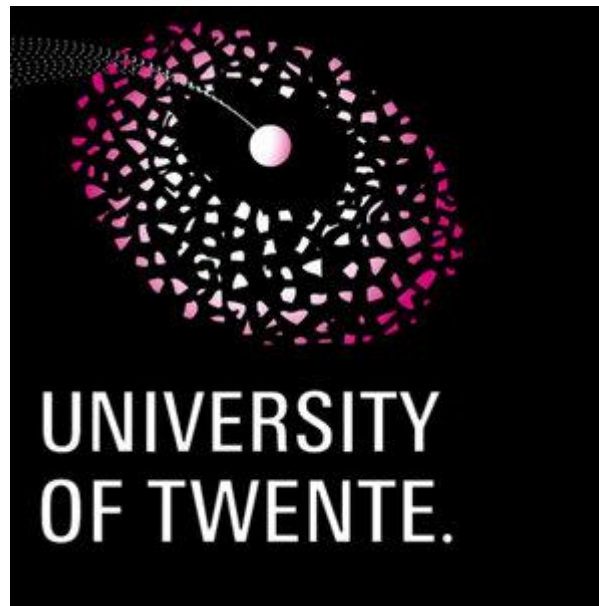


Development of a framework to assess foreign business markets



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Abstract

The purpose of this master thesis is to provide a framework and advice for entering foreign business markets for small and medium sized enterprises (SMEs). The researcher conducted a literature study to shed light on this topic and used unstructured discussions to develop the market attractiveness framework. The framework is specifically developed to identify the most attractive business markets based on specifically selected market variables important for Jasca Food Technology. The combination of methodologies and perspectives allowed the researcher to analyze his theoretical framework, market attractiveness framework, and the research questions in a favourable manner.

In a world where the Internet and good communications accelerates the globalization, conducting business across borders becomes a competitive advantage. But how should organizations enter the new markets and reach the new costumers? This research has put the emphasis on creating a guiding discussion on how an international expansion process might look like.

In this research, the author especially investigated areas that the researcher found important for SMEs during their internationalization process: reasons for international expansion, the choice of market, the entry modes that are used, and barriers and problems that occur in the process. The researcher looked in detail to theoretical models like the Uppsala Model and Born global concept to explain the processes behind SME internationalization, the indirect- and direct entry modes used by organizations, and internal- and external barriers that organizations have to overcome when going abroad.

The findings and analysis has brought to light some interesting conclusions for Jasca Food Technology. Making use of the market attractiveness framework and associated discussions indicated that [REDACTED] are interesting markets for Jasca Food Technology. [REDACTED] can be a smart choice for Jasca Food Technology to enter Norway. Turkey and Hungary are better served by [REDACTED]

Key words:

Internationalization, small and medium sized enterprises (SMEs), entry modes, entry barriers.

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1. Introduction

1.1 Background

During the 1960s organizations were mainly domestic focused and considered domestic markets attractively enough. During the last decades, globalization has enhanced international competition affecting both organizations with an export background and organizations focusing on domestic markets. Due to more efficient communication, faster transportation, and quicker transaction processing the global business market is now more accessible than ever. However, increasing international competition associated with stagnating domestic markets influences or sometimes even forces organizations to enter foreign business markets. But, for many organizations gaining access to international markets is still a voluntary and strategic instrument for their competitiveness, development, and revenue growth. Logically, internationalization among small and medium-sized enterprises (SMEs) is very different compared to larger organizations like multinationals. Buckley (2006) mentions that SMEs face higher degrees of risk due to limited resources and capabilities compared to larger organizations during internationalization processes. As a matter of fact, SMEs lack financial resources, human resources, time, and expertise in international market expansion according to Barringer and Greening (1998).

Nevertheless, more and more SMEs tend to go beyond national borders in order to expand their business territory. Meanwhile, SMEs are still clearly underrepresented in international business compared to multinationals. According to Reuber & Fischer (2003, p. 78) SMEs imply *“heterogeneous groups of businesses in an economy, ranging from a single artisan working in a small shop making handicrafts for a village market to sophisticated engineering firms selling in overseas markets”*. SMEs going abroad means dealing with severe challenges. Differences in terms of social, political, economical, and cultural factors between the home and new foreign market create barriers for SMEs internationalization efforts (Johanson & Vahlne, 1977). The European Union defined an SME as an organization employing less than 250 people, generating turnover less than 50 million euro, and less than 43 million balance sheet totals. According to The Organization for Economic Co-operation and Development (OECD) SMEs occupy an important position in any country's economy and typically employ around 35-45% of the work force and contribute 30-40% of national added value.

International activities are increasing lately and becoming more important for SMEs. European organizations have witnessed major changes and developments lately. For example, the introduction of the European Union, introduction of the Euro coin, and the possible European Union expansion covering almost 500 million consumers. This offers opportunities for already internationally operating Dutch SMEs or those willing to. Although this is true for all industries, it is particularly relevant for the food industry where organizations have to cope with globalization, changing purchasing behaviours, and increased global demands for food. Especially the growth in food demand and need is interesting. Resulting from combined effects of world population growth to over 9 billion by 2050, rising incomes, and dietary changes towards higher meat intake. The OECD thinks that consumption of the main food commodities will increase most rapidly in Eastern Europe and Central Asia, followed by Latin America and other Asian economies. They argue that price rises will be fuelled by stronger demand with consumption increasing in developing countries.

