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Want to be competitive? Expand your business internationally!

The importance of Internationalization

What is “Internationalization”?

On closer examination, there is a wide range of meanings for the term “Internationalization”. When analyzed in a simplified manner, it could describe the trade processes that take place between different countries. However, this term has a deeper meaning and also includes a constant process of growth, expansion and enhanced knowledge of foreign markets, cultures, languages and political realities. All of them result in an increase of international involvement and representation of a company.

Internationalization includes not only great opportunities but also tremendous changes and challenges.

On the one hand, the following paragraphs will show the main reasons to take on internationalization projects. On the other hand, this article will also show advantages as well as risks. At last, it describes a series of facts that should be considered before taking the decision to explore foreign markets and countries with your enterprise.

Why to internationalize?

There are various reasons to enter new markets. These factors often depend on size, maturity, financial key data and previous locations of an entity. Weak domestic market environment or insufficient product demand can be a valid reason for an international expansion. By taking this step, the gaps in demand can be equalized.

Going international also helps to obtain long and short time security. Especially in times of economic insecurity. A company will be less vulnerable to fluctuations and recessions in European or worldwide economy, as the risk is fragmented on global level rather than one single market. Therefore, Internationalization might

also lead to an improvement in production capacity, employment and financial structure.

Ultimately, it can even protect the existing competitive advantage and therefore, strengthen the competitive position. Why is that the case? The answer can be found within the framework of the so called “Economies of Scale”. An increased output leads to a significant decline in fixed costs per unit of production. This process allows a company to even further expand their operations or to simply gain a cost advantage in comparison to its competitors. Especially firms, which are operating in smaller domestic- or niche markets can benefit from this process.

More than just economic challenges

Once the strategic decision to internationalize is taken, a bespoke approach to enter the global marketplace is from utmost importance. It is crucial to be aware of the economic and non-economic challenges that internationalization processes include.

Important aspects of Internationalization range from differences in culture, language, environmental and climatic conditions. Other influencing factors range from political ideologies or bureaucratic structures, to internal business resistance, various insecurities of market and competition circumstances.

Despite many years of globalization, the “culture” factor should not be underestimated. It’s not just about understanding foreign market processes, demand or local economic or political restrictions. Understanding customers as well as business culture is another decisive step of any operation abroad. For managers of international companies this means that they must adapt their organization to the local characteristics of the market, legislation, fiscal regime, socio-political systems and the cultural system for a successful business relationship. As a consequence of such processes, a company needs open-minded and sophisticated employees, both expatriates as well as local ones, to meet the growing business objectives and demands based on the standards of target markets.

Advantages through Internationalization

There is a direct link between internationalization and increased business performance: international activities reinforce growth, enhance competitiveness

and support the long-term sustainability of companies. Furthermore, there are also positive side effects on political and cultural relations between bilateral trading states; for instance, international activity helps maintaining good political relations.

Another vital element is innovation: Internalization boosts innovation within companies. When a company competes on international markets also its challenges and competitors increase. Thus, this company will have major inputs coming from multiple markets, international feedback on its products as well as the chance to observe other players on the global market. Therefore, a company can further improve their products and services through Internationalization. In fact, the described knowledge gains can even lead to the development of new products to fulfill newly detected demands.

Competition and variety among potential suppliers are important key factors for companies when they decide to go abroad. Thus, in an international environment, you will not only have the possibility to increase your own competitive chances but also get access to a diversified range of products.

Zulla Consulting & Partners with its strategic foresight and multiple years of experience will support your internationalization process by developing tailor-made solutions based on a wide series of methods and best practices identifying customer needs, challenges and potential related to your business, as well as adapting your company to the new cultural and business environment.

For additional information and an initial consultation, feel free to contact Daniele Zulla at zulla@zulla-consulting.com.

Sources:

- › Strategies of internationalization: an overview, Schmid Stefan, 2009, European School of Management
- › International Small and Medium-Sized Enterprises, Olejink Edith, 2014, Springer Gabler