## Chapter 2:

### Introduction

A company in which decide to internationalize into another market could suffer a problem where there will be lack of information and knowledge on how to conduct the business operations in that particular region of foreign market (Carlson, 1966). As Internationalization itself has been acknowledge as a gradual process in which firms is creating necessary / important resources contain competency in order to plunge in other market which located in another country (Johanson and Vahlne, 1977).

### Internationalization

The terms of Internationalization is defined as a "geographical expansion of the economic activity over a country's border.(Ruzzier et. al., 2006, p.476). Firms from emerging market recognize that implementing internationalization is one of their best opportunity and strategic choice in order to have a significant development through collecting resources and capabilities available (Guillén & García-Canal, 2009).


Source: (Johnson et. al., 2008, p. 295)

As explained in the graph 1, there are several drivers of internationalization: first is due to the Market drivers, where it works as the important facilitator of internationalization in several standardization markets. Second is related to the cost drivers, because the cost could be reduced if a firm is operating internationally.

And in this case there are 3 crucial components of cost drivers: first is by economics of scale, it is conducted through increasing the amount of volume the product both on the purchasing side from supplier and also the on the production part. Second component of cost drivers is by implementing “country specific differences”, for the example a clothing company could shifting their production activity to a company with a relatively cheap labor while still maintaining the design activity of the products in a big city such as London, Milan or others. And the last components is due to the Favorable logistic, which means the cost needed in order to transport the goods / service into another location, as an example it is considerably easy to move a product such as microchip in comparison to transport a product such as furniture. The third drivers of internationalization is Government drivers, but actually government factor could either be beneficial for a company because it could facilitate them but in the other side it is also could potentially inhibit the action which implement by a firm, and there are several elements of regulations and policy such as like tariff barriers, restriction of ownership, patenting regimes / intellectual property of rights, government subsidies to the local company and also others. And the last driver of internationalization is competitive driver, because it will increase the pressure of global coordination as there will be interdependence between countries (Johnson et. al., 2008, p. 295).

Selecting the most suitable and suitable entry mode for their business activity in foreign market is really important for the company, because it has a very significant connotation related to the level of resources require / committed, risk, control and also might will be affected the survival potential and performance of the firm itself on their foreign market business operations (Root 1994; Woodcock et al. 1994). Entry mode itself has been define as an institutional agreements in which enable the company to enter another market with their product, technology, human skills, management and also other resources (Root, 1994).

On the market entry strategy, there are several types of entry mode in which could be implemented by the company in order to operate in the foreign market, for the example is through franchising that there are several reasons why it will be suitable to use this type of entry mode as the organization would enter the foreign market fast with limited degree of risk and minimum numbers of capital involvement needed, and one of the primary attraction / advantages of licensing is that the combination of advantages of the internationally operating firm with small privately owned firm, and it is permit an accelerate market expansion with comparatively small capital required (Mühlbacher et. al.,2002, p.464).

Another type of entry mode would be Joint Venture, it is another type of entry mode in which a company could implement as their strategy while operating in another market, it is define simply as having a partnership at the corporate level and it could be in the either domestic or international market operation. As a partnership formed between these 2 or more companies, a joint venture is an enterprise which formed for a certain business purpose within 2 or more investors that share the control and ownership of the business operations (Onkvisit & Shaw, 2004, p. 252).

As the capital involvement increase it means that the level of risk and the need to control by home company will also increasing. This type of entry mode is forming a combination the skill and market knowledge within the host country firm also involving the technical skills & production of the company that want to penetrate the market (Mühlbacher et. al.,2002, p.466).

There are 2 primary reasons for doing the joint ventures and it is related to commercial and governmental, the government restriction is created in order to reduce the control which foreign company could potentially exercise towards the local operations on the market. Also by implementing joint ventures it is creating a better relationship between the government and local organizations, assume if the local partner could carry political influence than it might be lead to grant and government support in which will be less vulnerable towards the political risk (Mühlbacher et. al.,2002, P.274). But also there are several disadvantages by implementing joint ventures as an entry mode of the business operations, as joint ventures involve partnership between the parties in the business activity it means that everything is containing the concept of maintaining relationship, some important problem could appear due to the conflict of interest between parties, problem related to disclosure of sensitive information and misunderstanding over on how profit could be shared, that would be some conflicts in which could potentially will happen due to the lack of communication and planning during, before or after the establishment of the ventures (Mühlbacher et. al.,2002, P.275).

