TIØ4235

What is marketing?

Marketing is all about **understanding**, **creating** and **delivering** value through selling products and services to **existent** and **potential** customers.

Fundamental questions:

- What am I selling?
- To whom am I selling it?

Fundamental Concepts of Marketing:

- Value
- Positioning
- Segmentation
- Targeting
- Buying behavior

Business Marketing is understanding, creating and delivering value through selling products or services to other companies, government bodies, institutions, and other organizations.
(Ta med figur: Industrial Marketing according to A & N (graf med understanding value -> creating value -> delivering value))

According to Anderson and Narus: **Value** in business markets is the worth in **monetary** terms of the technical, economic, service, and social **benefits** a customer company receives in **exchange** for the price it pays for a market offering.

Man ønsker å oppnå maks (value - pris).

Business Market Characteristics:

- Fewer, larger buyers — hence, unique market strategies
- Close supplier-customer relationships
- Long sales procedures
- Derived demand (Demand for one good or service occurs as a result of demand for another.)
- Inelastic demand (Demand does not increase or decrease with a fall or rise in price.)

- Fluctuating demand (Demand which rises and falls sharply in response to changing economic conditions and consumer spending patterns.)
- Monetary definition of value
- Professional purchasing
- Direct purchasing
- Geographically concentrated buyers
- Yet far more internationally diverse
- Many buying influences

Business marketing has some distinguishing features:
- Qualitative nature
- Nature of demand
- Buying behavior
- International spread
- Importance of buyer – seller relationships

Spørsmål

- How does Anderson and Narus define marketing?
- What are the five major concepts of market strategy?
- What differentiate business marketing from consumer marketing?
- What is "the buying center"

The buying center

A buying center is a group of employees (or members of any type of organization) responsible for finalizing major decisions, usually involving a purchase.

- Environmental
    - E.g. Business markets are far more subject to volatile fluctuations than consumer markets.
    - Political, economic, legal, technological, cultural, physical
- Organizational
    - Goals and tasks, organizational structures and actors, technological
- Social — The buying center
    - Social interactions, tasks and roles, activities
- Individual
    - Motivation, cognitive processes, personality, learning process and perceived role

What do you need to know?

- Who are the major decision participants?
- What decisions do they influence?
- What is their level of influence?
- What evaluation criteria do they use?

Typically six roles within any buying center:

- **Initiator** who suggests purchasing a product or service.
- **Influencers** who try to affect the outcome decision with their opinions.
- **Deciders** who have the final decision.
- **Buyers** who are responsible for the contract.
- **End users** of the item being purchased.
- **Gatekeepers** who control the flow of information.

Creating value in business markets

Business markets are concerned with *monetary* value.

Types of industrial products:

- Low value, few suppliers: **Bottleneck** products.
    - Products that that can only be acquired from one supplier or their delivery is otherwise unreliable and have a relative low impact on the financial results.
    - Strategy: Ensure supply availability, develop alternates.
    - Buyer-seller power situation: Supplier dominated, moderate level of interdependency.
    - Recommended purchasing strategy: Volume insurance contract, vendor managed inventory, keep extra stocks, look for potential suppliers.
- Low value, many suppliers: **Routine** products.
    - Products that are easy to buy and also have a relative low impact on the financial results. The quality is standardized.
    - Strategy: Simplify acquisition process.
    - Buyer-seller power situation: Balanced power, low level of interdependency.
    - Recommended purchasing strategy: reduce time and money spent on these products by enhancing product standardization and efficient processing.
- High value, few suppliers: **Strategic** products.
    - Products that are crucial for the process or product of the buyer. They are characterized by a high supply risk caused by scarcity or difficult delivery.

    - Strategy: Develop partnerships, joint development programs.
    - Buyer-seller power situation: Balanced power, high level of interdependency.
    - Recommended purchasing strategy: Strategic Alliance, close relationships, early supplier involvement, co-creation, consider vertical integration, long-term value focus.
- High value, many suppliers: **Leverage** products.
    - Products that represent a high percentage of the profit of the buyer and there are many suppliers available. It is easy to switch supplier. The quality is standardized.
    - Strategy: Maximize buying power.
    - Buyer-seller power situation: Buyer dominated, moderate level of interdependency.
    - Recommended purchasing strategy: Tender, vendor selections, targeted pricing, umbrella agreement with preferred suppliers. Call-off orders are then placed as an administrative formality.

Types of industrial customers:

- **Price-oriented**. IKEA, Public hospitals.
- **Solution-oriented**. Total cost. Private hospitals.
- **Gold-standard**. Need to have access to the very best. Louis Voutton.
- **Strategic value**. Best within their sector on some specific issues. Intel.

Business customers buying orientation and buying processes

- **Buying**.
    - Minimize price paid for a transaction of a single product or service.
    - Maximize power over suppliers.
    - Avoid risk whenever possible. Two tactics: follow established procedures, and rely on proven vendors.
    - Tactics: Commodization, multisourcing and bidding, global sourcing, target pricing, distributive negotiations (Share pie, zero-sum game).
- **Procurement**.
    - Reduce total cost of ownership.
    - Improvements in quality and cooperation with suppliers.
    - Tactics: Detailed specifications, total quality management (TQM), total cost of ownership (TCO) analysis (Acquisation, conversion, disposal), in-house

    and inter-organizational integration, target costing, integrative negotiations (Make pie bigger, win-win(?)).
  - Example: Software
- **Supply Chain Management**.
  - Greatest possible value from a close working relationship with a supplier.
  - Focus on the firm's ability to deliver value to end users.
  - Crafting a sourcing strategy around the firm's core competencies and resources.
  - Build a supply network that efficiently completetes business processes. (Lean enterprise)
  - Sustain collaborative relationships with carefully selected suppliers and subsuppliers.
  - Tactics: Extensive communication of end-user value assesment, continuos evaluations of core resources and capabilities, build value network where end-user values are monitored throughout the value chain.
  - Example: iPhone

Firms use different orientations for different types of products. E.g. when buying office supplies and buying an oil rig.

Buying parts or buying systems?

