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Master's Thesis

SUCCESS FACTORS IN INTERNATIONAL EXPANSION

Abstract

The Internet has lowered the barriers for international expansion and made it an important tool in order to succeed in the globalized world of today. Studies have been made on how companies use the Internet as a tool in their expansion strategy, however an overlooked field has been how Internet companies expand their business internationally.

This study focuses on international expansion of six Swedish-founded Internet-service companies. It is a qualitative case study mainly based on a numerous interviews with top management and founders of the companies. The case study subjects' international expansion has been analyzed within six key areas found crucial for success in the expansion process, with the purpose of determining possible general success factors within international expansion of Swedish founded Internet- service companies.

Varying generality has been identified within these areas, with the organizational structure, marketing and sales, and economic factors being the most standardized amongst the case study subjects. Although the limited number of case study subjects, including variety in business models, the results can be used as an example of general success factors in international expansion by other Internet-service companies.

Keywords: *International expansion, success factors, Internet-service companies, Sweden*

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INTRODUCTION

1.1 Background

The structural IT-development within the last decade and the break-through of the Internet has had an extensive impact on global commerce. The Internet is one of the fastest growing communication channels in the world (International Telecommunication Union 2008) with a regular estimate of almost 1.6 billion users (Internet World Statistics 2009) . The Internet has set new standards for communication and rationalized information sharing peer-to-peer. A large number of new business models have been invented through the use of Internet, as well as creating a new market space for all modern businesses of today.

The enormous possibilities generated have highly increased the number of Internet-related start-ups. The Internet has made it easier than ever for a company to scale-up business and expand internationally with limited resources. The Internet has shifted the rules of business and the market entry barriers are lower than ever before due to the low requirement of organization size as well as financial support for an Internet start-up. The Internet has enabled international expansion possibilities for business which before only was limited to those of certain organization size and financial strength.

The volatility of Internet-service businesses has been revealed within the last decade; with the dot-com era being a good example of what can happen when Internet companies expand too fast or have overrated business models and expansion strategies (Galbraith and Hale 2004). The dot-com era had its peak during 2000 and burst on March 10 the same year that NASDAQ Composite index peaked at double of the value of the previous year (Wired 2007). “Boo.com”, founded by three Swedish entrepreneurs is somewhat of a symbol for the period as Boo.com managed to spend a total of 135 million \$ of invested capital in 18 months before it was liquidated in May 2000 (Lindstedt 2001). The Boo.com case clearly defines the possible implications of underestimating the problematical issues involved with international expansion of an Internet business.

1.2 Problem area

The Internet offers great possibilities for new Internet-services and numerous new businesses are launched- and old ones improved every day. On the other hand, a large number of Internet related service companies fail, depending on the business model and expansion strategy.

Since the material published online is available worldwide without restrictions, the instant possibilities of international expansion for Internet-service companies of today are favorable, thus also creating a competitive business climate.

Many Internet-service companies tend to be successful on their home market but encounter problems when launching an international version of their services, the barrier level for this of course varying according to business model, with the web site language and the support function offered being two factors of limitation. The internationalization is a key process for Internet companies although there are several barriers including geographical- and cultural factors depending on the country expanded to. Variations can therefore be required in the service delivery as well as organizational structure. Also different countries require specific marketing and sales strategies as well as budget level- and financial management. The specific internationalization strategy for Internet-service companies is therefore an essential aspect of being successful on the Internet marketplace. Thanks to the Internet there are a number of ways to follow through with an international expansion (Kjellman 2005).

Sweden, although a small market, has been the origin of a number of successful Internet-service start-ups i.e. Skype, TradeDoubler and PriceRunner. Due to the fact that Sweden is a small home market, Internet-service companies have been forced to expand internationally in order to become truly successful, thereby underlining the importance of the internationalization for Swedish Internet-service companies.

1.3 Purpose

Given the above introduction, the purpose of this thesis is to gain additional knowledge regarding international expansion of Swedish Internet-service companies. Through the thesis we aim to investigate *if* there are success factors within international expansion of Swedish Internet-service companies and if so, determine *which* they are. Our purpose with this thesis is

to identify a number of possible general success factors within international expansion through studying six separate Swedish-founded Internet-service companies and their internationalization. These possible general success factors can then potentially be applied by other Internet-service companies from Sweden or other countries, conducting internationalization of their services.

We have chosen to focus our study on internationalization performed through direct investment, thus meaning international expansion by using the companies own resources and not local expertise and benefits, i.e. licensing and joint ventures (Kjellman 2005). The purpose of this delimitation is to present more specific results, due to the variety within international expansion possibilities¹ (presented in the theoretical framework). We will investigate through conducting interviews with a number of carefully selected Swedish Internet-service companies regarding their international expansion resulting in a comparison of the different successful strategies used and final outcome. The interview objects represent companies which have conducted international expansion with a variety of business models and expansion strategies, thus making the ultimate goal of the thesis to determine common success factors within international expansion of Internet-service companies.

Thesis question;

Which possible general success factors can be observed within international expansion of Swedish founded Internet-service companies?

1.4 Study subjects

The aim of the thesis as stated above is to present possible success factors within the international expansion phase of Swedish founded Internet-service companies. Since the large number of Internet-service company expansions we have been careful in the selection of study subjects in order to obtain satisfying results. The Swedish Internet-service companies we have chosen have all performed successful international expansion of their core business to a

¹ Presented further in the theoretical framework.

varying number of countries (see figure 1.4), our definition meaning they have not failed in terms of signs of insolvency during the expansion phase. The case study subjects represent different business models as well as phases in the expansion process, thus giving satisfying depth in case studies of the internationalization of Internet-service companies.

Figure 1.4 Case study subject chart

Company	Business concept	Founded	Countries
PriceRunner	Price comparison website	1999	6
TradeDoubler	Digital affiliate marketing company	1999	19
Kreditor	E-commerce payment solutions	2004	4
Stardoll	Online paper doll community	2005	15
Spotify	Online music streaming service	2006	6 (17) *
Test Freaks	Product review community	2006	27

* depending on version of service

1.5 Delimitation

Due to the complexity of international expansion within the Internet-service field, a number of delimitations have been made in order to obtain a result in line with the regulations of a Master's thesis. The study is limited to a number of six individually analyzed Swedish founded Internet-service companies which have expanded through direct investment. We go further in our delimitation by focusing on expansion through wholly owned direct investment and not through acquisition. We aim to identify specific success factors within the international expansion phase, consequently, factors of failure will not be analyzed. Furthermore we make limitations by only presenting the most obvious general success factors identified. We have chosen to study Internet-service companies that have made successful internationalizations regardless of time period. As mentioned, the case study subjects symbolize Internet-service expansions from 1999 until today, this can perhaps imply that more general success factors disregarding of period of time can be identified. The study has been limited to analyze six different fields within the international expansion of the case study

subjects; i) organization ii) marketing and sales iii) product development iv) economic factors v) geographic factors and vi) cultural factors. Also, the internationalization process is the key aspect of this thesis and not the internationalization decision process.

1.6 Contribution

Because of the Internet's rapid growth, the condition for online business has changed within the last few years. This is also shown in studies made within the field where research has been conducted regarding Internet as a "tool" for the company's core business rather than studying companies with an Internet based core-business model. We have not been able to identify any extensive study within the area of internationalization strategies for Internet-service companies.

Our aim with this thesis is to contribute with general key findings regarding possible success factors for international expansion of Internet-service companies which can be useful for other Internet-service entrepreneurs in the internationalization process.

1.7 Disposition

The disposition of this thesis can be seen as follows; a wide view point is initially taken in the theoretical approach as well as situational analysis. Throughout the thesis, the discussion increases and gets more and more detailed, until reaching the final conclusion, where a more general perspective is applied. Chapter 2 will give a theoretical background where we have chosen a number of theories that we have found useful in order to determine possible success factors for internationalization of Internet-service companies.

Chapter 3, Methodology will present our choice of method as of using interview technique in order to obtain relevant information regarding the companies' expansion. The interview material will then be presented in Chapter 4, the empirical data section.

In the analysis, Chapter 5, we will then analyze the empirical data and develop the analysis on behalf of the basic structure which the interviews have formed and relate the theories to the interview material, forming a structure for the conclusion. In the conclusion, Chapter 6, a

discussion of the results and possible implications are presented. Finally, relevant critique to the study is presented and suggestions regarding further research are made.

2.0 THEORETICAL FRAMEWORK

The theories within success factors for Internet-service companies are limited and the existing models are describing a more general international expansion. Below we will present the dominant theories regarding international expansion models, starting off with strategies in product-market development and looking at general key success factors when launching new products. The next section involves the different orientations in headquarter strategies, the well-known Uppsala model and theories in goods vs. services to get a better understanding of the differences. Finally the last theories involve risk and profit potential and focuses in expansion and economic factors.

2.1 Product-market development strategy

To understand what strategic opportunities companies have and WHY they consider expanding international it is relevant to understand the basic model of product-market development strategy.

Ansoff stated his Product-Market model for over 50 years ago (Boag & Dastmalchian, 1988). The model has two dimensions: Markets and Products and presents four growth strategies that are formed over these two dimensions (Table 2.1).

Table 2.1 Product-market grid matrix (Boag & Dastmalchian, 1988)

	Current products	New Products
Current markets	Market penetration	Product development
New markets	Market development	Diversification

- i) Market penetration: Growth through increase of a company's existing share of product markets
- ii) Market development: New customer groups for existing products
- iii) Product development: New products for existing markets

- iv) Diversification: New products for new markets

2.2 General key success factors for new products

Since the literature for key success factors in international expansion is limited and that every business sector and product category has their own way of finding customers in a foreign country, it is interesting to look at key success factors in general for new products.

Cooper (1994) has through empirical studies of small companies with new products found eleven key lessons for new product success, which in spite of the studies age, is still interesting:

1. Superior products
2. International focus in product development, target marketing and product design
3. Strong market orientation
4. Vital to do pre-development activities (the homework)
5. Sharp and early product definition
6. Synergy is vital, step-out project tends to fail
7. New product success is predicable; and the profile of a winner can be used to make better project selection decisions
8. Controllable new products
9. Strong emphasis on completeness, consistency and quality of execution
10. Resources
11. Follow a new product game plan

Even though this key lessons presented above apply for products in general, it could also be of interest to extend the theory for international expansion of products as well.

