture market cost around €2,000, which is why such studies cannot be used in this thesis. However, by using more general data, it is possible to find indications of the size of the market sector in which the niche market is located, and, thus, eliminate markets with least potential.

In this step, two of the three proposed alternatives for niche market evaluation are used to eliminate unsuitable markets, which include the potential size of the market sector and factors that indicate potential demand. The following table will present the two alternatives with the chosen variables:

Table 5: Chosen variables for niche market elimination

Potential size of the market sector (in which the niche market is located)	Factors that indicate potential demand
• **Population** ➢ Markets with less than 600,000 inhabitants are eliminated • **Consumption of imported furniture** ➢ Markets where the consumption of imported furniture is less than €70 person are eliminated	• **Average cost of m^2** ➢ Markets where the average cost of m^2 is less than €4,000 are eliminated • **Monthly income** ➢ Markets with high average income are considered more potential

Justification of chosen variables:

- Population as an eliminating variable is chosen because markets that are equal in size to or even smaller than Helsinki (capital in the home market), are unlikely to provide a larger potential customer base than the home market. However, the elimination is done with caution. If significant potential in other variables is found, then the market is not eliminated solely based on population.

- Consumption of imported furniture indicate on average how much money inhabitants in respective capitals are willing to spend on foreign furniture. The data on the consumption of imported furniture regards entire countries (city-specific data is not available). However, even if the data is on a national level, accurate enough estimates can be drawn from it, as the variation between countries is likely to be much higher than the variation between a country and its capital.

- Average cost of square meters is chosen because it indicates several factors. If the cost is high, then presumably people are living in smaller apartments, as an increase in apartment size will strongly increase the cost of living. Also, high apartment prices in urban areas are likely to contribute to an increased construction of new and smaller apartments, as small apartments generally generate more revenue when sold or rented.

- Monthly income is not used as an eliminating variable, as it was already used in the first step. However, it gives important indications on the general level of economic welfare in respective markets.

The following table shows the remaining capitals and the values of each variable. Values that do not fit the criteria are marked, and so are the eliminated markets.

Table 6: Niche market elimination

Capital	Country code	Monthly income (€)	Cost m² (€)	Consumption of imported furniture (per person, €)	Population
Zurich	CHE	5,086	11,476	176	**400,000**
~~Luxembourg~~	LUX	3,355	6,700	366	**111,000**
Copenhagen	DEN	2,891	4,279	189	775,000
Oslo	NOR	2,872	7,600	212	670,000
~~Reykjavik~~	ISL	2,762	4,250	**n.d.**	**121,000**
Amsterdam	NLD	2,708	6,900	127	820,000
London	GBR	2,575	14,900	79	8,800,000
Stockholm	SWE	2,533	6,990	148	942,000
Paris	FRA	2,356	9,764	89	2,200,000
~~Dublin~~	IRL	2,271	4,650	**56**	**550,000**
Berlin	GER	2,077	4,720	111	3,500,000
~~Brussels~~	BEL	2,050	**3,150**	159	1,100,000
Vienna	AUT	1,863	6,480	233	1,700,000
~~Madrid~~	ESP	1,663	4,380	**39**	3,200,000
~~Rome~~	ITA	1,434	7,800	**27**	2,900,000
~~Ljubljana~~	SVN	1,097	**2,922**	**41**	**280,000**
~~Prague~~	CZE	1,039	**3,830**	**54**	1,300,000
~~Bratislava~~	SVK	946	**3,100**	**48**	**421,000**
~~Warsaw~~	POL	934	**2,790**	**25**	1,760,000

Sources: Monthly income, (Numbeo.com). Consumption of imported products, (EU furniture market, final report, 2014). Cost m², (Globalpropertyguide.com).

* The values on monthly incomes in the country capitals have been obtained from numbeo.com, in which data on average net salaries from 200 cities are gathered into one page. These values are changing over time. The values in the table represent the values that were on display 20 January 2018.

* The data on the average cost of a square meter has been obtained from Globalpropertyguide.com, where data about property costs are gathered.

* Note: The data on consumption of imported products was originally a nationwide sum, which I divided by the number of country inhabitants. Now, the numbers represent the average amount of euros used per person on imported furniture.

* The data on population in capitals is somewhat problematic. Different sources give different sizes of population. Furthermore, the population sizes may vary, depending on how they have been calculated and what area is being accounted for. For example, the capital of Denmark, Copenhagen, has according to some sources a population of under 700,000, yet the urban area has a population of around 1.3 million, and the metropolitan area of Copenhagen has a population of over 2 million. The same problem is apparent in other Capitals. The question becomes then: which of these values best represents the size of the market?

A metropolitan area does not accurately measure the size of the market, as nearby cities, towns, suburbs and other localities that are not even included in the urban area are all added together as a single entity. The difference between a city and an urban area is that a city is a legal definition that defines a physical geographic boundary, whereas urban area refers to an area with a certain population density and infrastructure. In Helsinki, for example, the urban area includes both Espoo and Vantaa, making the population of the Helsinki urban area around 1.2 million (Tilastokeskus.fi). The urban area might stretch even farther from the capital, which creates problems if capitals are compared based on the size of their urban areas. Therefore, the values that represent the population sizes do not include the urban areas. While this might on some instances produce values that are smaller than the actual number of consumers contributing to the size of the market, it still produces overall more accurate results than data about entire urban areas.

* Zurich is not eliminated even though the population is below 600,000. This is due to the strong values in other variables.

4.5.3 Step 3: Trade barriers

As all the remaining countries are either members of the EU or EFTA, there are no significant trade barriers.

4.5.4 Step 4: Ease of entry

As proposed in the model, the ease of entry can be evaluated by using a combination of the following: distance to the foreign market; cultural distance; cultural hurdles from the product perspective; and English as an acceptable business language.

The remaining markets are relatively similar in terms of ease of entry, still some differences exist. From the product perspective, there are no cultural hurdles in any of the remaining markets, which is why the factor of cultural hurdles will not be included in this step.

The other three factors will be evaluated on a scale of 1 to 5, where 1 is the lowest score and 5 is the highest. In the following table, these factors are scored in the following order:

1. **Distance to the foreign market** (measured from Poland, as the products are likely to be manufactured there)

2. **Cultural distance** (evaluated variables: pace of doing business, power distance, style of doing business, easiness for Finnish firms)

3. **English as an acceptable business language**

Table 7: Ease of entry

London	Zurich	Copenhagen	Oslo	Stockholm
1. *** 2. *** 3. ***** (3.66)	1. **** 2. **** 3. **** (4)	1. **** 2. **** 3. **** (4)	1. *** 2. **** 3. **** (3.66)	1. **** 2. *** 3. **** (3.66)

Amsterdam	Paris	Berlin	Vienna
1. **** 2. **** 3. ***** (4.33)	1. ***** 2. ** 3. *** (3.33)	1. **** 2. *** 3. **** (3.66)	1. **** 2. *** 3. **** (3.66)

*The final number in each box represents the average value of the ratings, with higher scores indicating easier entry.

*Cultural distance can be measured in various ways. Generally, Hofstede's (1980) four dimensions or Kogut & Sighn's (1988) composite index have been used by multinational enterprises when evaluating cultural differences. However, these models have faced considerable critique (Drogendjik & Slangen, 2006), and according to the study by Ojala & Tyrväinen (2007), the results that are gained by using these models, correlates significantly less with the choice of a target market than, for example, geographical distance (Ojala & Tyrväinen, 2007). Furthermore, Hofstede's (1980) cultural dimensions were first applied in this step. The dimensions and values that were considered were masculinity, individuality, power distance and uncertainty avoidance. Yet, the results were extremely difficult to analyze and evaluate in a way that could give concrete indications on suitability of the different markets.

Instead of using Hofstede's (1980) dimensions, a decision was made to use approximate values based on Mole's (2003) descriptions on cultures and business cultures. In his work, Mole (2003) describes separately the cultures of 28 different countries. All the nine remaining countries in this model are described in Mole's work (Mole, 2003). The values are based on how well the descriptions matches the culture in Finland, with high values representing significant similarities. The variables that are compared are:

- **Pace of doing business**: In Mole's (2003) work, factors such as punctuality in business meetings, pace in meetings and overall punctuality in the culture are discussed. If, for example, it is a norm in a business culture that meetings start 20 minutes after the scheduled time, and that meetings lack efficiency, then those qualities are quite different from the norms in Finland, which produces low scores in the table.