- AGA og Team-Trafikk-dekk er eksempler. Bevege seg fra rødt hav, til blå hav. Ekstratjenester på homogene produkter.
- B2B marketing is often complex and it is not certain whether your customer share your value assessment of the product. Make sure you offer what the customer demand.

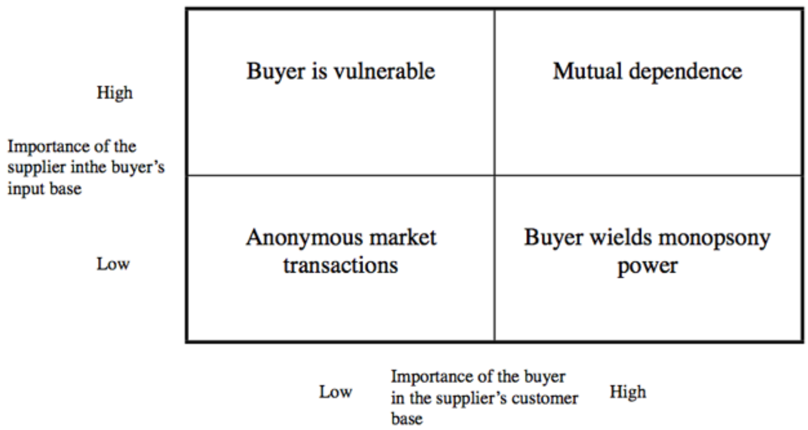
Business market and industry analysis

Often used segmentation criteria in business marketing:

- Customer size
- Customers' buying behavior
- Geography
- Application (how the customer employs the product to create end-user value)
- Customer capabilities
- Contribution to profitability

Also important to understand: Market potential, Growth rates, Profit potential and industry power distribution.

Porter’s five forces

- Segment rivalry (competition).
    - Intense rivalry reduce average profit, and thus, make the industry less attractive for investments and entry.
    - Many equally sized actors increase rivalry.
    - Asset specificity (dvs størst verdi for en gitt bruk) increase barriers to exit, and hence, increase rivalry.
    - Homogeneity increase likelihood of cooperation.
    - In industries where cooperation is profitable, actors tend to shade prices and behavior.
- Threat of substitute products or services.
    - Reduces profits in an industry.
    - Substitutes play a more important role in industries with rapidly growing demand.
- Bargaining power of customers.
    - A number of buyers and small order sizes decrease buyer power.
    - Tendencies to commodization increase buyer power.
    - Opportunities for backwards integration also increase buyer power.
    - Open transactions (low search and switch costs) also increase buyer power.
- Bargaining power of suppliers.
    - 

- Threat of new entrants.
    - Expectations of falling prices (competitive moves).
    - Large incumbent advantages.
    - Substantial exit costs.

Monopsony = Only one buyer.

An independent analysis of Porter’s five forces are often inadequate in order to reveal the true dynamics of an industry. The main reasons for this is the stong ties of buyer-seller relationships that evolve in the central line of Porter’s model.

Spørsmål

The same companies might have different buying orientations towards different products

- What types of industrial products are there?
- There are typically three types of buying behaviors
    - What are they?
    - How are they characterized?
- Do you think there is a relationship between industrial product types and customers’ buying orientations?
- Can you exemplify this from real cases?

What are Porter’s five forces?

- What can you use this type of framework for?
- What are the likely effects of coordination between the different forces?

Entry Strategies and Rapid Growth

What are Entry Modes?

	Resource commitment	**Control**	**Flexibility**	**Efficiency**
Export sales	Low	High	High	Low
Licence/ Franchise	Low	Medium	Medium to Low	High
Agent/ Distributor	Low	Low	High	Medium to High
Sales Office	Medium	High	Medium	Medium
Joint Venture	Medium	Medium to High	Low	Medium
Acquisition	High	High	Medium	Medium to High
Wholly-owned subsidiary	High	High	Medium to High	Medium

Hybrid structure	Low	Low	Case-specific	Case-specific

Hybrid structures can be a combination of any of these, but often includes a partner.

Hybrid structures:

- MNCs acting as system integrators. Examples: PC brand makers (PCs and Logitech), Hardware and software suppliers (Motorola and Opera).
- MNCs distributing complementary products/services, also often called client followership. Examples: Internet providers (Telenor and Norton Antivirus), B2B/C end product supplier (Johnson and Johnson).
- Value net partners; technology and marketing partners. Examples: Software developers (Linux and eZ), High-end commodities (Italian design).
- Internet as infrasturcture: distribution, marketing, customer interaction, and sales. Examples: Internet retailers (Amazon and Play.com), Niche-oriented commodities (African art).

The three dimensions of social capital

- **Structural** social capital. Who is connected and how?
- **Relational** social capital. Trust and trustworthiness, social norms and sanctions, obligations and expectations.
- **Cognitive** social capital. Shared vision, interpretation, meaning, codes and language.

Findings from Norway: Surprisingly high and consistent emphasis on cognitive social capital. Makes the hybrid structures effective and efficient.

Spørsmål

What are the main tasks of a market channel?

- Which problems are market channels designed to take care of?
- How would you describe the perfect market channel

What are the major problems that you have in order to control market channels that you do not control through ownership?

According to the four types of hybrid structures from the lecture

- What are the major benefits of each structure?
- What are the major drawbacks from each structure?

- Are there any general ways of securing yourself from risk of such structures?

Siebel Systems

How can you describe Siebel’s business model?

- How does it compare to others at the time of the establishment of the venture?

How does Siebel use partners for marketing purposes?

- Which effects does this have for the firm’s possibilities for growth?
- Do you think Siebel could have managed such growth with a different business model where they internalized implementation?

In which ways do this business model lay the foundation for a rapid growth?

Marketing channel management

A **marketing channel** is a set of practices or activities necessary to transfer the ownership of goods, and to move goods, from the point of production to the point of consumption and, as such, which consists of all the institutions and all the marketing activities in the marketing process.

