Applying Theoretical Models to an Online Context
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In a time where unconventional business models increase for online business, the traditional tools for market analysis are falling behind. Internationalisation of companies is a widely examined field in literature and articles. There are a number of well-established theories of how a company ought to act when entering a new market. Someone who needs to be mentioned is Philip Kotler, who is internationally renowned for many theoretical contributions, one being his book Marketing Management. However, the conditions have now changed. Being an online company means that one does not longer need to be physically present on a market in order to enter it.

The study that this article is conducted from examined an online service provider and its current state where the company is facing a high growth rate introducing their website in several new foreign markets. The company, that has chosen to be anonymous, is present in more than 30 markets worldwide, but is opening up in more than five new markets each year. Some of the nations have been rather frictionless to start up in, whilst in others the company has faced some struggles. What are the reasons behind the different outcomes? Are some market characteristics more preferable for an online service company? In a fast-moving pace, there is little time for reconsideration and evaluation. The study that was performed took one step back and reflected upon the procedures for recently opened markets and used traditional theory to pin out if it could be applied for online service providers as well.

The theoretical models that were used to try out on an online company were the following:

**PEST FRAMEWORK**
The PEST framework covers many important aspects and is a relatively easy tool for a company to use. It evaluates whether a market is interesting or not, based on different aspects. (Johnsson et al., 2008)

**Political/Legal**
The political situation in a country may vary a lot, which is something to bear in mind in areas where the tendencies of instability is higher. It is always important to be aware of the political risks that exist. Some governments welcome new establishments and are open for creating opportunities whilst others are more restrictive with their regulatory. The legal structures differ a lot too. Operating in a new environment may bring that contracts can look differently, the intellectual property situation is risky, the company policy has to be adjusted and so forth. (Johnsson et al., 2008)

**Economical**
To decide the potential of a market the gross domestic product and disposal income are often used in order to get a size of the plausible revenue. Depending on what offer a company has, different markets are of different interest. Rapidly growing economies obviously mean good chances of revenue streams, but so may also developing countries bring. The strength of the currency is another aspect that could influence on consumers’ buying behaviour. (Johnsson et al., 2008)

**Social**
The social context of a country ought to be investigated too. Demographics, market segments, and cultural variances are important parameters important to understand in order to acquire knowledge about customers’ requirements and desires. (Johnsson et al., 2008)

**Technological**
The technological situation on the market has an impact on companies operations. In less developed countries, technology might fall behind. The technology is constantly developing, which means that most
commodities will eventually become available but it is rather a question of time. (Johnsson et al., 2008)

**CAGE DISTANCE FRAMEWORK**
The CAGE Distance Framework takes the domestic and existing markets in account and proposes four different dimensions of distance: Cultural, Administrative, Geographical and Economical (Johnsson et al., 2008).

**Cultural Distance**
The cultural distance is measured in language, religion, ethnicity, and social norm. This dimension does not only compare the differences or similarities in consumer behaviour, it also takes managerial culture into account. (Johnsson et al., 2008)

**Administrative and Political Distance**
In this part the distances considered are administrative, political and legal traditions between markets. In some cases countries have a slower administration than others and may also be corrupt. Institutional weaknesses can create problems if a company originates from a country with no such problems. Political and legal factors differ a lot and companies would accordingly prefer to expand to a market with similar situation. (Johnsson et al., 2008)

**Geographical Distance**
With the geographical distance the framework examines the differences in geographical characteristics. This does not only include the physical distance but also factors such as infrastructure, size, communication, and sea access. Using an example of an US logistics company, it might be difficult using their structure in Europe where countries are smaller and the infrastructure is denser. (Johnsson et al., 2008)

**Economical Distance**
The economical distance refers to as the difference in wealth between two markets. It shows that it is harder to enter a market that is very different in wealth in comparison to the company’s existing markets. This could be explained by the following example; serving customers in developing countries might be difficult for a large venture with a wealthy domestic market while it might be easier for a smaller company with experience in serving poorer markets. (Johnsson et al., 2008)

**THREE C MODEL**
Constructing a market strategy can be made by using the Three C model. Jain (2000), presents the Three C as the customer, the competition, and the corporation, and claims that a market strategy deals essentially with these three interacting forces. He further argues that a good market strategy should be characterized by a clear market definition, the corporate strengths, and performance superior to the competition. This is explained to be key success factors of the business. (Jain, 2000)

The three Cs is a dynamic model and it distinguishes factors with different objectives to pursue. Sometimes the company’s offer matches the customers’ needs and there might be competitors that offer the same thing but better, this would give the organisation a disadvantage over time. If an organisation has an offer that does not what the customer needs, there will be a problem for long-term success. As a conclusion, a corporation’s offers must meet customers’ needs better than the offers of the competitors do.

**CREATING A NEW MODEL**
The three models and frameworks that were chosen were considered to cover most aspects that could be important for an online service provider when entering a new market. Put together this created an analysis model with three layers as shown in figure 1. The outermost circle represents the characteristics to take into account when choosing a new market to enter, the next layer takes into account characteristics affected by where the organisation is already present to date, and the inner part describes what aspects to consider once a market is chosen to enter and a new market strategy is to be made.
Another example is how a political crisis in a country can affect business. It is most often unlikely to happen but when it does it has a high impact of all businesses, online or offline, on that market.

The Social factors that can be of importance are on the other hand more likely to appear but at the same time easier to deal with. Take the example of distrust for new online business models in developing countries. It is almost certain that there will be some distrust amongst the possible customers but since this is known and expected it is also easier to build trust through marketing and usability of the website.

Finally in the PEST model it was found that for a company that is not physically present on the new market, the Economical factors are not likely to affect the entry as much as the Social and Political/Legal factors, although a poor economy has to be evaluated in terms of potential revenue. The Technological factors were also found to be of less importance. This was because even though Internet usage is a crucial condition for an online business, it showed that entering a market with a low Internet usage brought the opportunity to grow with the market and create brand recognition early on if the right resources were put in.

**CAGE distance framework**

For the second part of the analysis model, the CAGE distance framework, it was found once again that the Cultural distance (having similarities with the Social factors in PEST) was of importance. On the other hand the Geographical, Administrative and Economical distances was showed to be of a lesser importance.

For the cultural distance trust was once again an issue to take into consideration, especially if the cultural distance was large. Managerial culture distance can also affect online service providers when dealing with for example suppliers on the new market. Moreover, the general culture in the new market might be hard to figure out and completely understand if it is too different from that of current markets.

Interesting to see was that geographical distance was of little importance.
importance, as one might have expected. The online industry has diminished geographical borders in the sense of country and continental borders, and new borders have been showed to be of importance, such as language and culture. One example of this was when considering Australia as a new market for a European based company. Already being present in the UK made Australia an easy target due to cultural and lingual similarities, even though it is geographically on the other side of the world.

As for economical and administrative distances, the same reasons were found as for the economical factors in the PEST analysis. It is mostly interesting to look at if the company is planning to open up offices on the new market.

**Three C model**

In the last part of the new analysis model all of the three Cs showed to be of importance when creating a new market strategy built on the previous analysis. How the new market strategy would be formulated showed to be more specific to each company and business model than the other parts of the analysis model and no general conclusions could be drawn for online service providers in this part. Although, the three C model is believed to be an advantageous approach to take for online service providers in general.

**The model combined**

All in all, most parts of the constructed analysis model proved to bring valuable insights as to what is important in a new market entry for an online service provider and it is also believed to have covered all the factors that could affect a new market entry for the examined company in the study.

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