



## International Marketing Review

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### Article information:

To cite this document:

Sara Melén Hånell, Emilia Rovira Nordman, Daniel Tolstoy, Nurgül Özbek, (2019) "It's a new game out there": e-commerce in internationalising retail SMEs", International Marketing Review, <https://doi.org/10.1108/IMR-03-2018-0107>

Permanent link to this document:

<https://doi.org/10.1108/IMR-03-2018-0107>

Downloaded on: 21 June 2019, At: 16:22 (PT)

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# “It’s a new game out there”: e-commerce in internationalising retail SMEs

E-commerce in  
internationalising  
retail SMEs

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Received 28 March 2018  
Revised 15 November 2018  
Accepted 20 March 2019

## Abstract

**Purpose** – The purpose of this paper is to explore how market factors (pertaining to institutions, competition and resources) shape the international strategies of an online retailer.

**Design/methodology/approach** – A single qualitative case study research design is employed to conduct in-depth analyses of a Swedish internationalising small- and medium-sized enterprise (SME) in the retail business.

**Findings** – The findings show that online retailers can use partnerships to tackle industry dynamics and break into foreign markets. This type of “piggy-back internationalisation” can be an effective strategy of handling foreign market dynamics in the entry phase: that is to say, the short term. Reliance upon relationships, however, may paradoxically inhibit retailers’ abilities to stay competitive in the post-entry phase (i.e. the long term) since they become cut-off from the first-hand market learning.

**Research limitations/implications** – The authors provide propositions based upon the findings to support further research in the international marketing and international retailing literature.

**Practical implications** – The findings enhance the understanding of how electronic commerce affects SME internationalisation. They also generate new insights into the use of possible international expansion strategies for managers in retail SMEs.

**Originality/value** – This study introduces a new theoretical perspective to build upon international retail research and contributes to the international retail literature with relevant insights into both advantages and disadvantages of using partnerships to overcome challenges related to international online retailing.

**Keywords** E-commerce, Small- and medium-sized enterprises, International retailing, Online sales

**Paper type** Research paper

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The authors are grateful for financial support from the Torsten Söderberg Foundation (Project: E19/16). The authors appear in alphabetical order and have contributed to this paper equally.



## Introduction

Advances in information technologies (IT) and electronic commerce (e-commerce) have facilitated shifts in the strategy and structure of firms that are active in international markets (Kim *et al.*, 2018). These shifts create new opportunities for small- and medium-sized enterprises (SMEs) that want to compete in international markets (Knight and Kim, 2009).

Retail business is one area where e-commerce has drastically changed the landscape of international business. Defined as the “trading of goods or services over computer networks such as the Internet” (Eurostat, 2017), e-commerce has created new opportunities for resource-constrained retail SMEs, such as doing business abroad. More research into the international e-commerce operations of retail SMEs, however, is warranted. One reason for this is that existing studies in international retailing focussed a lot on analysing large multi-national enterprises (e.g. Hutchinson and Quinn, 2012; Hutchinson *et al.*, 2006). Another reason is the unfolding nature of online operations among international retail firms – particularly, in new retail SMEs – that calls for more research to examine how e-commerce can be effectively leveraged to boost international sales performance (Doherty and Ellis-Chadwick, 2010; Tolstoy *et al.*, 2016). Such research is relevant, not least because of the arguably large potential of international online sales to promote growth and scale advantages for retail SMEs. International online sales expansion among retail SMEs is still an under-researched subject, which also lacks theoretical anchorage (Colton *et al.*, 2010; Tolstoy *et al.*, 2016).

In contrast to the international retail field, a stronger body of research exists about the internationalisation of manufacturing and high-tech SMEs. One argument in this research area is that IT has given small firms the capacity to do business on a worldwide scope (Knight and Kim, 2009; Oviatt and McDougall, 1997). Although this idea is also supported in retail research, previous studies show that the online internationalisation of retail firms is hampered by the problems of setting up infrastructures in offshore markets (Yu *et al.*, 2017) and establishing local brand awareness (Guercini and Runfola, 2015). Based upon these implications, internationalisation through online channels seems to be challenging for retail SMEs.

The purpose of this study is to explore how market factors (pertaining to institutions, competition and resources) shape the international strategies of an online retailer. To pursue the study's purpose, we use Peng *et al.*'s (2009) strategy tripod to investigate how competition-specific, institution-specific and resource-specific factors condition online retail companies' international strategies. We apply Peng *et al.*'s (2009) framework on a single qualitative and explorative retail SME case study. This study provides two specific contributions to the extant literature: first, by applying the strategy tripod framework, we introduce a new perspective to build upon international retail research. In developing theory about the internationalisation activities of retail SMEs, scholars have argued that the international retailing literature has focussed too much upon the retail process itself and not enough on applying broader international business frameworks to understand retail companies (Alexander and Myers, 2000). In response to such calls and given the lack of theory concerning the international e-commerce of retail SMEs (Tolstoy *et al.*, 2016), this study demonstrates that the broad strategy tripod framework is beneficial in capturing how international business is developed in these companies. Thus, this study can contribute to international retailing literature with relevant insights into how strategies for online sales are shaped in retail SMEs. Second, this study has implications for internationalisation research in the fields of international marketing and international retailing. Alexander and Doherty (2010) conclude that international retailing studies are of importance to contribute with new knowledge to the broader internationalisation research area. We respond to such calls and contribute with propositions that offer future research directions for theory development in both international marketing and international retailing related to international online sales.