**Small Medium Enterprise**

According to the European commission, as the executive body of the European Union has standardized the terms of micro, small and medium enterprises of the recommendation of May 2003, the definition is convenient over the geographical scope in which falls under the jurisdiction of the European Union (European Commision, 2003). But actually the definition of Small medium enterprise (SME) is still far from being clarify, as one of the main obstacle in developing cross country analysis of SME data is a lack of the universal definition of what explaining the Small medium enterprise (SME) itself (Ardic et., al 2011).

The roles of Small medium enterprise (SMEs) have an important role on the economic activity such as through innovation, growth and also employment (Floyd, 2015). Also, the fact that the Small medium enterprises (SMEs) have become the primary / major contributor in order to make a lot of job opportunities in a particular area. Again, it is enhance the economic development while also promote the efficient usage of resources and will be lead to the economic development and growth (Audretsch, 2004).

**Emerging market**

There are several terms which could be explained the definition of emerging market, according to (Miller, 1998) although the differences of individual, all emerging market are similar if it is related to the future growth, also it is the opportunity for the market expansion in the future that would distinguish an emerging economy from less developed countries, while these forms of economic stimulus is attracting foreign investment, technologies and the external segment of participation of their commercial affairs which will only occur in a country with increased growth on their conductive policies. Miller also claimed that it is broadly defined as emerging market if a country is trying to make an effort in order to improve the economy by raising the its performance standards to the world most advance nations.

While on another assumption, according to (J.D. Arnold & A.J.Quelch, 1998) states some related to the concept of emerging market that “there are 3 forms of country economy in which often determine various definitions, first is the infinite level of the economic development follow by the pace of economic development and last is the governance system of the market where the stability and extent of the free market system where if the country is under a process which called economic liberalization then it would be defined as a transitional economy.

Big emerging markets have a contribution number of important traits, there are several characteristics on it such as it is considered as geographically large in terms of the size, represent substantial market for a variety / wide range of product selection, have a good strong rate of growth also the potential in order to have a significant growth, have an attempted of compelling program for the economic reform, also it will be engender the further expansion in the neighboring market as they continue to grow (Phillip et. al. 2009, p. 262).

Asia has become the region with the fastest growing area in the world for at least the past 3 decades, also the prospect for the economic growth is considered to be excellent (Phillip et. al. 2009, p. 265). In contempt of the economic adjustment, it is estimates by the International monetary funds (IMF) that Asian region economics would have a contribution of 29% on the global output at the year of 2000 which were on target, where it is both as a technology and also source of product (Phillip et. al. 2009, p. 266).

But also, there are some challenges and difficulties in which in this case is been facing by emerging markets countries, because the emerging markets itself is characterized as a diverse, dynamic, diverse environment for three major reasons. The first reason is as the mainstream segment In the emerging market is regularly involving the customer with different socio-economic background in comparison to the mainstream segment of the large amount in the middle class for the mature markets, second is due to the several segments in the emerging markets are considered as too big to be ignored through international firms, and the last is because the industries itself in the emerging markets is evolving really fast as in the catch up phases of the development than is the case of the in the mature market (Nailer et. al. 2015, p.857).

