

# INTERNATIONALISATION OF FINNISH SME TO UK MARKETS



Master's thesis

Visamäki - International business management and entrepreneurship

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#### ABSTRACT

The main areas of this thesis were to explore the process an SME would undertake when internationalising. More importantly, the understanding of market entry and exit strategies, the use of a digital platform and marketing required in order to be successful.

The case company which this originated from was Päre and the contents includes all market and exit strategies that could be utilised and the marketing that companies should look to employ. The use of social media was a strong point of the research and formed much of the conclusion that social media is vital but the need for physical presence means that a platform with only digital face may not be as successful as initially thought.

The outcomes were that a Finnish SME has limitations within its domestic market and needs to expand, in order to do this they should utilise exporting and foreign sales entry strategies whilst ensuring that a clear exit strategy is in place in the need of dissolution from the market.

Creating a brand image that is personal to the consumer is important to ensure success in the modern purchasing environment and helping them move through the continuum of purchaser behaviour to ensure sales revenue is generated.

**Keywords** Purchasing behaviour, strategies, digital platforms and social media

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## 1 INTRODUCTION

Påre skincare is a company set up in November 2017, aiming at unisex skincare products to compliment already existing massage centres which is also aimed at males and females. Testing took a long time to go from idea to end products, which during an interview was outlined as one of the main issues to setting up the company. Now that the formula has been developed with assistance from production factory chemists, the main focus on the business is to develop sales and customers.

There is two products within the company, first an initial facewash and secondly a moisturiser to be used after the face has been washed. The products are aimed at women aged over 40 and men aged 25 – 35 years old. The reason behind the company was the CEO's ambition to harness the potential that was around her during her career and her experience within skin care products before launching this product line.

The price range for the products is seen a medium, with a price of 26 to 28 €. Whilst more expensive than usual high street brands the company focuses on natural ingredients that appeal to a health and environmentally friendly purchaser. Local Finnish fragrances and production ensure that the company maintains its root within Finland.

Production is within Finland and the product is produced in an organic factory that compliments the morals of the company, which are ethically against animal testing and producing with only quality ingredients. The initial marketing for Påre has been through social media and word of mouth from customers, however in order to ensure the success of the brand expansion is needed to take the company forward. The initial plans were to expand through Nordic countries as they share similar values to that of Finnish people, however opportunity and politics mean that the company are also looking to penetrate the UK market earlier than anticipated.

Retargeting of customer who visit the webshop has allowed the company to ensure that repeat business is occurring and feedback will develop the product and service they are providing to the customer. This research will delve into the current UK market and help to understand ways Påre can develop the brand across international borders. The topic of Brexit will become highly important in this process due to change of legislation around importing products to the UK once they cease to hold an EU membership.

## 1.1 Research questions

Is there a need to expand beyond Finland?

Is only a digital platform needed for successful internationalisation to occur?

Which modes of entry best suits SMEs?

What marketing is required for SMEs to internationalise?

## 1.2 Brexit and its permutations for Finnish SMEs trade with the UK

The European Economic Community (EEC), created in 1958, initially comprised of six countries Belgium, Germany, France, Italy, Luxembourg and the Netherlands and later expanded with an additional 22 member states joining. We now consider these 28 member states as the European Union (EU) since 1993. (Table 1). These member states create the single or common market, which benefits with free trade and movement amongst each member. (Europa.eu, 2019).

The United Kingdom joined the EU on January 1st 1973 along with Denmark and Ireland. A referendum on United Kingdoms membership with the EU was held on June 23rd 2016, with a majority decision of 51.9% voting leave and 48.1% voting to remain. Participation was recorded at 72.2% of the population that was legally allowed to vote on the outcome of the referendum. (Europa.eu,2019). Shortly after the referendum results, on July 13th 2016, former prime minister of the United Kingdom, David Cameron, announced his resignation. A new prime minister was appointed, Theresa May, and she declared the United Kingdom's intention to leave the EU and formally activated article 50 on 29th March 2017. This formal activation began the process of discussions for what has now been referred to as 'Brexit', which is a combination derived from British and Exit. A date for the exit was given for two years from the date of activation of article 50, 29th March 2019.

In 2001 trade from the union accounted for 19.5% of the world's export. (Milward, A, 2005). The collaboration that the EU has created together has allowed for rapid growth in trade and flow of migrant workers to maintain rights to work and access greater business and work opportunities throughout each country. This growth in free trade has opened opportunities to business across the EU, and looking closely at Finland this could become a viable option of trade for many small medium enterprises. Finland's population of 5,509,717 (StatisticsFinland, 2017) which was recorded at the end of August 2017, means that SMEs within Finland need to expand in order to attract new clientele. The use of the EU can assist with increasing the customer potential; however, with the uncertainty surrounding brexit, obstacles are apparent. The use of the internet and possibility of marketing and selling online has increased the potential customer base of a Finnish SME. SME figures for Finland in 2013 show the number of enterprises is 283,290 of which 280,173 are considered SMEs.

Additionally 264,593 of these enterprises employ fewer than 10 people. (Yrittäjät, 2013).

Table 1

Joined	Country		
<b>01.01.1958</b>	Belgium	France	Germany
	Italy	Luxembourg	Netherlands
<b>01.01.1973</b>	Denmark	Ireland	<b>United Kingdom</b>
<b>01.01.1986</b>	Greece		
<b>01.01.1987</b>	Portugal	Spain	
<b>01.01.1995</b>	Austria	Finland	Sweden
		Czech	
<b>01.01.2004</b>	Cyprus	Republic	Estonia
	Hungary	Latvia	Lithuania
	Malta	Poland	Slovakia
	Slovenia		
<b>01.01.2007</b>	Bulgaria	Romania	
<b>01.07.2013</b>	Croatia		

### 1.3 Deal or no deal? The scenarios of Brexit

March 29th 2019 will be the day the UK leaves the European Union and its twenty-eight member states will become twenty-seven. During negotiations, it is widely recognised there are three possible scenarios that could come following this date. A hard Brexit, a soft Brexit or something in between currently being labelled chequers agreement. There is the possibility of a further scenario which seemed unimaginable when the referendum was announced, a no deal Brexit.

#### 1.3.1 Hard-Brexit

This would involve the UK leaving the EU, the single market, its customs union and end free movement of people. From this deal the UK government would be able to move to create new trade deals with any other country it wishes to, including India, China and US. This type of deal is popular amongst conservative voters who wish to end the free movement of workers and implement a system that requires a scoring system to earn the right to live and work inside the UK. Tis effectively how the country voted in the majority when deciding during the referendum. (Adler-Nissen, R. 2017)

### 1.3.2 Soft-Brexit

This scenario allows the UK to remain fairly close to the EU market and its free trade agreements. Supported by mostly remain voters, this would allow free movement of people and use of the single market still. Many detractors of this type of deal believe that in theory, the UK would still be part of the EU and most likely still have to listen to requests from the EU, something that the majority who voted did not want to happen. The stance here is that voting to leave should mean just that, leave. A survey from Opinium (2018) outlines that a soft deal would be supported by remain voters when choosing between staying in the single market and allowing free movement. Whereas leave voters would be against this deal and would prefer to lose the single market if it meant we could end free movement.

### 1.3.3 'Chequers' deal

Named after the house at which it was created, Theresa May's country home. This is a combination of the two previously discussed deals being negotiated by Theresa May and the EU. This deal would allow trade agreements to continue however not free movement of labour. It would also give the UK power to create new trade deals with other countries as discussed in hard-Brexit.

### 1.3.4 No-Deal

There is still one option that a no deal Brexit could occur if the UK government and EU cannot agree to the deal proposed by Theresa May. If this were to occur overnight, the UK would leave the EU with no safe guard measures in place for any trade agreements and free movement. It would stop at midnight 29th March 2019, meaning any goods and citizens coming and going through the UK would be stopped at borders for the purpose of checks.

## 2 THE NEED TO CROSS BORDERS

Before we can discuss the ways that SMEs initiate internationalisation we first need to understand the reasoning and desires behind crossing borders and exporting products or services. Albaum et al (2011) offer main reasons grouped under internal and external reasoning and then further broken down into reactive and proactive approaches in table 2.

Table 2	Internal	External
<b>Proactive</b>	<ul style="list-style-type: none"> <li>- Managerial urge</li> <li>- Marketing advantages</li> <li>- Economies of scale</li> <li>-Unique product/technology competence</li> </ul>	<ul style="list-style-type: none"> <li>- Foreign market opportunities</li> <li>- Change agents</li> </ul>
<b>Reactive</b>	<ul style="list-style-type: none"> <li>- Risk diversification</li> <li>- Extend sales of seasonal products</li> <li>- Excess capacity of resources</li> </ul>	<ul style="list-style-type: none"> <li>- Unsolicited orders</li> <li>-Small home market</li> <li>- stagnant of declining home market</li> </ul>

Assessing the market to understand if the potential to export is present is vital when operating an SME. Depending on the home market, it can become too small for the innovation, especially if that innovation is unique and the competitive advantage can be equally gained in foreign markets. Additionally companies also have goals that are both financial (*return on investment/sales, growth and increasing profit*) and non-financial (*increase market share, security of management and increase volume of sales*) goals. The reasons above explain why a company may look to move abroad with their operations but at the end of the day the defining factor will always be to create greater profits. Increasing the economies of scale can alleviate the risk of a company stagnating with its revenue and allows more money to be spent within research and development of further offerings that can be added to the portfolio. An understanding of the cultural differences must also be considered when entering new markets. Solomon, M (2010) reported that consumer behaviour is affected by cultural differences; one country is inherently more likely to indulge than another is due to the cultural aspects and heritage of that country. Wealth, whilst being a mitigating factor for indulgence, is not the only factor. A cultural idea from society can be built within a country and this can push consumers and increase the likelihood of a consumer purchasing more than they need in order to maintain a status within society. These cultural difference are later explored with further analysis in relation to Finland and the UK.

Once a company decides to move beyond its home border, a strategic decision needs to be implemented. Ghemawat, P (2007) outlines three main strategic points when expanding internationally:

**Adaptation: adjusting to the local frameworks:**

This process is tailored to increasing the income and market share by ensuring that the products match more coherently to the local market that it is being expanded into.

**Aggregation: overcoming differences:**

Optimising the costs of the business and increasing the economies of scale within the new market area by creating a regional operation

**Arbitrage: exploiting differences:**

Utilising the regional and national differences in order to apply the opportunities and optimise resources. This can be achieved by locating parts of the supply chain to enhance the advantages production on a more global scale.

## 2.1 Features

SMEs and their process to go international differ greatly from companies who are larger by scale and have a solid infrastructural base existing before expansion occurs. They need to consider the financial burden when looking to internationalise. The resources available to a smaller firm are considerably less than that of a larger firm who is already well established within the market. Moving from the home markets to a global scale require the necessary infrastructure to be in place before the expansion starts. Without the correct planning and infrastructure, the move to go international could fail quite quickly. (OECD 2000). However, joint ventures, as previously mentioned, are aiding the faster expansion of SMEs. Whilst this way of selling the products abroad yields potentially less control for the company, they can improve the revenue stream and start to build a client base within the foreign market they enter. As the reputation builds and market share increases, it becomes easier to further enhance the offerings and continue the growth through the connections and competitive advantages that are being created.

A major feature in companies going international is the use of business language, whilst many companies opt to choose English as the main business language it must also be considered that not all consumers will be able to read and understand English. Therefore, translations are vitally important in the success of internationalisation. The professional of a brands image hinders on its correct use of language to portray the message coherently. While some market will require translating into the market areas predominant language. (Leonidou, L. C 2004).

One reason to internationalise is to increase profitability however when we consider an SME we also need to consider the possibility that money is usually less than when considering large companies who already have scaled operations. Ensuring funding for a company can assist in the process of entering new markets more fluidly. The European Investment Fund (EIF) (2017) has backed EU SME companies with funding of up to 220 million

euros, whilst the competition to receive this financial backing is tough; it is always an option that should be explored by companies. The need for financial security can also be found with investors if the product or service is deemed worthy. This key feature within expansion of smaller scaled companies is often the main reason that liquidation and administration occurs. Not only will the expansion to more than one market area create the need for greater capital investment but it also increases the need for management competencies to oversee the new areas and ensure that the businesses strategic goals are being maintained whilst remaining profitable. (Welch, L 1988).