2.3 Centralization vs. decentralization – headquarter orientation

To understand why companies have different attitudes towards headquarter orientation and why some companies decides to have strong local offices we need to look at relevant theories regarding this in order to identify success factors.

Perlmutter (1969) identified three primary attitudes among international management toward building multinational enterprises. These attitudes can be inferred from the assumptions upon which key product, geographical and functional decisions were made (Table 2.3). These attitudes may be described as ethnocentric (home-country oriented), polycentric (host-country oriented) and geocentric (world-oriented). Although they never appear in pure form, they are undoubtedly distinguishable (Perlmutter 1969).

According to Perlmutter (1969) some conclusions of the advantages and disadvantages of the different states can be drawn. The costs of ethnocentrism are ineffective planning because of a lack of good feed-back, the departure of the best people in the subsidiaries, fewer innovations and an inability to build a high caliber local organization. The risk is political- and less flexible response to changes in the local environment. The payoffs according to Perlmutter (1969) with ethnocentrism are in the short term good due to simpler organization, higher rate of communication of know-how from headquarters to new markets. There is more control over activities to senior posts in subsidiaries. Polycentrism costs are waste due to duplication and to inefficient use of home country experience. The main advantages are better sales, intensive exploitation of local markets, more local initiatives for new products and good local managers with high morale. Geocentrism's costs are related to communication and travel expenses, educational costs at all level, time spent in decision-making and international headquarter bureaucracy. Risks include those due to distribution of power. Payoffs of geocentrism are a more powerful whole company, better quality of products and services, worldwide utilization of resources, better management and higher profit (Perlmutter 1969).

Table 2.3 Three types of headquarter orientations towards subsidiaries in an international enterprise (Perlmutter 1969)

Organization design	Ethnocentric	Polycentric	Geocentric
Complexity of organization	Complex in home country, simple in subsidiaries	Varied and independent	Increasingly complex and interdependent
Authority; decision making	High in headquarter	Relatively low in headquarters	Aim for a collaborative approach between headquarters and subsidiaries
Evaluation and	Home standards	Determined locally	Find standards which

control	applied for persons and performance		are universal and local
Rewards and punishments; incentives	High in headquarters, low in subsidiaries	Wide variation; can be high or low rewards for subsidiary performance	International and local executives rewarded for reaching local and worldwide objectives
Communication; information flow	High volume to subsidiaries orders, commands, advice	Little to and from headquarters. Little between subsidiaries	Both ways and between subsidiaries. Heads of subsidiaries part of management team
Identification	Nationality of owner	Nationality of host country	Truly international company but identifying with national interests

2.4 The Uppsala model

Several studies of international business have indicated that internationalization of the companies is a process in which the companies gradually increase their international involvement (Johanson & Wahlne 1977). The basic assumptions of the Uppsala-model are that lack of knowledge is an important obstacle in the development of international business and that the necessary knowledge can be acquired mainly through operations abroad. This is important to understand in order to analyze the success factors regarding international expansion.

2.4.1 Psychic distance

The authors Johanson & Wiedersheim-Paul's Uppsala-model (1975) suggest that companies tend to begin their internationalization in physically close markets and only increasingly penetrate remote markets and hypothetically that companies would go into new markets with successively greater psychic distance. Swedish companies start their operations in countries smaller than Sweden because those countries are more similar.

The term psychic distance is correlated with geographic distance, but not exclusively.

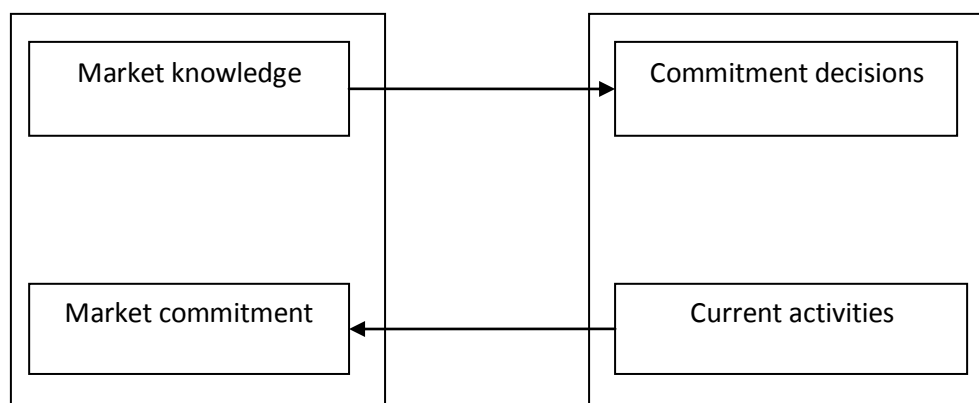
Hollensen (2004) describes the psychic distance mainly as difference in language, culture, the level of education and the level of industrial development etc. The psychic distance is a hindering force when companies decide on which countries to target in their

internationalization. That's why the companies that follow the Uppsala model choose to start their internationalization by going to those markets they can easiest understand. The countries closest to Sweden are those that have the lowest psychic distance for Swedish companies. Further are the Netherlands psychologically close to Sweden, ranked as the sixth country according to psychic distance from Sweden (Johanson & Wiedersheim-Paul, 1975).

2.4.2 Incremental learning

The state aspects as Johanson & Wahlne (1977) consider, are the resource commitment to the foreign markets – markets commitment – and knowledge about foreign markets and operations. The change aspects are decisions to commit resources and the performance of current corporate activities. The basic mechanism is illustrated in Figure 2.4.2.

Figure 2.4.2. The basic mechanism of internationalization – State and change aspects



The market commitment is referring to the quantity of resources committed and the degree of commitment which is higher the more the resources in question are integrated with other parts of the company and their value is derived from these integrated activities. The more specialized the resources are to the specific market the greater is the degree of commitment (Johanson & Wahle 1977).

Market knowledge is defined to present future demand and supply, payment conditions and the transferability of money as well as competition and channels for distribution. There is a direct relation between market knowledge and market commitment. Knowledge can be

considered a resource and consequently the better the knowledge about a market, the more valuable are the resources and usually associated with the particular conditions on the market in question and thus cannot be transferred to other individuals or other markets (Johanson & Wahlne 1977).

To some degree it may be possible to hire employees with market experience and to use them profitably after some time in the marketing activities. The delay is due to new employees to gain the necessary experience. But if the new employees have already worked as representatives the delay may be low and an idea to quickly obtain and use market experience is to hire a sales manager of a representative or to buy part of the company (Johanson & Wahlne 1977).

Commitment decisions by observing additional commitments will be made in small steps unless the company has very large resources and/or market conditions are stable or the company has much experience from other markets with similar conditions. If not, market experience will lead to a step-wise enhancement in the scale of the operations and of the integration with the market environment where steps will be taken to correct imbalance with respect to the risk situation on the market (Johanson & Wahlne 1977).

2.4.3 Uppsala model for Internet-related companies

The article by Forsberg & Hagström (2007) regarding the Uppsala model for Internet-related companies states four conclusive reflections;

1. Incremental behavior does not seem to be of major concern for Internet-related companies, in any case not in comparison with factors related to following-the-herd or first-mover-advantage behavior.
2. Other stake holders than those included in the Uppsala model seem to have a major influence on the studied companies, forcing them to go abroad faster than the model would forecast.
3. Existence of an explicit and active internationalization strategy was observed among companies, not fully as described with the reactive and adaptive company behavior in the Uppsala model.

4. Managerial implications of the Uppsala model is maybe more relevant than was originally intended.

2.5 Goods vs. services

To identify success factors in international expansion of internet SERVICE companies it is important to know the differences between goods and services.

The existing research on internationalization of service companies divides into two groups. First the ones that suggest that there are differences between the internationalization of services and the internationalization of goods and secondly, the ones that don't find any differences (Blomstermo & Sharma, 2003).

The first group focuses on those services that have the following five characteristics:

1. Intangibility – services are invisible
2. Inseparability – simultaneous production/consumption, services cannot be exported
3. Perishability – Services cannot be stored and demonstrated
4. Variability – Services are less standardized
5. Ownership – Ownership cannot be transferred

The other group states that there is no need for a special internationalization theory for service companies. Existing theories can accommodate them by making simple modifications (Boddewyn 1986). One study argues that the problems posed by the simultaneous production and consumption characteristic can be overcome by modularisation. The definition of modularisation is the standardization of services in separate modules that can be combined by the customer (Sundbo 1994).

