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Report on Internationalisation

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1.0 Introduction

The report discusses internationalisation strategies for practical application by the retail sector company Aldi, in consideration of expanding its market presence in the markets of France and Switzerland. This discussion will be performed by discussing the different theories of internationalisation that presently exist, which will allow the report to determine the suitable theory for Aldi. Following this, the international market selection is justified in the report which will detail the reasons for selecting these two markets. The report then discusses the market entry modes appropriate for both of the chosen markets, which ensures the report's aim of providing a detailed insight into internationalisation strategies for Aldi is fulfilled.

2.0 Overview of the Theory of Internationalisation

2.1 Overview of internationalisation theories

Internationalisation theories are present for discussion under different scenarios of international market expansion by firms. To determine the suitable internationalisation theory that applies to Aldi, the report will assess different theories of internationalisation before selecting one that is suitable for the company. The report will consider different theories such as the Uppsala model of internationalisation, the product life cycle theory as well as the network theory of internationalisation and the eclectic theory of internationalisation.

Uppsala model of internationalisation

The Uppsala model of internationalisation presents a sequential approach to market entry and expansion through a succeeding series of resource-intensive internationalisation choices. The first choice of market entry under the Uppsala model is, therefore, the least resource-intensive and risk-intensive choice for an internationalising firm (Vahlne, 2020). The first market entry method is the export method, where the firm will export its products directly to the foreign market base. This is performed through an intermediary partner organisation that is active in the foreign market base as a local company, thereby facilitating the export and import process involved in this method. These partners create a contract of agreement that presents a basis for exporting, and therefore the risk of market entry is limited here. The subsequent market entry methods are more resource-intensive in scope and investment, as it includes creating strategic

business alliances with other, similar companies in the foreign market. The market entry methods in this instance are found as joint venture partnerships or contract-based agreements on market entry, such as franchising rights. The Uppsala model's most resource-intensive market entry method is therefore the Greenfield Acquisitions or fully-owned subsidiary method, where the firm will use its resources to create a tangible foreign market presence that is also fully owned and controlled by the firm.

Network Theory of Internationalisation

This theory is shown as distinct from the Uppsala model of internationalisation as the network theory focuses on market internationalisation through the global network of relationships that the firm has at any given time. The higher level of global networking will result in greater performance of internationalisation through the network theory of internationalisation, as such firms will have numerous network advantages such as supply chain partners and foreign business partners (Johanson and Kao, 2010). This network of supportive stakeholders, therefore, ensures that the internationalisation process is capable of maximising the international market entry approach and performance, such as expediting the process of local land ownership for the intent of creating a new subsidiary firm. According to this theory, firms can integrate within the foreign market as well as penetrate further to increase their existing market share there.

Product life cycle theory of Internationalisation

The product life cycle theory describes market entry choices by firms as a result of the current viability of the product life cycle in terms of consumer engagement with the products. The product life cycle in its growth or maturity stage, for instance, will see a greater level of internationalisation efforts being undertaken to capitalise on the market opportunities present in the foreign market. If the life cycle of the product shows it to be in decline with a reduced consumer engagement level, firms will also scale down their internationalisation efforts or exit the market entirely to prevent losses from building up (Audretsch, Sanders and Zhang, 2017). Therefore, the product's engagement with the consumer and its staying power during the maturity stage determines the time frame for internationalisation-driven market growth opportunities that can be capitalised on by the firms. Firms with greater market awareness can also enter the foreign market during the early growth stages, from which it will benefit through the first mover advantage in satisfying the consumer segment's needs according to the product.

An eclectic theory of Internationalisation

The eclectic theory of internationalisation is a strategic approach to market entry where the decision-making regarding the international market entry methods is derived from the use of the OLI paradigm of three factors. These three factors of a controllable and therefore variable nature are determined as ownership of resources, location for market capitalisation and internationalisation through its advantages (Dunning, 1980). The aspect of ownership in this paradigm considers the advantage of early or first mover that the firm enjoys over rivals in the industry. The location advantage determines whether the low-investment approach of exporting will satisfy the parameters for capitalising on the market opportunities. Lastly, the internationalisation process's advantage shows whether the appropriate market entry method is selected, such as wholly-owned subsidiaries being created to actively participate in the foreign market.