**Indonesia Emerging Market**

The economic condition of the country is one of the most critical factor in this emerging market, as the statistics shown that the Gross domestic product (GDP) growth of Indonesia's is slowing down to over 5% in 2014 but the growing of the middle class, stable political institution, strong domestic demand and the conservative of the macroeconomics policy has construct Indonesia an attractive destination / market in for the foreign direct investment (FDI). The official governments have welcome foreign direct investment as they believe and aim to the job creation growth and accelerate the economic growth of the country. Unfortunately, ambiguous and conflicting regulations, poor current infrastructure, uncompromising labor laws and high number of corruption tend to be the main concerns of foreign investor to plunge in this attractive market (The PRS Group, 2016, P.1)

## Theoretical Framework

### Uppsala Model

Uppsala Model is a one of the oldest model which is related to the process internationalization that implement by company (Johanson & Vahlne, 1977, p.23-32), it is combining 2 different variety of approach of internationalization process while it would be applicable to use for both small – medium enterprise and large enterprise. According to those Swedish researchers (Johanson & Vahlne, 1977, p.23-32), they conclude that the most existing theories at the moment are emphasis to the cultural differences while also ignoring the internal foundations which is really needed so companies could handle their international operations. The scope of Uppsala model is describing on how companies could success in acquiring knowledge and learning while doing their internationalization operations, the international activities demand and grant 2 categories of knowledge, which is the market specific knowledge and general / objective knowledge (Hollensen, 2008). The internationalization model of Uppsala is distinguishing 4 different approaches of entering the international market, which in this case will not be able to seen independently of company's market, situation and market knowledge, and those 4 approaches are consist of: first, no regular sport activities, or could be called as sporadic export, second is export by independent representatives, the third is through foreign sales subsidiary's establishments and last is approaches is foreign manufacturing or production (Hollensen, 2007, p.63)

One of the main points of the Uppsala model is that lack of information and knowledge about foreign market situation while doing a business operation in that particular location is the major and key obstacle, while in other side knowledge could be acquired (Johanson & Vahlne, 1977, p. 23). By plunge and operate regularly into another market, company will not just only achieve the knowledge about new market but also will be more connected to the market where it is not easy to use resource, as Hadjikhani (1997) has coined the interpretation of "Intangible commitment" when evaluating this situation.

In the original version of Uppsala model, it is wrap up that general knowledge and market specific are very important for firms in order to implement internationalizations, the market specific knowledge is achieve through conducting an activities in the market while for the general knowledge is gained is not explained as concise and clearly (Johanson & Vahlne, 1977, p. 29).

**PESTEL**

On the political side for Indonesian political system, the President Joko Widodo or famously known as Jokowi whose currently approaching the edge of his second year in the presidential office currently positioned with a stronger power comparable from the first year. The Jokowi's legislative teams has already generate numerous positive results, as the tax amnesty plan has generate around $12 billion in terms of revenue which in this case will help and provide to finance the infrastructure development plan that Mr. Jokowi is counting on to the GDP (Gross domestic product) growth up to 7% at the time where he will pursue a renewal of the presidential mandate in 1997 (IHS, 2015, p.3).

On the Economical segment, ASEAN has been facing several problems and false start in order to attempt unify of combined economies of its nations in the region, most of the economic growth are coming from the trade outside of the ASEAN group. The process in which these countries took in order to diversify and expand the industrial base to stimulate the intraregional trade when ASEAN was first created have impacted towards fastest growing and improvement economies in the region and also an increase related to the trade on its members (Cateora et, al, 2011, p.318).

There are several circumstances in which account for the solid growth of the ASEAN economic growth of these ASEAN countries, also the transformations of cheap labor haven to the industrial nations: first is due to the action of the ASEAN government that have an engagement in order to make a deregulations, privatization & liberalization of their economies, second is the decision to transform its economics into manufacturing based from commodity based, the third reason is due to the judgment to specialize for the manufacturing components where in this case they have the comparative advantages (that they make more diversity on the industrial output while also increased the opportunity of trade). (Cateora et, al, 2011,p.318-319)

On the legal sector, the progress is considered to be a little but slow but the official government is continue to bear the legal, regulatory and accounting system with the compliance of the international norms, current accomplishment related to the passage of a comprehensive anti-money laundering law in the end of 2010 and also the land acquisition law in December 2011 (Indonesia country report-climateforinvestment&trade, 2016 The PRS Group P.3).