Erramilli (1991) suggest that a high amount of control in service companies is possible with a limited degree of resource commitment. The risks and costs for establishing a wholly-owned subsidiary are limited to establishing an office that can relatively easily be closed and

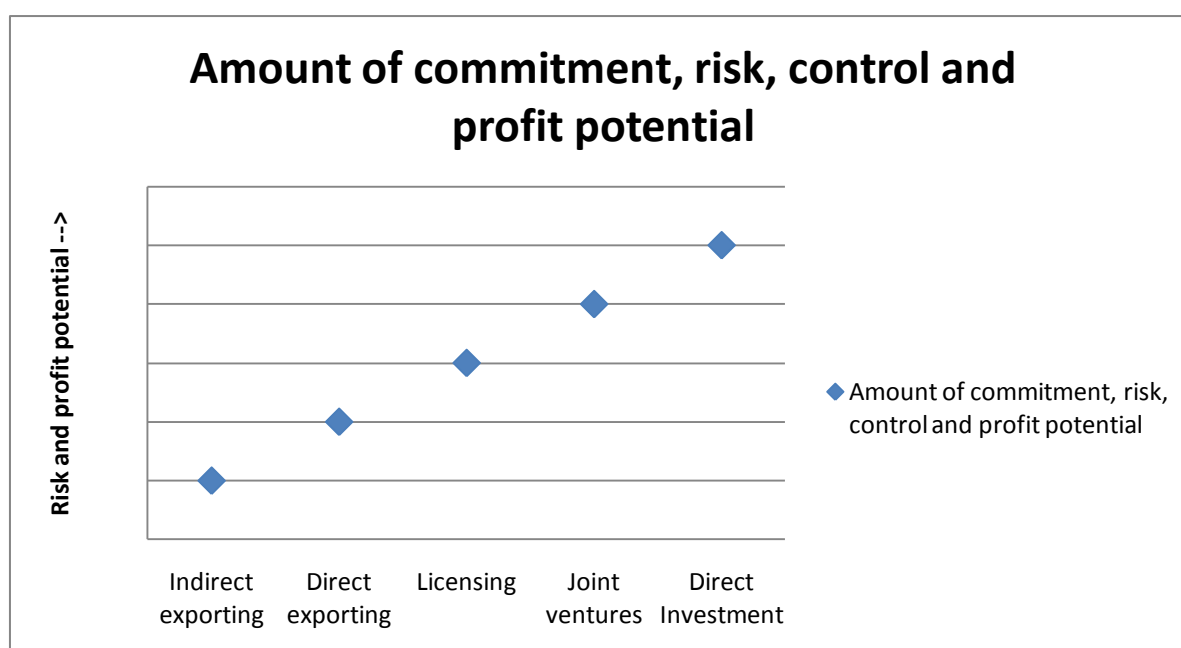
transferred to a different place. In the early and late phases of the internationalization process, service companies demand high-control foreign market entry modes.

2.6 Risk and profit potential

To investigate the success factors of international expansion we need to know the theories around risk and profit potential for different entry modes.

Direct investments such as acquisitions and green field operations carry the highest risk of all entry strategies but also the highest profit potential (Kjellman 2004). The companies chosen in these case studies correspond to this. Figure 2.6 shows a graphical representation of how risk and profit potential are related to internationalization strategies. The Y-axis represents the profit potential and the amount of risk for the diverse alternatives. The higher point, the higher risk/profit potential. A wholly owned direct investment falls into the category of direct investment and carries a high risk, requiring commitment and control but also has the largest profit potential.

Figure 2.6 Amount of commitment, risk, control and profit potential for different entry modes.



The benefits of establishing a new venture, a green field operation, are that the new entity can develop in coalition with the objectives and properties of the home company. Although a new

venture sometimes requires higher financial support at the introduction stage, they can however stay away from the often costly and complicated task of harmonizing with an already existing organization (Andersson & Svensson 1994)

2.7 Market strategies in international expansion

International expansions can be made with different strategies. The theories around this could be relevant to identify possible success factors.

Blomstermo & Sharma (2003) identify two characteristic foreign market entry strategies: client-following and market-seeking. Client-following is defensive and means that the service companies follow its existing domestic clients abroad. Market-seeking is an offensive approach and refers to a service company entering foreign markets primarily to serve customers abroad. The results indicate that market-seeking companies are likely to employ such entry modes as exporting, alliances and joint ventures. Client-following companies show less preference for low integration and control entry modes. They selected wholly-owned and partly-owned subsidiaries.

Hollensen (2007) states that electronic marketing/Internet as an internationalizing strategy means that the service company extends its accessibility through the use of advanced electronic technology. Amazon.com for example launched its concept with taking into account that the interest in its services would automatically develop outside national borders. When using electronic marketing the company is not bound to any particular location. The service can be administrated from anywhere on the globe and still reach customers throughout a huge international market via Internet connections.

2.8 Economy effects

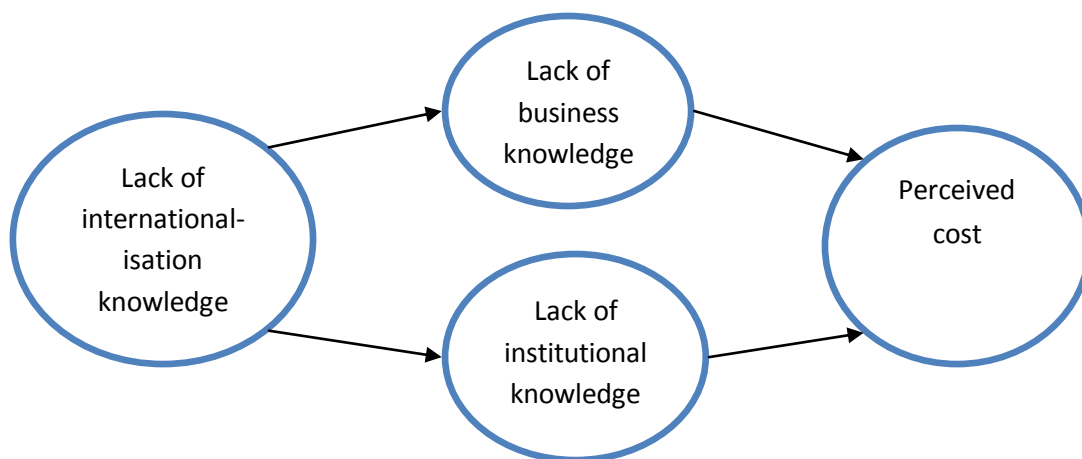
When analyzing the impact of the economy effects in international expansion we need to look into relevant theories regarding this.

Harry M. Staw states in his article “The escalation of commitment” (1986) that individuals can become locked into a costly course of action. It is possible for persons who have suffered

a setback to recoup their losses through an even bigger commitment of resources to the same course of action. A cycle of escalating commitment can be produced. This could make individuals to throw good money after bad or committing new resources to a losing course of action.

Blomstermo & Sharma (2003) states that three components of knowledge are related and thus a lack of internationalization knowledge affects business knowledge and institutional knowledge about foreign markets (Figure 2.8). Resulting lack of both business and institutional knowledge in turn influences the perceived cost of internationalization although this is not reflected in the structural model.

Figure 2.8 The structural model



2.9 Culture

Theories regarding the cultural effects in international expansion are a wide covered area. It is difficult to find any general success factors in the theories, but below we will present the more general theories.

Starting off with defining what culture is, Schein (2004) has a general definition:

“A set of basic assumptions – shared solutions to universal problems of external adaptation (how to survive) and internal integration (how to stay together) – which have evolved over time and handed down from one generation to the next.”

Corporate culture is what companies lean on to hold the company together (Bartlett and Ghosal, 1987). Corporate culture is fundamental for a global company with units in different parts of the world if they want to work towards a common goal.

Begley and Boyd (2003) provide a good figure over how nationality and corporate culture are related and when the two together might impact the corporate success (Figure 2.9).

Figure 2.9 The relation of national and corporate culture

High Centrality to corporate success Low	Danger zone: Corporate national clash	Zone of acceptance: Corporate national compatibility
	Zone of indifference: Conform with national culture	Zone of discretion: Low priority compability
	Low	High
	Fit with national culture	

3. METHODOLOGY

This section will provide an explanation for the choice of scientific method, research strategy and data collection as well as research quality in terms of reliability and validity.

3.1 Method choice

3.1.1 Research strategy - case study

When conducting a social science research Yin (2003) suggests five potential research strategies: experiment, survey, archival analysis, history or case study. They all have advantages and disadvantages. Yin provides three criteria for choosing the most appropriate strategy: i) the nature of the research question, ii) whether the relevant behavioral events can be manipulated, iii) if the research focuses on a historical or current event. Since this thesis focuses on exploratory questions, not require any control over actual behavioral events Yin (2003) would suggest that case study is the best strategy. Due to the lack of existing theories and studies within this specific area we think that case studies are arguably the most useful for the purpose of this thesis. Six case studies are produced based on interviews within selected relevant companies.

Another fundamental decision is whether to conduct either a single, multiple cases, as well as numerous of levels of analysis (Yin, 2003). There is a distinct trade-off: a single case study offers more in-depth analysis of an isolated event, however multiple case study may provide a greater background for arguing the validity of the empirical findings. Due to the uniqueness of this thesis and to find stronger arguments for the success factors in international expansion of Internet-service companies multiple case studies are more appropriate. This will affect the depth of the analysis, but will as an advantage generate more general conclusion and as a consequence be more proper for answering the stated thesis question.

There are several alternative research approaches to select from; inductive, deductive, and abductive. In this thesis an inductive approach will be used which is defined as processes where the general position is based on observations and facts. Inductive approach is based on the phenomena of study. The topic of this thesis needs empirical findings before selection of theory and the theory becomes the guidance tool for analyzing the empirical findings (Saunders, 2003).

3.1.2 A qualitative study

In order to determine the most appropriate research method, it is important to take into consideration what subject to be studied.

The more defined and developed theories, the greater the possibility for applying a quantitative study. When a study is of an explorative nature, Yin (2003) suggests that a qualitative approach is optimal. A qualitative approach allows for a more in-depth analysis of a specific event as opposed to a more superficial overview of a number of events (Holme and Solvang, 1997).

Lundahl and Skärvad (1982) states that a qualitative approach is appropriate, when data is complicated to estimate and built on a loosely constructed examination with limited respondents. In determining the most suitable methodology it is important to take into consideration the possibilities to quantify the subject to be studied.

Limited research has been conducted within the area of Swedish Internet-service companies expanding, thus the research area is yet relatively unexplored and the success factors (if any) not defined. Hence, with these case studies of relative unique expansions, a qualitative approach is suitable. The down sides of a qualitative method are the limitations for generalization of the results.

3.1.3 Subject choice

For the study it was decided to conduct a number of interviews on each company of individuals on management level. In order to gain a broader, comparative understanding of the role of success factors in international expansion of Swedish-based Internet-service companies, there are a few key criteria's which a company should fulfill in order to be a suitable subject. First, it is important that the subject is active in a number of countries in order to provide a possibility for a comparative study. By choosing a subject with multiple countries rather than just one country, there was a possibility to gain richer evidence of success factors as opposed to dichotomies (Morris 1998).