- **Power distance:** Hierarchy and how much power a leader has compared to other workers are compared to the same factors in Finland. This variable is only accounted for if there are clear indications that the power distance interferes with business negotiations between companies. For example, if strong hierarchies make it difficult to organize meetings with people that can make decisions, or if

hierarchies are so flat that decisions are rarely reached, then the power distance will affect the overall score.

- **Style of doing business:** The style of doing business can be relatively closely linked to both power distance and pace of doing business, yet with some nuanced differences. Style in this case refers to the way in which business meetings are conducted, overall etiquette, levels of efficiency and the way of thinking. For example, in France, abstract thoughts, theory and formulas are emphasized, for which the French have been accused of preferring clarity to truth, words to facts and rhetoric to knowledge (Mole. 2003). While more pragmatic ways of thinking can be found among the British, Dutch and Germans. This affects the way how presentations are conducted and how information, or sales-pitches, should be delivered. All the above-mentioned factors are compared with the norms in Finland and scored accordingly.

There are no significant differences in the ease of entry into these markets, which is why none of the markets can be eliminated solely based on entry easiness. However, when placed together with the other values of the markets, the markets can be ranked based on their overall suitability, and, hence, the least suitable markets can be eliminated.

In the table below, the markets are ranked based on their overall suitability. Five markets with the highest overall suitability are chosen for the last step of this market screening process. (Values in the table are described below)

Table 8: Overall suitability

Rank	Country code	Monthly income	Cost m² (€)	Consumption of imported products	Population	Ease of entry	Overall suitability
1. London	GBR	1.38	3.48	1.00	4.70	3.66	**38.63**
2. Zurich	CHE	2.73	2.68	2.23	1.00	4.00	**34.56**
3. Vienna	AUT	1.00	1.51	2.95	2.10	3.66	**27.54**
4. Oslo	NOR	1.54	1.78	2.68	1.30	3.66	**26.56**
5. Amsterdam	NLD	1.45	1.61	1.61	1.40	4.33	**26.43**
6. Copenhagen	DEN	1.55	1.00	2.39	1.39	4.00	**25.32**
7. Berlin	GER	1.11	1.10	1.41	3.00	3.66	**24.08**
8. Stockholm	SWE	1.36	1.63	1.87	1.50	3.66	**23.43**
9. Paris	FRA	1.26	2.28	1.13	2.30	3.33	**23.37**

*Values for monthly income, cost per m^2 and consumption of imported products, are divided by the lowest value in each segment; hence, the values represent the positive variation between the market with the lowest value, and the rest of the markets.

Example (monthly income): London (2,575) / Vienna (1,863) = 1.38.

**The values for population are square roots of the divided values. The variation on population is too high if left to its original form, which affects significantly the overall suitability. Therefore, square roots are chosen to lessen the effect.

Example (population): London (8,800,000) / Zurich (400,000) = 22, $\sqrt{22}$ = 4.70

*The values for overall suitability are gained by adding the values for monthly income, cost per m^2, consumption of imported products and population, after which the added values are multiplied with the value of ease of entry.

Example (overall suitability, London): monthly income (1.38) + cost m^2 (3.48) + consumption of imported products (1.00) + population (4.70) = 10.55 * ease of entry (3.66) = 38.63

The markets that are left for further evaluation are: London, Zurich, Vienna, Oslo and Amsterdam.

4.5.5   Step 5: Competitive evaluation

The final step in the market screening process, the competitive evaluation, is highly influenced by the company characteristics, company needs, existing contacts and the willingness to take risks. All the remaining markets are considered suitable, and the company can decide to either choose one or several markets to enter. Generally, several markets are chosen to reduce the downturn risk of specific markets (Alon, 2004). In the current models, the final decision is made by the companies themselves. In other words, the researchers highlight the most promising markets, and then the company oversees the final step and the final decision (Alon, 2004; Ozturk et al., 2015). In this case, however, the suggestions will be more specific and one market is chosen as an example for the other part of this study, where entry methods and marketing activities are suggested for FunSquare Ab.

In this competitive evaluation, the most accurate indications on competitiveness could possibly be found in detailed descriptions of the furniture sector in each market. Unfortunately, such information is not freely available, which is why the competitive evaluation must be based on more general data and information about the markets. Also, one factor that could indicate suitability is how well Scandinavian design suits the current furniture trends in the different markets, or how much is spent on Scandinavian design in the markets. Yet, there was no data to be found on these factors, which unfortunately means that these cannot be used as indicators in this step. Nevertheless, information about competitiveness is separately highlighted for each market in the table below, where both positive and negative factors have been considered.

Table 9: Competitiveness factors

VIENNA (Austria)	AMSTERDAM (Netherlands)	LONDON (Great Britain)
+ 80% of residents rent apartments + Largest startup event in Central Europe + Decent-sized market + High consumption of imported furniture - Modest average income	+ Business culture similar to Finland + Easy to enter + Decent consumption of imported furniture - Average size of apartments (relatively large)	+ Huge market + Large number of small flats + High rents + Demand for space-saving furniture - Brexit may cause uncertainties

OSLO (Norway)	ZURICH (Switzerland)	
+ High incomes + High consumption of imported furniture + Decent number of small flats - Not much larger than Helsinki	+ High incomes + High rents + High percentage of people live alone in small flats + Sharp increase in individualized lifestyles - Overall market size (small)	

All the remaining markets show different kinds of potential. London has great potential in terms of demand and the number of potential customers, yet it might be the most difficult market to enter successfully. Moreover, the effects of Brexit are still unclear, which poses some unwanted uncertainties. Oslo and Zurich score high in almost every category, yet the market sizes are the smallest of the five. Amsterdam seems like an easy market to enter for Finnish firms, and the values in each category are strong. Yet, the average size of apartments in Amsterdam seems to be larger than in the other markets, which may negatively affect the demand on space-saving furniture. The average income in Vienna is lower than in the other markets, however, two-thirds of Viennese citizens live in publicly subsidized housing, and the rents are pushed down by Vienna's housing subsidy scheme (TheGuardian.com), which means that the average buying power is higher than the average level of income may indicate. The consumption of imported furniture is also highest of the five, and the market size is significantly larger than that of Oslo or Zurich. Moreover, the distance from Vienna to the border of Poland is merely a couple of hundreds of kilometers, which is a strong benefit considering the transportation of the products. With these influencing factors in mind, I would suggest to either enter the market of London, or Vienna. London may be somewhat more difficult and risky to enter, yet the market provides significant opportunities. Vienna on the other hand, is located close to the production of the products and the overall values of the market indicate strong suitability.

Final recommendation: London and/or Vienna.

4.6 Suggestions for entry methods

This part of the thesis is specifically designed to meet the needs of the startup company FunSquare Ab. Therefore, these suggestions are not analyzed or supported from a general small firm perspective. Instead, focus lies in presenting concrete modes of action that can help FunSquare in its internationalization process.

Vienna is chosen as the example market for which the entry methods are suggested. The choice was between Vienna and London, as these markets indicated most potential. Yet, there are no particular reasons why Vienna is chosen over London. Moreover, the suggestions on entry methods are more influenced by the company and its products than the target market. Therefore, the provided suggestions work equally well for both Vienna and London.

Evidently, FunSquare already has plans of using contract manufacturing in Poland, which will most likely push down the manufacturing costs. The question is therefore: what method should be used to move the products from Poland to the target market or markets? To answer this question, entry methods that are typical for small firms will be briefly analyzed to reach a conclusion. The analyzed methods are licensing, joint ventures, indirect export and direct export.