- Define service output demands by segment
- Define channel members, flows, and configuration
- Choose target segments
- Establish or refine channels
- Implement channel design

Tasks to be solved in the channel:

- Information about buyer needs and behavior (market research, contact, etc)
- Information to potential buyers about market offer (contact, negotiation, contracts, etc)
- Physical distribution
- Financing, risk taking, payment
- Maintainance and control of exchange process (service, repair, rebuy, etc.)

Transaction cost theory (TCA)

- Choice of *governance structure*:
    - Market. Price, simple contracts.

    - Hierarchy. Internal contracts.
    - Hybrid. Implicit contracts, relational contracts.
- A transaction is the transfer of a product or service from one individual/ technologically separate entity to another (exchange)
- Purpose: To analyze the costs of planning, implementing, and controlling task solution under alternative governance structures.
- Used to identify the optimal boundary of the firm.
- Assumes: Bounded rationality, risk of opportunistic behaviour, goal incongruence, preference for autonomy, small numbers.

Factors favoring hierarchy:

- High transaction specific investments. Site, physical asset and human asset specificity.
- High task frequency compared to market
- Low scale economies/experience effects
- High task complexity

Principal-agent theory

- An agency relationship is present whenever one party (the principal) depends on another party (the agent) to undertake some action on the principal's behalf.
- Selection of and design of contracts with actual agents.
- Aim: to identify the **most efficient** agent and contract in a principal-agent relationship. (Most efficient for the principle.)
- Agents may be own employees (sales, service, etc.), external specialists (transport, advertising, etc.) or middlemen (dealers, distributors, etc.)
- Contracts may be formal or social
- Efficiency is the optimization of the pricipal's utility
- Basic **problem** for principal: impossible to know everything about the agent
- **Before contract**: What are the characteristics of the agent? ('**hidden information**/adverse selection' problem)
- **After contract**: How should the principal motivate the agent to solve the task so that the principal's utility is maximized? ('**hidden action**/moral hazard' problem)

Hidden information:

- Assumes asymmetric information
- Principal knows the tasks to be solved (but agent does not always know that)
- Principal knows the characteristics that the agent should have to solve the tasks

- Principal does not know whether agent has these characteristics (but the agent knows)
- The options of the principal:
    - Screening (personal interviews, references, observation, tests, etc.)
    - Analyze signals on behalf of potential agents (education, customer base, reputation, etc.)
    - Successive selection (willingness and ability to participate in training offered by principal, etc.)
    - ’Adverse selection’/’Learning by experience’

Hidden action:

- Goal incongruence and seeking of **self-interest**.
- Principal has no perfect information about task solution and agent has information that the principal wants to have (asymmetry).
- Results are partly dependent on environmental conditions (e.g. competitive moves, general development).
- Principal is mostly **risk neutral** whereas agent is **risk averse**.
- Basic problems: Principal wants more expensive and risky task solutions than the agent is willing to engage in. Risk that the agent shirks.
- Possible contract solution: **Behavioral** contracts (surveillance).
    - Principle: Agent is rewarded on the basis of information about his/her behavior.
    - Examples: Compensation of sales people, dealers, etc. on the basis of number of sales visits, participations in trade fairs, quality of sales reports, letters of intent, etc.
    - Problems: Expensive to gather information and impossible to supervise everything; easier to supervise quantity than quality.
- Possible contract solution: **Result based** contracts.
    - Principle: Agent is rewarded on the basis of results
    - Examples: Compensation of sales people, dealers, etc. on the basis of sales (per product sold or as share of profits)
    - Problems: Agent ’carries’ the environmental risk. Can the goals of agent and principal be achieved at the same time? (Incentive compatibility)

Network/interaction approach

- **Long lasting collaboration** with other, independent partners.

- Empirical description of how firms on industrial markets collaborate and adapt to each others' way of doing business (exchange of information, decision making, etc.) to achieve common goals.
- **Focus on relationship** specific rather than transaction specific investments.
- Focus on the necessity of **collaboration** and **mutual dependence**.
- Both buyers and sellers search actively in the market.
- Maintenance and control of dynamic and complex relationships through **mutual trust**.
- Mutual dependence and 'locking' in social and economic networks is the norm.
- To **change supplier** or customer is **difficult** as well as **costly**.
- Marketing channels should be understood from the point of view of the actors that are tied together in such exchange relationships involving mutual dependence.
- Marketing channels can only be changed over time and the process involves intra- as well as interorganizational changes.
- Such networks are in constant change in spite of high stability on the surface (**long term evolution**).

Management of Market Channels

- Agent problems
    - Hidden information problem / adverse selection
    - Hidden behavior problem / moral hazard
- Results
    - Reduced control
    - Inefficient use of resources
    - Subversive creativity
    - Agency costs
- Solutions
    - Monitoring
    - Recidual claimancy

High Tech Marketing

Definition of high tech markets:

- A *set* of actual or potential customers
- for a given *set* of products or services
- who have a *common* set of needs and wants, and
- who *reference* each other when making a buying decision

Actors:

- Technology enthusiasts
- Visionaries
- Pragmatists
- Conservatives
- Skeptics

Why cross? Cumulative sales rise in the majority.

You need to

- focus your strength on a defined **niche** segment
- carefully manage the tactics of your attack
- swiftly dominate target markets by taking the role of **market leader**
- rapid dominate subsequent target markets (the bowling pin effect)

Target the point of attack

- Strong focus on market – segment targeting is even more important for high tech products.
- Often a high-risk – low-data decision.
- Central is Target Customer Characterization Scenarios
  - Industry, geography, department, and job title
  - User, technical buyer, economic buyer
  - A day in the life... (before) Scene or situation, Desired outcome, Attempted approach, Interfering factors, Economic consequences
  - A day in the life... (after) New approach, Enabling factors, Economic rewards
- Show stoppers:
  - Target customer
  - Compelling reasons to buy
  - Whole product
  - Competition
- The "nice-to-have's"
  - Partners and allies
  - Distribution
  - Pricing
  - Positioning
  - Next target customer

Assemble the Invasion Force

- Whole Product Planning
    - As a supplier of high tech products you need to make sure the customer have access to all the features that make up your compelling reasons to buy.
    - Generic product › Expected product › Augmented product › Potential product
- Partners and allies
    - Not likely that you are able to deliver all the features of the whole product, therefore consider partners and allies.
    - **Strategic** alliances are **hard to handle**, they include reciprocal top management agreement, long term commitment and large investment of resources.
    - **Tactical** alliances are easier as they include product managers, short term commitment of limited amounts of resources and basically aim to accelerate the formation of a whole product infrastructure within a specific market segment.