Further, it was important to identify companies which were founded in Sweden to enable an arguably more comprehensive qualitative study and provided a variety of data sources for greater accuracy (Yin, 2003). This was also because of practical reasons since data collection was made easier. Limitations imposed on the choice of companies were also the following:

- i) Must be a Swedish founded company
- ii) Must have an Internet-service based product offer
- iii) Must do the expansion through wholly owned direct investments (and not by mergers or acquisitions).
- iv) Must be regarded as a successful company in terms of no signs of insolvency.
- v) Must be founded 1998 or later for greater accuracy.
- vi) Must be active in multiple countries

Only seven suitable companies were founded based on the criteria above. The short-listed companies were contacted and of them, six companies were selected for the study. The sample of companies is not random due to generally accepted groupings. Listings of relevant companies have yet to emerge, and there is no officially accepted definition of this type of companies, which makes them difficult to classify. It is even more difficult to determine what companies are regarded as successful, especially when they are new ventures. This is the motive to why the term “no signs of insolvency” is used as a definition of successful Internet-service company. A “UC” credit-check was made on all companies and they indicated no sign of insolvency or marks on the credit list.

It should further be noted that the reason for using multiple companies in the sample is not primarily for comparison between companies, but rather to throw a wide net in looking for approaches to dealing with success factors in international expansions. Multiple case studies help researchers to identify general patterns rather than specific success factors of a certain companies (Eisenhardt, 1991).

3.2 Data collection

When conducting a case study there are various methods of collecting data. Yin (2003) indicates six different methods to be used:

- i) Documentation
- ii) Archival records
- iii) Interviews
- iv) Direct observations

- v) Participant observation
- vi) Physical artifacts

Data was collected through all methods whenever possible. The major part of the data collection was collected through interviews, but since the case study subjects were open for more involvement in the project, documentation, direct observations, participant and physical artifacts were also collected. The documentation was by a large extent based on Internet resources, articles and other documentation.

3.2.1 Interviews

To allow for greater comparability between samples, interviews were mainly based around a standardized interview guide, organized around key areas of interest (appendix 8.2).

The interviews conducted are *semi-structured*, employing open-ended questions. Semi-structured interviews provide the interviewer freedom to make adjustments to the guide, such as adding new or changing the order in which the questions are asked which are relevant to the particular interviewee, as well as extends or reduces the amount of time dedicated to diverse topics, providing room for reflections and interpretations (Bryman, 2006).

Revalidation questions were also asked during the interview in order to check internal accuracy (Yin, 2003). In order to avoid misinterpretations and ensure that information was correct, interviews were transcribed directly after completion and sent back to the subjects for review. Tape recorders were not used as they may sometimes be seen as inhibiting to some respondents.

Interviews were generally held between sixty minutes to two hours and conducted face-to-face in Swedish.

3.3 Research quality

When testing the quality of the research completed in the thesis, two different factors must be analyzed: *reliability* and *validity*. Four criteria's have been suggested by Yin (2003) to meet the wished quality of a social science research:

- i) Reliability
- ii) Internal validity

- iii) External validity
- iv) Construct validity

3.3.1 Reliability

A high level of reliability refers to that if another researcher were to conduct the exact same study, the results should be the same as the original ones (Yin, 2003). Due to the qualitative nature of the study, the reliability could be negatively affected (Bryman, 2006). In order to reach a higher level of reliability, extensive planning has been done to avoid such inaccuracies in the research. We have personally met all the interviewees face to-face and have both made transcripts during the interviews. The interviewees were all with Swedish people, eliminating possible misperceptions of the answers.

The questions asked in the interviews were open-ended, and new questions were added according to their relevance to the interviewees. Interviews were also conducted with one person at the time, in order to prevent biases in the answers caused by possible group behavior. Nevertheless, one interview guide has been used in all interviews and the main part of the topics has been covered in all interviews, increasing the reliability of the study.

3.3.2 Validity

Validity consists of three components: construct validity, internal validity and external validity (Yin 2003).

Construct validity is defined as establishing correct operational measures for the concepts being studied (Yin 2003). In order to achieve a higher level of construct validity in this study, multiple resources were used. When possible, the data gathered was validated by participants and those involved in the study. Thus it can be concluded that the construct validity consequently seems to be fulfilled for this study.

Internal Validity is related to how accurately the results of a study reflect the actual situation being studied (Yin 2003). There is a focus on establishing logical and valid causal relationships within a study. In qualitative research, the interviewee's mental construct of reality is studied, thus the results do not have to reflect the objective view of reality. The perspective is more interesting than the truth itself, and it is the qualitative researcher's duty to present this construct in a truthful manner (Taylor & Bogdan, 1984). Internal validity is one

of the strengths of qualitative research, aiming to understand the view and perspective of the interviewees, as well as to reflect the complexities of human behaviors and present a holistic interpretation of observations (Merriam 1994). Several actions have been taken in order to ensure a high level of internal validity. Interviews were always conducted in private and since the subjects were founders or top management of the companies, the individuals fear of providing real thoughts should be limited (Yin 2003). In addition, interviews were not recorded since that could affect the subjects relaxation to the “free speech”, since many of them are somewhat famous entrepreneurs in Sweden and that a recorded open minded statement could possibly be subject to bad media. Finally, a number of quotes are included in the empirical data section with the intention of reflecting the reality.

A standard empirical problem is to only sample successful companies with their international expansions (Forsgren & Hagström 2007). Since this thesis doesn't cover sample of unsuccessful companies, this unfortunately doesn't add to the validity of our findings.

Relying on empirical evidence should however imply that the internal validity should be at a good level for this study.

External validity refers to whether the results of the study can be generalized (Yin, 2003). It is argued that qualitative studies tend to have somewhat weaker external validity (Bryman, 2006). The external validity is however improved by separately conducting six case-studies with Swedish based Internet-service companies.

There is a possibility that the results may differ between the subject companies depending on what countries they expanded to. If an expansion for company A was conducted in country 1, the success factors may differ from company B that conducted an expansion in country 2 etc. Though there is a potential however for an *analytical generalization*, Yin indicates that in case studies in general, there is a great difficulty when trying to identify *representative cases*. Since we were able to interview six of the seven companies that fitted the criteria, the external validity should be at a satisfactory level, especially due to the number of case studies and the number of interviews.

4 EMPIRICAL DATA

The company selection has been determined on the basis of proven successful international business models and according to specified limitations. In this section an empirical background concerning the case study subjects will be presented in order to serve as an introduction to the analysis of the different areas regarding international expansion. The companies will be overall presented in terms of business model, company history, country availability as well as other relevant information.

4.1 Case study subject overview

4.1.1 PriceRunner

PriceRunner is a price comparison website towards consumers, launched in 1999, founded by the Swedish entrepreneurs Magnus Wiberg, Kristofer Arwin, Martin Alexanderson and financed by Cell Ventures. The site is free of use towards the consumers and is financed by advertising revenue from the site according to the “pay per click model”² and banners. The service launched in Denmark and UK during 2000. Offices were opened in France and Germany during 2000⁴ and the US during 2005. PriceRunner was acquired in 2004 by Value Click, an US based online advertising company, for \$29 million and is today available in six countries including Sweden, Germany, Austria, Netherlands, UK, Denmark (PriceRunner, 2009) .

4.1.2 TradeDoubler

TradeDoubler is a digital marketing company founded in 1999 by Felix Hagnö and Martin Lorentzon, listed on the Stockholm Stock Exchange since 2005. TradeDoubler offers digital marketing concepts with international performance-based online marketing through “affiliate programs”³. In 2007 TradeDoubler revived a buyout offer from AOL. Today TradeDoubler operates in 19 countries worldwide (18 local offices, head office in Stockholm) and has more than 650 employees (TradeDoubler, 2009).

² Payment from advertisers is only made when their ad is clicked by the visitor

³ Exchange program for digital marketing where online ads are marketed on different websites

4.1.3 Kreditor

Kreditor offers online payment solutions for e-commerce through a digital invoice system. Kreditor was founded in 2004 by the student colleagues, Sebastian Siemiatkowski, Victor Jacobsson and Niklas Adalberth from Stockholm School of Economics. Kreditor's payment system was implemented towards the first customer during the first half of 2005 and today more than 3500 e-commerce stores are connected to the system. Kreditor has an annual turnover of more than 100 million and 120 employees in Sweden and Finland. Kreditor's services are available in Sweden, Finland, Denmark and Norway (Kreditor, 2009).

4.1.4 StarDoll

StarDoll is an online community developed around the paper doll concept, targeting young girls worldwide, once originated from the site "Paperdoll heaven", first created by a prematurely pensioned nursing sister from Finland. StarDoll received funding by Index Ventures and Sequoia Capital in 2006. The same year a new CEO, Mattias Miksche was recruited, and the site was relaunched under the StarDoll brand and managed from the head office in Stockholm. Branches were developed in UK and the US. The site is today available in 15 different languages and has a total user base of 28 million users worldwide according to COO Henrik Torstensson (Stardoll, 2009).

4.1.5 Spotify

Spotify is an online music streaming service consisting of free ad-service accounts as well as paid subscriptions. Spotify was founded in 2006 by serial-entrepreneurs Daniel Ek and Martin Lorentzon and launched for public access in October 2008. The company has 45 employees with offices in Stockholm and London, UK. The service has over 1 million users worldwide and is available in 14 countries (Spotify, 2009).

4.1.6 TestFreaks

TestFreaks is a website community for price comparison and user reviews founded in late 2006 by the team behind PriceRunner. TestFreaks is in similarity with PriceRunner, free of use towards the consumer. The ambition is to be the world's largest test-site towards the consumer market. TestFreaks is today available in 27 different languages, and available in several countries including Sweden, UK, US, Germany, Italy, Spain, Brazil, France and Belgium (Test Freaks, 2009)

4.2 The Internationalization process

The following empirical data presented is divided into six different categories; i) organization ii) marketing and sales iii) product development iv) economic factors v) geographic factors as well as vi) cultural factors. The data collected through interviewing case study subjects as well as direct observations is presented within these six categories respectively.

4.2.1 Organization

According to company founder Kristoffer Arwin, PriceRunner established local offices in each new country they expanded to.