4.6.1 Licensing

Licensing is a great way of generating steady income with minimal risks, as the licensor continuously receives royalties from the licensees (Albaum et al., 2005). However, as the product of FunSquare has not been sold or tested in any markets, there is no concrete evidence that the product will sell, nor is there any concrete evidence for the demand of the product. Therefore, it might be extremely difficult to find interested licensees. Licensing may be a profitable solution in the future, if FunSquare manages to sell products and achieves competitive advantages of some sort. Also, if FunSquare manages to receive the patent that is now pending, then licensing might become a more valuable solution. As an initial mode of entry, however, licensing is not the best-suited method for the company.

4.6.2   Joint ventures

Joint ventures provide significant benefits as risks are minimized and as local partners may provide valuable knowledge and skills that reduce uncertainty in unfamiliar markets (Albaum et al., 2005). Yet, the success rate of joint ventures is relatively low, and quite often, problems arise if there are, for example, cultural differences between the companies (Pothukuchi, et al., 2002). Joint ventures are perhaps most beneficial when large resources are needed to enter foreign markets. Such is not the case with FunSquare. The company is able to handle the financial costs and the needed work by themselves, which is why joint ventures are not strongly recommended. However, if a viable partner is found, then there are no apparent reasons for not engaging in a joint venture. Still, I would suggest not to place too much time and effort in finding such a partner.

4.6.3   Indirect exporting

Indirect exporting is the least risky method of entering foreign markets. Most of the work is done by other parties, which means that the company can focus on product development or other core activities within the company (Hessels & Terjesen, 2010). The Uppsala internationalization process model (Johanson & Vahlne, 1977) emphasizes incremental resource commitment and experimental learning, according to which the first step for a young company would be to gain initial experience by indirect export. When sufficient knowledge and experience has been gained, the firm would change their entry methods from indirect to direct export. However, as the sales and marketing are done by others, most of the control is lost to other parties, and the company itself can have only minor influence on its success (Albaum et al., 2005). If FunSquare chooses to enter one foreign market, then indirect export is not recommended. However, if several markets are entered simultaneously, then indirect export may be a solid choice. One strategy could also be to enter the main market by exporting directly, while at the same time using indirect export to other markets. This way the company can fully focus on one market, while their products are still being sold in other markets by intermediaries.

4.6.4   Direct exporting

When exporting directly, much work is needed to be done by the company. The company is responsible for the paperwork, sales, marketing, networking and other business activities. The significant upside is that the company is in total control over its success,

and the profits are not shared between any intermediaries (Young et al., 1989). Direct exporting is the most commonly used entry method by small firms (Hessels & Terjesen, 2010). For FunSquare, exporting directly from Poland to Vienna is strongly suggested. The distance between the markets is short, and by exporting directly, the company would oversee its own success in Vienna.

4.6.5 Final suggestions

If only one market is chosen as the first step in the internationalization process, then direct export is strongly suggested as the entry method. However, if several markets are being entered simultaneously, then a mixture of both direct and indirect export is suggested. A strategy that could both generate more revenue and lower risks would be to enter two or three markets simultaneously. To one market, preferably Vienna, the exports would be done directly, and to the other markets, which may for example be London and Amsterdam, the method could be indirect export. By doing this, most of the focus can be placed on one market, yet without having to rely solely on the success in that specific market. By using indirect export to other markets, in which most of the work is done by others, revenue can be created with minimal effort and resources. Moreover, by entering several markets at the same time, more information can be gained on what markets provide most potential for future expansions.

4.7 Suggestions for marketing activities in the chosen market

The suggestions for marketing activities will be as concrete as possible, with emphasis on the company product and the chosen target market. Funsquare is working together with Novia University of Applied Sciences, with the aim of receiving assistance on webpage development and online marketing activities in their home market, which is why the suggestions presented here are only going to account for activities in the chosen foreign market, excluding for example all kinds of web-based activities.

4.7.1 Trade fairs

Especially for small and medium-sized firms, trade fairs offer great opportunities for launching new products, generating new contacts, finding customers and carrying out market research (Blythe, 2001; Power & Jansson, 2008). Trade fairs offer several concrete benefits, which is why trade fairs are strongly suggested as one of the initial marketing activities for Funsquare. However, as trade fairs are often expensive to participate in

(Power & Jansson, 2008), it is strongly recommended that much emphasis be placed on pre and post-fair activities. Such activities include meticulous planning before the event, for example in the form of leaflets, flyers, design of exhibition space, presentations and figuring out how to collect contact information from interested parties. Also of importance are thorough post-fair evaluations, such as follow-up on leads, evaluation on effectiveness and what could be improved for future events (Seringhaus & Rosson, 2004; Power & Jansson, 2008).

The most beneficial trade fairs for FunSquare would most likely be either furniture fairs or startup exhibitions. Examples of such trade fairs in Vienna are:

- **Wohnen & Interieur** – Austria's most visited interior design fair, with around 750 domestic and international exhibitors and brands.

- **Pioneers** – a festival for entrepreneurs and startups.

Even though trade fairs can be perceived as economic events, where deals are made and sales are conducted, it is important for startup companies to build up contacts within these events. In the long run, it is generally more beneficial to build contacts and networks, from which opportunities arise, than to solely concentrate on selling the products at a fair. According to Power & Jansson (2008), furniture designers and manufacturers agree that trade fairs are the most effective way of reaching new markets. Especially for firms dealing with niche or high-end products, trade fairs offer valuable opportunities for finding new customers and buyers (Power & Jansson, 2008).

4.7.2 Other means of marketing

Online marketing with all its different elements offers obviously several benefits and opportunities. However, as Novia School of Applied Sciences will help FunSquare in the realms of online marketing, there is no need to offer suggestions regarding it.

Still, there are traditional ways of marketing that can be done cost-efficiently, and by which target customers can be reached. One suggestion is to find local newspapers or magazines, preferably design or furniture magazines, in which advertising can be done. It has been argued that a mixture of both online and offline advertisement is generally more beneficial than only using one of the two (Kanso & Nelson, 2004; Wiesel et al., 2011). However, according to the study by Wiesel et al. (2011), where marketing

activities done by a furniture firm were analyzed, it became evident that online marketing activities yielded much greater returns of investment than offline activities. The use of AdWords, for example, generated significantly larger returns than the use of flyers or catalogs (Wiesel et al., 2011) Thus, it seems to be more beneficial to allocate a greater part of the marketing resources to online activities. Nevertheless, there might be significant causalities between offline and online marketing activities, where, for example, offline activities such as magazine ads lead to higher webpage hits, since many consumers are first exposed to offline advertisement (Kanso & Nelson, 2004).

Even though the world has become more homogenous regarding consumer buying preferences (Knight & Cavusgil, 2004), there are still differences between markets, and, therefore, firms need to evaluate whether they need to adapt their products and operations to suit the norms in the foreign markets. The design of FunSquare's product can be described as Scandinavian, with its clean lines and simplicity. The design of the product is not easily changed, and it does not need to be. However, color preferences may vary between markets, which is why a suggestion is to already bear this fact in mind when contracts are made with manufacturers, so that flexibility on the colors can be ensured. Also, if Vienna is chosen as a target market, then naturally, adaptations in the form of translations are required. As FunSquare is a young and flexible small firm, decisions and adaptations can be made quickly, which according to Autio et al. (2000) is a significant advantage compared to larger, more bureaucratized companies.

Small details can make a difference. An easy and cost-efficient way to improve the image of the firm is to develop unique business cards. Each time a business card is handed over to a prospective client or customer, a small piece of advertisement is created. In international business, creating contacts and networking is a vital part of the success of a firm (Baum et al., 2011). Even small details, such as business cards, may influence the perceived image of a firm.

Perhaps the most important suggestion is to create an overall marketing strategy, where factors such as online marketing, offline marketing, trade fairs and other activities are meticulously planned and systematically implemented. The above-mentioned suggestions may work as guidelines, yet they only account for a minor part of a marketing

strategy. The final recommendation is to place much emphasis on networking, for which trade fairs offer great opportunities.

4.8　Summary of the results

The most promising markets for the initial step in the internationalization process of FunSquare are London, Vienna, Amsterdam, Oslo and Zurich. All these markets indicate great potential and are provided as strong suggestions. Which market or, perhaps, combination of markets is chosen is a decision that will ultimately fall into the hands of FunSquare. London and Vienna are, however, recommended, as they showcase a set of benefits and potentials that exceed the potentials found in the other markets.