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## Conceptual framework

### *Digitalization and the internationalisation of SMEs*

IT has long been regarded as a breakthrough in improving the business efficiency and effectiveness in domestic settings (Kim *et al.*, 2006). The benefits that IT brings about are even more important in international business activities, given the fact that they can be used to overcome cultural and language barriers in addition to greater geographic dispersion and time gaps (Jean *et al.*, 2008). International marketing researchers acknowledged the development of IT-facilitated internationalisation in small companies (Hamill, 1997; Poon and Swatman, 1997) as early as 30 years ago. New technological solutions for e-commerce enabled the exploitation of cheaper marketing opportunities across the world (Knight and Cavusgil, 2004; Oviatt and McDougall, 1997), thereby enabling manufacturing firms to internationalise on a broad scale despite their lack of resources.

There is an ongoing discussion within the retailing literature about the benefits of deploying experiences of other business tracks (e.g. manufacturing) to explain retail business processes (e.g. Dawson, 2001; Hutchinson *et al.*, 2005). Since international retailing is a rather specific field of study, the specificity of the retail industry must be considered when developing theory about the internationalisation activities of retail SMEs (Doherty, 2000). The international retailing literature, however, has been accused of focussing too much upon the retail process itself and not enough on applying broader international business frameworks to understand retail companies (Alexander and Myers, 2000). By applying the strategy tripod framework, we introduce a new perspective to build upon international retail research. The use of this framework is vital in investigating factors that influence online retailers' endeavours when they develop business in foreign markets.

### *Retail e-commerce: opportunities and challenges for internationalising retail firms*

E-commerce presents opportunities for retail firms by opening up fast tracks to new foreign customers and allowing for cost reductions in dealing with these (Colton *et al.*, 2010). Due to the dot-com crash at the turn of the millennium, e-commerce in the retail sector got off to a bad start, however. Digital technology has since matured significantly, which enables companies to offer more reliable and congruent interactive systems for communication and transaction facilitation (Pousttchi and Hufenbach, 2014). Developments in digital technology have also allowed for new solutions that enable cost-effective (automated or semi-automated) interaction with customers that involve, for example, design for usability, robotics (Huang, 2012) and customised customer journeys (Van Bommel *et al.*, 2014). Moreover, logistic solutions that back e-commerce models have also been significantly improved in recent years. Order fulfilment technologies have helped to integrate the front-end (that is to say, user interface and customer experience) and back-end dimensions (i.e. logistics and delivery) of online retailing (Ramanathan *et al.*, 2014). These technologies increase the transparency of logistic data and connect parcel delivery hubs with local delivery centres. Third-party logistic providers have also developed their services and provide an infrastructure for e-commerce that covers large regions: for example, PostNord in Scandinavia (Morganti *et al.*, 2014). Arguably, we are now experiencing a new dawn of online business where customers and companies are significantly more in tune with the digital marketplace than in the era of the dot-com crisis (Morgan-Thomas, 2009).

Until only recently, the unfolding nature of online operations among international retail firms has, indeed, made it difficult for researchers to examine how e-commerce can be effectively leveraged to boost international sales performance. The ability to release the potential of international e-commerce in retailing has been attributed to everything from internal factors, such as management capabilities (e.g. Luo *et al.*, 2005) to external factors; suggesting that e-commerce strategies need to be adapted to market idiosyncrasies (Colton *et al.*, 2010; Daniel *et al.*, 2002; Raymond *et al.*, 2005). Hutchinson *et al.* (2007) found that

international growth for smaller specialist retailers depends upon both internal facilitating factors – that is to say, the informal relationships in foreign markets – and external facilitating factors: i.e. business contacts in foreign markets and government/consultancy assistance and support. Hutchinson *et al.* (2009) explained how external barriers (culture and legislation) and internal barriers (financial capability, lack of knowledge) are the key inhibitors of SME retailer international expansion. Both of these studies, however, suggest that a strong brand constitutes the most significant motive for expansion (Hutchinson *et al.*, 2007) and that the brand can also help retailers overcome their initial internationalisation barriers (Hutchinson *et al.*, 2009; Hutchinson and Quinn, 2012). Few international retailing studies have integrated the internal and external perspective with the exception of, for example, Hutchinson *et al.* (2007, 2009): that is to say, they examined how resources relate to retailers' capacities to extract value from specific market strategies. The studies by Hutchinson *et al.* (2007, 2009) have, however, not focussed on international expansion through e-commerce.