“PriceRunner’s main organizational strategy was a strong head office where operations was centrally coordinated.” (Kristoffer Arwin, co-founder PriceRunner and TestFreaks)

PriceRunner's local presence in new countries during the initial phase of the expansion was to a large extent initiated by customers in home market, with international branches, demanding international service. PriceRunner therefore continuously had customer presence in new markets before establishing local offices. Country managers were responsible for carrying out operations towards the different markets through the use of local fully-owned sales companies in each country. PriceRunner centrally coordinated pricelists which the local sales teams where managed according to says former Pricerunner CEO Kristoffer Arwin. Local project

teams were established in each country where limited Internet-service operations and sales were performed.

“The country managers responsible for each market reported directly to the PriceRunner CEO.” (Kristoffer Arwin, co-founder Pricerunner and Test Freaks)

PriceRunner applied a Matrix organization structure where the various project teams in each country both reported locally and to the head office.

TradeDoubler, as well as the other study subjects applied a strong central organization, where a strong and top-performing head of sales carried out actions from the head office. This was also one of the success factors.

“A local sales office in each individual country is the number one key success factor in order to succeed with an international expansion” (Felix Hagnö, co-founder TradeDoubler)

TradeDoubler applied a loose hierarchical organization structure with an individual country manager for each new country, with local sales and “first-line support”, which reported directly to head of sales says Martin Lorentzon, co-founder TradeDoubler.

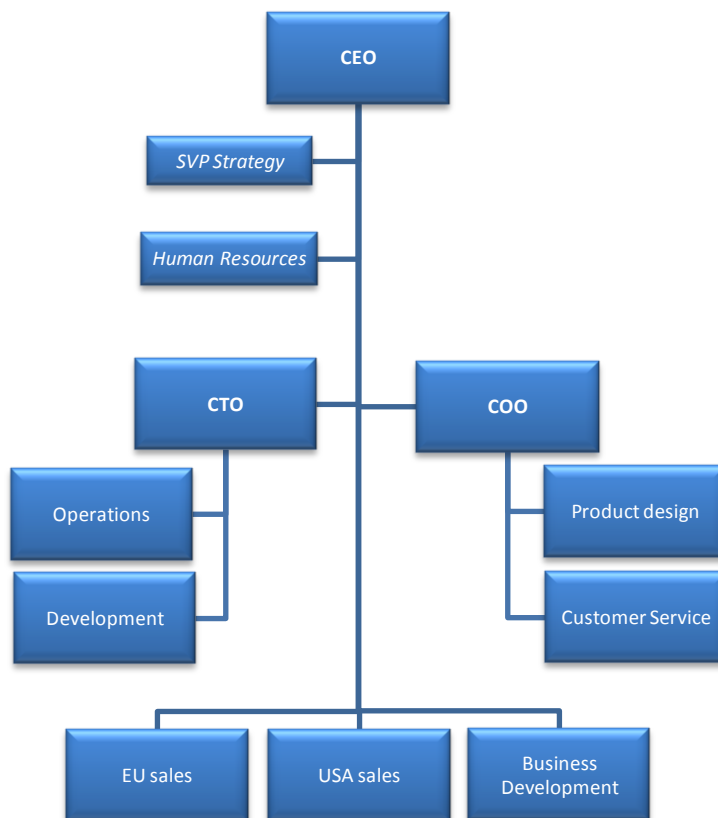
“Kreditor has applied different expansion strategies throughout the internationalization process. Kreditor’s expansion to new markets has always been initiated by following individual customer demand.” (Sebastian Siemiatkowski, CEO/co-founder Kreditor)

In 2006, Sebastian Siemiatkowski and Victor Jacobsson led the expansion parallel to the business in the core market Sweden when introducing Kreditor’s services towards the Norwegian consumer market. Both in Norway and Denmark the service is only available towards the e-commerce consumer, because of demand from Nordic e-commerce stores. A local B2B service does not exist. In 2008, when Kreditor targeted Finland, they put one person dedicatedly responsible for the expansion who handled the recruitment of a country manager for the specific market. After having an all-round Finnish organization a more centralistic model was applied where the local country office was limited to carrying out sales towards the specific region. This function-divided organization structure, as well as having a person solely responsible and focused on the expansion was proven to be more successful and a larger scalability was derived through the business model according to company CEO, Sebastian Siemiatkowski.

“StarDoll has applied a centralistic organization structure during the internationalization process.” (Henrik Torstensson, COO Stardoll)

StarDoll COO, Henrik Torstensson underlines that the main service and IT-development of StarDoll is carried out through the Stockholm head office by the use of a function-divided organization structure (Figure 4.2.2.). Due to the complexity of StarDoll’s service, StarDoll has chosen local sales organizations, thereby avoiding external sales companies in high potential key markets such as the US and UK. Each sales office reports directly to company CEO Mattias Miksche except from the US market which reports to the US country manager. StarDoll points out the importance of being able to maintain the organizational development as the business grows. A lot of focus has been put on finding high-potential individuals within StarDoll’s organization, especially the sales offices, in order to maintain business growth according to Henrik Torstensson.

Figure 4.2.2 Function-divided organization structure (Stardoll)



Spotify has a centralized organization structure with the management- as well as the product development centrally organized.” (Martin Lorentzon, co-founder TradeDoubler and Spotify)

Due to the high level of scalability of Spotify’s business model, local sales offices are not required according to Martin Lorentzon. Due to the specific regulations within the music industry and the English language focus, Spotify has managed to create an Internet-service with great scalability which uses different “language-keys” in order to transform the service into a new local version. No local country management is required at the moment according to CEO/co-founder Martin Lorentzon.

TestFreaks, has low entry barriers for each new country expansion due to the high level scalability of the business model and the limited need of organizational support. In comparison with Kreditor, PriceRunner and TradeDoubler, TestFreaks does not establish a new sales organization in every country but instead expand through local partners as well as individual ambassadors. The “TestFreaks ambassadors” consist of various freelancers who support the maintenance and development of the local sites regardless of geographical location. Magnus Wiberg, co-founder of TestFreaks comments that it is almost impossible to have sales centrally organized if a more extensive buyer-seller relation is required. In TestFreaks however this is not the case due to a different scalability of the business model. PriceRunner used local wholly owned sales companies for each new market, which caused a lot of administrative issues. In TestFreaks on the other hand, the organization is strictly centralized on one location according to Magnus Wiberg.

4.2.2 Marketing and sales

TradeDoubler, PriceRunner as well as Kreditor all apply a local sales organization structure in each country. Regarding initial market study, TradeDoubler and PriceRunner apply structured market studies estimated at almost six months before entering a new market. All three companies have used the Swedish Export Council with varying success.

“Due to Kreditor’s abundance of e-commerce platform providers in order to secure an instant market share, partnership establishment is prioritized in the initial expansion phase.”
(Victor Jacobsson, CFO/co-founder Kreditor)

Both PriceRunner and Kreditor are to a fairly large extent dependent on partnerships in new countries in order to be successful concerning sales. This resulted in an initial focus on partnerships in new countries before building an organization. Due to the fact that Kreditor’s market introduction in Finland was more extensive compared to Norway and Denmark building a sales organization was prioritized according to Victor Jacobsson.

“A key success factor in TradeDoubler’s internationalization strategy was the focus on sales rather than technical adjustments.” (Martin Lorentzon, co-founder TradeDoubler and Spotify)

StarDoll applied large parallel market studies initially, followed by an extensive market roll-out in 15 different languages. After the business model was proven, extensive work with local partnerships was initiated in order to obtain long-term scalability according to company COO Henrik Torstensson. Market roll-out has been focused on public relations, with the main effort put into the US and UK, as well as Germany. Spotify, also conducting parallel market studies followed by a market roll-out, also focuses on PR instead of traditional marketing and sales in order to reach out with their service.

“TestFreaks marketing strategy involves the use of local partnerships.” (Magnus Wiberg, co-founder PriceRunner and TestFreaks)

TestFreaks sales and marketing strategy is clearly defined around local partners and the various ambassadors who work with the local sites according to company founder Magnus Wiberg. Due to the fact that TestFreaks is very centrally organized they set out the main sales- and marketing strategies from the head office and rely on the TestFreaks ambassadors who act very much on their own. For market studies TestFreaks uses partners as well as TestFreaks ambassadors, rather than the Swedish Trade council, in order to retain new market information.

Observations made at all case study subjects websites is a high level of productification of the services. This applies to the main .com address as well as the different local branch sites if

available. The services are clearly presented using large illustrative images and the identical presentation scheme follows on the different sites.

4.2.3 Product development

Overall, the study subjects point out a centrally organized product development with minimal market adjustments. StarDoll, TestFreaks and Spotify mainly adjust their service to new market entries through language translation and a large scalability is identified. Kreditor, TradeDoubler and PriceRunner focus on local B2B partnerships in order to retrieve business growth and have a more extensive market entry process, therefore making the business model more complex.

PriceRunner applied a centrally managed product development during the most heavy expansion phase and received input from local national offices. When PriceRunner was acquired by Value click in 2005, the Value click management situated the development of the US version of PriceRunner locally. This although led to losses and poor results implying that PriceRunner US division was shut down. Today the PriceRunner development is managed externally from China with a local project manager on site according to Magnus Wiberg.

“Due to the nature of the service, TestFreaks manages all product development from the head office with minimal local market adjustment required.” (Magnus Wiberg, co-founder PriceRunner and TestFreaks)

In TestFreaks the local adjustment required is minimal. In Kreditor on the other hand diversification towards new markets is required concerning language and price lists, but also legal jurisdiction due to the dependency of government registers within the service delivery.

“Spotify has focused on the development of an internationally scalable version of the Internet-service system from day one” (Martin Lorentzon, co-founder TradeDoubler and Spotify)

TradeDoubler as well as Spotify universalized their service independent of market variety from day one.