According to Murdoch & Miele (1999), the food industry is increasingly bifurcating into two main systems of production: on one hand, standardized, specialized production processes responding to economic standards of efficiency and competitiveness; on the other hand, localized, specialized production processes focused on environmental, nutritional, taste, or health qualities. Although, clear boundaries between both systems of production are missing. SMEs in the food industry innovate, manage, exploit, and nourish their knowledge in order to gain a competitive advantage. Massa & Testa (2009) discuss that innovators in the food industry tend to focus mainly on continuous improvements of products, often line extensions, rather than on change. Such an innovative organization is Jasca Food technology. Their knowledge-based products are specifically developed for the food industry.

Jasca Food Technology (JFT) is located in Ootmarsum and was founded in 1999. JFT is an SME based in The Netherlands and Germany. The company is a very innovative niche, mainly active in the food industry. Their credo is: "*integration of technology and technique, custom build and properly applied in your operation and business*". The company has grown steadily over the past years, it became a highly technological and dynamic company who offers many technological solutions. These technologies are custom build to meet specific customer demands and needs. JFT mainly focuses on business-to business (B2B) organizations in the meat and meat processing industry, convenience food industry, bakery industry, and filling and packaging industry. JFT core business is technological- and technical integration, project management, and quality assurance systems. In other words, integration of technique and technology is no utopia for JFT. Their state-of-the-art atomizing systems, low after sales costs, and extensive knowledge about the producing and processing food industry makes JFT an organization with great potential in domestic and international markets.

JFT core product is cold water atomizing. This highly innovative and internationally unique system prevents dehydration of meat and bread. The system is suitable for atomizing liquid products on water and/or oil basis.



Specifically designed and patented atomizing nozzles transform ordinary tap water into extremely fine droplets with the help of compressed air. As the moisture leaves the atomizing nozzle with force, it is mixed intensively with the air currently present in the room. The force associated with this release, provides an optimal mixing and circulation of moisturized air in the room. This atomizing system will guarantee a consistent circulation of moisturized air. The special atomizing nozzles are so state-of-the-art that spraying water from a distance of 50 centimetres aimed at your face will not cause any form of wetness at all.



JFT is the only company in Europe using this method. A technique used by competitors is steam, however steam is more expensive and hard to control. Controlling for humidity takes care of dehydration problems of meat and bread, automatically improving a products quality. In spaces where meat is being cooled or stored, not only the temperature is important but also the relative air humidity. During the cooling process, moisture is being extracted from the meat. This process comes with a decline in weight of the meat being processed. Since meat is sold based on weight, revenues are threatened. Additional humidification by installing cold water atomizing systems in cooling- and storage rooms is the perfect solution for the dehydration problem of meat. This ideology is the same for bread, the cold water atomizing system prevents dehydration of dough in all kind of proofers. Since bread is sold based on weight in every country except for The Netherlands, losing weights means losing money. So, preventing dehydration will keep revenues stable and decreases production failures.

1.2 Problem field

2014, Jasca Food Technology's most attractive business markets are The Netherlands, Germany, Austria, and Switzerland. Since domestic markets are stagnating over even declining, expanding business activities internationally has become interesting and possibly necessary to sustain organizational growth. Entering new international markets with their unique 'cold water atomizing systems' should offer new opportunities. Through initial conversations has been found that Jasca Food Technology has previous experience of internationalization and is at the moment considering several international expansion alternatives. Jasca Food Technology hopes to find synergies and beneficial circumstances by expanding internationally that ensure the organization for keeping growing and further improving organizational performance. However, international expansion isn't that obvious while Jasca Food Technology lacks financial resources, human resources, and foreign market orientation resources. Besides, which markets are financially and practically attractive?

The researchers' problem and assignment is to identify the most attractive foreign business markets, select the most appropriate internationalization strategy, identify barriers of internationalization, and give advice how to enter those markets using different entry modes. The biggest 'problem', although considered by the researcher as a challenge, is the development of a market attractiveness framework based on specific needs and demands specified by Jasca Food Technology. The researchers' knowledge gap will be solved by discussions with internal organizational stakeholders and by conducting research of existing literature.

1.3 Purpose

The purpose of this master thesis is to provide a framework and advice for entering foreign business markets for SMEs. The framework is specifically developed to identify the most attractive business markets based on specifically selected market variables important for Jasca Food Technology. This study will create awareness, discusses issues, and highlights essential factors decisive in the internationalization process of Jasca Food Technology. It will help Jasca Food Technology understand the nature of international expansion processes, help's to identify and overcome internationalization barriers, discusses several entry modes, provides methods to optimize their resources and knowledge to gain competitive advantages, and ends with proper advice and recommendations for Jasca Food Technology.