We focus upon the tripod framework developed by Peng *et al.* (2009) when identifying and incorporating the external and internal factors that impact international e-commerce retailers. This framework contends it is not possible to understand company behaviour unless the following factors are analysed: competition-specific, institution-specific and resource-specific. Since international retailing is a rather unique field of study (see Doherty, 2000), the behaviour of retailing SMEs are likely to differ from other international SMEs. Therefore, we consider the rather broad strategy tripod framework to be a highly relevant tool to aid us in our inquiries.

#### *Competition-specific factors*

Competition has been portrayed as one of the most prevailing and influential dynamics in shaping markets and determining the conditions for business exchange. Industrial organisation theory has provided multiple frameworks for analysing competitive forces in a market (see: Conner, 1991 for a review). Industrial organisations are developed from a micro-economic foundation, yet they emphasise the factors that disturb perfect competition: information asymmetry, power distance and unevenly distributed resources (e.g. Bain, 1968). The best-known and most widely applied framework from this school of thought is Porter's (1979) five forces model, which distinguishes between differential advantages and cost-based advantages. More recent studies (e.g. Jaworski *et al.*, 2000) argue that there are both business-driven models (where companies shape markets and set the standards for competition) and market-driven business models (where companies react to changes in markets by responding to competitors). A company's strategy will differ depending upon under which of these conditions it operates. Research on retail e-commerce concludes that "one size fits all" e-commerce strategies will be less effective than strategies that consider market idiosyncrasies in terms of competition and varying customer preferences (Colton *et al.*, 2010). Differentiation of both the product and service offerings, therefore, will be essential in implementing effective e-commerce strategies in foreign markets. Tolstoy *et al.* (2016) show that e-commerce retailers that focus upon relatively fewer foreign markets achieve better sales performance than those that run operations in a relatively greater number of foreign markets. This is arguably because companies will eventually reach a point of diminishing returns in terms of market scope, after which point the coordination of differentiation strategies becomes difficult to manage.

#### *Institution-specific factors*

Economists (North, 1990) as well as sociologists (e.g. Meyer and Rowan, 1977; Scott, 1995) have developed the institutional view of markets. Simply put, institutions can be understood as the "rules of the game". While economists have largely conceptualised these rules as formal laws, policies and regulations (e.g. North, 1990), the sociologist view asserts that norms and

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collectively taken-for-granted mindsets will also constrain human behaviour. Scott (1995, p. 33) defines institutions as “regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour”. Thus, this definition includes both the formal (regulative) and informal (normative and cognitive) institutional mechanisms that shape behaviour and, by extension, is also formative for markets. Institutional factors are observed to have a considerable impact on SME internationalisation. This includes studies of retail SME’s internationalisation: where studies observed that barriers erected by legislation in international markets proved difficult for retailers (Hutchinson *et al.*, 2009). Understanding the differences between markets for retail SMEs (Hutchinson *et al.*, 2006) is as imperative as it is complex: in terms of restrictions and legalities. One reason for this is that SMEs may have limited resources to adapt to foreign local legal frameworks and, thereby, often face difficulties in mitigating the “liability of foreignness” (Lu and Beamish, 2001; Zaheer, 1995).

### *Resource-specific factors*

The resource-based view is founded upon the assumption that resources are heterogeneous in their nature (Barney, 1991). For example, whilst some resources can be bought and sold, others are neither tradable nor easy to assess (Hall, 1992). Resources can only be a source of sustained competitive advantage if they meet the VRIN criteria: that is to say, they are valuable, rare, inimitable and non-transferable (Lippman and Rumelt, 1982). The value of a resource thereby increases when a firm’s ground for efficiency is not obvious, since this prevents presumptive imitators from replicating these successful business processes (Lippman and Rumelt, 1982). For SMEs, which includes retail SMEs, critical resources are often externally oriented. The reason for this is that SMEs must often reach outside of their own organisation to leverage resources in external business relationships (Tolstoy and Agndal, 2010). Consequently, through networking with key organisations and partners, retail SMEs can gain access to the necessary knowledge and experience absent within the firm but still essential for managing the international business operations (Hutchinson *et al.*, 2005, 2006, 2007, 2009).

## **Method**

### *Research design and case selection*

The intention of this study is to provide new insights to a relatively unexplored area of research. A qualitative case study research design was, thus, deemed appropriate (Yin, 2003). To achieve a considerable depth of investigation necessary to explore theoretical insights, a single case study was chosen (Ghauri, 2004). The empirical data presented in this paper are a description of how specific market factors shape the international strategies of an online retailer (here called DD Design). DD Design is a Swedish retail SME that specialises in design production and retail sales of home and office interior and fashion products. Instead of focussing upon multiple cases, concentrating upon one holistic case, such as this one, has proven valuable in capturing an in-depth understanding of the way in which these factors affect SME internationalisation.