The suggestions on entry methods are two-folded. If only one market is chosen, then direct export is strongly suggested, as direct export enables the company to oversee its own success. Direct export comes with more responsibility and work than indirect export, yet the benefits of total control and revenues not being shared with other parties far exceed the downsides. If, however, several markets are entered simultaneously, then a suggestion is to enter at least one market by exporting directly, and other markets by indirect export. By using indirect export to some markets, most of the work and attention can be focused on the market where the company exports directly, while revenues are still created elsewhere. Entering several markets may also reduce risks, as operations become more diversified. Moreover, valuable information on demand, potential customers, and market suitability can be gained from entering several markets.

As for marketing activities, trade fairs are strongly suggested as one of the initial activities by which contacts can be built, visibility can be gained, sales can be made, and market research can be conducted. Although trade fairs are relatively expensive to enter, furniture designers and manufacturers agree that they are the best way of reaching new markets and finding potential customers and buyers (Power & Jansson, 2008). More resources should be placed on online marketing activities than offline activities, as online activities seem to generate better returns of investment (Wiesel et al., 2011). However, a combination of the two is important, as many consumers are first exposed to offline advertisement (Kanso & Nelson, 2004). Lastly, much emphasis should be placed on developing a holistic marketing plan, in which all the aspects are meticulously planned and executed.

5 DISCUSSION

The focus in this discussion will be on the new market selection model that was constructed and implemented in the previous chapter. This chapter begins with an overall discussion about the model and how it compares with previous models in the field, after which the discussion becomes more detailed, highlighting adequate factors and problems in the separate steps in the model, and their consequences to the results. Within this discussion, the model's reliability and validity is also evaluated. After discussing different elements in the model, the models' usability for other small firms is analyzed. Finally, suggestions for future research are provided.

5.1 General discussion on the model

Market selection models that are designed for small firms do not provide as accurate results as models designed for and used by bigger corporations. The reason is simple. Big corporations are able spend much time and massive amounts of resources for gaining all kinds of data, and for conducting specific market research; therefore, the models can also be highly complex and provide detailed information. Such is not the case with smaller firms. One problem with all market selection models is their intricacy to be empirically tested (Brouthers & Nakos, 2005). It is extremely difficult to gain sufficient evidence on how well the different models work, as the success of a firm is, besides choosing a right target market, influenced by a multitude of other factors (Papadopoulos et al., 2002). As the models cannot be sufficiently evaluated based on firm performance, the evaluation must be based on abductive reasoning. Such reasoning might include answers to the following questions: How reasonable are the results provided by the model? Do the chosen variables measure the right things? Do the chosen variables reflect the needs of the company? Does the model provide different results for companies with different characteristics? Even though it is almost impossible to gain empirical evidence on the level of correctness of these models, there are substantial indicators that using systematic processes in choosing target markets will improve firm performance (Ozturk et al. 2015; Papadopoulos et al. 2002; Brouthers & Nakos, 2005).

The model that was constructed in this thesis managed to produce results without using any monetary resources in the process. Other goals that were stated for the model were

the ability to produce sufficient results and that the model can be used by other small firms competing in niche markets.

The previous models in the field by Rahman (2003), Alon (2004) and Young et al., (1989), all have some distinguishable problems. The models by Rahman (2003) and Alon (2004) cannot be applied without using monetary resources, and some variables in the models make the models impractical for small firms. The model by Young et al. (1989) on the other hand, can be used by a majority of small firms, yet the results that are gained are broad and general, as only a minor part of the model deals with product or company-specific variables. The model constructed in this thesis can be described as a hybrid model, where factors from both the Young et al. (1989) model and the model by Alon (2004) are combined, with some distinct modifications. The consequences of this should be that the new model has generalizable and simple elements, connected with more company and product-specific variables. Consequently, the model should provide more accurate and company-specific results than the model by Young et al. (1989), yet without using monetary resources and without the same level of constraining factors that are present in the model by Alon (2004).

A distinct difference between the new model and the previous models is the way in which markets are defined. The previous models use entire countries as markets, whereas in this model, country capitals are used. Using capitals has some distinct benefits. The data about capitals is more accurate than data about countries, as variations within countries can be huge. For small firms, data about capitals may be more valuable than data about entire countries, as capitals or other large cities are commonly the geographical places where the products or services are going to be directed at. For large companies however, where the potential customers are counted by the millions, it is presumably more beneficial to perceive markets as entire countries. Some pieces of data can only be found on a country level, which might produce somewhat inaccurate results if the country-level data is mixed with capital-specific data. Yet, in most cases, it can be reasoned that the country-level data varies significantly more between countries than between a country and its capital. However, this is not always the case, which is why data representing different sample sizes should be critically evaluated.

The construction of the model was done in a trial and error-like fashion. For example, to illustrate differences in cultural distance, Hofstede's (1980) cultural dimensions were first applied. After realizing the difficulties in interpreting the results that were gained by using Hofstede's (1980) dimensions, a decision was made to use approximate values based on Mole's (2003) descriptions of cultures. In the second step, where niche markets were evaluated, similar kinds of processes were done. Several different variables were tested and dropped, as there was either no data to be found or the variables did not create sufficient information that could be used to eliminate markets. After the process of testing several variables, the best-fitting variables were chosen to be included in the elimination process. In several cases, data that would have provided important information could have possibly been found in market research done within the furniture industry. Yet, the access to the data costs between €500 – €3,000, which is why such studies and the data within could not be obtained or used.

5.2 Reliability and validity of the research

Reliability and validity are concepts that are used to describe and evaluate the quality of a study. The meaning of these concepts varies slightly, depending on the research approach that has been chosen. In quantitative research, reliability refers to the repeatability of the findings. If the study is conducted a second time, and the results are different from the first study, then the reliability can be perceived as low (Patel & Davidson, 2003; Golafshani, 2003). Validity on the other hand, refers to the credibility of the research. In simple terms, if a study measures what it is supposed to measure, then the validity is high. In qualitative research, the two concepts become so intertwined that researchers rarely even use the term reliability. The quality of a qualitative study encompasses the whole research process (Patel & Davidson, 2003).

The quality of the market selection model will be evaluated from a quantitative perspective, where reliability and validity are clearly separated from each other. The quality of the model is dependent on the chosen steps, the variables within those steps, and the quality of the data that is gathered for the different variables.

The reliability of a study is dependent on how well random influences can be resisted. These random influences can either be constant errors or random errors. If a study is influenced by constant errors, then repeating the study will produce the same results, yet

the results would be wrong. Random errors will, in contrast, produce different results if the study is repeated (Patel & Davidson, 2003). In the market selection model, constant errors would for example be data that does not reflect the reality. Arguably, that might be the case in the values chosen for population. Random errors are also possible in the model. Such errors might be created if the sources from which data is received have some errors, or if errors have been done in the collection of the data. The possibility for this is low, as the data has been meticulously gathered, and in some cases, several sources have been used to validate the initial source of the data. However, random errors can also be unknown to the researcher (Patel & Davidson, 2003).

The validity of the model relates to its accuracy to find suitable markets for small firms. The validity of the model can, however, not be proved or stated with certainty, as is the case with all market selection models. When a study relates to abstract phenomenon, a way to ensure the validity, or at least achieve indications on the validity, is to logically analyze the content of the study (Patel & Davidson, 2003), which will be done in the discussion about the separate steps in the model. Furthermore, there are two aspects of validity: internal and external. Internal validity is how well the procedures or instruments used in a study measure what they are supposed to measure. External validity refers to how well the results can be generalized into other situations (Golafshani, 2003). In this thesis, the external validity relates to the generalizability of the market selection model. In other words, the extent to which it can be used by other small firms.

5.2.1 *Discussion on step 1: Economic evaluation*

Economic evaluation was not a step in the first draft of the market selection model. Instead, niche market evaluation was used as the first step. However, it became clear that using niche market evaluation for all the markets in the initial sample (49 markets) would be extremely difficult and even unnecessary. For many of the markets, sufficient data was nowhere to be found, and most of them, if not all, would still have been eliminated based on their economic conditions. Therefore, it was decided to eliminate economically unsuitable markets as an initial step. After all, the first steps in most market selection models are not designed to find suitable markets; instead, they are designed to eliminate unsuitable ones.