### 3 MARKET ATTRACTIVENESS AND BARRIERS TO ENTRY

The decision to move into new markets comes with very real risk and needs assessing before committing. In order for a company to fully understand the attractiveness of a new market before entering, they should consider Porters five forces (figure 1). Michael E. Porter (1979) declared that not only competition within an existing market for profit is affecting strategy for growth of companies but also includes customers, suppliers, potential entrants and substitute products. With these five forces identified it starts to shape an industry and how it reacts to each possible force that is placed upon the competitiveness of the industry. These forces alongside the unknown effects of brexit leave expansion into the UK market very much a playground of unanswered questions and potential potholes for business' looking for an attractive market to enter.

#### The Five Forces That Shape Industry Competition



Figure 1. Porter five forces (Tylend, E 2014, 1)

In 2016, Ernst & Young, which studies the UK trade and FDI (foreign direct investment), compiled a report compiled through their chairman Steve Varley, which outlined the attractiveness of the UK for FDI's. This report was compiled pre brexit and there is possibly change upon how attractive the UK is as a market. Varley (2016) accounts that as a direct result of brexit many companies are becoming nervous concerning the trade limitations that could be placed on the UK once they leave the EU. Of those questioned 51%, believe that the UK will become a less attractive investment opportunity post brexit compared to a 2% respondent announcing they see it as a more attractive proposition. While many see brexit as a possible threat to the UK's attractiveness (figure 3), a fall from 54% to 29%, there is clearly still a high level of pull towards expanding operations within the UK. This is outlined by the fact that UK has a higher index of attractiveness than both France and Germany when investors were questioned after the referendum results 25% said they would still invest into the UK compared to 23% for France and 22% looking to invest into Germany.

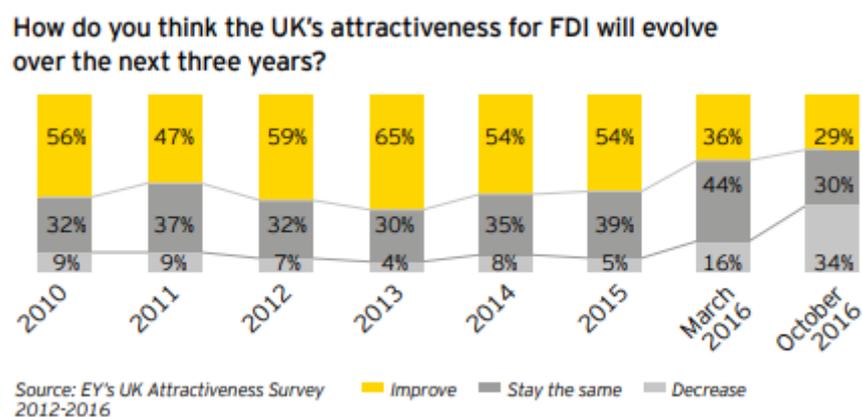


Figure 2. Market attractiveness (Varley, S, 2016, 3)

The UK has a history of being a very attractive country for investment due to its large population with wealth considered very high when it comes to purchasing power of consumers. The wealth of the country and the easiness of producing goods and services here in English all add to the reasons behind such high investment.

In the case of Päre the forces which will have the strongest forces upon their profitability will be bargaining power of buyers and power of existing companies. Within the beauty and cosmetic market, there are many other competitors for a buyer to choose. Within the UK industry, value for cosmetics in 2018 was 15.3 billion euros, one quarter of this money was spent by the top 10 percentile of purchasers. (Statista, 2019). Buyers have the disposable income to purchase the goods they want however as said they have a vast array of options available. The average UK person spends on average 10,728 euros per year, with spend on cosmetics reaching over

£500 (573 euros) and disposable income on average 31,325 euros. (Brien, P, 2018) Comparing this to Finland where the average disposable income is lower at 25,378 euros and cost of living index rate is higher in Finland by 5.85 (Finlands index rating is 81.7, UK is 75.85) this further enhances the reason that the UK is an attractive market for companies from Finland to expand to. (OECD, 2018) Adding to this the market size and population we start to understand that even with brexit the UK market can still be considered very lucrative for new companies.

Further to buyer having a wide array of choices when purchasing, another factor is the competitiveness of the market making it very hard to enter. Seven companies own a total of 182 brands that can be purchased on the UK high street. These global brands, L'Oréal, Unilever, Johnson & Johnson, Estee Lauder, P&G and Shiseido, create a market that is very hard to penetrate from business' that are new entrants to the market. (Willet, M & Gould, S, 2017) These two factors together, strong internal competition and high choices for consumers means that the attractiveness of the UK market may seem quite low when also including the factors of brexit and the trade regulations that may arise from any possible deal.

Table 3

<b>Market Value (million €)</b>	<b>Year</b>
13,122	2013
13,503	2014
13,820	2015
14,208	2016
14,588	2017
15,306	2018

### 3.1 Market Entry Strategies

Entering a new market requires knowledge of the current situation (attractiveness) and also knowledge of how to penetrate the new market. The main options often explored include exportation, outsourcing, licensing, business alliance and joint ventures. Each market penetration has it owns positive and negatives depending on the way they are operated from the company looking to enter the new market. An organisation needs to consider which way will get them market share and a market audience in the most successful way possible.

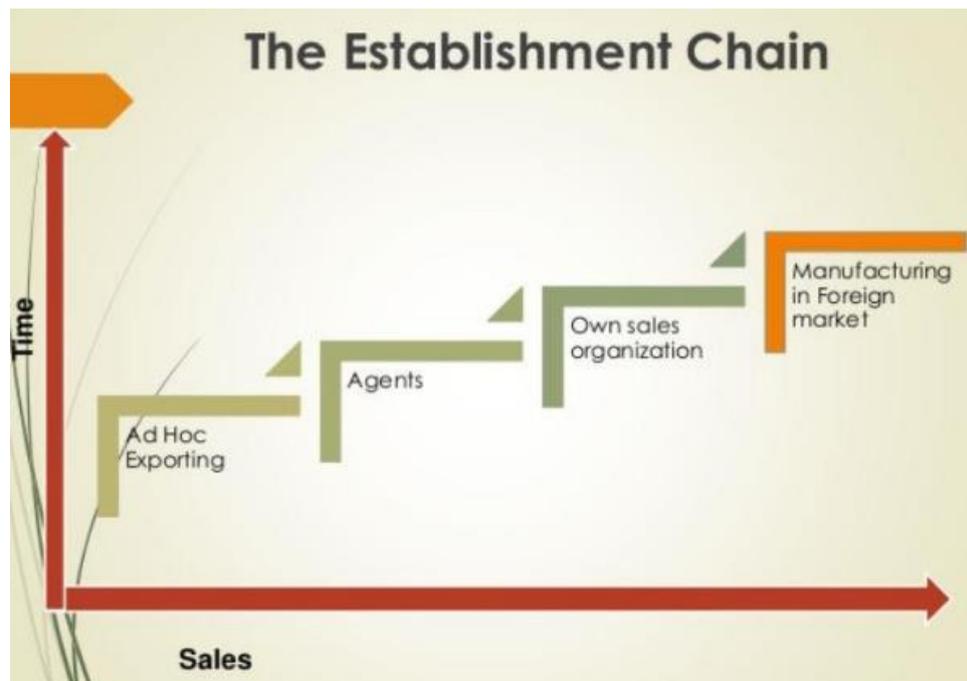


Figure 3. Establishment chain (Ali, A 2014, 10)

### 3.1.1 Export operation stage

"Exporting is seen as an opportunity for corporate growth and increased profitability among SMEs" Namiki, N (1988). Although the statement is over thirty years old, the meaning and reasoning behind it remains. The initial stage of internationalisation of SMEs is generally seen as export and smaller firms utilise this method due to the restriction they may have with capital and revenue being too small for some of the options explained below, namely business alliance. This expansion comes with the lowest risk however also the lowest level of control from the owners of the company. Internationalisation is often a route that many companies take for many reasons including competition within their home market and maturing or limited domestic markets.

Exporting has many benefits and drawbacks but both need to be understood and considered when internationalisation occurs. Increasing the sales of a company and the competitiveness within their own domestic markets allows them to venture into the international arena. With correct usage of exporting the risks involved are minimised considerably and can aid the garnering of global market share. Additionally once a company operates in more countries they can more easily diversify their offering which will spread the risk of the company across more platforms and products. This in turn will also allow them to ensure that over production of stock is not wasted and can be sold in other markets, once one market becomes slightly saturated with the product they can always use it in other markets where saturation has yet to occur, expanding the lifecycle of the products.

However there are risk involved in exporting products such as higher cost. Operating across two countries require large capacity of revenue and time spent on each market is varied. The costs involved in each country also vary due to the difference in wage structure and cultural norms. What works in what country does not always transfer to another. Furthermore payment collections due to possibly operating under a different currency rates can cause financial risk when trying to conduct international payments, these payments come at a cost and in order to pay the correct tax in each domicile, specialist are required to perform the role of accountants. These specialist cost money that could be difficult to find as a newly formed SME.

Entering the market as an export operator requires careful planning and consideration of the resources and capital needed to complete the business transactions correctly. Market knowledge is required in order to meet local requirement and correct pricing procedures. That being said if management are considerate and carefully plan the export of products the possibility for success can be realised and assist in the expansion of the company on a large scale in order to generate profits

### 3.1.2 Outsourcing and Foreign Sales Subsidiary

In order for a company to outsource they must develop a contractual partnership with a third party company who will sell or produce the product on their behalf. The growth of an international firm can be assisted when outsourcing. Outsourcing of international goods is rapidly growing and becoming increasingly present in the international trade (Grossman, G & Helpman, E 2002) with increased benefits of cost reduction, skilled expertise and reducing initial overheads. The effects that Brexit can have upon trade legislation could affect a potential SME from expanding or entering the UK market, however outsourcing allows the companies to lower the risk of failure whilst increasing the exposure within the market. According to Kakabadse, N & A (2005) the main outlines for outsourcing are cost and the focus of core competencies of the company that outsource as part of their business or process. The utilisation of strategic outsourcing can influence upon the speed of delivery cost of production and ultimately customer satisfaction. Although this is the case, the need to monitor effectively and manage this process is vitally important to the success of the outsourcing project. Aron, R (2005) describes quality is often a major hurdle when outsourcing due to the production or selling of the produce being somewhat out of control of the owner. Communication becomes vital to ensure that quality is not lessened in the search of faster or cheaper production methods.

### 3.1.3 Licensing

Many smaller organisations may use a licensing company in order to gain market share into a market. With licensing and the impending Brexit coming, this could be seen a very good option for companies looking to continue expansion into the UK market. Licensing would allow an organisation to trade in the new market quickly and allows any tariffs and custom checks to be avoided due to the licensee being in the market country that it is trading within. The financial outlay to start this process is lower than other options according to Demick, D (2004) and has potential to increase the return on investment within a short period. Ensuring to work with a trusted licensee remains the hardest challenge of this market entry strategy, and the possibility of losing intellectual property can be something, which hinders the progress. (Glowik, M 2016). This is due to the licensee having access to documentation of the products and service they are selling and therefore could become a potential competitor in the future as they have the ideas of how to re-create a product or service that they are licensing from the organisation.

### 3.1.4 Business Alliance

According to Wei, Y (2007) a business alliance has the advantage of teaming together resources and producing a competitive advantage over any competitors. Business alliance is the agreed partnership between two or more companies that can visualise a mutual benefit in the pursuit of gaining market share or entering markets together.

It allows access to shipping channels and the sharing of physical resources and additionally their capabilities. This would lessen the burden upon a company entering a new market, as they are not required to create a new distribution and production channels. These could potentially already exist and be operational by the alliance company and therefore can allow lowering of cost and increasing of scales of economies, which result in greater cost savings and profit margins on the products sold for both members of the alliance. Companies who are considered as rivals and compete for the same market share do often team up together in order to gain competitive advantages. Multinational companies (MNC) such as Toyota and General Motors have proved that success can be borne of a strategically aligned business alliance. (Cuplan, R 2002). Cross border alliances is seen as a positive strategic move for companies wishing to either gain new market share, increase knowledge or assist in the creation of new products. Whilst a company expands into new markets, new products will be developed to strengthen the share of the market they are attempting to win from existing consumers. A business alliance is often judged from each partner on its success by measuring and reviewing the financial performance along with the market performance; if one or more partners see the benefits do not exist this will usually mean the dissolution of the alliance will occur. (Koza, M & Lewin, A 2000). The success occurs as

both parties can see the benefit of working in unison. If market share or profit is, continually rising the partnership can continue and is successful. Once this period ends the result is often the break up, however the benefits gained are usually positive whilst the partnership exist, and the benefits continue to be so afterwards. For the case of an SME developing into a cross-national market, the increase in exposure and market share could lead to loyal base of customers that will continue to purchase and be serviced post-partnership.