2.2 Selecting the appropriate theory for Aldi

In selecting the appropriate theory of internationalisation for Aldi, the report will also consider the business segments where the opportunities for market entry and growth can be found. This will also ensure that the market entry choices and the markets themselves are appropriately selected to align market opportunities with the existing capabilities of the firm. Aldi operates on a competitive basis as the retail sector is highly driven by competitive performance across global markets. The eclectic theory of internationalisation will allow Aldi to maintain dynamic responsiveness to changes in market trends as it expands to two different markets in this report. Aldi has been successful in entering foreign markets such as the UK retail sector where the local Big Four companies were summarily disrupted from their market share due to Aldi's competitive performance (Wood, 2022). The OLI parameters of ownership, location and internationalisation present a dynamic approach through which the market entry approach and subsequent inputs can be flexibly defined to retain the firm's agility in the international business environment.

2.3 Assumptions of the Theory

The eclectic theory of internationalisation assumes foremost that firms who are entering foreign markets will be less inclined to use a direct foreign investment-based market entry method if they can secure a similar outcome by using their internal resources and capabilities. Therefore, the assumptions of this model rely on the firm's intention towards optimising its resource usage

in maximising the market entry method opportunities available in foreign markets. While it is not a guaranteed assumption, it is nonetheless in alignment with the model's proposed approach in the OLI paradigm and therefore it is a safe operating assumption for Aldi.

2.4 Application of the Theory

Aldi is based in Essen, Germany, therefore making it operational within the EU bloc. This offers it advantages in internationalising into France and Switzerland, as these markets are also located within the EU bloc and are therefore easier to access. Aldi has a growing international market presence such as entering the UK market and disrupting the existing performance and market share of the Big Four retail firms there (Wood, 2022). Therefore, Aldi will analyse the attractiveness of making a foreign direct investment towards market entry through the assessment of OLI factors for the international markets.

As a retail sector organisation, Aldi will have to select the resource-intensive approach of Greenfield Investments to create wholly-owned subsidiaries in the selected foreign markets of France and Switzerland. Therefore, the choice of market will be summarily justified to ensure that the market attractiveness and business potential in the long-term satisfies the OLI factors and utilises the eclectic theory of internationalisation for Aldi's benefit.

3.0 Selecting internationalisation markets

3.1 First market

Aldi will select the French market for its choice of internationalisation, as the opportunities for market penetration and subsequent growth are promising in this selected market. The French market has been responsive to the global trend of sustainable consumer behaviour that has followed the aftermath of the Covid-19 pandemic, as the pandemic increased the self-awareness of consumers regarding the sustainability of their lifestyles. In turn, this results in consumers being ideologically motivated to align with companies that offer them consumer experiences in a sustainable manner, such as through veganism and organic fresh produce. The French market is suitable for this, as vegan consumption represents a sizable portion of the consumer base. Targeting this segment will allow Aldi to retain its competitive performance without being affected by the actions of its rivals, who will be more focused on overall competitiveness instead

of a segment-focused strategy of providing sustainability to consumers. This also positions Aldi more securely for long-term continuity of business operations (Chiorando, 2023).

The French market has a strong consumer base of sustainable consumers across different lifestyle trends such as veganism and organic consumption. France is also politically stable as it has a democratic governance in place which is among the most open and free countries among global democracies. This is evidenced in the positive score of free democracy given to France by the Freedom House Index, and the ease of doing business in France is also an attractive quality as it numbers 32 among global markets (Freedom House, 2023) (World Bank, 2023). Furthermore, Aldi will be liable to pay similar taxes and regulatory compliance due to the EU provisions being applicable for the German-based Aldi and France as well. Furthermore, France has been positive in its market resiliency across the recent macro-environmental disruptions such as global inflation, the Russian war with Ukraine and the post-pandemic impact as well. These factors position France as one of the major European economies with a robust consumer base and GDP that numbers \$2.8 trillion.

There is also a cultural advantage to selecting France for internationalisation, as the cultural similarities between France and Germany are sufficient to secure market growth from internationalisation. This can be perceived through the 6D model of internationalisation where cultural factors are compared between both countries (Hofstede Insights, 2023). In particular, the score of Indulgence of 48 and 40 for France and Germany respectively shows that consumer behaviour is similarly disposed to consuming following their needs and wants (Hofstede Insights, 2023). Consumers will therefore engage with Aldi through its extensive collection of vegan and organic food products, which will satisfy the values and beliefs held by consumers in these segments. It will also capitalise on the demand for an organic lifestyle including food consumption which will increase the market position of Aldi in the long term. France also has other advantages for Aldi to consider, such as leading infrastructural quality and logistics support for business operations. The consumer lifestyle of sustainable consumption aligns with France's commitment to Net Zero 2050, through which the country will decarbonise and achieve a level of carbon-neutral performance. This ensures that consumer tastes will invariably shift towards greater sustainability in the long term, following the Net Zero ideals of sustainable consumer behaviour. Therefore, this market is justified for its attractiveness to Aldi in the analysis.