One problem with eliminating markets solely based on the levels of income or, for example, GDP, is that some suitable markets may unintentionally be eliminated. To reduce this risk, the levels in which markets are eliminated should be set relatively low. When small firms compete in luxury niche sectors for example, it might be more suitable to look at the amount of wealthy people in different markets, instead of the average wealth. By using data based on population averages, no information is gained on income inequalities, which is why this step should be done with more care, if for example the target customers' wealth is a highly contributing factor to the success of a firm.

When economic conditions are used as criteria for elimination, companies themselves must decide what value is used for eliminating markets. Companies have different target customers and the values for economic evaluations must be set accordingly.

5.2.2   Discussion on step 2: Niche market evaluation

The step of niche market evaluation places a lot of responsibility on the user of this model. A decision must be made if only one or a combination of the following will be used: product-related exports, size of the market sector and/or indications on potential demand. Also, there are no specific variables that could indicate the size of the market sector or the potential demand, which is why the most suitable variables must be found by the user. This means that the reliability of the chosen variables and the data can only be ensured by the user. However, by giving the user some freedom in choosing the most suitable variables, the external validity of the model is increased, as it can be more widely applied to different small firms.

The criteria that no monetary resources can be used in this thesis, clearly constrained the variety of data that could be used. Specific data about the furniture industry in different markets could not be freely obtained. Therefore, emphasis had to be placed on more general data that could indicate the size of the market and the potential demand. The criteria of no monetary resources can of course be neglected by users of this model; hence, more specific data and therefore more accurate results can be gained.

The internal validity of this step is close to impossible to state with certainty. Arguably, the internal validity would have been stronger, if more specific data about furniture industries could have been obtained and used. Still, the variables that were used in this step, all give some indications on the size of the different markets and the potential

demands within the markets. The goal with this step was to provide a process of elimination that would be more accurate, than only evaluating general macro-economic factors, which, in my opinion, was achieved.

The reliability of the data that was used is high enough. When eliminating unsuitable markets, the most important factor is to have accurate values on the variations between the markets, which, to my estimates, was achieved. The consumption of imported furniture may not with complete accuracy represent the consumption in the specific capital, as the values were nationwide. Yet, the variations in furniture consumption between countries are likely to be more significant than between a country and its capital. To use population data about capitals, instead of surrounding urban areas, may be debatable. Some markets, such as Copenhagen and Zurich, would have indicated better potential compared to other markets, if data on urban areas would have been chosen. Yet, urban areas stretch too far from the actual market of a capital, which is why urban areas are likely to create wrong estimates of the number of consumers in a market.

The values for each of the variables in this step may change over time, as conditions in markets are not constant. This means that the results of this study may also change over time. However, this does not mean that the reliability is low. Instead, it shows that the results of the model reflect the current situations in each market, which are affected by changes.

5.2.3   Discussion on step 3: Entry barriers

There was no need to use this step in this market selection process, as all the markets were either members of the EU or EFTA, meaning that there are no significant market barriers. However, if more distant markets are evaluated, such as markets in Asia, then this step is a valuable tool for recognizing possible barriers such as tariffs, import restrictions or other legal restrictions.

5.2.4   Discussion on step 4: Ease of entry

Steps similar to this one can be found in most of the market selection models. In simple terms, the purpose of this step is to evaluate how easily different markets can be entered. Concrete differences can be found in the distance between the home and the foreign markets, and how well English, for example, can be used as a business language. The culture in markets may also pose challenges and make business activities more difficult.

However, as an initial barrier for market entry, culture is arguably not as significant as for example the distance between markets or other external barriers (Coviello & Munro, 1995). Furthermore, as small firms are flexible and able to easily adapt to foreign environments (Autio, et al., 2000), the significance of culture may further decrease.

In this market selection process, the markets were relatively homogenous, and no significant differences were found. Therefore, a decision was made to include the values from this step to the other values from the previous steps, so that overall values for suitability could be gained. Nevertheless, if markets are compared globally, the differences may become substantial, and this step becomes more relevant. Political instability, corruption and high levels of bureaucracy are still evident in certain markets around the globe, which pose significant challenges for entry (Kahiya, 2013). If such significant obstacles for market entry are found, then markets can be immediately eliminated within this step.

The internal validity cannot be completely trusted, when differences in cultures are measured. Hofstede's (1980) cultural dimensions have been widely used in highlighting differences between cultures, yet the model has faced critique and its validity has been challenged (Williamson, 2002). In the market selection process done in this thesis, Hofstede's (1980) dimensions did not provide sufficient information, which is why Mole's (2003) descriptions on cultures were used as a base for the cultural evaluation. The values on cultures in the different markets only accounted for one third of the total values in this step. Furthermore, no markets were eliminated solely based on their entry easiness, which is why the uncertainty in validity in the culture part of this step does not noticeably decrease the overall validity of the model.

If all the remaining countries in the model are culturally relatively similar, then the minor differences can even be neglected altogether, and more emphasis can be placed on more concrete factors such as geographical distance and the easiness of using a suitable language.

5.2.5 Discussion on step 5: Competitive evaluation

The competitive evaluation is generally left to the company itself, as the final decision is highly influenced by the company's willingness to take risks, its internal characteristics, existing contacts and the company's wants and needs. Yet, in this market selection

process, a crude competitive evaluation was done, and the two most suitable markets, according to the model, were highlighted.

Again, the constrain of no monetary resources proved to be problematic in the level of accuracy that could be achieved. The accuracy could have been enhanced, if detailed information on the furniture markets had been available. Unfortunately, such market studies cost between €500 - €3,000, which is why detailed information could not be attained. As the accuracy of the market evaluations remained relatively low, the validity of the step is also questionable. It is possible that the final suggestions on suitable markets would have been different, if more information had been available, which means that both the reliability and the validity of the final step can be perceived as relatively weak. Another suitable indicator would have been the consumption on furniture following Scandinavian design, or the appreciation of Scandinavian design in the different markets. Yet, no information or data about this was found.

Even though the final suggestions may be questionable, and, perhaps, some other market in the remaining five markets, or even in the remaining nine markets, would serve as the most suitable one, the possible ramifications of these suggestions are minor. The final nine markets are presented to FunSquare, with emphasis on the remaining five in the last step. Thereafter, the two suggestions are presented with caution, together with the limitations of the final evaluation, after which the final decision on what market is chosen, or possibly a combination of markets that are chosen, is done by the startup company itself. One important factor to remember is that the model does not take existing contacts or networks into consideration, which are vital to the performance of a small firm (Aspelund et al., 2007). Only the managers of FunSquare know who their existing contacts are or if they already have connections to some of the markets presented as suggestions. If different markets show relatively equal potential, then either markets where contacts already exist or markets in which it is perceived that contacts may easily be built, should be preferred.

If a small firm wishes to gain more accurate results from using this model, then the suggestion is to place emphasis on the last step, and possibly spend some monetary resources in gaining more detailed information about the market sectors they compete in. Even though detailed information about the furniture markets were not available, it does

not mean that other market sectors are prone to the same problem. It might be possible to find detailed information about other market sectors, which is why I recommend to first search through the freely available information, before committing monetary resources into the process.

5.3   Generalizability of the model

One of the goals with the newly constructed model is that it can be used by various small firms with scarce resources and even born-global firms, that are likely to internationalize right from their inception. This means that the model cannot contain the same level of constraining factors that are, for example, present in the model by Alon (2004), where firms using the model need to have a webpage with substantial international traffic. Yet, such constraining factors can make market selection models more firm-specific, and hence, more firm-specific results can be gained. If, on the other hand, a market selection model is highly generalizable, which is the case with the model by Young et al. (1989), then the results are likely to lack firm or product-specific aspects, making the results relatively superficial. One could thereby argue that market selection models designed for small firms should either sacrifice their ability to be generalizable, or sacrifice their ability to produce accurate, firm-specific results.