Companies study market entry strategies in order to determine the attractiveness of a market as previously outlined by Ports five forces. It also indicates to companies the markets which are hard to exit from once they have been entered and trade is established. High barriers to exit are also present alongside the high barriers to entry previously mentioned.

### 3.2 Market Exit Barriers

Companies could see Brexit as a possible reason to not enter the UK market as well as a reason to exit. The financial constraints of exiting a market must be considered before entry is given the go ahead. The cost of exiting a market can often be a valid reason why many companies will persevere with a market that is not giving the financial gains that it was intended to give to a company. (Karakaya, F 2002).

Market exit is often utilised when sales or purchasing from consumers is poorer than that of expected results and would lead the organisation into occurring losses. Whilst the organisation feels that, they can still create enough money to be competitive within the market they will often remain with their current setup. (Karakaya, F 2000). As mentioned the cost to exit is a main factor in consideration when contemplating action or not. Companies can take alternative routes by selling parts of the business, reducing certain lines from the business, which are not profitable, and in more extreme cases, full business closure. The level of exit will be solely dependent upon the business strategy implemented and the value that is present with each product line or business sector of the company. Which level to choose must be calculated before decisions are made.

The forces identified by Harrigan, K (1985) that effect exit are:

- Economic forces
- Expectations
- Strategic forces

Each market has certain barriers to exit a market, these can be high and also low in some cases. Evaluating these before entry is vital to ensure that surprise costs do not arise. Curtis, B & Lipsey, R (1980) detail the need to evaluate these before entering a market given that substantial capital is needed to both enter and exit markets. The cost to reduce staffing operations and close agreements lawfully can affect a company's

operating profit once an exit is confirmed and reduction in staff is implemented due to roles ceasing to exist. Further to this the loss of goodwill with consumers when exiting can also act a deterrent for companies. Economically it can be seen that higher barriers exist when industries are in decline, if we consider the effects of Brexit it could mean that barriers are raised due to the lower demand for new companies to enter the market should a company wish to exit.

According to Harrigan, K (1985) however if a company can see that in the near future they are going to continue to create loses, these issues could be seen a less risk averse option than remaining within the market area and continuing to create substantial losses. Leaving the market during these conditions is harder due to lower results and sales that are forecasted, which can be used to ease the financial burden of the exit costs.

Additionally the cost of closure can be attributed to physical property that is essential to the running of the business; agreements with logistical companies and leasing of buildings are usually contract based and therefore are usually more difficult to remove the cost associated with them, unless fees are paid to break the agreement. Whilst some companies can close a business and sell off physical assets to offset the loss, many companies do not have such assets to utilise when recouping financial value. This is where the cost to enter a market can also be a hindrance when considering exiting. Whilst demand is low and economic growth is slower, the value of assets could be lower than when the company entered the market, thus resulting in difficulty to recoup the investment initially placed into them when entering the market.

### 3.3 Market Exit Strategies

Planning an exit strategy before entering a market should not be considered negative thinking. The idea of an exit strategy is to control all outcomes that could be presented during the lifetime of the business or product. Planning to optimise a situation is just as important as it is to ensure you can collect back from a bad situation. Investors often invest in companies that are new to markets if they see a potential for a successful venture, however these investors also will not see any return on the investment until they sell there holding in the company or are paid dividends from the profit. Therefore, investors often look for ways out of companies and look to exit if they are in need of the cash to be returned or see a decline in the business long term. Ensuring that a successful exit strategy is in place will allow the company to predict these investment payouts and either continue trading or be able to exit the market in a successful manner.

Exits can be done in various forms and the best one to choose is not always clear but should be considered with respect to the situation and the market that the company is present in.

### 3.3.1 Merger and Acquisition

Although considered also a growth strategy, merger and acquisition (M&A) can also be an exit strategy depending on the company who sells their business and which company buys the other business. It usually involves two companies of similar makeup coming together through a purchase of one company. It is often used for larger companies to increase the portfolio and offerings without organically creating new products and services. Using this exit strategy can be seen as a win-win for both sides because the selling company is usually purchased at a premium and is doing well in the market but may not be able to increase their market share anymore due to larger competitors controlling the market. If a company decides upon this route, they can usually expect a large monetary value for the company and often CEO's continue to work within the newly formed organisation. For an entrepreneur this is not normally the case as they wish to cash out of the business and move onto the next project they want to start up. Entrepreneurs also often use this technique once a company becomes too large due to the reasons that it stops becoming so interesting for them and becomes more of a day to day business that needs much attention in order to continue moving forward. In the mind of an entrepreneur, the business would seem more tedious, the enjoyment may be lost once revenue, and employees start to rise up to a large company size (above 50 employees and into the millions, for revenue). (Mahabubur, R & Lambkin, M 2015).

### 3.3.2 Initial public offering (IPO)

This type of exit concerns the offering of shares to the public domain; it can be seen as a fast way to generate money and to pay off any investors who are within the shareholders already. A company's shareholder before an IPO are usually close friends and founders of the company, along with any private investors. Once an IPO is released and any potential money is raised it becomes more tricky for the company in the long term because the shareholders of the new stock can often be very demanding and additionally liability concerns are higher. However, with this being said the money that can be raised is often seen as a lucrative offer of this type of strategy. Furthermore open trading on the market can potentially acquire lower interest rates on existing debts and also it can assist with any future M&A that might occur because the company can issue shares and stock within the offering of purchasing a new company or selling.

This type of strategy was increasingly popular before the internet bubble burst around 2000, since then the rate of IPOs that are issued has been

falling to a level where now it is only around 15% of companies choose this option in order to raise cash. Additionally once a company becomes public, there are more regulations and restrictions on financing and accounting to ensure that the company is adhering to the correct rules of the trade agreements. While this option may seem lucrative in the money side, it comes with its pitfalls and has to be considered very carefully before being utilised for a startup company such as the case example. (Wells, E 2016).

### 3.3.3 Friendly Sale

This is the most common type of exit for most companies that wish to recoup some of their investment and allow them to pay off any other investors that have joined the company from conception. Selling to an individual is often a fairly quick way to ensure that the company is sold; it can also be advantageous when considering the sale of a small company, as brokers or third parties are often not needed to ensure the sale goes through smoothly. (Hawkey, J 2002). An ideal buyer with this type of exit strategy is someone who a greater skill level of the market and the operational side of the business. As mentioned once a business reaches a certain size it become more demanding upon the founders to keep the business running, this is where a friendly sale to an individual is more experienced in running a larger company is a great option. They can often see the potential in scaling the operation to create higher profitability levels. It allows the seller to generate money to pay of any debts, investors and usually more in order to finance the next business an individual wishes to create.

### 3.3.4 Cash cow

With a cash cow it may, at first, seem unreasonable to look for an exit strategy. However many owners see this as a great way to have the benefits of the current company flourish under the guidance of someone else whilst also retaining an interest in the company. In order to exit here, a highly skilled individual can be placed in charge of the company whilst the owner still retains ownership and has the benefits that comes with this, such as yearly revenue and annuity. This can be a one way that additional funds can be raised by selling a proportion of the business for the buyer to run on a day-to-day basis. The risk here is that once the business is sold it can start to change its way of operating and potentially start to create negative value or brand image. With the correct person/s running the business though, this should not happen as they also have an invested interest in the continued success of the company. Additionally cash cows often need continuous investment in order to maintain the level of revenue they are creating. Often cash cows that are left with no feeding of investment or research and development can slowly drift into a state of decline and lose their value quickly. When this happens the exit strategy needs to be correct or things could get financially worse for the holding

company. A clear example of this can be seen in the case of Blackberry's decline in the smartphone market. Fang-Mei, T et al (2014) shows that Blackberry has control of 25% of the market in 2009, two years after the iPhone release but as the iPhone shifted the paradigm of smart phones, blackberry's market share fell to a final 0% in early 2017. Blackberry had not anticipated the innovation of the smartphone and had been left behind within the market. The once cash cow for the company slowly became a drain on the revenue and the resources of the holding company.

If a company does not invest and continually improve its products and offerings then this type of case is more than likely to arise. The only option with this type of business failing is to consider liquidation in order to cut all losses of the company and hope to regain as much capital as possible before owing too much debt.

### 3.3.5 Liquidation

Often owners avoid this type of exit strategy as they do not wish to close the business and often admit that it has possibly failed. As mentioned previously a cash cow can often end up with this being the best exit strategy if sales and revenue decline rapidly. Liquidation will mean that the business will cease to exist and trade in its current format, sometimes this can be forced by debtors who wish to recoup some of the money they are owed and also it can be voluntarily by the shareholders.

Additionally liquidation can also be the divestment of resources from a company, if the company is in ownership of more than one outlet they may look to offset some physical resources such as buildings in order to concentrate on certain areas of the business, however in the most liquidation usually means the company ceases to trade. This closure of a company is usually the last resort for owners but is often necessary in order to ensure further losses do not affect the shareholders; any capital raised from liquidation will go to pay of outstanding debts and investors and if anything remain this is shared out amongst the shareholders with respect to percentage of ownership. (E, Wells 2016)

## 4 DIGITALISATION

### 4.1 Understanding digitalisation

Digitalisation varies depending on the company that it is used within; therefore, a strict definition is harder to distinguish. No correct definition will fit to all companies. In the broad scheme digitalisation can be seen as the usage of technology into the business concept that can result in changes to how the business can operate and lure in consumers, it changes the way value can be added to a company's offerings. It changes the way

a company interacts with existing and potential customers and can increase the scope of a company. This helps a company expand more rapidly than previous business models could. The use of digitalisation aids in the internationalisation of a company, rapidly, but comes with consequences if growth is too fast for the company. If this is the case, the company can lose control of the expansion and quality can be affected. Whilst digitization can increase the customer base, it can also mean a company who cannot handle the level of traffic incoming, may end up sacrificing quality in order to meet the newfound demand. Ensuring that quality and customer service are both met requires large investment of time and money to enable it to run as smoothly as when a company was in its infancy. The technology advancements have allowed consumers to take more control on what they buy and where from. For a company to truly expand internationally they must utilise digitalisation platforms to reach larger target markets, merging the business strategy with technology can greatly assist a company that is looking to develop internationally. Consumers have adopted technology practices into daily routines; a company must also be able to do this seamlessly in order to offer the additional value consumers are demanding. (Pear Zhu Vol.8)

#### 4.1.1 The use of a digital platform

With the usage of digitalized technologies, companies can collect and analyze data about international markets and learn more quickly about new markets and develop local networks. New market developments through digitalisation means that company's can now identify market opportunities with more effectiveness and target these areas in order for increase global expansion. The use of analytics, as previously mentioned, allows a company to target marketing within an industry and additionally saves resources that can be utilised to develop the market areas with most potential. This in turn can speed up decision-making processes leading to more clear strategic goals and potential greater revenue and profits. (Wittkop A, - Katrin, Z .2018)

Becoming more digital and harnessing its benefits can significantly change a business practices of running a company. It can challenge established competitors who maybe do not see the benefits initially and help to erode the competitive advantage they once had. Examples can be seen concerning Netflix eradicating the dominance blockbuster had upon movie rentals or with the more appropriate case of Kodak who did not harness digital photography as quickly as competitors and lost complete dominance they once had upon the photography industry. A dynamic shift in technology can have huge implications for a market industry. Being able to see these opportunities and utilising them to their fullest is the challenge for most companies. Digitalisation is no different and must be handled correctly in order to reap the greatest benefits it has to offer. One important development of digitalization is the creation of online platforms

and exchanges involving economic and social transaction to efficiently identify sales opportunities in international markets. The digital tools and platforms now give companies larger opportunity to explore these potential ventures and to tap into new customer bases beyond the home borders of a country, it aids internationalisation and increases exposure.