Following a purposeful sampling strategy (see Eisenhardt, 1989) of Swedish retail SMEs enabled us to select DD Design. Due to the small size of Sweden’s home market, export is frequently utilised by SMEs to achieve economies of scale and scope. The first step in the purposeful sampling process was to identify suitable retail companies in Sweden. The Business Retriever database was used to extract 18,651 firms with the SNI industry code 47: that is to say, Swedish retail businesses with the exception of motor vehicles and motorcycles. Among these, the investigators created a sub-sample consisting only of companies with: SME status (10–249 employees); headquarters located in the Stockholm region: constituting approximately 25 per cent of the total number of retail firms in Sweden; and a demonstrated ability to achieve international growth over a long period of time: more than 20 years old, with at least 10 per cent of their turnover from international sales.

A sample of 19 firms was generated based upon these criteria. Of the 19 firms, 5 were randomly chosen and agreed to participate in the study. Among these, the DD Design case was chosen due to its rich data about the process of continuous international expansion through online sales (Ghauri, 2004).

Table I presents a summary of the information regarding the case company.

#### *Data collection and analysis*

Internationalisation and expansion through online sales channels is a complex process that occurs in multiple markets and contexts over time. The historical process view is suitable since this paper deals with international expansion through online sales channels. A historical process view can provide a rich understanding of multiple processes that can be analysed over time (Pettigrew *et al.*, 2001).

Our study relies upon different sorts of archival data complemented with primary data in the form of semi-structured interviews with key employees at the case company. Archival data sources are emphasised as being valuable in the international business field (Blazejewski, 2011). In the data collection and analysis processes, we follow the procedures described in earlier archival data-based internationalisation studies (e.g., Ekman *et al.*, 2014). The archival data sources include company annual reports, news articles, press releases and websites (see Table II).

In order to collect relevant data, a systematic review of documents available through the company's website and the database Retriever Business was conducted. In the latter, the investigators searched for the name of the case firm. This provided a list of matches of newspaper articles and press releases that happened to mention the name of the case firm anywhere in the text. The resulting news items were manually reviewed and downloaded based upon the relevance to the study. These included citations of employees or other stories that described specific business practices.

The next step was to chronologically arrange the data using the qualitative analysis software tool NVivo. The data were systematically coded according to event, date and data source. The events represent the core activities in the company's life cycle, such as the

Founded in	Turnover 2017	Employees 2017	% of turnover from foreign markets	Sales model
1992	MSEK 80.5	36	About 60% derived from international sales in about 50 countries	The concept is sold via four wholly owned stores (one in Great Britain) and two franchise stores (one in Germany). The concept is also retailed via 20 shop-in-shops in Sweden and 10 shop-in-shops abroad. The company also sells products to about 300 customers/agents in Europe and 50 customers/agents in Asia and North America

**Table I.**  
DD Design

	Archival data		Annual reports	Interview data	
	Found	Downloaded		Interviewees	Interview dates
<b>Table II.</b> Summary of archival and interview data from DD Design	3,326	349	17	Founder/CEO sales director communication strategist	April 2017 April 2017 March 2018

foundation of the firm, the establishment of business operations in new foreign markets, strategic changes and the establishment of digital sales channels, and so on. Data analysis was conducted in several steps in an iterative manner once the archival data were arranged. The first step was to construct a chronological timeline for the case company (see examples of critical events in Table III).

This timeline, which indicates examples of critical events, was utilised to create the interview guide. The interviews were conducted with key respondents at the case company during 2017 and 2018. These respondents were identified as being the individuals that had the most experience about critical decisions and activities connected to the firm's international expansion. Face-to-face interviews were conducted in teams of two investigators. The interviews were audiotaped and lasted about an hour. After the interviews had been conducted, the interview transcriptions were sent to interviewees to ensure that nothing was misunderstood in the transcription process.

An in-depth individual case story was written once the data were collected. The investigators included all instances in the rich data material concerning DD Design's processes of expanding their international online sales (see Corbin and Strauss, 2008; Miles and Huberman, 1994). The investigators particularly noted the inhibiting or enabling factors, which impacted the case firms' online sales channels. Analysis within the individual case was conducted once the individual case story was written by utilising tabular displays so as to clearly identify the links between these factors and the case firm's international expansion (Yin, 2003).

## The case study

### *DD Design*

DD Design is a Swedish company specialising in design production and retail sales. Using his previous connections in the design industry, the founder is initially able to evoke interest in DD Design's products. The company is actually international from the start since its three first customers were stores situated in North America. In fact, DD Design did not have any sales in Sweden during the first two years of existence.