4.2.4 Economic factors

Budget planning and budget importance seems to conform between the study subjects interviewed. All companies have exceeded their budget and/or estimates of the specific market expansions. PriceRunner and TestFreaks underline that budget work and economic structure has been on a high level ever since founding of the companies due to the use of external capital. The budget work within expansion has therefore been extensive; the same applies for Kreditor according to Victor Jacobsson.

“Budget work during the international expansion of TestFreaks has been fairly simple due to main focus towards freelancing Test Freaks ambassadors.” (Magnus Wiberg, co-founder PriceRunner and TestFreaks)

Kreditor did not have specific accounts for each market in their first expansion towards the Norwegian and Finnish market. After two months of establishing the Finland office Kreditor introduced a separate account for the market and were surprised by the cost findings. After this process they applied a much more extensive budget work with each country accounted separately.

“We first saw the actual cost implications of our Finland expansion when developing individual country accounts.” (Victor Jacobsson, CFO/co-founder Kreditor)

All companies studied have separately budget focus from management in the international markets.

4.2.5 Geographic factors

Overall, a strong impression from interviewing the study subjects is that the difficulties connected with international expansion, for instance cultural barriers, are overrated.

“Due to similarities between market entry barriers for Internet-service companies, it is of great importance to prioritize market size in the initial phase of international expansion.” (Magnus Wiberg, co-founder PriceRunner and TestFreaks)

PriceRunner co-founder Magnus Wiberg states that if the business model has proven to work in one market outside Sweden, it is a large possibility that it will work everywhere. Focusing the expansion to larger countries immediately is important according to founders of TradeDoubler, PriceRunner, TestFreaks and Spotify, this due to the fact that the market barriers in the Scandinavian markets are similar, although not nearly offer the same market size.

“The ability of choosing optimal countries regarding of your business in the initial expansion phase is a true success factor.” (Martin Lorentzon, co-founder TradeDoubler and Spotify)

Overall comments from PriceRunner, TradeDoubler and StarDoll are that UK is a high potential market due to favorable environment concerning start-up costs and administrative issues. The US market due to low language barriers is identified as a very interesting- and high potential market in early expansion. On the other hand Germany-, as well as France is mentioned as difficult countries to expand to. The reason according to the study subjects is that the cultural barriers are much higher here as well as the cultural diversification in different geographical locations within the country.

“A success factor at StarDoll has been the ability to maintain the primary business niche throughout the international expansion of the service” (Henrik Torstensson, COO StarDoll)

StarDoll mentions one of the success factors as having focus on your business model and to maintain your primary business and niche, making minimal local adjustments when going abroad to a new market according to company COO Henrik.

“Do not enter a new market before establishing a local customer. Start-off by recruiting personnel in home market with relevant language competence, before performing a full organizational expansion.” (Felix Hagnö, co-founder TradeDoubler)

The organizational focus of the study subjects varies; PriceRunner on one hand suggest that the importance of a local country manager is overrated, but on the other hand Kreditor- and

TradeDoubler suggest the opposite. This of course, varies according to business model and type of service.

4.2.6 Cultural factors

“One of Spotify’s success factors so far has been the presence of a loose hierarchical structure within the company.” (Martin Lorentzon, co-founder Spotify)

Regarding the company culture in the international offices the study subjects stresses the importance of being able to maintain the original company culture in the new country manager in order to have the same success as on the home market. An interesting example is Kreditor, when establishing the Finnish office had a higher cost ratio due to “hygiene factors” from the Swedish office, i.e. level of office material and other expenses due to the current head office level. This occurred automatically and is an interesting observation of the company’s cultural influences when expanding international says Sebastian Siemiatkowski.

Kreditor uses video supervision in order to communicate with the Finnish office as a technique to maintain company culture. Spotify has annual meetings where they gather the personnel from their international offices. TradeDoubler and PriceRunner underline the differences between local country cultures. This can be presented in many different ways as mentioned by TradeDoubler; work-time differences, sales attitudes and management incentives.

TradeDoubler and Spotify emphasis an open and strong company culture in order to maximize the growth process when developing international branches, which is mentioned as a success factor as well. Both these companies have applied a high level of activity from company management and founders in the internationalization process in order to spread the company culture and also inspire the employees. The importance of qualified and driven employees with overall sales focus is also underlined, especially in the country manager function according to company founder Martin Lorentzon. The team behind TradeDoubler focused their expansion around the wrong countries, but in the Spotify case the resources have been maximized into only the most important markets.

Throughout the interview phase we made a number of observations at the different head offices. Observations made at the offices of both StarDoll and Spotify is the well thought-out interior design which, especially at StarDoll, is very creative and inspired by the service concept itself with pink coloring on various office related items. Spotify has a pool table placed immediately on the left-hand side of the office hallway, which they promote the employees and customers to use between work.

TestFreaks has a very open office structure where the personnel is working facing each other without shielding, creating a very interactive working climate. Kreditor applies something called an “open-screen” policy, where the computer screens are visible for the rest of the personnel in order to maximize production-, as well as openness within the company.

StarDoll also mentions the importance of having a local “company culture” at the different offices. In order to maintain the energetic level of business which entrepreneurial high growth companies often have is to send over employees from the head office in order to inspire and communicate with the other teams. This can also be done by having scheduled weekly telephone conferences with whole management groups from the different countries according to COO Henrik Torstensson.

5.0 ANALYSIS

The structure of the analytical section will reflect the initial research questions in order to stay on track for the final conclusions. Each question will then be analyzed through the six sub-categories identified through the empirical section: a) Organization, b) Marketing & Sales, c) Product development d) Economic factors, e) Geographical factors and f) Cultural factors.

5.1 Introduction analysis

The study subjects are delimited into Swedish based Internet-service companies. Although narrow delimitation and choice of study subjects, they still have different business models which increase the difficulty in the analyzing process. A suggestion is to first analyze the companies different complexity in their business model. In the complexity we take into consideration to what extent the international expansion involves government regulations, if it is pure B2C or a hybrid of B2C and B2B and how well the companies are able to productify its services. We also take in consideration when analyzing how much infrastructure such as customer service, local suppliers and technical support that the internationalization requires in each expanded country. The result of our analysis is shown in Figure 5.1 and further explained in section 5.2.3.

Figure 5.1 Different complexities in the case study subjects.



This has an impact when analyzing the different companies, and is important to keep this in mind when analyzing them further.

Ansoff's (1957) theories of product-market strategies apply to the six companies. All study subjects are expanding their current products to new markets and are consequently doing market development strategy.

5.2 Organization

5.2.1 Organizational design

From the empirical section we know that the case study subjects have a philosophy of strong head office orientation. Perlmutter (1969) identified three primary attitudes among international executives toward building multinational enterprises; ethnocentric, polycentric and geocentric. When analyzing the case study subjects from this perspective they have a complex organization in their home country and a simple in their subsidiaries. This is an indication of that the organization design in the companies is ethnocentric. The less complex companies Spotify and TestFreaks didn't even have a subsidiary at all; they managed the business from one location in Stockholm. Before the organizational change, Kreditor had a polycentric complexity of organization, since the subsidiary was more varied and independent. This according to Sebastian Siemiatkowski changed due to inefficiency in know-how transfer to a ethnocentric organization attitude.

Erramilli (1991) suggested that a high degree of control in service companies is possible with a limited degree of resource commitment. The risks and costs for establishing a wholly-owned subsidiary are limited to establishing an office that can relatively easily be closed and transferred to another place, which is empirical significant in the studied companies. Erramilli (1991) further states that in the early and late phases of the internationalization process, service companies demand high-control of foreign market entry modes. This was not the case with Kreditor's first expansion to Finland with the old country-divided organization. With the new functional organization they had a high-control in the foreign markets subsidiaries. Kreditor probably had a setback with the polycentralism due to increase costs in duplication and to inefficient use of home country experience.

The communication and information flow in the investigated companies also indicates at an ethnocentric organizational design; since the orders, commands and advice come from headquarter to the subsidiaries. TestFreaks ambassadors report to the respectively head of sales. None of the companies had their head of subsidiaries as a part of management team.

According to Perlmutter (1969) some conclusions of the disadvantages of the ethnocentrism is the cost of ineffective planning because of a lack of feed-back, the departure of the best

men in the subsidiaries, fewer innovations and an inability to build a high caliber local organization. The advantages seems to out win the disadvantages for the study subjects, due to simpler organization, higher rate of communication of know-how from headquarter to new markets. There is more control and this could be an important thing for the Internet-service companies. It is not clear if this is just a “short term advantage”, as Perlmutter (1969) states for the study subjects since their international expansion only processed for a limited time. Having a centralized and tight control of the foreign-markets seems to be a general success factor for the studied companies. If this is on account of that the study subjects are relatively new or if it is the ultimately organizational design for Internet-service companies is not comprehensible.

5.2.2 Organizational structure

TradeDoubler, Spotify, StarDoll and Kreditor have a classical hierarchical organization structure. PriceRunner is dissimilar, and uses a matrix organization where the various project teams in each country both reports locally and to the head office. TestFreaks are organized as a hierarchical organization but they also have a number of ambassadors reporting to the head office. Spotify have all their employees located in Stockholm and they don't find that any local country managers are required in their business model.

Kreditor's Finnish customer service was initially located in the Finland office, but moved it to Stockholm in order to improve communication and cut costs connected with higher salaries in Finland.

Magnus, founder of TestFreaks and PriceRunner states that it's nearly impossible to have sales central organized if an extensive buyer-seller relation is required. This is also emphasized from the other companies. In TestFreaks and Spotify this is not a requirement due to a dissimilar scalability of the business model and less complex sales.

5.3 Marketing and sales

5.3.1 Initial market study

TradeDoubler and PriceRunner applied structured market studies estimated at almost six months before entering a new country. Kreditor and the two previous companies have used

Swedish Chamber of Commerce for market analysis. The other companies have also used some market research before entering a market, and this confirms to Cooper (1990) general success factors for new products, since it mentioned the vital process of doing pre-development activities (the homework) when launching new products.

The existence of an explicit and active internationalization strategy was observed among the studied companies, not fully in line with the reactive and adaptive company behavior in the Uppsala model, just as in the article of Forsberg & Hagström (2007).