#### 4.1.2 Market shift

Digitalisation is a type of innovation that has become more common as the internet was created a source of information globally. Companies, who can utilise the innovation that the digital world can give, often survive in tough markets. It can be considered a breakthrough innovation when companies started to create digital content, partly due to the structural changes it caused within markets globally (Pham-Gia 2011). Companies who cannot create their business to include digitalisation will often fail in the current business climate. Largely due to the need to include e-commerce within the business strategy. E-commerce is driving many businesses to grow, when consider that Bones, C (2015) illustrates the global online market was estimated to be 16 million and rising to near 3 billion in 2013. The internet base for consumer and users is growing exponentially, the availability of the internet is driving businesses to operate online more so than with physical stores. The use of online stores allows consumers to shop at any time they wish and not become restricted to opening times of stores, therefore the ease and speed of purchasing is increased. This is only a benefit to a company that looks to operate primarily online. Additional benefits can also include the possibility to track orders which safeguards those users who distrust online shopping due to security factors.

A company does not always need to expose itself to risks by moving production or capital into the market of the intended internationalisation if they can use digitalisation correctly. Online sales platforms are becoming more common and allowing markets to be developed even when the company is not present within the country of the market, this is made more available due to the current EU laws regarding the single market. However, it is always worthwhile to be operational within a country or have a presence there in order to maintain the brand image and any public relation issues that may arise. With digitalisation it allows a global economy to be operated via the online world, exposure is greatly increased alongside the speed at which a company can internationalise. Additionally it can assist with the creation of knowledge sharing and networking at a faster rate which increases and speed up the decision making process, this can also ultimately increase the chances of internationalisation being a success. (Pear Zhu Vol.8). Reducing costs can be easily achieved through a digital platform as a direct result of automated software, which can be linked into the delivery and procurement aspects of a business. Creating a lean business model, which detects any bottlenecks in the process, will help increase production capacity whilst lowering idle time for workers. An increase in production and a lowering of capital costs will aid with the

internationalisation process by allowing greater revenue to be used on other task and increasing the economies of scale for a business. Although, consideration must be taking into account when setting up the digital platform regarding the cost of setup. Software to utilise the digital platform can be high and additional costs regarding the ongoing maintenance is also a factor in why many SMEs may consider against operating and relying too much upon digital platforms (Jan, J 2010).

## 5 ADVANTAGES FOR SMES IN THE UK MARKET

Freedman (2000, quoted in Levy, M. and Powell, P, 2005) states the advantages of SMEs undertaking a limited liability company form are that the law allows for more legal holds such as being able to sue, be sued and own property in its own name, alongside outliving its founders. Further to this SMEs often require investment; in order to obtain this being a limited liability company can provide an advantage due to the lowered risk to the shareholder when an investment is made into the organisation. This can often result to increased finances and resources available resulting in more innovative behaviour from the company. Additionally an initiative referred to as 'open innovation' is also recommended to be utilised by SMEs. Prof. Dr Wim Vanhaverbeke (2012) defines open innovation (OI) as *"...the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively."* The added benefits of this initiative are SMEs can open their own innovation processes:

Table 4

To implement internal ideas otherwise unexplored
To ensure access to external ideas
To enable better utilization of their partially hidden innovation potential
To share the wealth and efficiency in resource allocation (e.g. per unit cost accounting basis)
To extend their potential for growth via alliances and/or attraction of funding
To be offered ample opportunities by larger companies
To access resources/knowledge otherwise far too expensive for them

European Commission (2000)

It is an innovation strategy which enables companies to go further than *'...their internal boundaries when designing and developing some of their R&D and Innovation projects'* – (Pisano, G 1990). It allows companies to create a combination of both internal and external knowledge and skills and therefore some companies that participate are open to sharing ideas with other collaborating stakeholders, in order to achieve a greater level of innovation and create new markets. Utilising both the internal and external R&D can add value however only when a company itself can

create internal R&D it can then gain a portion of the external value, this is part of the OI principles as opposed to a closed innovation (CI) where the market will be limited. Looking at figure Four (4), from the European Commission (2000), we can clearly see that using the open innovation can lead to creation of new markets which can benefit SMEs rather than being stuck and losing out to larger business. OI can aid in pooling together resources and knowledge of the best talent within the industry.

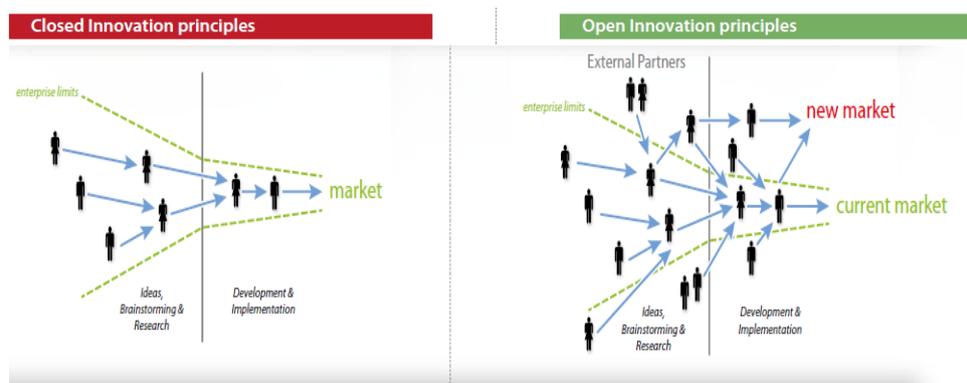


Figure 4. Open and closed innovation. (Hamilton-Phillips, S 2013)

Another added benefit for SMEs within the UK is the taxable avoidance of their expenditure on Research & Development (R&D). A recent release from Her Majesty's Revenue & Customs (HMRC) (2013) has detailed that the taxable avoidance on any expenditure depends primarily on when the expenditure has incurred and has increased over time from 2008 through to 2011. \*See table 5.\*

Table 5

Date	Expenditure enhancement
Up to and including 31 <sup>st</sup> July 2008	50%
On or after 1 <sup>st</sup> August 2008	75%
From 1 <sup>st</sup> April 2011	100%

(HMRC, 2013)

However additionally to this if they are unable to use the tax losses there are also options to surrender these losses for a payable tax credit. This can be seen in table three (3). This results in increased options for SMEs to enhance their R&D and avoid heavy losses due to the increased spending on this development. The government have placed these guidelines in order to help increase the current economic state and encourage smaller firms to become more innovative in the hope that it will help drive the economy forward and increase productivity and therefore increase revenue.

Table 6

For expenditure incurred on or before 31 July 2008 the amount of the surrenderable loss is the <b>lesser</b> of:	the amount of the unrelieved trading loss sustained in that period; 150% of the related qualifying R&D expenditure.
For expenditure incurred on or after 1 August 2008 the amount of the surrenderable loss is the <b>lesser</b> of:	the amount of the unrelieved trading loss sustained in that period; 175% of the related qualifying R&D expenditure
For expenditure incurred on or after 1 April 2011 the amount of the surrenderable loss is the <b>lesser</b> of:	the amount of the unrelieved trading loss sustained in that period; 200% of the related qualifying R&D expenditure.

(HMRC, 2013)

### 5.1 Disadvantages to SMEs in the UK market

As much as SMEs do have, advantages they also have negatives to due to their size and the competitive environment, which affects their chance of survival, the uncertainty surrounding SMEs, is due highly to the lower share of the market that they hold compared with larger organisations. As a result of this they have less of an influence upon the price and are often referred to as being 'price-takers' - Levy, M. and Powell, P (2005). Many new firms start up each year within the UK however, up to 50% of those started will cease to trade within the first three (3) years of trading. This is shown to exist in both the UK market where small firms are up to six (6) times more likely to fail than their larger counterparts and even larger in US where by 80% will fail before their third generation - Levy, M. and Powell, P (2005).

Storey (1994, quoted in Levy, M. and Powell, P 2005) also develops upon the idea that much of an SMEs development is down to the owners attitude, and it is assumed that all SME desire growth, however, over ten (10) years only 40% will survive and 4% of those firms will create 50% of new employment. The majority will not grow and will be mainly focussing their attentions and attitudes on survival of the business. This is a great disadvantage when it comes to seizing the opportunity presented to SMEs who could look into niche markets in order to gain market share rather than battle larger organisation where economies of scale are well developed. Storey refers to these as 'trundlers' who are often in the industry for lifestyle advantages and will not grow the firm beyond its capabilities. Change will not occur during this type of management until

the business is failing (and sometimes this is too late). Companies must understand the need for an exit strategy as previously mentioned.

Another heavy disadvantage to being an SME is that the sole responsibility of the company lies on the shoulders of the owner. Ultimately the owner has unlimited liability and any losses generated or payments needed by creditors that the company can't pay through its own accounts then becomes a debt of the owner and they may be forced into selling their own assets in order to meet the demands from creditors – (Small Business Pro (SBP) 2013). With the owner bearing all responsibility it can be a heavy burden when sales fluctuate due to the economy or competitors entering the market. These are both disadvantages of being an SME although they can often be used in a positive way to help drive further sales and ensure that customer satisfaction is high in order to retain custom from large companies.

## 5.2 Failing areas of an SME

Brixiova, Z (2011) outlines the potential problems faced by an owner of an SME and lists them as the following;

- Fear of job loss/employment
- Fatigue and short deadlines
- Lack of support
- Sense of unmanageable time
- Inability to influence the way/work organisation
- Alienation due to sole management and responsibilities
- And
- Numerous physical, biological or chemical influences at work

These increase the pressure upon the owner and are therefore are a big disadvantage when comparing the stresses facing a large organisation that can spread the levels of work and help each other complete deadlines. The added increase in pressure can quickly lead to missed deadlines and therefore loss of contracts and custom that may ultimately end with the SME failing before its third year of existing, as with the 50% of other SMEs.

A study conducted by SBA (Small Business Administration Service) resulted in finding the ten specific managerial causes for SMEs to fail, Hodgetts and Kuratko (2001, quoted in Analoui, F and Karami, A 2003, p.35) list these as being:

- Inadequate records
- Expansion beyond resources
- Lack of information about customers
- Failure to diversify markets
- Lack of marketing research
- Legal problems

- Nepotism
- One-person management
- Lack of technical competencies
- Absentee management

Alongside this, a lack of experience and management skills are also attributed to the failings and gradual decline of an SME. The managerial experience they lack is often related to their competencies regarding long range planning which if they get wrong will inevitably lead to business failure. Additionally to this, it is also said some management of SMEs have unbalanced managerial skills. They need to balance self-related skills along with people and task-related skills in order to ensure that the business is running correctly. These issues with some, not all, SME managers contributes to the failure of the business. (Analoui, F and Karami, A, 2003).

As mentioned earlier R&D within SMEs is limited due to the cost associated with it, however the concept of open innovation may allow more SMEs to carry out innovation and utilise the resources within other companies to help aid their own business. Although considered a disadvantage the use of OI can lead to R&D becoming a strength of most SME as long as they use it correctly and constructively.

## 6 MARKETING FOR SMES

Marketing is more than networking, advertising and direct mailing. According to Dee Blick (2011) who quotes marketing *"is a philosophy of business that places the customer at the centre"*. It means marketing is about not only your business and what you do, but totally about the customer. If the marketing, undertaken by a company, is not related to the customer then why is it being considered?

### 6.1 Budgeting for marketing - Social Media Vs Traditional

Budgeting for a new market, especially one which has newly been entered must be factored. A large budget does not always ensure success when marketing new products, in a new market. (Webber, J 2011). The correct methods and business offerings must be considered to appeal to the target market, only valuable offerings will be considered by the market that it is being aimed for. By breaking down the offerings of a business, a company can evaluate the likelihood of success in the long term. Additionally mode of marketing are also vital. Audiences will be reached on various levels of marketing and the recent trend for the greatest market success is considered to be social media marketing. Hoffman, D & Fodor, M (2010) argue that the return on investment when considering social media

marketing is gauged when considering the number of unique visitor to a blog, which increases the brand awareness of a product or service. Additionally in order to measure the brand engagement we can look into the data of the number of comments and members who revisit the blogs. Social media marketing can be a cheaper alternative and easy way to target a specific segment of the market. With a statista (2017) report showing that the UKs active social media usage is close to thirty-nine millions users. With such a large proportion of users actively engaged in social media the potential for user engagement and exposure to a brand is remarkably higher than that of TV or radio marketing, which had previously been the most effective way of reaching potential consumers. (Blick, D 2011). Social media has become a platform for influencers to assert marketing onto followers and viewers, consumers are more heavily influenced by the status of celebrities and by what their peers perceive as fashionable. For a newly established company looking to gain market share and exposure the platform allows the products and services to be viewed in a current global trend. Estimations from Ashley, C & Tuten, T (2014) is that as many as 20% of consumer are purchasing as a direct result of what they see on social channels and from what their peers are sharing and viewing. The direct linkage enforces the idea that social media has a vital role to play in the consumer buying habits.