Define the battle

- Is your offer so radical that it creates a whole new market? Forget it! You can not drive the establishment of a new product category alone. Rather, **compete in established categories**!
- If there is no comparison, there is no market.

Launching the invasion

- Distribution
    - Have to put more emphasis on selecting distribution channel that are able to increase demand and deliver the whole product, than on governance alone.
    - As the market matures and mainstream demand increase, turn to more efficient channels.
- Pricing
    - Pricing philosophies varies over the *Technology Adoptation Cycle*. **Visionaries** use 'value-based' pricing. **Pragmatists** use 'competition-based' pricing with attractive market leader premiums. **Conservatives** and **Laggards** use 'cost-based' pricing

Spørsmål

Go through the steps in 'crossing the chasm'

- How does Geoffrey Moore deal with central marketing concepts such as customer value, buying behavior, segmentation, positioning and targeting

Do you think you can related the D – Day analogy and the way Geoffrey Moore is thinking about high tech markets to international marketing and the successive entry into new international markets?

Prepare yourselves for the Siebel Systems discussion next week:
- What does Siebel Systems market channel look like?
- What are the agency problems that might arise from that market channel?
- How do Siebel Systems deal with that?
- How did Siebel Systems come to dominate the global CRM market?

Social Ties and Foreign Market Entry

Exchange relationships may be:
- Seller-initiated.
- Buyer-initiated.
- Broker-initiated (middleman, agency).
- Trade fair-initiated.

Buyer-initiated is far more usual than seller-initiated.

Social network theory considers the transmission of information through interpersonal networks. Given that people linked within the same social cluster tend to know what others in their cluster know, the **spread of information** about new ideas and opportunities typically comes through those **bridge ties** that link **people in separate social clusters**. Social structure affects competition by creating **entrepreneurial opportunities for some people** but not others. Awareness of foreign market opportunities is commonly acquired via existing social ties. Social ties are useful for screening and evaluating potential exchange partners.

Born Globals

The born global must utilize large channels provided by MNCs, networks, and/or the Internet to receive substantial revenues and cash flow rapidly. Selection of the international marketing channels is among one of the most difficult managerial challenges. Born globals often rely on hybrid structures in their distribution channels (close relationships, network partners, etc).

Define that born globals from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries.

Born globals can be expected to rely more often on supplementary competences sourced from other firms; in their distribution channels they more often rely on hybrid structures (close relationships, network partners, etc).

Those born globals targeting broader strategic scope in terms of range of products, broadness of markets, number of segments, customers and channels can be expected to place greater emphasis on developing new channels of distribution, such as e-business.

The channels necessary for born globals to flourish in new business space are:

- MNCs acting as systems integrators. Outsourcing manufacturing or services can deliver great changes in value. The MNC can help the born global by leveraging its expertise in design, operations, production and research.
- MNCs distributing born global products/services.
- Networks. Networking is an effective way of overcoming the paucity of resources and sim- ultaneously learning from each other. Most networks emerge from links between specialist firms.
- Internet. Many born globals have found forming networks and then marketing through the Internet a good means to overcome their paucity of resources.

Or a combination of two or more of the channels.

If a born global sells solely to an MNC, there is the risk of a prolonged "dependency" relationship.

For a born global company, the MNC global partners’ role is more important than the Internet as a channel.

F7 - International business

Mercantilism

- Det handler om å ha så mye gull som mulig. Få best mulig deal i zero-sum game.
- Positiv trade balance -> eksporter mer enn du importerer.
- Avvist av dagens økonomer.

Adam Smith

- “Absolute advantage” dersom man er systematisk mer effektiv til å produsere en vare enn en annen nasjon.

- Importer det du ikke effektiv kan produsere selv.

David Ricardo

- Utvidet Adam Smith
- Selv nasjoner som har "absolute advantage" tjener på å handle med andre på grunn av det er *opportunity cost* og ikke *absolute cost* som er sentralt.
- Focus on production of those goods with the highest comparative advantage.

Paul Krugman

Vi handler med land som er lik oss på grunn av heterogent kundeetterspørsel og economies of scale. For eksempel handler Tyskland og Sverige Volvoer og BMWer.

Why some benefit more than others

- Invisible hand (= factor price equality): Used to describe the self-regulating nature of the marketplace. Created by the conjunction of the forces of self-interest, competition, and supply and demand. The theory of the Invisible Hand states that if each consumer is allowed to choose freely what to buy and each producer is allowed to choose freely what to sell and how to produce it, the market will settle on a product distribution and prices that are beneficial to all the individual members of a community, and hence to the community as a whole.
- Pin factory: "Smith emphasized the huge increases in productivity that could be achieved through the division of labor, as illustrated by his famous example of a pin factory whose employees, by specializing on narrow tasks, produce far more than they could if each worked independently."

Erik Reinert

Dersom vi presser åpne markeder på ulike nasjoner de vil spesialisere seg. Poor countries specialize in being poor (Labor intensive without potential for innovation).

Hvorfor firmaer internasjonaliserer

- Ekspandere salg. Kan være krevd for å nå kritisk masse. Krever at varene er flyttes over internasjonale grenser til en rimelig pris.
- Tilegne ressurser. Kjøpe varer billigere fra andre land. Kutte kostnader. Arbitrasje-muligheter (forskjellig pris på samme produkt i forskjellige markeder). Offshoring.

- Minimere risiko. Mindre variasjoner i salg og profitt. Defensiv strategi for å konkurrere mot konkurrenter i andre markeder enn hjemmemarkedet.