1992	The company is registered Sales to the North American market are initiated. The first customers include two large retail chains and an art-museum shop
1994	Sales are initiated in Sweden
2000	The company opens stores in three Swedish cities The first franchise store is opened in a shopping mall in Stockholm Shop-in-shops are opened in department stores in Sweden and Finland A contract is signed with a distributor in Japan
2002	Wholly owned store is opened in North America Two new stores are opened in Stockholm (one franchise and one flagship store)
2003	The global economic downturn affects markets in Sweden, EU and North America negatively
2005	Foreign market sales now account for about 50% of total revenues
2006/2007	Several new stores are opened in Sweden, Denmark, Norway and the UK
2009	Two franchise stores are opened: one in Germany and one in Sweden
2010	New shop-in-shops are opened in Finland
2012	The company makes a loss. The reasons are attributed to the economic downturn and low profitability of specific stores
2012/2013	A cost-cutting programme of 10m SEK is implemented
2015	A new sales division for products for public spaces is started
2017	Sales through customers, which focus upon digital sales, have increased from 5% to 40% of the total turnover in five years

**Table III.**  
Examples of milestone activities in DD Design's chronological timeline

From 1992 to 2000, DD Design managed production and operated a warehouse, yet had not opened any stores of its own. In 2000, the company invested in opening stores, and focussed upon locations in large cities in Europe and the USA. In the beginning and the middle of the 2000s, DD Design opened stores in Sweden, Denmark, Great Britain, Norway and the USA. A strategy shift was initiated around the middle of the 2000s. Management came to the conclusion that focussing upon retailing without wholesaling was not a sufficiently profitable strategy. Moreover, retail sales were mostly generated from the shop-in-shop business. Instead of opening new stores, the expansion strategy was re-directed to focus upon sales to distributors and agents.

Today, DD Design just owns four stores (three in Sweden and one in Great Britain). The products are also sold via two franchised stores: one in Sweden and one in Germany. Besides this, the products are also sold via 20 shop-in-shops in Sweden and 10 foreign shop-in-shops. Management positively regards the shop-in-shop solution since it provides the company with access to shelf space in attractive locations, without having to take the risk of opening its own stores. Moreover, products are sold by approximately 300 customers/agents in Europe and 50 customer/agents in Asia and North America (see Table I). The company does not presently run its own online sales channel; however, its products are available online via online wholesalers.

#### *The inhibiting and enabling factors for DD design's e-commerce*

DD Design's sales via their customers' online sales channels currently comprise around 40 per cent of total sales. Online sales have also the most rapid growth of the sales channels. In an interview from 2017, the CEO comments that the increase in online sales has been a rapid process. Only five years ago, all of the biggest customers were physical stores; today, over half of the customers in markets – such as Germany and France – are online customers. The CEO says:

It's a retail revolution. The combinations that I have managed to learn after 30 years, I have to let go of and that is really hard. Nothing is like it used to be and that means I have to get a completely different toolbox for exporting. It is so interesting.

When asked about whether their customers need to physically scrutinise products before making an online purchase decision, the CEO argues this is a completely out-dated idea. He says DD Design has created brand awareness among its customers, and relates that most online retailers selling design products cannot work with anonymous products since they are too hard to sell online:

What you must struggle with is: How can you build a brand that becomes so well known that you can benefit from being online? If we had had a great price, we would have had a really hard time, I think, to go online because you are "nobody if you don't exist with a brand". It controls today's development. That's why strong brands have become even stronger.

DD Design's marketing manager argues that another reason for the increase in online sales is that customers trust online sales processes more. She says:

The entire distribution management and so on in online sales have improved significantly. People now trust that it works in a completely different way, and that you can return [goods] and so on. This makes it easier for them to press the buy button.

One of DD Design's largest customers is a Swedish online retailer with head offices in a small town located in the south east of Sweden. This online retailer is good partner since it continuously invests resources in improving the usability of its website, thus, making it possible to show better pictures, use more functions, safer payment solutions and make it easier to navigate.

The communication strategist explains that the company also essentially receives information about end-customers from this online retailer because they have such a good

working relationship. The online retailer, however, does not send the data directly to DD Design; the design company employees obtain information in meetings if they ask for it.

In addition to obtaining data from the online retailer, DD Design also gains access to international consumer data from other customers and agents all around the world. The communication strategist says:

We get data about which products sells the most, where and how, who the buyers are. It differs from agent to agent [...] some have more developed systems in that area [...] from others, we do not get any information because data collection is not in their backbone.

By cooperating with Swedish online retail partners and other global retailers, DD Design can sell products all over the world without having its own market presence and without having to deal with difficulties pertaining to fast-moving supply chains and customs difficulties. Furthermore, DD Design does not have to consider inventory problems to the same degree that are associated with rapid delivery promises to end-customers: that is to say, having a too large or too small inventory. There are also disadvantages for DD Design not to have direct access to its own online store. The first disadvantage is that middle actors take part of the profit of every product they sell. Other disadvantages have to do with the fact that DD Design cannot always get first-hand information about the end-users of its products, which would enable DD Design to plan its production processes better, process marketing analytics and custom-fit new offers to existing customers. Furthermore, the company cannot fully control how the brand is represented to end-customers.