In terms of minutes perday spent on social media, Statista (2017) estimated that during 2012 to 2017 users spent an increase of 45 minutes per day on social media platforms. Coupled with an average of 350 million photos per day shared on Facebook and 9 million photos or videos uploaded daily to Instagram. The trend for social media is a clear marketing tool that needs to be utilised in order to reach larger scale audiences. Whilst traditional marketing would reach an audience in the thousands, depending upon the user of Instagram the content can reach millions within a day.

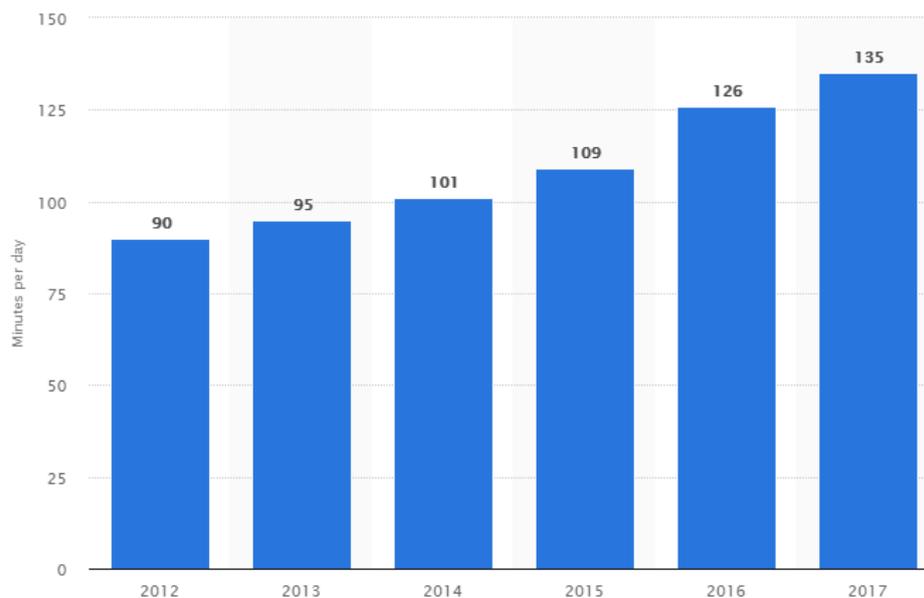


Figure 5. Social media usage per day (Statista 2017)

Smith, K (2019) highlights the reach of Facebook through statistics showing that on per user the average advertising revenue gain was 12 dollars, with user profiles of above 2 billion people.

Social media marketing is becoming a larger part of global business looking to enhance the reach of their products; the development of the internet has aided this tremendously and as mentioned businesses who do not utilise this reach will be left behind the competitors. The need to utilise the digital platform increase the revenue, reach and resulting in greater profits for companies who can effectively market via social media. The influence upon users can be seen in all purchase behaviour of consumers (Weinberg, T 2009).

## 6.2 Continuum of Behaviour

A continuum of behaviour buying is considered *"the most powerful marketing tool... Ever"* Blick, (D 2011) it involves the understanding that consumer do not buy products as soon as they are viewed. A pattern of reviewing and assessing is often commonplace before a consumer will purchase a brand. Options are evaluated and comparisons will be made to ensure that an informed decision is being reached. Figure 6 shows the continuum behaviour involved in the purchasing process.

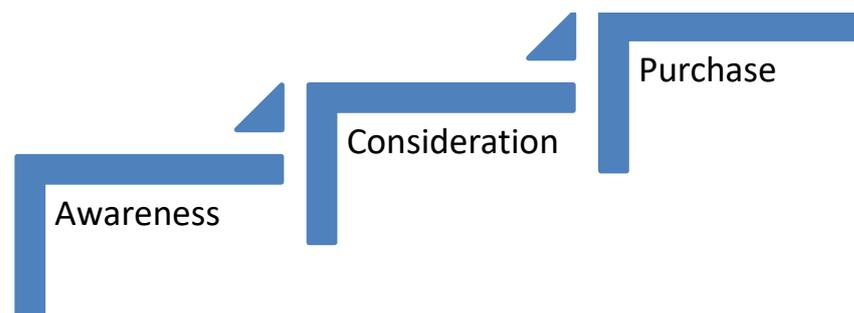


Figure 6. Continuum behaviour (Foley, L, 2019)

Moving a consumer along the continuum from interest to action is a process that can take time to implement. Small media marketing messages can initially grab the attention and attempts to get the potential consumer to engage with the company, from here the interest needs to be kept engaged and develop this interest into a sale. Once a customer buys from a company, they will continue to purchase if the product matches their ambitions and they receive a product that they deem acceptable for the price they pay. Therefore, customer engagement in marketing is vital to the success of a marketing campaign, and even more so when moving into new markets that consumers are unaware of the brand they are being marketed. When it comes to profitability of customers, existing customers are always easier to increase the profitability due to the costs involved to engage consumers and earn the trust to ensure they purchase. The actual cost of acquiring a customer is hard to determine however reports from Musalem, A & Yogesh, J (2009) indicate that profitability can be increased by 15% per customer if re targeting of existing customers is successfully completed. This is in part due to the average costs of acquiring a customer ranging from as little as 300 euros to potentially rising into the thousands depending on the marketing undertaken and the customer acquisition because of the marketing.

The continuum of behaviour can also be applied successfully once the consumer has purchased, it allows companies to expand their offerings because the customer is already aware of the brand and are therefore more likely to purchase new products if the initial purchase was successful for them. This selling allows companies to ensure that a marketing budget is kept at a minimum as they can re target existing customers with new products and services to provide a greater level of customer engagement. (Weber, J 2011). The unique selling point (USP) of a company is not always vital when it comes to ensuring sales. Rather, a company doing something better than a competitor can also have an impact on the consumers purchasing habits. Quester, P et al (2007) opinion of purchase behaviour is that a customer must see a value in the product and/or service offered by the company. Of new companies, they want to be treated with additional value in order to ensure that switching from a brand they trust to a new brand is worthwhile. Whilst marketing of a product can entice a consumer

to seek more information, the service provided will determine if they consumer purchases and become a repeat customer. This clearly shows the link between doing something better than a competitor does by offering more than they do in terms of service and the continuum of behaviour scale. Combining the two a company can increase its customer base and start to expand its market share within the industry. Increasing both of these will further lead to increased revenue as customer review the product and recommend it to peers, those same peers who are often influenced by social media and others consumer habits around them.

### 6.3 Engaging an audience

Emotive marketing is key to appealing to a consumer's mind-set and influencing buyer habits. Although 82% of US citizens claim, that advertising has no direct link to what they purchase awards for advertising effectiveness seems to suggest otherwise. Although no certain link can ascertain if someone has been affected by marketing adverts, the use of data analytics, similar to those used by blogs can show online activity that relates to an advert. The more tweets on twitter or searches on google, usually directly link to the time an advert has been aired and viewers are responding to those calls to purchase. (Heath, R & Hyder, P 2005). A successful advertising campaign creates an emotive connection with the viewers and listeners, this is applies the same when it comes to visual and physical aspects of marketing. This is core objective of marketing to connect with the consumers on a personal level, with this comes a greater opportunity of sparking the interest of the buyer and calls them to action.

An often-utilised method in order to increase the chances of engagement is a technique referred to as 'lumpy mail'. This often includes envelopes or bags that include samples in order to increase the chances that a potential customer will continue to open the marketing material. Once this type of samples draws the attention of the consumer and attempts to appeal to them directly. These leaflets aim to speak to them and often include offers that require immediate actions to claim the reward. Examples include emotive words such as *"you"* and *"your"* which appeal more than *"we"* and *"us"*. (Kotler, P & Armstrong, G 2005). These words will draw a consumer to action upon the material if it is of value to them, increasing the likelihood of a purchase. Furthermore, the use of a rewards system which helps to fully engage consumers, can help increase the profit per customer by up to 25%, increasing the profitability of each customer is vital when considering the cost to first engage a customer. Increasing the profitability of an existing customer as previously mentioned is cheaper than targeting new customers are, because they already have the understanding of a company and its offerings. (Hawkin, D & Mothersbaugh, D 2010).

#### 6.4 Social Responsibility

As consumers become more environmentally conscious brands and companies must consider the impact that corporate social responsibility (CSR) has upon the image that is portrayed to the consumer.

CSR can be defined as being a way to conduct business that takes into consideration all stakeholders within a company and considering the economic, social and environmental implications of any decision taken by that organisation. (D, Silberhorn, RC. Warren 2007). Social causes are a good way for an organisation to adopt a positive outlook towards to the usage and benefits that the correct CSR can add to a brand. However, research has shown that having the image of positive CSR is not likely to encourage consumers to purchase products if in reality the CSR is not as portrayed. (R, Levy 1999). Thus meaning that whilst many companies claim to adopt the image they do not always deliver on the standards they set, this can in turn be more detrimental to a



Figure 7. Corporate Social Responsibility (Foley, L, 2019)

company than not adopting or advertising a stance with positive CSR. Figure 7 shows the four types of CSR.

### 6.5 Motives to go Green

Environmental factors are a hot bed topic in the current climate with issues being raised daily regarding global warming and testing on animals. Guidelines within the EU clearly state that animals are forbidden to be tested on in all circumstances except where alternatives are not possible and the testing is to benefit human and/or animals health research. (European Union 2010). As a result conducting the use of animal testing within many industries is forbidden and must be complied with. Although a law, it is always good to remind users that testing on animals is not a practice a company will employ, this is largely due to the reasons that animal testing is still required by law within the cosmetic industry of China.

Ecological management is becoming part of the strategy for businesses looking to also enhance the financial aspect of the business, consumers are often considering their 'carbon footprint' when making purchases. The use of single plastics being a strong example of consumers avoiding a certain brand due to the use of plastics within the packaging or products. By adopting a more consumer friendly ecological CSR strategy the increase in marketability of the company is noticeable and can be utilised when creating content for marketing campaigns. (K, Babiak and S, Trendafilova

2010). Organisations who can develop and operate within an eco-centred model often begin to formulate an understanding between themselves, the environment and their social environments. This will ultimately lead to an increase in the value added from the product to the consumer without negating on price and quality, it develops a unique selling point that can be aimed to a consumer in order to firstly attract interest as previously mentioned but also lead them to purchasing the product over a competitors.

## 6.6 Donations to causes

Scepticism can often be found with consumers when companies are partaking in CSR, they can often form beliefs that a company is only doing these actions in order to increase their own social standing and have motives beyond helping those in need. The perceived behaviour of a company in reaction to an event can have an impact upon the consumer's behaviour. Ellen, P, Mohr, L, Web, D (2000) illustrates that consumers are more likely to respond positively to charitable donations when they occur sporadically for events that are out of control of the company themselves. However, this is not to say that ongoing charitable donations that have no direct linkage to the company is a negative move. In fact contributing to the local surroundings of the company and engaging in community projects can increase the social standing within the community but does not always link to an increase in sales or profitability. Companies should always be viewing charitable donations as such, a donation. Expecting nothing in return apart from self-fulfilment.

During a Cone Cause Evolution Study (2010) research suggested that when a company is supporting a charity that the consumers cares about they are 85% more likely have a positive image of the products and company in general. Additionally 80% would also consider switching brands, when price and quality is the same, to a brand that is active in supporting charitable donations. Finally, 83% would like to see companies support more charities with the proceeds generated from sales. This lends itself to show the correlation between charitable donations and the possible positive increase in consumer behaviour towards a company's actions. Although the first thought of many companies is not increasing sales when they are charitable, it is a welcomed addition to any marketing campaign even if it is not the main reason for the actions.

## 6.7 Economical Responsibility

Economic responsibility initiatives can assist the company and the environment a company is operating within, but must be treated correctly or regulations can often cause hardship further down the line. Whilst considering which economic factors can aid both the environment and the business, companies must acknowledge that social bearings can weigh

heavy upon a company's strategy. Utilising raw material wastage will give the company a loftier standing with the public image because recycling of waste plastic material alone being 85% lower as a carbon footprint than producing new plastic material. (Sitra.fi, 2017). Furthermore recycled products cost considerably less than producing the same material but with unrecycled materials. This cost saving, which can be gifted, in part, back to the consumer, alongside the increase in brand image and meeting regulations, means that a company is more enticed into the use of recycled materials within their production.