Status og trender

- Større etterspørsel for spesialiserte varer (Flere og større internasjonale nisjer)
- Globalisering av markeder (Internasjonale handelsavtaler, lavere eksportbarrierer)
- Globalisering av teknologi
- Økt tilgang på nødvendige ressurser for internasjonalisering
- Informasjonsteknologi
- Internasjonale transportsystemer

Resulterer i "The reemergence of the small firm" og fremvekst av "International new ventures (INV)" som konkurrerer på teknologi istedenfor marked. INV-er har ofte strenge ressursbegrensninger, og krever en ny type kompetanse. Må etablere markedskanaler som er effektive, pålitelige, bærekraftige og rimelige.

Baldwin and Caves

- Free trade has favorable effects in terms of efficient allocation of resources, production efficiency and industry turnovers.
- Efficiency increases with international competition.
- Allocative efficiency is achieved when the value consumers place on a good or service equals the cost of the resources used up in production.0
- Productive efficiency refers to a firm's costs of production and can be applied both to the short and long run. It is achieved when the output is produced at minimum average total cost.
- International competition generally enhances allocative efficiency.
- One factor limiting the number of competitiors able to fit into a market is a substantial fixed cost or scale economy in establishing a distribution system to handle a new producer's output.
- The more competitive is a market, the lower are profits from an efficient firm, and the less inefficiency can persist consistent with the firm's meeting the opportunity costs of its input and keeping the coalition together.
- International competition improves the cost and efficiency levels of individual firms.
- Turnover of market shares among an industry's incumbent firms and the entry and exit of firms should increase with trade exposure.

F10 - Internationalization process of firms - Traditional models

Porter

- The international competitiveness of firms is created by the interaction between firms and their environments.
- Focus on innovation, productivity, value added, …
- Factor conditions: investment in HR and their specialized productive services.
- Highly competitive domestic market.

Uppsala model

- Gradual internationalization
- First develop in domestic market
- Internationalization in incremental decisions
- Obstacle: Lack of experiental knowledge and resources

F8 - International marketing

Hvordan velge og hvordan gå inn i marked.

Market selection:

1. Competitive approach (Konkurransesituasjon)
   1. Oligopolic reaction theory. Antar få store aktører. Enten first-mover for å ta first-mover fordeler, eller second-mover for å minimere risk. Where to put operations to gain an upper hand? Where to have operations to meet competitive moves? (Cola, Pepsi)
   2. Porters five forces. Where to find the highest potential for profit due to manageable competition. Industri-attraktiviteten.
2. Value approach. The basic idea is that you select markets where you can add the most value. (Windflip?) Der ditt produkt blir satt mest pris på.
3. Social/cultural approach. Bruke sosialt nettverk til å finne marked. Experience and network give information of most attractive market.

Transaction cost theory

- Boundary of the firm
- Cost of free market sometimes excel cost of having firm.
- Transaction costs include both direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions.

- Basic principle: Choose the market solution.
- Assumptions: Bounded rationality, opportunism, risk neutrality
- Dimensions: Asset specifity, uncertainty, transaction frequency
- Bounded rationality: Become problematic in uncertain environments. Environmental uncertainty (adaption problem) and behavioral uncertainty (performance evaluation). Gir transaksjonskostnader.
- Opportunism: Difficult to know a priori who is trustworthy.
- Governance structures: Market, hybrid, hierarchi.
- Safeguarding problem: Arises when a firm deploys specific assets and fears that its partner may opportunistically exploit these investments.
- Markedsprisen for å ikke ha kontroll er for høy.
- Favor hierachies: High asset specificity, high task frequency, low economies of scale, high task complexity.
- If adaption, performance evaluation, and safeguarding costs are low, economic actors will favor market governance.

Uppsala
- "Establishment chain": No regular export activity, selling via agents, sales subsidiary, production subsidiary

F9 - International management and culture

Headquarters – Subsidiary relationship. Local responsiveness vs global integration.

Culture:
- Normative: Sum of beliefs, techniques, institutions, ...
- Behavioral: Collective programming of the mind

Trompenaar:
- Universalism vs Particularism
- Individualism vs Collectivism
- Neutral vs Emotional
- Specific vs Diffuse
- Achievement vs Ascription
- Attitudes toward time

F10 - Internationalization processes of firms

Macroeconomic approach

- Porter's Diamond Model

Business economic approach. Ability to build and exploit sustainable competitive advantages.

- International Product Life Cycle
- Stages Models
- Internationalization in a network perspective
- TCA
- Diamond Model
- International New Ventures / Born Globals

F10 - More recent internationalization theories

- The network approach. Emphasizes relationships rather than discrete transactions as a way to build and develop business activities. Such relationships may become “bridges” to foreign markets.
- Internationalization of markets. The extent, intensity and degree of integration of relationships across borders.
- Internationalization of firms. The extent, intensity and degree of the firm’s positions in foreign production and marketing nets.
- Early starter. Focus on physically close countries (more knowledge, less uncertainty). Middlemen rather than sales subsidiaries. Gradual process to minimize risk.
- Lonely international. Focus on international extension and penetration in gradually more distant countries. Penetration through internalization and aquisition. Coordinates activities in different national nets.
- Late starter. Focus on international extension, often pulled to more distant countries through national nets. Often in specialized markets. Buyer behavoir more homogeneous.
- International among others. Focus on international penetration and integration. Exploit own position to penetrate new markets through integration of activities in subsidiaries. Ofter mergers, aquisitions, joint ventures, …
- Network positions. Micropositions in dyad and macropositions in net. Increasing specialization, information exchange, and mutual dependence.

Johanson and Vahlne

Develops a model of an internationalization process. Focused on gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets.
Incremental internationalization decisions due to lack of market information.
Dynamisk modell hvor output av et valg er input i neste.
Market knowledge and market commitment affect both commitment decisions and how current activities are performed. These in turn change knowledge and commitment.

State aspects:

- Market commitment. Composed of amount of resources commited and degree of commitment (specificity). Vertical integration implies a higher degree of commitment than a conglomerative foreign investment.
- Market knowledge. Knowledge of opportunities or problems is assumed to initiate decisions. Evaluation of alternatives is based on some knowledge about relevant parts of the market environment and about performance of various activities. Objective knowledge can be taught. Experiental knowledge can only be learned through personal experience, and is critical in the present context. In foreign operations we initially have no experiental knowledge — it must be gained successively. Experiental knowledge is more important the less structured and less well-defined the activities and the required knowledge is.