In order to gain more control of these important issues, DD Design has the possibility of opening its own web-store. The question is how the launch of a web store can best be done without cannibalizing on the online sales of its largest customers – for example, the online retailer – that have already established successful web store concepts.

The implication of having to compete digitally with other design companies in a globalised design market context has profoundly changed the way the design company's management thinks about its present retail business model. In 2017, the marketing manager said:

Online, you must make sure that you are visible in the right way, so the customers recognise the company [...] You want to create the same feeling, regardless of whether you enter a physical store or an online store [...] You have to ensure that products are displayed in the same way and that we have the right material to do so: both picture-wise and text-wise.

Due to the importance of online appearance, DD Design has spent a lot of resources in producing a stylish internationally oriented website. The website text is written in English in order to cater to an internationally English-speaking audience. The company does not offer other language options via its website.

The rapid transformation of the retail business during the last couple of decades is something to which DD Design's CEO often returns. Convincing customers to stock DD Design's products is not as important anymore. Instead, it has become vital that the brand emerges high on the list when consumers use the web search function; it is also really important the first picture the customers see is the "right" one and does not misrepresent the product. Finally, it is very important that the text describing the photo is short and appealing. The CEO concludes this by saying: "It's a new game out there".

## Discussion

In this research, we use Peng *et al.*'s (2009) strategy tripod – that is to say, competition-specific factors, institution-specific factors and resource-specific factors – to investigate how a specific market situation shapes the international strategies of an online retailer (see Table IV).

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Changes in business model due to new digital opportunities	Yes, but it presently does not control any online sales channel. Today, 40% of turnover originates from online sales
Control of online sales channels	Low (dependent upon online retail business partners to gain access to customer data)
Resource-specific factors	Via their online retail business partners, the company can offer global delivery solutions (at the cost of lower profit margins) and position the brand as high-end Scandinavian design
Institutions-specific factors	Formal institutions: Swedish laws and foreign customs regulations do not hamper online business model. Intermediaries manage international institutional problems Informal institutions: acceptance by end-customers is induced: using brand reputation; through the use of high qualitative pictures and the possibility to scrutinise the objects digitally; The end-customers have the opportunity to return products
Competition-specific factors	Internal channel competition: between intermediaries' web shops Differential competitive advantage: key factors in tackling competition include: brand awareness (which is generally low outside of Sweden), website content and search engine optimisation

**Table IV.**  
Theoretical implications

*Tackling competition*

Previous retail research shows it is challenging to simultaneously compete in a large number of foreign markets since companies cannot easily and effectively adapt, coordinate and exploit differential advantages that operate in a broad scope of markets (Tolstoy *et al.*, 2016). Research also concludes that e-commerce strategies should consider market idiosyncrasies in terms of competition and varying customer preferences to be effective (Colton *et al.*, 2010). DD Design seemingly attempts to alleviate some of the challenges related to cross-national coordination by hiring intermediaries to handle the entire online customer experience in each individual foreign market: from promotion to sales fulfilment. In doing so, DD Design does not by itself have to adapt the communication and sales promotion of its products across markets; instead, the company can lean on larger, often trans-national, sales organisations to use their resources for this purpose. Furthermore, brand differentiation is observed to be a major motivator for retail companies to pursue international growth (Hutchinson *et al.*, 2007, 2009). DD Design is regionally anchored and does not enjoy international brand recognition that, according to this line of reasoning, could inhibit its international expansion through online channels. The use of distributors, however, facilitates the international positioning of the DD brand by matching the products of DD Design with a wider assortment that sometimes contain well-known products. In this way, price and quality parallels DD Design's products with other products and can be evoked among consumers: for example, when the company's products are juxtapositioned against other more established products. Furthermore, they can adapt their offerings and quickly generate sales in a multitude of foreign markets simultaneously since the company's distributors have access to market data and have insight into how competition is structured in the individual markets in which they operate. Hence, the use of partnerships can provide a fast track in establishing market positions in different global markets. Since DD Design leverages the capacities of its distributors, it rids itself of the risks related to foreign direct investments. This means it is not critically dependent upon generating cash flow from foreign markets at outset in order to obtain payback for investments. Thus, the arrangements with the distributors give DD Design some time to gradually build its competitive position in foreign markets by accumulating a customer base that is interested in the products and the brand:

- P1.* The use of partnerships to manage the website, brand and logistics will enable e-commerce retail SMEs to differentiate their offerings when breaking into foreign markets.