5.3.2 Market orientation

Cooper (1990) also mentions “strong market orientation” as a key success factor when launching a new product. This is confirmed from the study subjects, since they are focused on making sales in the new countries. All companies in the case study argue that the center of attention on marketing and sales is a major factor of their international success.

This could as a result be regarded as a success factor in international expansion, and since all companies put emphasis on this, it is also a general success factor.

5.3.3 Different business models

The companies interviewed are all regarded as service companies. As Blomstermo & Sharma (2003) identified, services have five characteristics. When applying the characteristics to the companies studied, you notice that they apply to the service-characteristics in different degrees. Spotify, TestFreaks and StarDoll are more B2C oriented, and are additional more productified than Kreditor, PriceRunner and TradeDoubler, since they are a hybrid of B2C and B2B, making the service more complex. The productification of Spotify, TestFreaks and StarDoll is primarily based on that their services are not invisible, they can be stored (digitally) and they are standardized.

Kreditor, PriceRunner and TradeDoubler try to overcome this by Modulization (Sundbo 1994) which overcomes problems characterized by simultaneous production and consumption. The definition of modulisation is the standardization of services in separate modules that can be combined by the customer (Sundbo 1994).

This could be an explanation to why Kreditor, PriceRunner, TradeDoubler and StarDoll have sales offices outside headquarters, since their services is more complex and are less

productified than the other companies. TestFreaks and Spotify are younger companies than the others and this could also be an explanation to why they don't have physical subsidiaries in other countries (yet). A general conclusion of this observation is difficult to make, since it depends on the complexity of the international expansion. A generalization could be that there is a success factor in having international sales offices if you have a complex business model and that your products are strong "service based" according to Blomstermo & Sharmas (2003) five service characteristics.

5.3.4 Market strategy

TradeDoubler, Kreditor and Pricerunner have followed Blomstermo & Sharma (2003) foreign market entry strategy client-following. They didn't expand with a new office until they had customers in that foreign market to start with. These three companies needed an office and probably wanted to limit the risk by follow their customers abroad. StarDoll, TestFreaks and Spotify used the more offensive approach market-seeking, maybe as a consequence to their less complex business model. StarDoll have local offices and still expands with market-seeking. An explanation could be that they are more backed up with Venture Capital and have a stronger focus on quick market shares.

This could be identified as a success factor; if you have a complex business model that requires local sales, make sure you expand with your clients to minimize risk and costs.

5.3.5 Amount of commitment

The companies chosen in this case study corresponds to Kjellmans (2005) direct investment since they have wholly owned business in the countries they are in. Since direct investment generates highest profit, this could be regarded as a success factor for the chosen companies in this thesis. Although this could be concluded as a general success factor, we think that it's several disturbing data to make a general conclusion. There are many companies doing international expansion without having the amount of commitment as our research companies, and they could as well be successful.

5.4 Product development

The study subjects apply a centralized product development, and are also organized in a clear ethnocentric design (Pearlmutter). The adjustments required for entering new markets vary between the companies since they have different business models. As mentioned in the empirical section, StarDoll, TestFreaks and Spotify only requires local adjustment based on language translation due to the scalability of the business model. TradeDoubler and especially Kreditor are dissimilar since they need integration with different government registers and credit information data in every new country they expand to.

PriceRunner had local development in the US when they were acquired by ValueClick, and that was a mistake according to Magnus Wiberg, and further confirm that a local minimal product development is a success factor when going international. StarDoll and the other study group companies underline that minimal local adjustments in the product are desirable. Both central product development and minimal local adjustments seems to be a general success factor when expanding international.

5.5 Economic factors

Blomstermo & Sharma (2003) states that there are three components of knowledge that are related and thus a lack of internationalization knowledge affects business knowledge and institutional knowledge about foreign markets. TestFreaks and PriceRunner have the same founders and so do TradeDoubler and Spotify. According to Blomstermo & Sharma (2003) this should have increased their knowledge in internationalization and as a consequence reduces the lack of business knowledge and market knowledge. This enables them to perceive costs with better accuracy. Despite this, all the companies in the case study states that the international expansion always was united with larger costs than expected. An explanation to this could be an escalation of commitment (Straw) that they continue to put “good money on bad money”. This phenomenon is further described in the theory section. It is possible that the international expansion of Spotify and TestFreaks were made with less cost as a consequence of the experienced entrepreneurs, but it is kittle to compare and do that statement with high-quality validity.

Andersson & Svensson (1994) states that a wholly owned operation avoids costly and complicated task of harmonizing with an already existing company (in a merger or

acquisition). Since our case study subjects all have wholly owned operations they don't need to take that in consideration and they still expanded to a larger cost than expected.

The studied companies were convinced that a strict cost control should be applied when doing an international expansion. This is also what Erramilli (1991) further claims that in the early and late phases of the internationalization process, service companies demand high-control foreign market entry modes. Kreditor failed to do this initially as well as PriceRunner which had to do major cost cut when their expansion-cost were unrestrained.

Kreditor also emphasis that a separate result and balance sheet should be made of each of the subsidiaries to enable fully control of the economic effects and results of the different countries. This is also confirmed with the other companies in the case study.

5.6 Geographical factors

5.6.1 Incremental behavior

A conclusion from Forsberg & Hagström (2007) is that incremental behavior does not seem to be of major concern for Internet-related companies, at least not in comparison with factors related to first-mover-advantage or following-the-herd behavior. This seems to apply for our case study subjects.

An explanation could be that they have other stake holders than those included in the Uppsala model that have a profound influence on the companies, forcing them to go abroad much faster than the model would predict (Forsberg & Hagström 2007). All study subjects have venture capital invested, which might emphasize a more aggressive international expansion plan in order to increase return of investment.

The lack of incremental behavior in the case study subjects could also be explained by limited empirical data from the companies in the thesis. There could have been some incremental behavior that we were unable to collect, since that involves more historic data of the companies.

As Johanson & Wahlne (1977) states in their article, commitment decisions by observing additional commitments will be made in small steps unless the company has very large resources and/or market conditions are stable and homogeneous, or the company has much experience from other markets with similar conditions. The case study subjects had due to the

venture capitalist investment maybe larger resources and as a consequence didn't go through the expansion in a standardized incremental way.

Another explanation could be that we only observe the beginning of the study subject's expansion process. As stated earlier, only half of the study subjects have physical subsidiaries abroad, and maybe the market experience will lead to a step-wise increase in the scale of the operations and of the integration with the market environment.

In the interview with Kreditors co-founder Victor Jacobsson he acknowledged that a more complete expansion, with subsidiary offices in Norway and Denmark was in consideration. In that way Kreditor can focus on the B2B market in the respectively markets to increase their sales. This could be considered as an incremental learning process that Kreditor first opened up the markets with a B2C offer and then incrementally increased their investments and market commitments. If Kreditor wouldn't be in Denmark and Norway from the beginning, an assumption would be that they would consider entering the larger markets directly (if not the psychic distance was too high for their management).

It seems as the other case study subjects such as StarDoll did the expansion without incremental learning and this could be stated as a success factor. As Kremer (1996) states the Uppsala model is somewhat outdated in times of internationalizations processes arranged through leap-frogging, where companies enters markets that are distant in physic distance at an early stage such as for our case study subjects StarDoll, TestFreaks and Spotify.

5.6.2 Psychic distance

PriceRunner launched in Denmark and UK during year 2000. The authors Johanson & Wiedersheim-Paul's Uppsala-model (1975) suggested that companies tend to begin their internationalization in physically rather close markets and only increasingly penetrate the more distant markets, which explains the expansion to Denmark, but not UK. The psychic distance is though not only correlated with geographic distance, it is also determined by factors such as language, culture, level of education etc, and UK is by that definition considered to have low psychic distance. After 2004, PriceRunner expanded further to countries with high psychic distances such as Austria, US and France. This is according to Martin Lorentzon a strong success factor; don't focus on the neighboring countries, focus on the large markets directly. He states that it doesn't take longer time to expand to Denmark

than Germany. All companies except Kreditor agree to this and believe that this is an important success factor in international expansion.

Kreditor has followed Johanson & Wiedersheim-Paul (1975) theory that Swedish companies starts their operations in countries close to Sweden since they are more similar to the Swedish domestic market and therefore require less initial resource commitment or have less competitive domestic industries. In this case the psychic distance for Kreditor is a hindering force when they decide to what country to target for their internationalization. The countries closest to Sweden are those that have the lowest psychic distance and that are the countries that Kreditor have activity in. It was also initially the same with PriceRunner that first started an office in Denmark. Kreditors CEO Sebastian Siemiatkowski states that Kreditor's expansion is dependent on government registers and payment morale in the expanding countries; this could be a limitation to Kreditor's choice of country to expand to.

5.7 Cultural factors

It is difficult to analyze the cultural factors since only half of the case study subjects have offices outside Sweden.

From the empiric section it is clear that all case study subjects emphasized strong corporate culture in order to be successful. According to Begley and Boyd (2003) model over how nationality and corporate culture are related, the case study subjects are either in the top left (danger zone) or the top right box (zone of acceptance). StarDoll, TradeDoubler and PriceRunner has a stronger focus on high fit with national culture and by that falls into the box of "Zone of acceptance: Corporate national compability". Kreditor, TestFreaks and Spotify on the other hand seem to have less fit with national culture and by that risks to be in the box "Danger zone: Corporate national clash".

A general cultural success factor among the case study subjects is hard to make. The only general success factor to some extent is the level of company culture maintenance throughout expansion.

6. CONCLUSION AND IMPLICATIONS

Which possible general success factors can be observed within international expansion of Swedish founded Internet-service companies?

The thesis question applied strives to identify the possibility of general success factors for international expansion and the concluding reasoning will be structured according to the six key areas used throughout the thesis.

6.1 Introduction conclusion and implications

The results will be presented in figures where cell filling symbolizes the extent to which the specific success factor applies to the case study subject. Important to note is that the figures should be seen as estimates of our key findings and the co-relation between the different case study subjects, they should be seen as simplifications and not detailed presentations of specific results. This will finally be complemented by an overall summary of the conclusions given the targeted areas as well as suggestions for further research.