3.2 Second market

The second market selected for Aldi in this report is the Swedish market, due to the similar benefits that it offers to the French market. Sweden has a strong base of sustainable consumers that engage with lifestyle habits such as vegan and organic consumption. This makes it similarly attractive to Aldi where it will be able to maintain a similar business model for targeting market growth in both countries. The value of sustainability is also reflected prominently beyond the consumer, as the Swedish government is a vocal proponent of becoming sustainable and creating leading sustainability performances in major cities like Gothenburg and Stockholm. Therefore, Aldi will benefit from this political alignment towards empowering the growth of sustainable consumption in the country.

The democratic framework of the Swedish government is also supportive of market internationalisation and subsequent expansion by Aldi, as the country has a similarly positive ease of doing business and an equitable form of governance. While the market for consumer size is smaller than France, Sweden has the advantage of a more free economy with a much higher ease of doing business rank of 10 globally (Freedom House, 2023) (World Bank, 2023). From a cultural perspective, Swiss consumers are much more indulgent compared to German consumers, as their rank of 66 is greater than the German Indulgence rank of 40 here (Hofstede Insights, 2023). Similar to France, Sweden also has an advanced parameter of infrastructural development and logistics support for business performance. Aldi will be able to maintain a coordinated supply chain network across Sweden and France due to the inclusion of both countries in the shared EU bloc. This will ensure that the products such as organic produce and vegan products are delivered on time while maintaining quality standards as well. Sweden's performance in the Net Zero 2050 initiative makes it similarly positioned to promote domestic consumption trends that align with the selected consumer segments of vegans and organic consumers. Therefore, the long-term market penetration potential for Aldi is favourable across both international markets. The regional proximity of both markets and Aldi's home market in the EU bloc ensures that local supply chain networks can be optimised for increased last-mile delivery performance, which is a key determinant in creating satisfaction in the consumers (Olsson, Hellström and Vakulenko, 2022).

4.0 Suitable entry modes for each market

4.1 Suitable entry mode for the first market

When entering the French market, Aldi will focus on creating a local presence through the wholly-owned subsidiary approach. This will ensure it retains direct and strategic control over operations and decision-making within the French market. It will also allow Aldi to develop its internal business competencies more effectively due to the direct control offered under Greenfield Investments. From this position, Aldi will be able to optimise its supply chain network to become more cost-effective across France and create a competitive market performance in that way.

4.2 Suitable entry mode for the second market

In entering the Swedish market, Aldi will enjoy similarities of advantages such as political, economic, social and Net Zero 2050 factors that are shared among the chosen markets. Sweden's market opportunity can be capitalised by following a similar market entry method of wholly-owned subsidiaries, as it will be important to ensure supply chain network activity is directly controlled in Sweden's subsidiaries. This point is essential for Aldi's business growth in both markets as the shorter shelf-life of organic or vegan products necessitates this optimisation of procurement facilities, which will ensure customers receive a higher quality product when shopping at Aldi's (Guanqi and Husnain, 2022). Long-term market penetration will be successfully achieved through this resource-intensive Greenfield Investment in both countries and therefore the report is convergent in its selection of wholly-owned subsidiaries for both markets.

5.0 Recommendations

For Aldi, it is recommended that the firm follows the described business differentiation model of focusing on sustainability-oriented consumers in both French and Swedish markets. This will ensure that the consumers are evenly targeted in terms of segmentation across both markets, and it will also create a more competitive business performance for Aldi to retain this focused approach towards international market entry strategy formation.

Secondly, both markets share the same focus on achieving Net Zero 2050 commitments which is a positive indicator for Aldi's long-term market penetration as well. This commitment is a driving factor that will promote the domestic consumption of sustainable practices among consumers to align their behaviour with the expected outcomes of Net Zero targets. Therefore, both France and Sweden will be proactive in promoting sustainability as a lifestyle and Aldi will be present to capitalise on this emerging long-term consumer sentiment.

Thirdly, the international market entry method of wholly-owned subsidiaries makes the market entry situation positive for Aldi. This will allow the firm to coordinate its activities across its European network of business presence, which can allow it to develop its network connections for future market penetration opportunities through the network model of internationalisation.

6.0 Conclusion

The report's discussion on market internationalisation at Aldi has focused on the markets of France and Switzerland. This was substantiated in the report's discussion of potential market entry strategies, as well as the theories of internationalisation towards determining the appropriate theory for Aldi. The report then detailed the advantages for both markets that Aldi can capitalise on through its international market entry and linked this to real-world developments such as sustainable consumer behaviour and the long-term implications of Net Zero 2050. Therefore the recommendations are grounded in a practically beneficial way for Aldi to use.

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