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### *Tackling resource access*

DD Design's piggy-back style of internationalisation through the use of intermediaries seems logical given the company's inherent lack of capacity to push its own brands into foreign markets. Previous research shows that firms often compensate for resource shortages that potentially could inhibit international growth by leveraging the knowledge and capabilities of external partners (Hutchinson *et al.*, 2005, 2006, 2007, 2009; Tolstoy and Agndal, 2010). Partnerships have enabled DD Design to circumvent many of the problems related to being a new entrant in foreign markets and lacking existing customer segments to target. Previous studies have demonstrated the importance of partnerships and networks for brick-and-mortar retailers when developing business abroad (Hutchinson *et al.*, 2007), yet it also seems likely that online retailers need partnerships to create inroads in order to attractive customer segments and gain knowledge about customers' preferences and shopping behaviour.

DD Design also uses its online distributors for logistics and warehousing. Since customers value fast and timely deliveries, the back-end activities of e-commerce make up an essential part of the business. For SME retailers entering foreign markets, the logistics alone may be the main barrier for entry (e.g. Yu *et al.*, 2017). Companies can remove this initial roadblock by using partners who are connected to third-party logistics providers while operating on economies of scale. DD Design has grown rather quickly on a global scale using partners to carry out its operations related to transports and deliveries. Hence, launching an e-commerce strategy based upon piggybacking on distributors has enabled rapid international entry into many markets:

- P2.* The use of partnerships to manage the website, brand and logistics will enable e-commerce retail SMEs to target customer segments when breaking into foreign markets.

### *Tackling institutions*

This case study is in line with previous research on international retailers (Hutchinson *et al.*, 2006, 2009); it implies that, when developing business in foreign markets, formal institutional forces manifested by legal frameworks can pose major constraining factors for an online retailer (see Table IV). Internationalising SMEs are required to adapt to local business and custom laws when moving goods across borders, which may squeeze the profit margins for both domestic and foreign sales operations. Moreover, it takes time for companies to build a reputation in global markets. The legitimacy, which foreign market customers subjectively experience, has been proven to be a crucial institutional mechanism in gaining foothold in foreign markets. Companies need to be somehow validated as legitimate actors in the markets in which they operate by reducing the "liability of foreignness" (Zaheer, 1995) that comes with being the new foreign entrant. Customers need to perceive the product or service to be at least equally trustworthy in order for them to choose foreign companies over domestic alternatives. The partnerships, which DD Design has developed with larger wholesalers who are perceived as local actors in the foreign markets, help to provide legitimacy and mitigate customer scepticism. Customers feel comfortable buying from digital platforms that can guarantee secure payments, timely deliveries and provide customer support. This is especially the case with the online distributor partnership that specialises in Scandinavian design, which appears to have paved way for communicating the DD Design concept in foreign markets. The distributor has functioned as a locomotive in creating an online market for Scandinavian design, thus, providing leeway for DD Design to position its concepts in many markets:

- P3.* The use of partnerships to manage the website, brand and logistics will enable e-commerce retail SMEs to establish legitimacy when entering foreign markets.

*The importance of market learning*

Research has shown that front-end operations in particular are instrumental in controlling the offering: that is to say, managing the website, the user experience and online service offer. These make suitable continual adjustments that resonate with varying customer needs in different foreign markets (Pousttchi and Hufenbach, 2014). Handing over the control of the sales channel to intermediaries will cut companies off from a vital part of their business. Companies will, thus, lose access to data about customer profiles; they will be isolated from customer feedback; and, they will not be able to analyse customer behaviour online. The new digital economy has changed the conditions for learning. Customer data are accessible for companies that operate online sales platforms: even for remotely located customers in foreign markets. While market knowledge in the previous international marketing literature has been a result of being present and running operations in the foreign markets (Johanson and Vahlne, 2009; Lindstrand *et al.*, 2011), the digital economy presents new opportunities for learning. DD Design's lack of access to customer data and the somewhat weak connection to foreign market customers is the main downside of running sales through a distributor. While DD Design is an internationally operating company, the market learning largely takes place on the domestic level. If DD design launched its own sales platform it could display, communicate and position the offers in whichever way the company deemed appropriate. This would enable them to directly connect to foreign market customers and acquire the relevant knowledge that is required to keep up with market dynamics: for example, changing preferences and needs.

As markets and customer preferences quickly change, processing customer data is becoming increasingly more important for e-commerce retailers to remain relevant for their customers. This is particularly important for smaller e-commerce retailers that operate simultaneously in many markets because online generated data can quicken the market learning process. One of DD Design's main frustrations is the inability to generate real customer insights in the foreign markets where they use partnerships with distributors as the entry mode. These distributors unilaterally determine the data they see fit to pass onto DD Design, which usually involves quite rudimentary sales statistics. More fine-grained data could be used to more effectively attract new customers and increase revenue if the company had access to it. For example, the company could improve search word advertising, improve the relevance of content that is published online and increase search engine optimisation: simply by analysing customer data. Improving the user experience, thus, increasing sales conversion and customer retention may also be possible. Through its indirect sales channel to customers, DD Design undermines its long-term ability to establish its own company identity in the eyes of customers, develop its own brand profile and bridge information asymmetries in cross-border business (Stevens and Makarius, 2015). We, therefore, suggest the following proposition based upon the case findings:

- P4.* The use of partnerships for foreign market sales and front-end as well as back-end operations will eventually have a negative effect upon e-commerce retail SMEs' foreign market learning and online sales performance.