The better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market.

Change aspects:

- Current business activitites. There is a lag between most current activities and their consequences. The longer the lag, the higher the commitment of the firm mounts. Distinguish between firm experience and market experience. Both is needed to interpret information from inside the firm and from the market.
- Commitment decisions. Response to perceived problems/opportunities. Problems are mainly discovered by those parts of the organization that are responsible for operations on the market and primarily by those who are working there. Distinguish between an economic effect and an uncertainty effect of each additional commitment. Market uncertainty is reduced through increases in interaction and integration with the market environment. High perceived uncertainty leads to low commitment. Additional commitments will be made in small steps unless the firm has very large resources and/or market conditions are stable and homogeneous.

The present state of the firm is an important factor in explaning future changes and subsequent stages.
Commitment decisions depend very much on experience since they are a response to perceived uncertainty and opportunities on the market.

Sammendrag s 569 i Madsen/Servais.

Andersen

Comparing the Uppsala model (U-model) and the Innovation-Related models (I-models).

- Both are based on a behavioral approach, regarding internationalization as a process. The U-model emphasizes on learning theory, while the I-models see the process as a step-by-step development.
- A state or condition is based on a prior state or a sequence of prior states.
- U-model: Increased market knowledge will lead to increased market commitment, and vice versa.
- I-models: Represented by stages where a higher level stage represents more experience/involvement than a lower level.
- Firm size represents a boundry assumption for I-models. The U-models is less bounded in time and space.

Theories proposed to explain the choice of foreign entry mode:

- Dunning's eclectic explanation. The firm's decision to enter a foreign market and the choice of entry mode depend on its ownership-specific advantages, internationalization-specific advantages, and location-specific advantages.
- Transaction cost analysis. Choosing degree of vertical integration. Alternatives from contractual entry modes to full integration.

Modes of foreign entry

Transaction cost framework for investigating the entry mode decision.
“A firm seeking to perform a business function outside its domestic market must choose the best “mode of entry” for the foreign market.”

Entry modes differ greatly in their mix of advantages and drawbacks.
Efficiency: the entrant's long-run return on its investment in an entry mode, adjusted for risk.

Control is a way to obtain a higher return. Control entails commitment of resources. Single most important determinant of both risk and return. Entry modes viewed as a tradeoff between control and the cost of resource commitment.

Classification of entry modes:

- Dominant equity interests (wholly-owned subsidiary or majority stakeholder)
- Balanced interests (plurality shareholder, equal partnership and balanced contracts)
- Diffused interests

Intergration gives a firm legitimate authority to direct operations.

The efficiency of an entry mode depends on:

- Transaction-specific assets. A low level of ownership is preferable until proven otherwise. Market outcomes tend to be efficient when competition is strong. Firms are advised to avoid integration whenever the supplier market is competitive. Degeneration into lock-in occurs when transaction-specific assets of considerable value accumulate. When transaction-specific assets are likely to become valuable, transaction cost analysis suggest that firms are better off either integrating the function or redesigning tasks so that general purpose assets will suffice.
- External uncertainty. Unpredictability of the firm's environment. Firms should react to volatility by avoiding ownership. We should not expect higher-control entry modes to be more efficient than lower-control modes in volatile settings.
- Internal uncertainty. Exists when the firm cannot accurately assess its agents' performance by objective, readily available output measures.
- Free-riding potential. Where the potential for free-riding is high, entry modes offering higher control are more efficient.

Transaction Cost Analysis: Past, Present and Future Applications

TCA views the firm as a governance structure. Firms and markets are alternative governance structures that differ in their transactions costs.

Transaction costs include both the direct costs of managing relationships and the possible opportunity costs of making inferior governance decisions.

Assumptions and dimensions:

- Bounded rationality: decision makers have constraints of their cognitive capabilities and limits on their rationality.
- Opportunism: Given the opportunity, decision makers may unscrupulously seek to serve their self-interests.

The basic premise of TCA is that if adaptation, performance evaluation, and safeguarding costs are absent or low, economic actors will favor market governance.

Any problem that can be formulated, directly or indirectly, as a contracting problem can be investigated to advantage in transaction cost terms.

Three types of governance structures: market, hierarchy, and various hybrid or intermediate mechanisms.

- Asset specificity refers to the transferability of the assets that support a given transaction. Six types: site specificity, physical asset specificity, human asset specificity, brand name capital, dedicated assets, and temporal specificity.
- Environmental uncertainty refers to "unanticipated changes in circumstances surrounding an exchange."
- Behavioral uncertainty arises from the difficulties associated with monitoring the contractual performance of exchange partners.

A safeguarding problem arises when a firm deploys specific assets and fears that its partner may opportunistically exploit these investments.

When opportunism is present it has a negative impact on performance.

Transaction cost analysis proposes that, because of the opportunistic behavior of trading partners, high levels of asset specificity increase the costs of safeguarding contractual relationships.

Firms can safeguard their specific assets through a wide range of hybrid governance mechanisms, such as pledges and bilateral contracting.

F11 - International management - Values and corporate culture

Cashing in on corporate culture

- An organizatino that has a well-defined culture can achieve higher profitability than one that doesn't.
- In any type of organization, a poor culture can lead to staff disengagement and customer dissatisfaction.
- Corporate culture points directly to the strength of the organization's leadership.
- Main components: vision, values and leadership branding.
- To gain the full benefit of the corporate vision, management must embody the words and use it as the basis for strategic planning and day-to-day decision-making.
- Values play a large role in the development of a string business culture.
- Corporate values greatly facilitate the recruting process.
- A leadership brand represents the identity and reputation of leaders throughout the company.