With more regulations being introduced by government officials globally the need for a business to be more economical is not only money based. Initiatives are in place to decrease the use of non-recycled materials and to produce more environmentally friendly products for consumers to purchase. Of course, it does not make sense for a business to operate economically if they are not creating sufficient profits in return. Within the EU funding is being made available for companies who assist with being more 'green' and also the potential to raise capital from outside investors will increase when the image of a sustainable company is put to them. This sustainability tag is currently a global theme amongst companies and is seen a desirable trait when investors are looking for new business to inject cash into.

Additionally retaining and attracting the best talent is also linked to the sustainability of a company. Salary cost savings can also be made according to the study from Cone (2016) due largely to the fact that younger workers are considering more the sustainability of a company rather than completely the salary they are paid. This is in contrast to older generation workers who seemed to lean more towards the salary they were being paid rather than whether or not a company is sustainable. A cultural shift is happening within the workforce and companies can use this movement to reap the benefits of a competitive advantage. Key findings from the survey of US workers were:

- 64% of Millennials consider a company's social and environmental commitments when deciding where to work
- 64% won't take a job if a company doesn't have strong CSR values
- 83% would be more loyal to a company that helps them contribute to social and environmental issues (vs. 70% U.S. average)
- 88% say their job is more fulfilling when they are provided opportunities to make a positive impact on social and environmental issues

Cone (2016)

## 6.8 Ethical Business

Ethical business is determined by the morals and ethics that exist within a company. Some of these ethics are law bidding ethics such as minimum

wages and working hours, these types of regulations are set from governments within a country that need to adhere to in order to comply with laws and regulations.

The business ethic that is usually adopted within a company comes from the management and leaders. They lead and show by example to employees. Strong business ethics can give a good public image of the company and also help hire talented individuals to work for the company, an organisation who is ethically strong has a stronger attraction to talented employees. (Dempsey, A 2013). These two factors can again lead to greater profitability for the company in the long term compared to a company that is often seen as less ethically considerate. Particularly in more recent times consumers and employees are closely monitoring the ethics of a company when looking to purchase or work for them. This is also true for the value upon any public listings, stock prices can fluctuate upon the news of unethical business trading's within a market.

A modern example can be seen with Nike, synonymous with being the leading sportswear brand, during the early 1990s the company was rocked with a scandal regarding its 'sweatshop' factories operated in Indonesia. The effect sent share prices plummeting until Nike could address the issue and come to agreements upon the working conditions of those in the factories. Since then the company has developed a much stronger brand image and is trying to be at the forefront of ethical business, becoming more open and transparent with its production. Additionally consumers are moving towards products that are more organic and sustainable in their production. White, K & Habib, R (2018) detail the view that consumers are starting to pay more attention to the sustainability of production when purchasing consumer goods. The framework developed from them called SHIFT looks into Social influence, Habit formation, Individual self, Feelings and cognition and finally Tangibility. Each section details in clear focus areas where consumers use the social environment to create informed decisions upon where to purchase goods and services dependant on a scale determined by sustainability and therefore highly influenced by the ethics of a company.

If we consider the current concerns regarding our planet and usage of raw materials, an ethical business could be well placed to earn the trust of consumers and develop a strong brand image, one of ecologically sustainable for the consumer, which seems to be becoming more of an imperative concern for consumer, business and society in general. (Kotler, P 2011).

The need to operate transparently and ethically is proven to increase the potential sales revenue of around 20% with up to 60% agreeing that the working conditions of where the produce was created has a bearing upon their consumer behaviour. The trend is only increasing and companies are

starting to understand the value that consumer are placing upon ethical business practices (Dunn, D 2016).

## 7 METHODOLOGY

### 7.1 Research approach

An initial qualitative research approach was used to gain understanding of the background of Päre, this included an interview with the CEO of Päre to discover the initial growth of the company and the way of working within the home country, Finland. When regarding qualitative research, the researcher should also announce the intentions of the studies and what is hoped to be found from the research. This allows it to be self-referent. The research can always be looked back upon to ensure that what is being researched and discovered can relate back to the initial research performed at the infancy of the study (Eriksson & Kovalainen 2008). However once this information was received it became clear that the use of quantitative research would be more suited to this research into the market of the UK. The initial findings from the CEO showed the need to study the market and the effects on the marketing when entering new products. Therefore the remainder of the research conducted was using a quantitative research approach. Blanaves, M & Caputi, P (2001) explain the use of quantitative research methods is more popular when considering in the fields of gender studies and marketing which the researcher in this case was aiming to highlight. Quantitative research is the use of empirical investigations usually obtained by numerical and statistical techniques. Its use allows researchers to implement mathematical models and theories in order to understand a selected group of candidates. In this case, the researcher has chosen to concentrate on the UK market and Finnish market; however, some additional data collected offers some conclusions to a broader scale. Approximately 60% of research performed is done so using quantitative research methods as opposed to qualitative approaches.

The use of statistics and closed answers in the research allows for easy understanding and comparisons to be made upon the results found. The main benefits of this is that the researcher is not able to manipulate the outcomes of the results and the results are therefore more reliable and standardized each step to reduce bias when collecting. Consequently, the results are more freely available to be generalised to a wider population. However, drawbacks of this type of research are that emotions cannot be quantified in the study, whilst numbers and statistics can be utilised the lack of emotional responses to question means that assumptions on behavioural attitudes is not possible to predict or analyse conclusively (Goertzen, M 2017).

The researcher has investigated pre-existing theories in order to fully understand the process of internationalisation that SME companies will undertake. The use of already existing theories has shaped the research questions and looks to identify if the theories are true in retrospect of the analysed data. This type of research is known as deductive research, which uses pre-existing material in order to test a theories validity. Concerning the research the researcher has identified the theories behind internationalisation and proceeded to examine this with true data collected from users of cosmetic facial products. A deductive rather than an inductive research approach here was utilised due to the abundance of literature that is available on the subject of internationalisation theories and to avoid the risk of no theory supporting the data collected. Further benefits of deductive research can be seen in table 7 (O'Reilly, K 2009). A deductive approach can also allow the research the possibility to:

- Explain causal relationships between concepts and variables
- Measure concepts quantitatively
- Generalize research findings to a certain extent

Table 7

	Deductive approach preferred	Inductive approach preferred
Wealth of literature	Abundance of sources	Scarcity of sources
Time	Short time	No shortage of time
Risk	Avoid risk	Risk is accepted

Once the theory of the subject had been identified and researched deduction begins with an expected pattern and then can be tested against the research gathered in the observations. A deductive approach allows for comparisons to be made in order to confirm or deny a pre-existing theory (Snieder, R. & Larner, K 2009).

A guide that is typically followed during a deductive approach is

- Draw a hypothesis of the theory
- Generate hypothesis
- Testing through relevant methods such as quantitative research methods
- Understanding the outcome of the results which can aid in confirming or rejecting the original hypothesis
- Modification when hypothesis is not confirmed

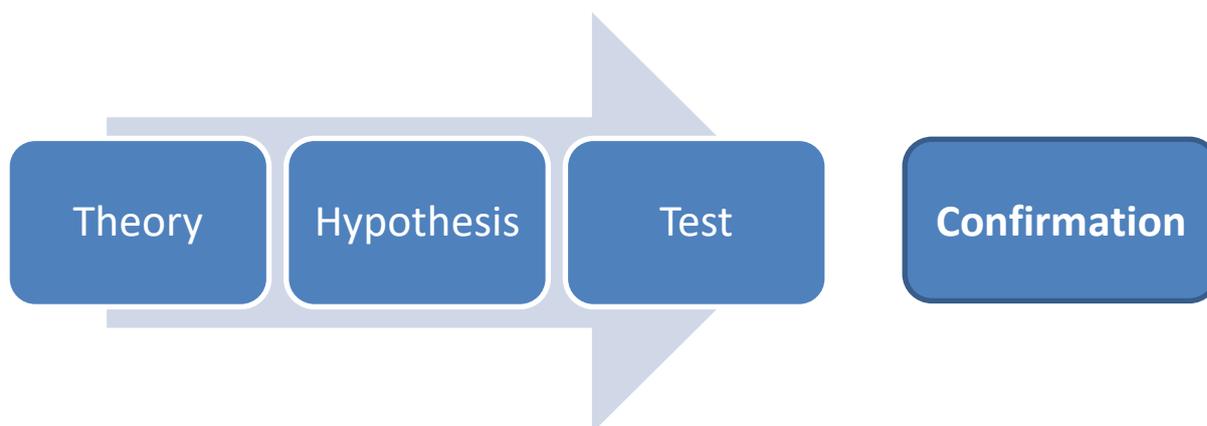


Figure 8. Deductive approach (Dudovskiy, J 2019)

As mentioned a research interview with the case company was first instigated in order to assess the company's goals and objectives, from here the basis was clear that the company wished to move internationally due to ceiling of sales that can exist within the home country. In order to collect data for the findings of the UK and Finnish market a survey was requested to 100 people (50 male and 50 female). Conducting surveys as a research method has both positives and negatives. Whilst the positive can be seen as high representativeness, low cost, convenient, precise and no objectivity in the question. Negatives could be that it is not ideal for controversial issues, inappropriateness and lack of flexibility if closed end questions are used. The use of surveys however allows a researcher to gather accurate and in time data that can be analysed and presented in various ways (Kelley, K et al 2003). The importance of good research is too provide the researcher with evidence to prove or disprove a range of statements made throughout the subject. Surveys give a good indication of the general population although achieving a high level enough response rate is often difficult and hard to control. Surveys are most typically anonymous therefore, you cannot link answers to one individual, and additionally respondents could possibly misread or misunderstand questions and consequently answer incorrectly for their true views.

## 7.2 Data collection

Primary research data is used to conclude the results of this thesis. Survey questionnaire is a primary research used as it is collected by the researcher first hand and is not brought from somewhere else and used in place of other material (Blanaves, M & Caputi, P 2001). The use of survey in quantitative research is common, easy to access and quick to analyse and compare demographics too. It also allows the researcher to generalise a population of people if the scope of the surveyed group is a reflection of

the population as a whole. For this reason, the researcher chose the participants carefully but did not disclose the age of the participants within the research questions. Ethically the options were also available to not answer certain questions that they felt were inappropriate or too impeding. The responses remained anonymous at all time and those who participated are seen a merely a number to any person viewing the results.

Secondary research is used in the process of the literature review to build an understanding of the topic and to create the hypothesis of the research. David, S et al (1993) describes secondary research as that which has previously been undertaken. In order to understand and create a hypothesis of internationalisation and the methods used, secondary research allowed the basis to be built and understood before further reading was undertaken. Within this thesis, the secondary research formed the initial understanding and the primary research has allowed the researcher to develop greater understanding and to find links to confirm or deny statements that have been previously given in material.