**Conclusions**

The purpose of this study is to explore how market factors (pertaining to institutions, competition and resources) shape the international strategies of an online retailer. The analysis of the case findings highlights the ways in which various business models provide different conditions in the three dimensions, competition, institutions and resources. The variations of conditions provide a number of strategic incentives, which internationalising SME retailers must consider.

Research about international e-commerce retailing is scarce (Doherty and Ellis-Chadwick, 2010; Tolstoy *et al.*, 2016), which is surprising given its potential to spur revenue and growth. There is reason to believe that the internationalisation of retailers' e-commerce sales channels will not follow the same trajectories as the internationalisation of physical sales channels (see Colton *et al.*, 2010; Doherty, 2000). This paper provides two specific contributions to the international retailing literature: first, the study contributes to a nascent stream of international retailing research by applying a new, broad theoretical framework to demonstrate how certain conditional factors in the internationalisation through e-commerce sales channels can affect the strategies of retail SMEs; this is in response to calls by, for example, Alexander and Myers (2000). We find that SMEs are likely to rely upon partnerships with distributors and wholesalers to tackle tripod forces. For example, the marketing capacity of a distributor to differentiate the brand abroad can be leveraged when a retail SME does not possess an established brand. Moreover, retail SMEs can use distributors to leverage locational advantages that minimise friction in transactions when institutional barriers prevail. The use of partnerships, however, is paradoxical: the company will initially benefit in the market entry phase, yet will eventually not have the ability to acquire first-hand knowledge of foreign markets. Thus, partnerships can ultimately create a disconnect between the company and the foreign market, inhibiting the kind of learning that would enable companies to tackle market dynamics. This is valuable insight as it implies a partnership strategy for international online business does not automatically imply an accelerated internationalisation process; it seems to be relatively more favourable for market diversification than it is for market penetration.

Second, as the propositions we have generated suggest, the study has implications for further research in international marketing, which stipulates that internationalisation manifests as a learning process where companies develop business in foreign markets in tandem with the generation of experiential knowledge (Johanson and Vahlne, 2009). To date, this learning process has been delineated as being closely connected to managers' first-hand experiential learning (Lindstrand *et al.*, 2011). Internationalisation via e-commerce implies new possibilities of collecting and processing digital customer data. Access to rich customer data, which directly links to analyses of actual customer behaviour, enables companies to do quick and cost-efficient adjustments of products and services to better fit customers in specific markets. This quicker access to customers and customer responses are likely to impact the speed and scope of internationalisation, especially for those retail SMEs that are able to implement successful e-commerce strategies. The case implies that market learning is equally important for online retailers as it is for brick-and-mortar retailers in the internationalisation process. Therefore, the long-term success in the market expansion of these companies is, to some extent, contingent upon whether they are able to control access to market data in the foreign markets in which they operate.

### Managerial implications

The results of this research reveal the same rules do not apply for e-commerce and other business ventures. E-commerce platforms do not remove all information asymmetries related to cross-border transactions. As a result, managers in retail SMEs need to carefully assess variations in market dynamics to develop appropriate strategies related to international expansion.

Recent studies emphasise that the management of inter-organisational relationships is critical for firms that compete in international markets (Kim *et al.*, 2018). The results of this study highlight that managers in retail SMEs eventually need to access first-hand knowledge about customer behaviour and, thus, devise sales platforms that resonate with such behaviour: that is to say, creating content that directs online traffic to the sales platform, and creating an overall attractive online customer experience. Internationalisation strategies of

online retailers, therefore, should be devised taking into consideration different phases of expansion. Partnerships are crucial in the market entry phase to tackle various thresholds in the foreign markets. By making beneficial relationship investments, the relationship quality with business counterparts can be enhanced that, in turn, can positively increase performance (Jean *et al.*, 2008; Jean and Sinkovics, 2010). Over time, retailers need to become more and more independent in order to tackle the changes in the markets and stay relevant.

### Limitations and suggestions for further research

In general, the case study approach can produce results with a high level of validity from which generalisations can be drawn. The narrow scope of this study – investigating a single case from one country – does not permit broad generalisations. The propositions that are suggested in this study, however, can be transformed into testable hypotheses; these can be investigated in future studies. More studies are needed in international marketing research about how digitalised learning and the exploitation of marketing analytics shape internationalisation processes.

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