The effect of leadership on values-based management

Leader's values behaviours are significantly related to the values behaviours of subordinates.
Values form the shared conceptions of what is most desirable in social life.
Organization values and organization culture are not the same thing. While the values are the beliefs, the culture is the outward representation of certain key underlying beliefs. Culture demonstrates the values to members of the organizatino and to outsiders in very visible ways.
Values provide managers with a means of directing the organization in a desired way without having to resort to authoritarianism.

Managing by values

In order to keep a business functioning well and competing successfully in markets that are increasingly more global, complex, profesionally demanding, constantly changing and oriented towards quality and customer satisfaction *a new model is needed*.

The leaders are expected to make a strategic choice, not of controlling, but that of developing the personal and professional potential of each and every member of the organization.

Management by instructions (MBI) and management by objectives (MBO) gives notoriously inadequate results.

MBV also facilitates the inclusion of ethical and ecological principles into the strategic leadership and activities of companies.

MBV can be divided into two elements:

1. MBV is a new way of understanding and applying knowledge. MBV has basically three purposes: to simplify, to guide and to secure commitment.
2. MBV is based on values. True leadership is, at its most fundamental, a dialogue about values. Guiding the daily activity of creating value.

The increasing need to absorb an even greater degree of complexity and uncertainty has pulled us from MBI at the beginning of the twentieth century through MBO in the 1960s and to todays MBV.

Four trends:

1. Quality and customer orientation. Competititve conditions require value to be added continously to productive processes, to ensure that the customer iw always completely satisfied with price vs quality/performace.
2. Greater professionalism, autonomy and responsibility. A professional without autonomy is not a real professional, only an operative or dependent worker. Increase in the level of professional knowledge and skills that are an integral part of the supply of products and services.
3. “Bosses” into leaders (facilitators). Values are the tools used by leaders. “A boss should be the facilitator of the success of his collegues.”
4. “Flatter” and more agile organizational structures. Reduction in the number of levels in a hierarchy is associated with a greater organizational efficiency. Flexible and horizontal organizations generate much more ambiguity and uncertainty.

An organization that has genuinly accepted and shared values will turn out to be much more efficient in tolerating creatively, exploiting complexity and uncertainty, than another which merely receives certain objectives or even simply obeys instructions or follows a manual of procedures.

Objectives transform values into operative conduct in order to be able to exert influence over reality.
MBV does not replace MBO, but complements it and facilitates putting it into practice.

A company is a chaotic system because accurate predictions cannot be made about its behaviour in the future. Companies are chaotic social systems which cannot be regulated by instructions nor by rigid objectives.

MBV is directly oriented towards the redesign of corporate cultures and thus helping leaders to guide strategic change in the company in order to adapt itself to changes in its environment and to overcome internal tensions.

The culture of every company can be considered as operating essentially at two levels:

1. The level of "what is thought and the way of thinking" in the company. Implicit and consists of the beliefs and basic assumptions and the essential values.
2. The explicit (cultural artifacts) which consists of two levels: the level of what the company does, and the level of what the company appers to be.

Mechanisms to develop company culture: Rituals, symbols, company language and "code", oral transmission of company "legends and myths", rewards, and communication.

Every culturally structured company should have explicitly defined two important groups of values or shared principles:

1. The basic values associated with its vision (Where are we going?) and its mission (Why does the company exist?)
2. The instrumental or operating values associated with the organization's way of thinking and way of doing things.

An essential benefit of MBV from the strategic and organizational point of view is that values function as elements regulating the flow of daily work processes, taking the company from its current situation towards its vision of the desired future.

Managing values means managing the culture of the company, strengthening it day by day and always revitalizing it, to face the unknowns of the future.

Small international firms: Typology, Performance and Implications

The increase in heterogeneity among international firms challange traditional internationalization processes of firms.
Small and medium-sized international firms naturally falls into three categories: Born Globals, Early Internationals, and Late Internationals.

- Born Global firms are firms that seek internationalization from inception and derive a considerable portion of total sales from foreign markets in their first years of operation.
- Early International firms internationalize early but more limited than Born Globals. They seek internationalization to reduce the dependency on domestic markets.
- Late Internationals internationalize late and limited. Interntionalization triggered by domestic downturns.

Causes for the rapid emergence of Born Globals:

- Advances in communication technology
- Access to managers with international experience and business networks have increased
- Improvements in general welfare have increased the number of niche markets and the demand for specialized goods.

Experiental knowledge and entry mode commitment explain little of small firm internationalization patterns.
There are performence benefits associated with early and extensive internationalization.
Born Globals are primarily motivated to internationalize because: necessity for survival, opportunities for profit, great foreign demand and a too small domestic market.
For Born Globals near markets are important, but markets in North America, Asian and countries outside EU are frequently reported as key markets.
Relatively low resource intensive strategies such as direct sales and foreign agents are by far the most used entry modes.
Competitive advantage the Born Global seek to leverage: Product and product quality, and technology advantage. Often focused on niche markets, and seek to differentiate their products from competiting products.
Early Internationals are often “failed” Born Globals because of their lack product strengths and market advantages, combined with low perceived international performance.
Noteworthy aspects:

1. Successful rapid and extensive internationalization is no guarantee for attaining above average growth rates or return on assets.

2. The firm needs strong competitive advantage both in technology and marketing in addition to an extremely narrow stratetic focus in order to succedd with an early and extensive internationalization.
3. Path dependency. If the nature of the business concept is global, or at least international, managers should seek to establish an international vision with internationally compatible proceduers, ties and resource development routines from the first days of operation to avoid inertia and reinforce further internationalization.

Toward a theory of interntional new ventures

Interntional new venture = Born Global = Business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.
These new ventures begin with a proactive international strategy.
Stage theories of the MNE and the common emphasis on organizational scale as an important competitive advantage in the international arena are inappropriate explanations of multinational business activity for new ventures that are instantly international.
Traditionally an incremental, risk-averse and reluctant adjustment to changes in a firm or its environment.
Dramatic increases in the speed, quality, and efficiency of international communication and transportation have reduced the transaction costs of multinational interchange. Also an increased homogeneity of many markets in distant countries.
Internationally sustainable advantage is increasingly recognized to depend on the possesion of unique assets.
Figure 2, s 54
The boxes show sets of economic transactions. The arrows represent elements that distinguish a subset from a larget set of transactions.
Elements:

1. Internalization of some transactions. Organizations form where economic transactions are inefficiently governed by market prices, i.e. where market imperfections exists. Ownership of foreign assets is not a defining characteristic or either MNEs or international new ventures.
2. Alternative governance structures. New ventures commonly lack sufficient resources to control many assets through ownership. Entrepreneurs must rely on alternative modes of controlling many vital assets. A more powerful resource-conserving alternative to internalization for new ventures is the network structure. Networks depend on the social control of behavior through trust and moral obligation, not formal contracts. Minimal internalization.