This empirical data was gathered using nine questions, one of which was a test question to ensure that users were concentrating and answering the survey correctly whilst understanding the questions. The questions used in the survey were:

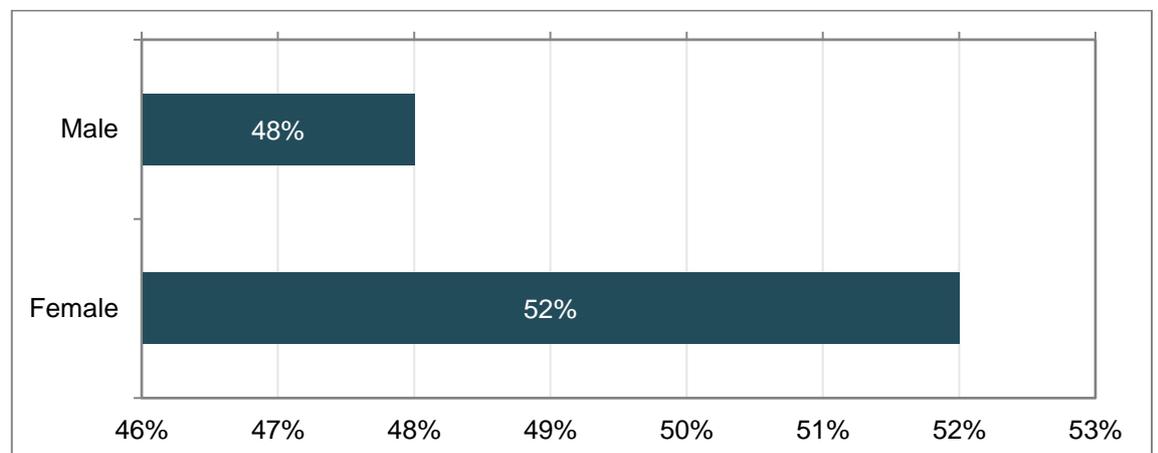
1. Are you
  - a. Male
  - b. Female
2. Do you live in
  - a. UK
  - b. Finland
  - c. Other
3. Your yearly income is (€)
  - a. 0-9,999
  - b. 10,000-14,999
  - c. 15,000-24,999
  - d. >25,000
  - e. No answer
4. How many facial grooming products do you own?
  - a. 0
  - b. 1
  - c. 2
  - d. 3
  - e. 4 or more
5. What is your estimated yearly spend on facial products?
  - a. Less than 20€
  - b. 20-50 €
  - c. 50-100 €
  - d. More than 100 €
6. Do you purchase grooming products

- a. In-store
  - b. Online
  - c. Other
  - d. Never
7. How often do you search for grooming products?
- a. Once a week
  - b. Once a month
  - c. Once every 6 months
  - d. Once a year
  - e. Never
8. Does social media influence any of your purchase decisions?
- a. Yes
  - b. No
  - c. Sometimes
9. Choose purple as an option
- a. Red
  - b. Blue
  - c. Purple
  - d. Yellow

The survey was given to 100 people (50 women and 50 men) all aged 25-55 years old. This was due to the initial interview, which concluded the age range that the product was being aimed at (25-45 for men and over 40 for women). The researchers also wanted to see the results of women aged below the target market and determine whether this type of product and marketing is suitable for women of varying ages.

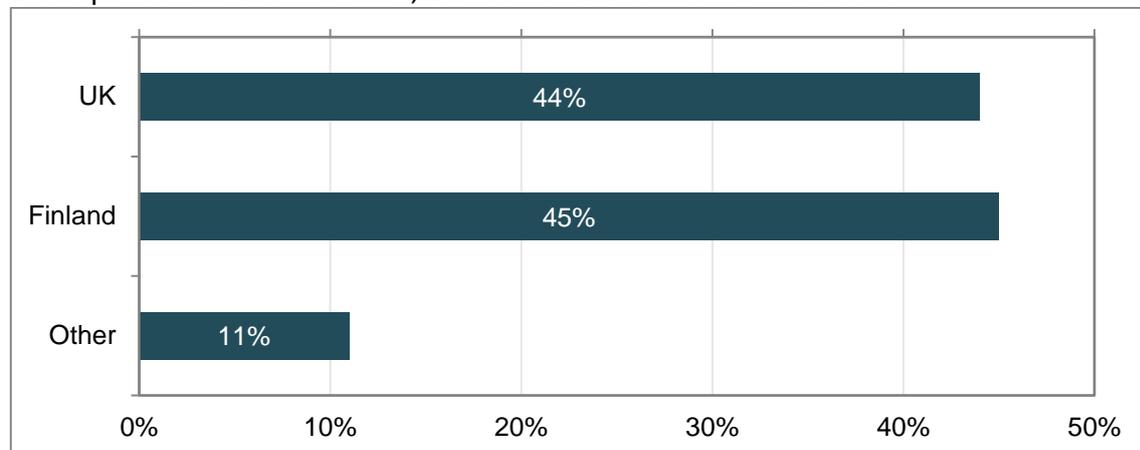
## 8 ANALYSIS OF RESULTS

Of 100 participants to receive the survey, 56 answered. 29 female and 27 male.



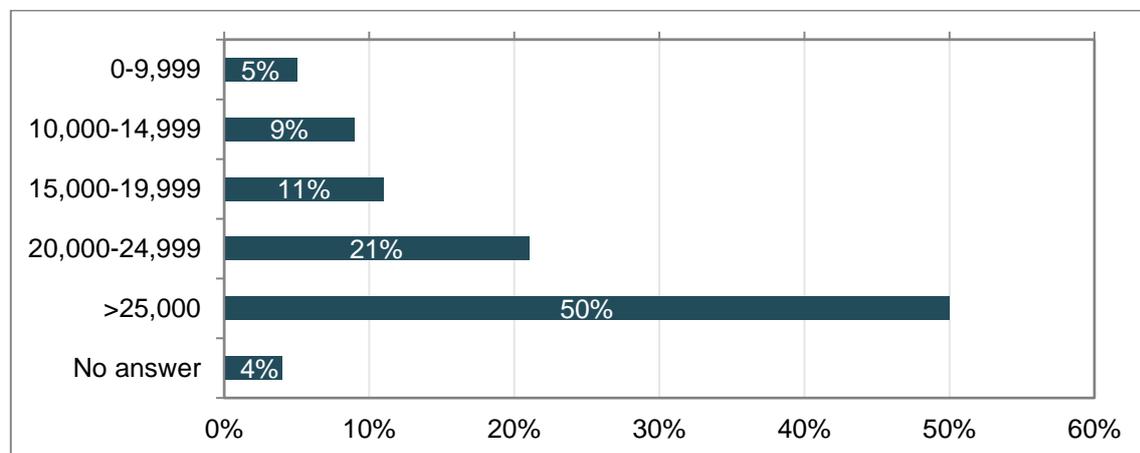
	<b>n</b>	<b>Percent</b>
Male	27	48.21%
Female	29	51.79%

24 respondents lived in the UK, 26 in Finland and 6 somewhere else



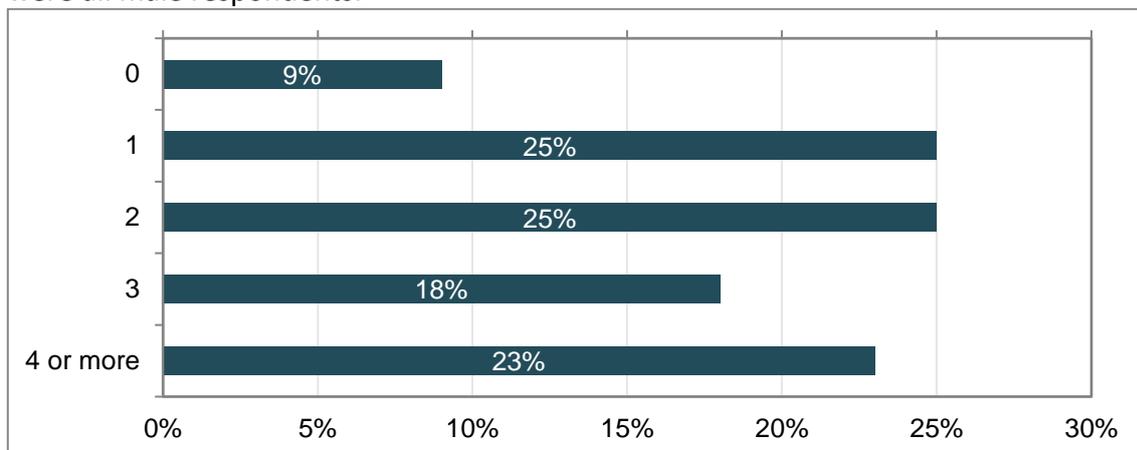
	<b>n</b>	<b>Percent</b>
UK	24	43.64%
Finland	25	45.45%
Other	6	10.91%

The yearly income of respondents was largely affluent earners over 25,000€



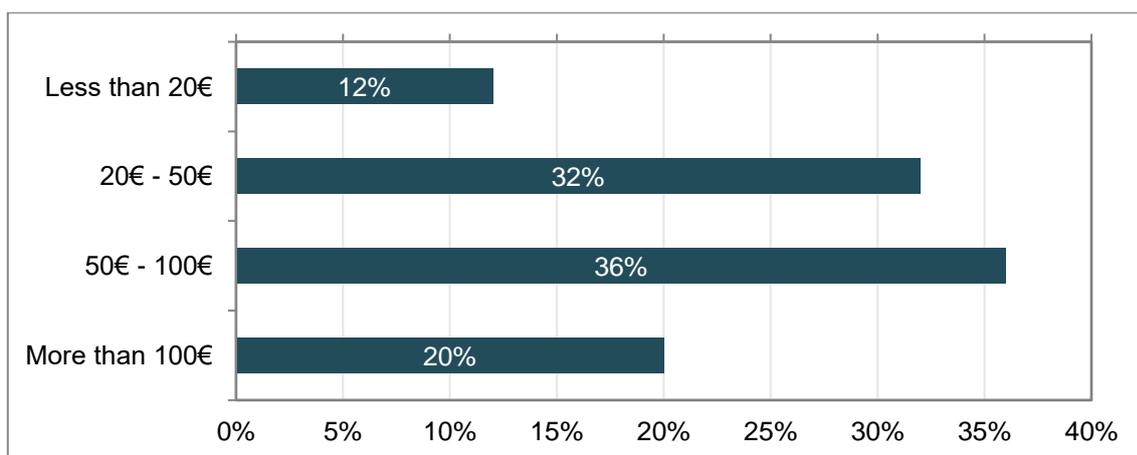
	<b>n</b>	<b>Percent</b>
0-9,999	3	5.36%
10,000-14,999	5	8.93%
15,000-19,999	6	10.71%
20,000-24,999	12	21.43%
>25,000	28	50%
No answer	2	3.57%

With an even split of across the number of products owned by each respondent. Of the respondents to answer zero for owned items, these were all male respondents.



	n	Percent
0	5	8.93%
1	14	25%
2	14	25%
3	10	17.86%
4 or more	13	23.21%

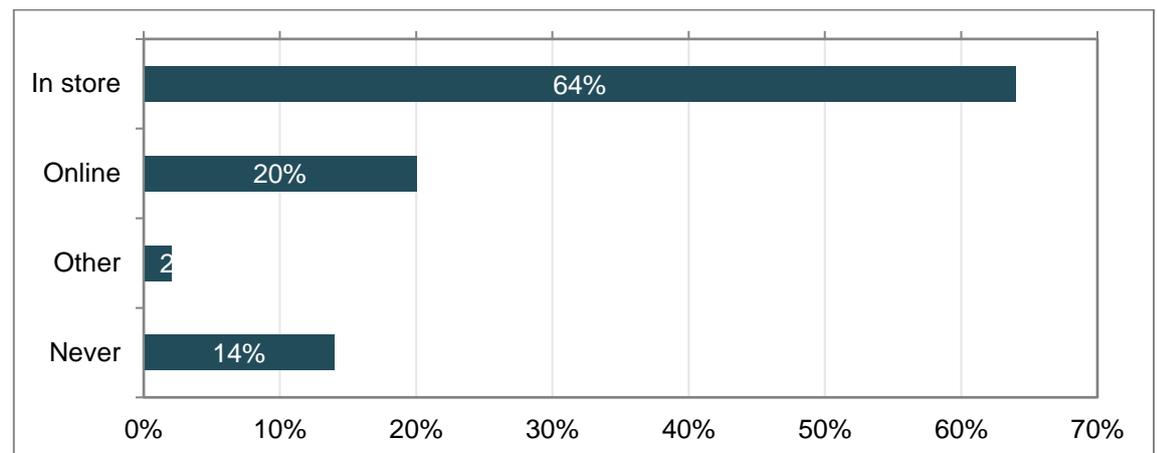
The yearly spend on products was also fairly evenly distributed. When comparing those who spend less than 20€ the five males who do not own any products were in this range. The two remaining people were within the lowest income bracket and therefore it could be deduced that they do not have the means to purchase items or seek to spend money elsewhere. Of those who owned four or more items the majority were within the highest bracket and additionally 11/13 were women who spent between 50-100€ or more on products.



	n	Percent
Less than 20€	7	12.50%
20€ - 50€	18	32.14%
50€ - 100€	20	35.72%
More than 100€	11	19.64%

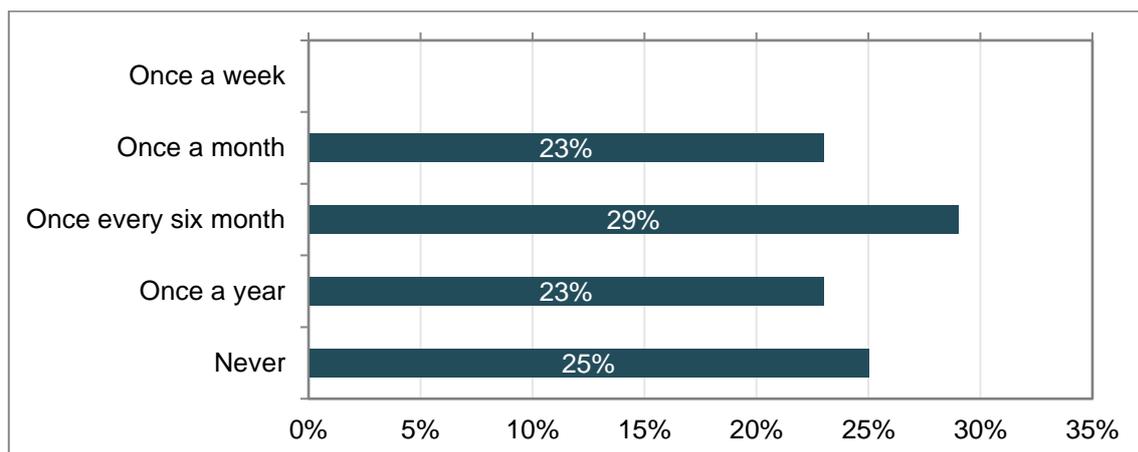
A number of respondents did admit to never buying products either online or in store. Of these respondents, all eight were male; leading to the assumption that if, they own products they are purchased by someone else on their behalf.