1.4 Research questions

International expansion is the focus of this research. The purpose of this master thesis is to provide a framework to assess foreign business markets and to give advice how to enter these markets abroad. While the internationalization process is broad and full of pitfalls, investigation of the dynamics and mechanisms behind international expansion is necessary. The internationalization process implies several organizational designs, organizational barriers, and strategic choices which form the foundation of Jasca Food Technology's internationalization activities. Understanding these dynamics and mechanisms provides the path for answering the following research questions:

- *Q1. Which internationalization process is most attractive for Jasca Food Technology?*
- *Q2. Which internal- and external barriers will be faced by Jasca Food Technology?*
- *Q3. Which market specific entry mode is best suited for Jasca Food Technology?*
- *Q4. How does such a market attractiveness framework look like?*
- *Q5. Which countries are most attractive according to the framework?*

Research question one '*Which internationalization process is most attractive for Jasca Food Technology?*' is discussed in subchapter 3.1 'Internationalization' and is conceptualized in framework 2 (page 35). After explaining what internationalization implies, the researcher distinguishes between two approaches of internationalization, rapid and incremental internationalization processes. Both variants are widely discussed in literature and provide directions which process Jasca Food Technology should adopt during their international expansion.

Research question two '*Which internal- and external barriers will be faced by Jasca Food Technology?*' is covered in subchapter 3.2 'Internationalization barriers' and is conceptualized in framework 3 (page 38). This part of the research discusses uncertainties and barriers that will be faced during the internationalization process by Jasca Food Technology. Barriers arising from internal and external environmental influences should be faced and reflected in order to overcome such difficulties. Probably the most important barriers for Jasca Food Technology are linguistic dissimilarities, lack of financial resources, and lack of human resources.

Research question three '*Which market specific entry mode is best suited for Jasca Food Technology?*' is handled in subchapter 3.3 'Entry modes' and is conceptualized in framework 4 (page 46). Jasca Food Technology seeks to expand business activities internationally and must choose the best suited entry mode in order to be successful. The mode of entry chosen will be one which facilitates a competitive position in particular overseas markets, subject to the constraints imposed by resource shortages of various types. Choosing a certain mode of entry influences the degrees of control and commitment and eventually organizational performance.

Research question four '*How does such a market attractiveness framework look like?*' is described in chapter 2 'Methodology'. This chapter explains and elaborates on several frameworks developed to answer the research questions in this master thesis. It also mentions the studies research design, research method, data collection method, operationalization of the frameworks, methods used for reviewing literature, and justifies the selected market attractiveness framework input variables (framework 1, page 17).

Research question five '*Which countries are most attractive according to the framework?*' is described in chapter 4 'Frameworks applied'. This chapter discusses all four frameworks, however, only framework 1 is the actual variable input framework used to assess foreign business markets. Framework 1, also known as the market attractiveness framework is based on the 'Venture opportunity screening' framework explained by Leach & Melicher (2012) and is extended by the researcher based on needs and demands stated by the owner of Jasca Food Technology. The outcomes of the market attractiveness framework should be considered a guideline intended to provide some direction, countries should always be reconsidered after using the framework.

1.5 Thesis outline

Chapter one deals with the scope of the research. It provides a description of the background, the organization 'Jasca Food Technology' and its core product 'cold water atomizing systems'. It also includes a problem statement, the purpose of this master thesis, and the research questions to assist the framework in order to provide suitable advice.

After clarifying the research project, the research methodology applied in this research is described in chapter two. This chapter contains the research objective and research design, research method, data collection method, explanation and development of the market attractiveness framework, and the justification of the variables included in the market attractiveness framework.

The existing literature regarding internationalization is described in chapter three. This theoretical framework is necessary to describe all aspects of internationalization in order to answer the research questions. Given are theories, processes, barriers, and entry modes. The section about internationalization contains conceptualizations stemming for internationalization consequences, organizational readiness, internationalization processes, and value creation theories during internationalization. The section internationalization barriers refers to constraints which prevent SMEs from developing, or sustaining business operations in markets. Export barriers usually originate in the organization and they are associated with organizational resources and capabilities, while others stem from the SMEs' external environment. Section three discusses that internationally expanding organizations must choose from different entry modes ranging from exporting directly or through independent channels, to foreign direct investments (joint ventures and fully owned subsidiaries), or through licensing and franchising. Essentially, a choice of entry mode comprising choice of location and type of control.

Chapter four contains the outcomes of the frameworks. Here is also explained how the market attractiveness framework (framework 1) outcomes should be interpreted. Three foreign business markets are selected and mentioned, these markets turned out to be attractive for the organization after discussions with the owner of Jasca Food Technology. Additionally, framework 2 is used to address the most suited internationalization process, framework 3 is transformed into a table explaining which barriers are most applicable for Jasca Food Technology, and framework 4 is used to provide country specific entry modes.

All of the aforementioned research questions are discussed in the previous chapters, the main research question will be answered in chapter five. This chapter contains an advice based on conclusions drawn from the several developed frameworks and investigated literature. This advice relates to the actual internationalization process of Jasca Food Technology. It contains the way how Jasca Food Technology should enter those three markets, highlights barriers, and mentions which internationalization strategy is most attractive. Also limitations and possibilities for further research regarding this research are discussed.