A way by which both the accuracy and the generalizability of the new model was increased, was to generate a model in which some of the decision-making and responsibility is transferred to the user of the model. In the second step (niche market evaluation) the user of the model can choose between three different approaches, or a combination of the three. Likewise, in the fourth step (ease of entry) the user is responsible for choosing the most suitable options. By constructing the model in a way that it can by some parts be adapted by the user, the model should be able to produce more firm-specific results and be used by a larger variety of small firms. However, the downsides of this are that the reliability and the validity of the model are influenced by the decisions of the user, and that the user might choose unsuitable options or unfitting variables. Still, the possibility of gaining more accurate results and the fact that the model can be more widely used, outweigh the seemingly small risk of the model being misused.

The model was designed with mostly tangible products in mind. As the goal was to find suitable markets for the product of FunSquare, not much work went into adapting the

different stages to be suitable for intangible products or services. In retrospect, however, most of the stages and the variables within can be used for intangible products or services. The only visibly problematic factor for intangible products and services is the product-related export, on which data can be difficult to find. Yet, that can be replaced by evaluating the potential size of the market sector or by finding indications on the potential demand, both of which should be equally accessible for tangible and intangible goods.

As has been shown, the model can be used without using any monetary resources in the collection of the data. Therefore, even firms with minimal resources can use the model to find suitable markets for their products or services. Yet, as has also been indicated, by using some monetary resources to access more detailed data, the accuracy of the model can with high likelihood be improved.

5.4   Practical implications of the results

Even though the new model was constructed with a purpose of adding something new into the literature of small firm internationalization, which hopefully can help small firms in systematically selecting appropriate markets, there are also clear practical implications of the results. FunSquare might have had a few possible European markets in mind from the outset. Yet, these markets were, to my knowledge, mostly based on gut feelings and limited information. Now, the markets have been more systematically evaluated, and markets that the company did not even consider are highly probable for the first steps of their internationalization process. By either confirming their initial markets or providing other, more suitable options, the company can more confidently begin their process of internationalization.

The suggestions on entry methods and marketing activities were proposed with the intent of guiding FunSquare in their internationalization process. Internationalization is a huge process in which various factors and details must be taken into consideration and implemented, which is why many small firms, after some consideration, decide to drop the idea of internationalization altogether (Fish & Ruby, 2009). By handing out concrete suggestions and a plan of initial steps that should be taken, the process can be more focused and therefore the mental barriers of overwhelming work can be decreased.

5.5   Suggestions for future research

The literature on small firm internationalization still has its limitations. What contributes to successful internationalization among small firms is still under much controversy and debate (Rialp et al. 2005). Moreover, the clearly important areas of choosing suitable target markets and entry methods, have been for the most parts neglected, as focus has been placed on the emergence of international new ventures and factors contributing to their rapid growth. Perhaps the most limiting factor in the development on internationalization literature, is the continuous fixation on models and strategies developed decades ago (Buckley et al. 2017). Therefore, as the global business world changes rapidly and firms adapt to those changes, the literature should take a step away from the old models, and develop new ones based on the current outside world.

In this thesis, an attempt was made to include niche market seeking into a market selection model, as various literature concerning small firm internationalization indicate that a majority of small firms compete in niche markets of some sorts. To my knowledge, no such attempt has been made before. Even though the model can produce sufficient results, most likely results that are of value to the users of the model, it is still not perfect. Therefore, more research should be done on how to connect the evidently central factor of niche market seeking to the search of potential markets. A good start would be to seek answers to the following questions: What factors sufficiently indicate the size and potential of a niche market? How, and from where, can such information be received?

In the literature on small firm internationalization, networks are frequently highlighted as one of the most contributive factors to the success of a firm. Yet, networks or connections have not been included into any small firm market selection models. Including the factor could possibly contribute to more firm-specific results. Therefore, adding networks as a factor into a model could be a novel next step. A challenge is, however, how to sufficiently add networks without decreasing the generalizability of a model. Furthermore, many small firms lack international connections altogether. Again, by possibly improving the internal validity of a model, some of the external validity may have to be sacrificed.

5.6 Conclusions

In this study, I endeavored to guide the startup company, FunSquare, in their initial steps concerning internationalization. Suitable target markets were systematically evaluated, possible modes of entry were suggested and some concrete actions for marketing activities were presented. These findings and suggestions will hopefully steer the internationalization process of the company and lower the perceived barriers of overwhelming work, that, unfortunately, have caused many small firms to withdraw from internationalizing altogether.

The market selection model that was constructed and implemented in this thesis, managed to follow the criteria of no monetary resources and niche market seeking, and to my estimates, functions as a valuable market selection tool for several small firms. As with all market selection models, the validity of the model is almost impossible to measure or state with certainty. However, in the market selection process that was conducted in this thesis, it is safe to assume that more accurate results would have been gained if money had been spent to access studies concerning specific furniture industries, which indicates that the validity can be improved. This is not necessary the case with firms competing in other niche markets or market sectors, where more detailed information may be freely available. Nevertheless, even without the use of monetary resources, the model can produce sufficient results.

The suggestions for entry methods and marketing activities were presented with the intent of guiding FunSquare in their initial internationalization processes. Therefore, this part of the study was not meant to add anything new to the literature of small firm internationalization. Still, by reading through the suggestions and the arguments, a firm might find valuable information about the different modes of entry, or ideas for marketing activities. A similar kind of compilation of entry modes and marketing activities with focus on small firms and scarce resources may be difficult to find.

Overall, the literature on small firm internationalization still has its limitation, especially the literature concerning market selection and entry methods. Also, a large part of the models that have been developed in the past decade have been reactively constructed by investigating what companies have done in the past. For example, the market selection models by both Alon (2004) and Rahman (2003) were constructed based on former

company activities. These methods are crucial to validate findings and to get some important insights into company activities. However, to enrich the literature on internationalization even further, some of the studies should take a more proactive approach, where instead of solely fixating on past events, some emphasis should be placed on solving current, or future, challenges.

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Appendix 1: Interview with FunSquare

10.10.2017

Turku

Participants: Atte Cederqvist, Dine Renfors, Johan Backas

Contents:

1. Information about the founders
2. The company
3. The product
4. Theme for thesis

Questions:

Is it allowed to use the name of the company, and the founders' names in this thesis?

Can the interview be recorded?

1.Information about the founders

- Background information (who are you? where are you from? former experience? are you first time entrepreneurs?

2.The Company

- When was the company established?

- Where is your main office? from where do you work?

- How was the idea for the product created?

- What has been done so far?

- What type of business entity?

Budget

- How much capital has been spent so far?

- What kind of resources are there left?

- Where does the financing come from?

Time-table

- When is the product going to be launched? where?

- Are there already plans for other products?

- Other significant milestones? When do you plan to internationalize?

<u>Future/ Vision</u>

- What is the business-plan for future?

- Do you already have in mind potential countries/markets?

- How do you intend to enter these markets?

- Marketing of the product: When? Where? What marketing channels? How? What kind of image is preferred for the product? Webpages?

3. The Product

- Price?

- Materials? Quality?

- Sizes?

- Can the product be taken apart, and shipped in small packages?

- How much can be produced?

- Where is it going to be produced?

4. Alternative themes for the thesis

   I.   <u>Internationalization of startup companies with scarce resources</u>

- Research of existing internationalization strategies that can be used by smaller firms.

- Adapting existing strategies so that they fit with small firms with scarce resources.

- What entry methods are most suitable: direct export, indirect export, joint-ventures, licensing?

- Different methods of reaching markets: consultants, networks, internet.

- Marketing of the product: B2B or B2C?