Whilst the majority of those surveyed purchase in store, this shows the need for these luxury items to be seen first-hand from potential consumers. However as supported in the theories, it was said that 20% of people look to purchase online nowadays. This appears to be true here also with 20% of users making purchases online



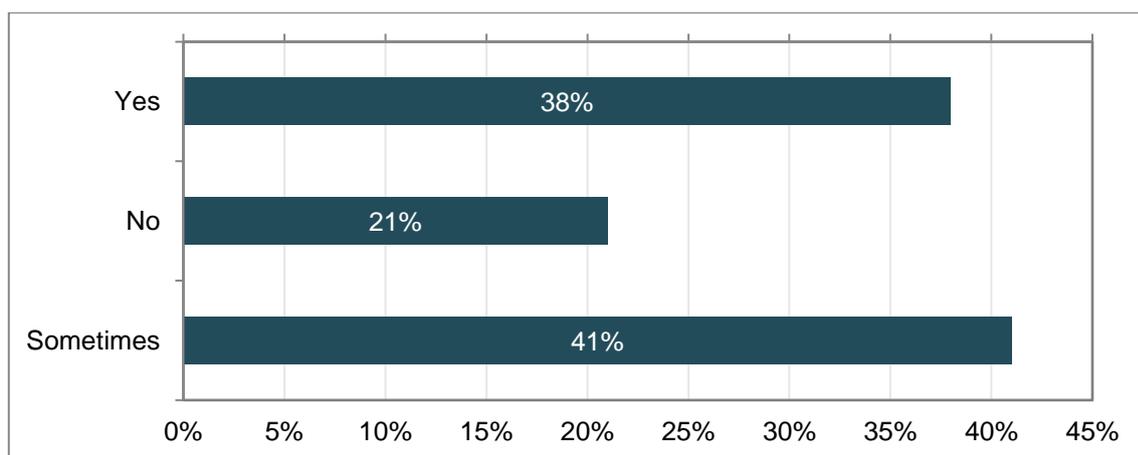
	<b>n</b>	<b>Percent</b>
In store	35	63.64%
Online	11	20%
Other	1	1.82%
Never	8	14.54%

The range of people searching for items is variable however; males again dominated those who answered never. Females who responded never it could be understood that whilst they do not actively search for products they do buy on impulse. The number of impulse buyers seems quite low which supports the theory that there is a purchasing behaviour in place to get consumers to purchase.



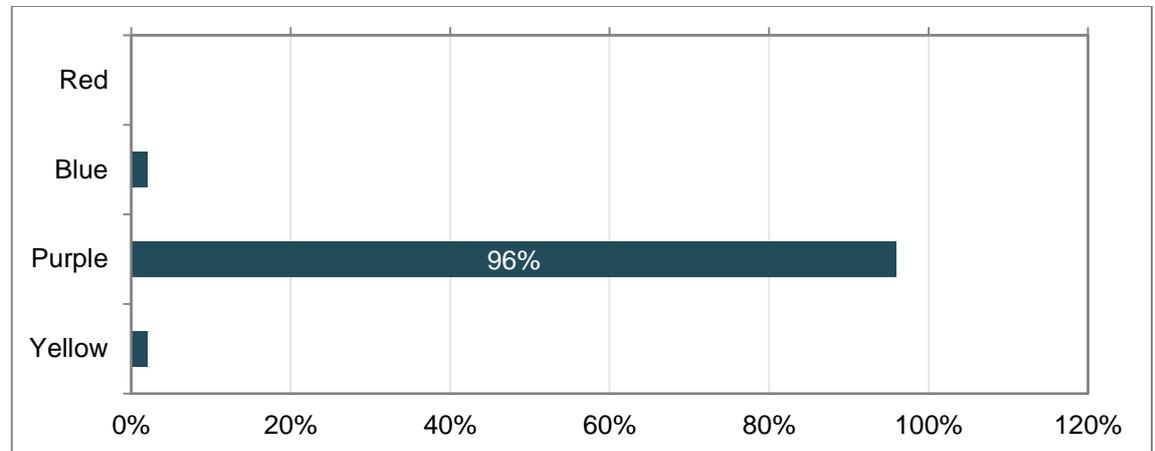
	n	Percent
Once a week	0	0%
Once a month	13	23.22%
Once every six month	16	28.57%
Once a year	13	23.21%
Never	14	25%

A high proportion of respondents admitted that social media either directly affects their buying behaviour or at least sometimes affects. This is support the hypothesis that social media is now having a large effect upon purchasing behaviour and influence on those consumers. Targeting online marketing is becoming more key to businesses who wish to be successful, without social media competitive advantage could easily be given to others and lost from an SME looking to enter a new market. Building the brand image online first before entering the market and allowing consumers to test the products will be vital if successful internationalisation is to performed.



	n	Percent
Yes	21	37.50%
No	12	21.43%
Sometimes	23	41.07%

As a test question to ensure answers were true and fully understood, a directed question was used in order to eliminate possible errors in the survey outcome. Those who answered incorrectly have been removed from the results stage as to ensure the validity of the survey.



	<b>n</b>	<b>Percent</b>
Red	0	0%
Blue	1	1.78%
Purple	54	96.43%
Yellow	1	1.79%

The results have a clear indication that the secondary research that was obtained supports many of the ideas that consumer behaviours are often linked to social media exposure. A large number of the respondents either had or are sometimes influenced by what they view on social media. This confirms the theory that social media has a large part to play in the internationalisation of SMEs, without it many will fail. The requirements of a digital presence is becoming greater within the world of business, as we move more and more into a digital world and markets start to shift. SMEs need to be able to utilise this trend to ensure they can remain competitive. The secondary research indicated the need for social media to be implemented in all business and this is further enhanced following the primary research into the target age group. However whilst people are influenced by social media, the need for physical presence is still clearly desired by the purchaser. One hypothesis disproven in this research is that solely a digital platform will suffice. The respondents, although twenty percent shop online, still make these luxury purchases in store. The need to test and see the product first hand still plays a vital role in the success of ensuring sales to customers; therefore, whilst a digital platform is certainly required the market is not yet at the stage that physical face-to-face purchases can be abandoned. Eighty percent of sales are still done via stores and physical presences.

Additionally we can deduce from the results that whilst males are consuming facial products they are not always entirely responsible for

purchasing. During the initial research, claims were made that significant others could be purchasing consumables on behalf of their partners or close acquaintances, owing to the fact the research showed that some males have products but do not purchase or research, this again confirms the theory of there being possibly other people purchasing on behalf of these males.

The idea behind the continuum purchasing behavior was to try to test the theory that purchasers do not merely buy on impulse when it comes to luxury items, in fact, the research indicates that many of the purchases made are in fact researched beforehand and influenced by peers and social media. Further to this, we can see that although some respondents had lower income values they still purchased items within the range of the products that are marketed by Päre, therefore the move to go international would seem plausible and potentially successful even if some of the market have lower disposable income.

## 9 CONCLUSION

Whilst the true implications surrounding Brexit are yet to be discovered, due to the delay in the UK leaving the EU union, the research clearly shows the need for SMEs to market correctly with both digital and physical fronts remain Eidenmuller, H. (2016).

*Is there a need to expand beyond Finland?*

From the outset of this research it is vitally clear that a company operating only within the border of Finland has a clear need to expand internationally, and considering the UK market potential this seems a logical step to take considering the close cultural comparisons shown. The market size within Finland is considerably smaller than in most other domestic markets, added to the fact that currently the EU single market allows easy trade, it is an opportunity that should not be missed.

The UK market with its larger population and average spend on similar goods is exponentially larger than Finland. Entering this market, even with the uncertainty of Brexit will only be a clear advantage to an SME, if they can enter correctly and make a success of the internalisation process.

*Is only a digital platform needed for successful internationalisation to occur?*

The need for more than a digital platform is evident in both the primary and secondary research carried out within this thesis. Consumers are moving towards a digital platform of purchasing however, a clear

indication is that physical items within a luxury item are required in order to ensure interest is converted into purchase.

Ashley, C & Tuten, T (2014) estimation that consumers are purchasing twenty percent of items online is a true reflection of the current market however whilst the eighty percent remain purchasing on other platforms the need must be that digital is not the only front. Social media is influencing the buyer behaviour more so than ever before but needs to be taken a view to marketing rather than actual producing sales revenue.

*Which modes of entry best suits SMEs?*

In order for SMEs to safely enter new markets they must consider all entry and exit strategies. Ensuring that thought is placed into the correct procedure can determine the success or failure of a move. Described in this research are the main components of the entry strategy but for a small infancy SME company the most logical step would be exporting the goods with a view of setting up a subsidiary once market share has been gained in the new market. The resources available to smaller companies will allow it to expand its operations more slowly and with greater care that is needed for new product launches. An SME must consider the future impact of this type of entry strategy and protect itself against potential dangers in the long term, such as, competitors gaining knowledge of the product and having greater knowledge of the market whilst they continue to only export and not have a strong physical presence within the new market area.

Allowing the creation of expertise within the new market is a key factor in the success that a company can achieve. Utilising a foreign sales subsidiary allows the company to concentrate resources on more immediate concerns but, as mentioned earlier, comes at a cost of potentially being ostracised by partners that have been creating upon entry. For smaller companies these two entry modes, exporting and outsourcing and foreign subsidiaries are the most logical step whilst capital is tighter. Expanding the operations later can be achieved and these steps allow easier exits of the market should the worst happen and the company starts to fail in its strategy. Ensuring an exit strategy is sometimes more vital than the entry, knowing when to cut the losses and remove the product from the market before too much damage is inflicted

*What marketing is required for SMEs to internationalise?*

Ensuring there is a connection to the potential consumers can largely affect the success of operations. Detailed here we can see that the secondary research clearly identifies the need to engage with the audience and ensure that, in the modern consumer market, the company is of ethical value. Giving back to the community can not only assist in bringing the best talent to an organisation but also ensures good relations with all

stakeholders and users of the product and services companies offer. The direct relation between the ethics of a company and its performance is clear to be seen. Companies who are more ethical and contribute to society often lead to successful business operations. The mood is changing amongst consumers and they are clearly starting to shift towards quality and production over simply the price of an item. Developing a marketing campaign surrounding the positive image of a brand increases its potential for success.

## 9.1 Limitations

The main limitation within this research was studying the after effects of Brexit. This was due to the cancellation of UK leaving the EU market and therefore not being able to study correctly the effects, only hypotheses remain to how the market is going to react once (or if ever) Brexit occurs.

Additionally, limitations occurred during the survey stage because the survey was open to the public; it does not show only the views of inhabitants of Finland and the UK. There are also other residents of other countries within the survey results. These 'other' countries could alter the results slightly because it is not possible to know where they are residents and therefore not possible to understand the cultural norms that they have upon purchasing. Whilst we can understand the cultural purchasing norms of UK and Finland through research, the researcher had not anticipated, which other countries may complete the survey. This being said, the results still fell into line with how secondary research portrayed the buyer's behaviour, therefore, whilst a limitation, the results in total are still a fair reflection of the demographic of Finland and the UK.

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