3. Foreign location advantage. Firms are international because they find advantage in transferring some moveable resources across a national border to be combined with immobile, or less mobile, resource or opportunity. The property that provides location advantage for modern MNEs, including international new ventures, is the great mobility of knowledge once it is produced.
4. Unique resources. Sustainable competitive advantage for any firm requires that its resources be unique. The ability to reproduce and move knowledge at nearly zero marginal cost, is a simultaneously beneficial and troublesome property. The international new venture must limit the use of its knowledge by outsiders in many countries for it to have commercial value. Limited by four conditions: if knowledge can be kept proprietary by direct means the possessor may be able to prevent imitation; imperfect imitability through a unique organizational history, socially complex knowledge and ambiguous causal relationships may prevent imitation; when knowledge is expected to retain its value for a lengthy period, a limit pricing strategy may be used to discourage competitiors or to influence the rate and direction of knowledge dissemination; and the network structure itself tends to control the risk.

Types of international new ventures:

- New international market makers. May be either export/import start-ups or multinational traders. Profit by moving goods from nations where they are to nations where they are demanded. Direct investment in any country is kept at a minimum.
- Geographically focused start-ups. Derive advantages by serving the specialized needs of a particular region of the world through the use of foreign resources. Competitive advantage is found in the coordination of multiple value chain activities. Successful coordination may be inimitable because it is socially complex or involves tacit knowledge.
- Global start-ups. Derives significant competitive advantage from extensive coordination among multiple organizational activities, the locations of which are geographically unlimited. Proavtively act on opportunities to aquire resources and sell outputs wherever in the worl they have the greatest value.

The internationalization of born globals: an evolutionary process?

Both I-M and U-M contend that firms become international in a slow and incremental manner which may be due to lack of knowledge about foreign markets, high risk aversion, high perceived uncertainty, or similar factors. U-M sees internationalization processes as involving time consuming organizational learning processes; I-M tends to analyse the process as an innovative course of action and hence a question of adoption of new ways of doing business.

The rise of Born Globals may be attributed to at least three important factors: new market conditions; technological developments in the areas of production, transportation and communication; and more elaborate capabilities of people.

New market conditions pull the firms into many markets very fast. World markets have become more accessible at low cost. A dramatically increasing number of people have gained international experience during the last couple of decades.

Internalization theory fails to provide an appropriate explanation for INVs, since cost reduction is not the key issue for them.

Founders of INVs are more concerned with possibilities of combining resources from different national markets because of the competences they have developed from their earlier activities, so international entrepreneurs are able to avoid domestic path dependency by establishing ventures which already from the beginning have routines for managing a multicultural workforce, for coordinating resources located in different nations and for targeting customers in several geographic places simultaneously.

Bruker Uppsala-modellen på Born Globals.

The founders background has a large influence on the internationalization path followed.
A comprehensive theoretical explanation of Born Globals are still lacking.

If the founder of a Born Global has a high market knowledge built up through years of business activities in the industry, then the Born Global firm can easily take commitment decisions concerning international markets.

Many basic assumptions and the dynamic processes underlying the internationalization processes of Born Globals are not necessarily different from U-M. Mainly the founder characteristics and market conditions are different.

Even the theoretical reasoning behind the original stages model, including the pre-export behavior, has some merit when trying to understand the internationalization pattern of Born Globals.

Kan i mange tilfeller beholde tankene bak, men ikke selve manifestasjonen, av tidligere modeller, som Uppsala.

The degree of internationalization of an industrial network has strong implications for the internationalization process of the particular firm. Each firm is dependent on external resources.
The degree of internationalization of the firm encompasses the extent, intensity and degree of integration of its positions with foreign partners.

- Early starter. Where the stages models are most valid. Networks are local or national with only very few (if any) relationships crossing borders. For the firm wanting to internationalize, perceived uncertainty is high and market specific knowledge is low. Experiental learning is critical.
- Late starters. Networks across borders are already well established. In highly internationalized markets firms are often pulled into foreign markets through their position in a national net.

The internationalization processes of firms will be much faster in internationalized market conditions, and they will be much more individual and situation specific.

The situation of Late Starters and International Among Others is very much similar to the situation of a Born Global. Therefore a network approach to internationalization processes offers a valuable approch.

Instead of being tied to geographical markets, they may be tied to certain specialized and value-adding processes which the firm solves in that particular internationalized industry. Evolution like "rings in the water", does not have the local market as its centre, but certain problem solving routines originally possessed by the founder/entrepreneur, but later rooted in the organization.

Propositions:
1. The antecedent of a Born Global is one or several strong entrepreneurs with strong international experience, and perhaps in addition a strong product.
2. The extension of the phenomenon Born Globals is positively associated with the degree of internationalization of the market. Many Born Globals need to source resources from firms with complementary resources.

3. In comparison with other exporting firms, Born Globals are more specialized and niche oriented with products that are either more customer-made or more standardized.
4. The geographical location of activities in Born Globals is determined by the past experience of founders and partners, as well as economic and capability of customer-related factors — directly or in interaction.
5. In comparison with other exporting firms, Born Globals more often rely on supplementary competences sourced from other firms; in their distribution channels they more often rely on hybrid structures.
6. The growth of a Born Global is positively associated with high innovation skills, often in partnerships with close collaboration in international relationships that involve frequent, intense, and integrated efforts across nations.
7. Firms in nations with small domestic markets have a higher propensity to become Born Globals han firms with large domestic markets.