   II.   <u>Finding potential markets for the product, with emphasis on scarce resources</u>

- Evaluation of different markets based on the characteristics of the product

> - Suitable apartments for the product
> - Number of potential customers
> - Price sensitivities in different markets
> - easiness to reach potential customers
> - Potential retailers and marketing channels in the area (trade-fairs, networks)
> - Potential barriers (Customs, legislation, political-barriers, effectivity, inclusion)
> - The image of Finnish design

Svensk sammanfattning

Introduktion

Små företag väljer allt oftare att konkurrera på den internationella marknaden. I flesta fall är syftet med internationaliseringen att breda ut verksamheten från en nationell till en internationell nivå, för att nå ett bredare antal konsumenter och därmed öka lönsamheten av organisationens verksamhet. Internationalisering av både stora och små företag har redan under en längre tid studerats av forskare och därmed har flera modeller och strategier gällande internationalisering presenterats. Dock har litteraturen om internationalisering koncentrerats på stora företag, vilket innebär att största delen av de existerande modellerna och strategierna inte passar in med de karaktärsdrag som är vanliga hos små företag. En uppenbar skillnad mellan stora och små företag är mängden resurser som kan användas för internationaliseringen.

Litteraturen gällande internationalisering av små företag har fokuserats på born global-företag, vilka är företag som snabbt blir internationellt aktiva (Bouncken et.al., 2015; Knight & Cavusgil, 2004). Orsaker till uppkomsten av born global-företag har studerats intensivt och därpå, har forskarna försökt klargöra hur dessa företag internationaliserar. Fokuset på born globals och generella internationaliseringsprocesser därinom, har dock lett till att vissa andra viktiga aspekter inom internationaliseringen av små företag har fått mindre uppmärksamhet. Bland dessa är till exempel val av potentiella marknader och vilka metoder som används för marknadsinträde. Val av målmarknad är bland de viktigaste besluten för ett företag (Fish & Ruby, 2009), men trots detta väljer små företag allt för ofta målmarknader på måfå eller utan att systematiskt evaluera potentiella marknader. Dessa osystematiska tillvägagångssätt leder enligt Ozturk et.al., (2015) till sämre prestationer i jämförelse med val av målmarknader som härletts av systematiska processer. Valet av en lämplig inträdesmetod kan även vara avgörande för framgången av ett litet företag, då en opassande metod kan leda till långvariga negativa konsekvenser (Brouthers & Nakos, 2004).

Multinationella företag använder en massa resurser och tid för att hitta de lämpligaste målmarknaderna. Modeller som används i marknadssökningar är komplicerade och mängden data som behövs för att uppnå objektiva beslut är enorm (Young, et.al., 1989). Små företag har inte möjlighet att tillämpa lika grundliga processer, då resurserna i

allmänhet är endast en bråkdel av det som finns till förfogande hos större organisationer. Små företag kan dock med hjälp av mer simpla evalueringar och modeller, uppnå resultat som kan ge goda indikationer på lämpliga marknader. Dessutom konkurrerar en stor del av små företag inom nisch-marknader, vilket till en viss grad kan ändra på marknadssökningsprocessen.

Motiveringar och syfte med studien

Syftet med denna avhandling är att hjälpa startup företaget FunSquare Ab, i deras initiala processer gällande internationalisering. Fokuset ligger på att hitta lämpliga europeiska marknader för företaget, vilket görs med att utveckla en ny marknadssökningsmodell som kan användas av små företag med knappa resurser, som sedan tillämpas för att hitta de bäst passande marknaderna för startup företaget. Därpå ges förslag på passande inträdesmetoder till de valda marknaderna och marknadsföringsaktiviteter som företaget kan tillämpa på de utländska marknaderna.

Det finns endast några marknadssökningsmodeller som är uppbyggda för små företag. Dessutom är de existerande modellerna långt ifrån perfekta. Antingen krävs det monetära resurser för att samla in den data som behövs för att implementera modellerna, eller så finns det steg inom modellerna som inte kan tillämpas av en stor del små företag. I vissa fall är modellerna såpass ytliga att resultaten förblir inexakta. På grund av brister i de existerande modellerna, ligger fokuset i att skapa en ny modell, som kan användas utan att monetära resurser behövs, och som eventuellt kan producera mer företags-, och produkt-specifika resultat. För att skapa en ändamålsenlig marknadssökningsmodell och för att ge passande förslag på inträdesmetoder och marknadsföringsaktiviteter, bör dessa forskningsfrågor besvaras:

- Hur ska existerande marknadssökningsmodeller modifieras så att inga monetära resurser behövs för att samla in nödvändiga data, men på ett sätt där goda resultat kan uppnås?
- Vilka är det mest passande inträdesmetoderna för företaget FunSquare Ab?
- Vilka kostnadseffektiva marknadsföringsaktiviteter på målmarknaden kan anses som mest lukrativa?

Företaget FunSquare Ab

FunSquare Ab är ett startup företag som grundades i mars 2017 av två entreprenörer. Företaget designar multifunktionella möbler med avsikten att konkurrera på marknader där kvadratmeterna i lägenheter är dyra, vilket orsakar att de bosatta lever trångt och det därmed blir det viktigt att effektivt utnyttja de utrymmen som finns till förfogande.

Produkten som FunSquare för tillfället utvecklar är ett bord som kan snabbt och smidigt transformeras till en säng. Produkten lanseras på sommaren 2018. Företaget har hand om all operation inom företagsverksamheten förutom tillverkningen av produkten, vilket högst antagligen kommer att ske i Polen, där möbler tillverkas av god kvalité och förmånligare än i Finland.

Främsta orsaken till att företaget vill internationalisera sig är att målgruppen i företagets hemland, Finland, är relativt liten. En signifikant större potentiell målgrupp kan hittas i storstäder där kvadratmeterna är dyra och efterfrågan på platssparande möbler är stor.

Grundarna av företaget FunSquare Ab saknar internationell erfarenhet. Därmed är det viktigt att ge konkreta förslag på handlingar som bör göras för att uppnå en lyckad internationalisering. Till dessa handlingar hör bland annat val av målmarknad, förslag på inträdesmetoder och förslag på marknadsföringsaktiviteter.

Litteraturgenomgång

Litteraturen gällande internationalisering är enorm, där största delen av studierna har koncentrerats på internationaliseringen av stora organisationer. Internationaliseringen av dessa stora organisationer har illustrerats med olika modeller. Exempel på en sådan modell är Uppsala internationaliseringsmodell (1977), som visar att majoriteten av företag internationaliserar stegvis. Enligt Uppsala modellen (1977) tar företag försiktiga steg utåt från hemmamarknaden och när erfarenheten och kunskapen ökar med tiden, ökar även engagemanget på de utländska marknaderna (Kjellman et.al., 2004; Johanson & Vahlne, 2009).

Små företag, speciellt born globals, brukar dock inte följa liknande steg i internationaliseringsprocessen. För dessa företag är det mer vanligt att internationaliseringen sker snabbt och kraftigt (Knight & Cavusgil, 2004; Bouncken et.al., 2015). Det finns flera orsaker för detta, men bland de vanligaste är: otillräcklig

hemmamarknad; etablering på nisch-marknader; globalisering och; intern flexibilitet (Chetty & Campbell-Hunt, 2004; Knight & Cavusgil, 2004).

För små företag finns det dock en mängd hinder som försvårar internationaliseringen. Bland dessa är otillräckliga resurser, regleringar, små nätverk, otillräcklig kunskap och erfarenhet (Arbaugh et.al., 2008; Baum et.al., 2011).

Inträdesmetoder: Små företag väljer vanligtvis en av följande inträdesmetoder för att komma in på en utländsk marknad: indirekt export, direkt export, licensiering, kontraktstillverkning, eller *joint-venture*.

Inträdesmetoden beror i allmänhet på hur mycket kontroll företaget vill ha över sina operationer, mängden av tillgängliga resurser och på produktspecifika egenskaper. Ifall företaget vill minimera riskerna och använda minimala resurser är indirekt export det bästa alternativet. Dock förlorar företaget en stor del av kontrollen över operationerna ifall indirekt export väljs, eftersom mellanhänder sköter om försäljningen, marknadsföringen, distributionen och exporten av produkterna (Albaum et.al., 2005). Direkt export är den vanligaste metoden bland små företag. Ett företag som väljer direkt export är ansvarig över alla de olika operationerna, vilket betyder att arbetsmängden ökar, men samtidigt är företaget själv ansvarig för framgången och inga inkomster måste delas ut till mellanhänder (Young, et.al., 1989). Kontraktstillverkning betyder att produkterna tillverkas eller sätts ihop av en utomstående part, medan licensiering menar att man ger tillstånd till en utomstående att t.ex. producera och sälja vissa produkter mot en kompensering (Albaum, et.al., 2005). *Joint-venture* kan definieras som ett gemensamt projekt mellan två eller flera företag.