6.2 Organization

A strong centralistic organization where the overall management was conducted through the head office is commonly observed in all case study subjects. The centralistic organization structure, with the overall management centralized and local organization limited to sales, seems to be an obvious success factor as it can be derived from interviews and organization observations made of all study subjects. This is perhaps the strongest general success factor derived from the study and relates to the theory of ethnocentrism with an explicitly identified centralistic organization structure with overall extensive difference between head office management and international subsidiaries. Although varieties in business models and organization structure, the centralistic approach is relatively conforming in all case study subjects (Figure 6.2).

Figure 6.2 Centralistic organization structure (cell filling corresponds to level of centralization)



6.3 Marketing and sales

Regarding marketing and sales four key success factors with a high level of generality were identified throughout the study; the extension of market pre-studies, sales focus during internationalization, service productification as well as client-following expansion.

The results are that initial market study is a common success factor among the companies to some degree (Figure 6.3.1). There is a relatively explicit correlation between complexity of the business model and the extent of market pre-study process as illustrated below. This is also logical due to the correlation between scalability of the business model and market risk, implying larger scalability correlates with less risk and extensive market pre-study conducted.

Figure 6.3.1 Pre-study process



The Internet-service companies studied all stated a large sales focus during the internationalization process (Figure 6.3.2). This can although be a symbol of the internal company culture and/or management focus. However TestFreaks and StarDoll underline sales

focus less in comparison with other study subjects, which can be derived from the different target groups of the services.

Figure 6.3.2 Company sales focus



The productification of the service is strongly noted through the service presentation online (Figure 6.3.3). This is a relatively general success factor, although a stronger tendency is observed within the more scalable business models; Test Freaks, Spotify and StarDoll.

Figure 6.3.3 Service productification

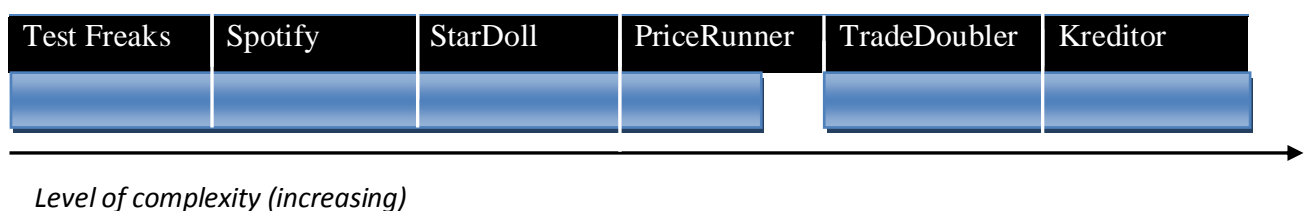


Pricerunner, TradeDoublor and Kreditor all have conducted a client-following expansion strategy. These three case study subjects also have a more extensive geographical commitment in their expansion, due to establishment of local offices. TestFreaks and Spotify on the other hand, which have less complexity in their business models have a clear market-seeking expansion approach. The differences in complexity and market launch approach are a general success factor in this case (Figure 6.3.4). Stardoll is somewhat of a mixture of these profiles with local offices and although a less complex service structure, and also higher level of scalability.

Figure 6.3.4 Client-following expansion

6.4 Product development

Concerning product development a centralistic approach was applied according to case study subjects (Figure 6.4). This was in particular underlined as a success factor by TestFreaks and StarDoll claiming that this as crucial in order to secure quality in service delivery. Although differences in level of service complexity the centralized product development during international expansion can be derived as a general success factor from the study performed apart from PriceRunner who has a less centralistic approach within development.

Figure 6.4 Level of centralized product development

This could be a collective success factor for the studied companies, to have a centralized development and only make slight service adjustments in the product development for the local markets.

6.5 Economic factors

Concerning the economic factors all study subjects underline the difficulties in predicting expenditure for new country expansions. Specific budgets for each market were derived as preparation for expansions to different levels according to study subjects, although this is

difficult to state as a general success factor for internationalization of an Internet-service company (Figure 6.5).

This is perhaps one of the most consensus opinion observed from the study.

Figure 6.5 Importance of stand-alone budgets during internationalization



6.6 Geographic factors

A general observation of the studied Internet-service companies is a small level of incremental learning, i.e. step-by-step expansion towards new markets (Figure 6.6.1). When expanding into a new country the companies have launched their service to full extent and set up a local organization if needed (depending on business model). Only Kreditor, and to some extent also TradeDoubler have applied incremental learning in a limited extent. Not applying incremental learning can be seen as a relatively general success factor. In this comparison we again see a variety in expansion strategy connected to complexity of service.

Figure 6.6.1 Absence of incremental learning in international expansion



Rather aggressive expansion strategies have been used, expanding fully into new, rather distant markets (leap-frogging). The only service company standing out of this theorem to a

greater extent is Kreditor, who have used nearby Scandinavian markets in their expansion strategy (Figure 6.6.2).

Figure 6.6.2 Leap-frogging throughout international expansion



6.7 Cultural factors

The importance of maintaining the initial company culture throughout the international expansion is underlined by StarDoll, TradeDoubler and Spotify. Kreditor, PriceRunner and TestFreaks do not stress the importance to the same level (Figure 6.7). This is the only success factor of a more general nature, which varies to a larger extent independent of service complexity.

Figure 6.7 Level of company culture maintenance throughout expansion



6.8 General Implications

Throughout this qualitative study we have been able to identify a number of mutual success factors from the case study subjects within each of the six different areas studied. The most evidential results found concerning general success factors is within the importance of an overall centralistic organization structure as well as central product development. Other fields where the level of generalization is high is market pre-study, budget structure and company

sales focus. The case study subjects serve as a good sample of successful Internet-service companies existing on the market due to the high level of overall performance, as well as a wide range of business models according to complexity.

Strongest mutual key success factors according to case study subjects

- Centralistic organization structure
- Central product development
- High level of market pre-study
- Stand-alone country budgets
- High level of sales focus

A factor which can be questioned is the difference in time period concerning the internationalization of the firms, both the total time conducted for internationalization as well as the year in which it occurred. Due to the volatility of Internet businesses and the rapid development within the latest years, these factors have possible influence on the results. The source of information can be questioned as the interview objects are company founders and/or top management at the companies and therefore have a strong connection to the companies. The level of market pre-study, budget work as well as organization sales focus are all difficult to measure independently without further in-detail observations (compared with for example organization structure and geographical expansion), therefore there is room for criticism within this field.

Our aim with this qualitative study is to find clear general success factors from the study subjects which could be applied to other Internet service companies. However, given the Internet companies studied, a large variety in the level of complexity within the business models was identified, which has large implications for the level of scalability and the companies' barrier levels of international expansion. Therefore, the findings in this thesis could be questioned on the basis of relevance due to differing prerequisites concerning international expansion of the Internet-service companies. The overall implication is that a number of key areas have been identified which the case study subjects mutually underline as

key success factors within international expansion, however, the variety in business models amongst the case study subjects makes the generalization difficult to a larger extent.

6.9 Further research

Further research could possibly be conducted by studying a number of Internet-service companies within the same service-branch, which have large similarities in business models and prerequisites (economic- and management factors) if possible. Also Internet-service companies which have performed expansion within the same time frame and during the same time period could be of interest to study further. Depending on the high development ratio of the Internet and the improved conditions for Internet-services as well as increasing possibilities for new business models, a study within this area would create a better understanding of the business and expansion strategies. Overall, making further delimitations in time-period studied and type of Internet-service, more niche studies could be conducted in order to obtain even more useful data and identify additional key success factors for a higher total level of validity.

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8. APPENDICES

8.1 Interview schedule

Date	Respondent	Respondent function	Location
March 19, 2009	Sebastian Siemiatkowski	CEO/co-founder Kreditor	Kreditor head office, Stockholm
March 30, 2009	Kristoffer Arwin	Co-founder Test Freaks and PriceRunner	Wiral Internet Group head office, Stockholm
March 30, 2009	Magnus Wiberg	Co-founder Test Freaks and PriceRunner	Wiral Internet Group head office, Stockholm
March 31, 2009	Henrik Torstensson	COO Stardoll	StarDoll head office, Stockholm
April 3, 2009	Victor Jacobsson	CFO Kreditor	Kreditor head office, Stockholm
April 7, 2009	Martin Lorentzon	Co-founder TradeDoubler and Spotify	Spotify head office, Stockholm
8 May, 2009	Felix Hagnö	Co-founder TradeDoubler	Kungsgatan 66, Stockholm

8.2 Interview basis

Basic

- What is your name and the name of the company?
- What is your position?
- What is your relation to the international expansion of the company?

Organization

- How was your organization structured during expansion (divisions, hierarki etc.)?
- Did you adjust your organization structure during international expansion, if so; how?
- Did you experience any internal organizational difficulties during expansion?
- How did the expansion affect your organization and organization structure?
- Would you have organized your team during expansion in any different way today?
- How did you motivate your organization/key personnel during expansion?

Pre-analysis/market choice

- How did you work with market studies during your expansion?
- What “filter” did you use when studying new market potential? (pros/cons afterwards)
- Did you study the markets according to different expansion phase strategies?

Marketing/sales strategy

- What marketing strategy did you find successful/less successful during international expansion?
- Did you vary the marketing strategy according to different markets?
- How was the overall marketing expansion strategy organized?

Product/service development and adjustment

- Did you adjust your service according to different expansion markets?
- How did you work with product/service adjustment during your expansion?
- Did the service development vary during your expansion?
- How did you organize your product development?

Economic factors

- How well was the expansion costs estimated, did they follow budget?
- How was the expansion budget determined? To what extent was it adjusted?

Geographic/cultural factors

- How would you describe your internal company cultural, how did it develop during expansion?
- Have cultural factors influenced your expansion; if so, how?
- What are your overall comments concerning the countries expanded to?

- Have you observed any connections between countries expanded to and cultural factors?
- Other external factors that influenced your expansion?