Marknadssökningsmodeller: Stora företag använder en massa tid och resurser till att hitta de lämpligaste marknaderna. Modellerna för marknadsökning som används av större företag är komplicerade och kräver stora mängder data som även kostar mycket (Young et.al., 1989). De flesta marknadssökningsmodellerna grundar sig på en stegvis eliminering av olämpliga marknader. Storleken på det initiala samplet av marknader påverkar starkt objektiviteten av en marknadssökningsprocess. Ju större sampel desto högre är sannolikheten att processen producerar objektiva resultat (Alon, 2004).

En del modeller har även blivit specifikt konstruerade för mindre företag. Bland dessa är modeller av Alon (2004), Rahman (2003) och Young et.al. (1989). Alla dessa modeller fungerar med principen om att stegvis eliminera olämpliga marknader. Mängden data som krävs för att implementera dessa modeller är en bråkdel jämfört med modeller för stora företag. Detta möjliggör att modellerna kan användas utan större resurser, men resultaten förblir mindre exakta och mindre objektiva. Dessutom krävs det en viss del monetära resurser i modellerna av Alon (2004) och Rahman (2003), och vissa steg i modellerna begränsar antalet företag som kan använda sig av modellerna. T.ex. i modellen av Alon (2004), är ett elimineringssteg att undersöka antalet träffar på företagets nätsida som kommit från utländska marknader. En stor del av internationaliserande små företag har inte tillräckligt med trafik på sina nätsidor för att samla in nödvändiga data för detta steg, vilket orsakar problem.

Rahmans (2003) modell består av endast två steg, där rikligt med data krävs för att genomgå stegen. Modellen av Alon (2004) består däremot av sex olika steg och modellen av Young et.al., (1989) består av fyra steg. I allmänhet börjar modellerna med att evaluera makroekonomiska data av olika marknader, där bl.a. storleken på marknaden och levnadsnivån jämförs. Därefter följer steg var andra makro- eller mikroekonomiska faktorer evalueras, och till slut har man mellan tre och tio potentiella marknader som presenteras till företaget.

Forskningsmetod

Marknadssökningsmodellen som konstrueras i denna studie byggs upp genom att både använda elimineringssteg från tidigare modeller och genom att lägga till steg som inte finns i existerande modeller. Alla steg i den nya modellen ska uppfylla kriteriet om att inga monetära resurser får användas i insamlingen av data.

Tidigare modeller som är utformade för små företag evalueras och testas genom att söka fram den data som krävs för att använda modellerna. Endast de steg som kan genomgås utan användning av monetära resurser kan tilläggas i den nya modellen. Förutom detta, ligger fokuset i att stegen i den nya modellen kan producera företagsspecifika resultat.

Studien innehåller en blandning av kvalitativa och kvantitativa forskningsmetoder. Existerande litteratur analyseras och evalueras och därpå anknyts litteraturen med de data

som finns tillgängligt. De steg som väljs till den nya modellen, väljs genom en abduktiv process.

Förslag på inträdesmetoder och marknadsföringsaktiviteter grundar sig på existerande litteratur och på startup företagets egenskaper. Målet med förslagen är att ge vägledning åt företaget i de initiala internationaliseringsprocesserna.

Resultat

Den nya modellen som byggdes upp genom att både evaluera tidigare modeller, och med att tillägga en del nya faktorer, eliminerar opassliga marknader i fem steg: 1. ekonomisk evaluering 2. nisch-marknads evaluering 3. hinder för inträde 4. inträdes lätthet 5. evaluering av konkurrens.

Nisch-marknads evaluering är ett steg som inte finns i någon annan marknadssökningsmodell. Målet med detta steg var att få in produktspecifika variabler i ett tidigt skede av elimineringsprocessen, vilket torde producera mer produkt- och företagsspecifika resultat. Övriga steg finns i existerande modeller, men vissa modifikationer har gjorts för att få mer specifika variabler med i processen.

Den nya modellen implementerades för FunSquare Ab och gav följande resultat:

Potentiella marknader: Wien, Amsterdam, London, Oslo och Zürich. Av vilka London och Wien enligt modellen har störst potential.

Inträdesmetoder: Med tanke på företagets egenskaper och resurser, är direkt export den mest passande inträdesmetoden ifall endast en utländsk marknad väljs som första steget i internationaliseringsprocessen. Direkt export ger företaget möjligheter att själv påverka på sin framgång och dessutom behöver inte inkomster tilldelas till mellanhänder, vilket vore fallet ifall indirekt export väljs som metod. Dock är det möjligt att flera marknader inträdes samtidigt, vilket i allmänhet sänker på risker då verksamheten blir diversifierad. Ifall flera marknader inträdes är en kombination av både direkt export och indirekt export ett möjligt val. Med direkt export till den mest potentiella marknaden kan FunSquare fokusera verksamheten på ett ställe samtidigt som indirekt export väljs som metod till andra marknader. På detta vis kunde inkomster genereras på även andra marknader med minimal satsning. Dessutom kunde en satsning på flera marknader generera värdefull marknadsinformation som kan senare användas till nytta ifall verksamheten sprids vidare.

För ett litet företag kan de vara ansträngande att använda direkt export som inträdesmetod till flera marknader, då arbetsmängden blir enorm och en mängd resurser krävs för marknadsföringsaktiviteter och annat som kan anses som ett måste för framgång. Därför kan det argumenteras att istället satsa på en marknad och eventuellt låta mellanhänder sköta om verksamheten på andra marknader.

Marknadsföringsaktiviteter: För företag som konkurrerar i möbelbranschen är olika mässor ett bra sätt att få synlighet och skapa kontakter på en internationell marknad (Blythe, 2001; Power & Jansson, 2008). Dock är mässor i allmänhet relativt dyra att delta i. Följaktligen lönar det sig att lägga tid på att noggrant förbereda sig för en mässa, så att möjligast mycket nytta kan åstadkommas. Enligt studier i marknadsföring genererar en kombination av både online och offline marknadsföringsaktiviteter i allmänhet bättre resultat än ifall endast en av dessa väljs (Kanso & Nelson, 2004; Wiesel et.al., 2011). Dock genererar online marknadsföring enligt studien av Wiesel et.al., (2011) signifikant högre avkastningar på investering, vilket tyder på att online aktiviteter bör föredras i högre grad. För FunSquare är det viktigt att en heltäckande marknadsföringsplan byggs upp.

Slutsatser

Marknadssökningsmodellen som konstruerades i denna studie lyckades generera resultat utan att monetära resurser användes i insamlingen av data. Dessutom kan modellen användas av flera små företag som konkurrerar inom nisch-marknader. Det är dock överlag väldigt svårt att mäta noggrannheten i de resultat som fås av en marknadssökningsmodell, då diverse olika faktorer påverkar ett företags framgång. Modellens validitet kan inte uttryckas med säkerhet, men med att logiskt analysera innehållet i studien är det möjligt att få indikationer på graden av validitet.

Överlag är modellens validitet på en god nivå, dvs. modellen mäter vad den ska mäta. Dock är det sannolikt att mer exakta resultat kan åstadkommas ifall en del monetära resurser används i insamlingen av data. Specifika data om olika marknader eller marknadssektorer hittas överlag enbart i marknadsundersökningar som kostar mellan 1000 och 3000 €. Dylika undersökningar kunde inte användas i denna studie och därmed måste mer allmänna data användas.

I sin helhet gav denna studie värdefulla förslag till startup företaget FunSquare Ab gällande olika processer inom internationalisering. Ett vanligt fenomen bland små företag är att då ledningen inser komplexiteten i att internationalisera slopas planerna för internationalisering helt och hållet (Fish & Ruby, 2009). Med att ge konkreta förslag om olika steg i processen kan företaget fokusera sina aktiviteter och resurser på ett ändamålsenligt sätt, vilket även torde sänka graden av osäkerhet och den uppfattade komplexiteten.