The Government also providing benefit to over 1500 to both foreign & domestic industrial company which operated in the bounded zones throughout Indonesia, as one of the largest bounded zone is the free trade zone island that called Batam (located close to the south Singapore). It is state that any investors that located in the bounded zones are not required to administer and apply for some implementation licenses such as the construction, location and also act permit / land title while also foreign companies are allowed to have 100% of ownership which is a really big advantages. Those company do not pay some cost related to the value added tax (VAT), income tax, import duty and sales tax involving imported capital goods, equipment & raw materials until the production of the destined product for the local market is exported to Indonesia (The PRS Group, 2016, P.3).

The environmental side of Indonesia is characterized with a biodiversity which is the country's best assets; the country itself is place on the top 5 in the world for the plant diversity, with a number of estimation to around 38.000 plant species. Unfortunately the big tracks of the Sumatera's forest has been demolished due to the making of way for the purpose of plant oil plantation, with some companies clearing out the trees and firing some stumps which remains, some strength and challenges are shown below on the table above ( MarketingLiNE, 2015 P.40.).

**Table 9: Analysis of Indonesia's environmental landscape**

| Current strengths | Current challenges |
|---|---|
| - Rich biodiversity | - Increasing forest loss |
| **Future prospects** | **Future risks** |
| - Conservation of wildlife | - Distorted pricing<br>- Future energy mix |

Source: MarketLine MARKETLINE

Source: (Marketline, 2015)

For the Technology side, Indonesia proposes a very limited telecommunication access and the current situation is not going very fast. But on the other side the broadband internet access is widely available in the urban center, although broadband satellite service (BBS) is offering coverage to more solitary region. As a government objective in order to provide the low income customer with improved access of telecommunication infrastructure, it is implemented through developing the information technology and telephone services in the rural area by the end of 2015. (IHS, 2017, p.34)

For the social part, Indonesia has execute the cash transfer program which targeted to the poor household in order to decrease effect of the fuel subsidy reduction program, also to provide them with education facilities and healthcare where the intention is to raise the living standards. Therefore, the official government also plays their role which desire in order to bring social insurance for the whole population on 2029. Unfortunately, the country has facing a problem before that related to the human trafficking since the year of 1991, increasing of ethnic violence and religion intolerance also might potentially become a risk to the social harmony towards the Indonesian society (Marketline, 2015, p.29).

| Table 5: Analysis of Indonesia's social system | |
|---|---|
| Current strengths | Current challenges |
| - Cash transfer programs<br>- Poverty and inequality | - Poor social development indicators<br>- Low healthcare expenditure |
| Future prospects | Future risks |
| - Universal social security system | - Religious intolerance |
| Source: MarketLine | MARKETLINE |

Source: (MarketLine, 2015)

And there are several main strengths and weakness related to the social factor of Indonesia, the main strength related to the poverty and inequality, where the government has done many things in order to reduce inequality and poverty around the period of 1980-2002, as shown on the Gross domestic product (GDP) per capital growth has been averaged to over 3.5% on the annual basis. While the major challenge is related to the poor social development indicators as the Indonesia's performance social parameters has been ranked in the number 108$^{th}$ out of 187$^{th}$ in the 2014 of human development index in which published by the united nations, the number is considered to be very low in comparison to the neighbor countries such as Singapore (ranked 8) and Malaysia (ranked 62) (MarketingLine, 2015 p.29-30).

**Porter 5 forces**

In the 1980, Michael Porter publish competitive strategy, in which a work that construct the way of thinking of a generations of an academics and managers (Crowther, 2008; Magretta, 2012). It is also included on the foundational part of the text (1$^{st}$ chapter) was porters description of the "5 forces" in which construct the structure of the industries and in the big part of establishment of the rules related to competition and the root cause of profitability in the industry (Porter, 2008). The 5 forces itself include rivalry within competitors, the threat of new entrants, bargaining power of the suppliers, bargaining power of the buyers and also threat of substitute on the product or services. Also Michael Porter (1980, p. 3) state that, "the collective strength of the forces determines the ultimate profit potential in the industry".

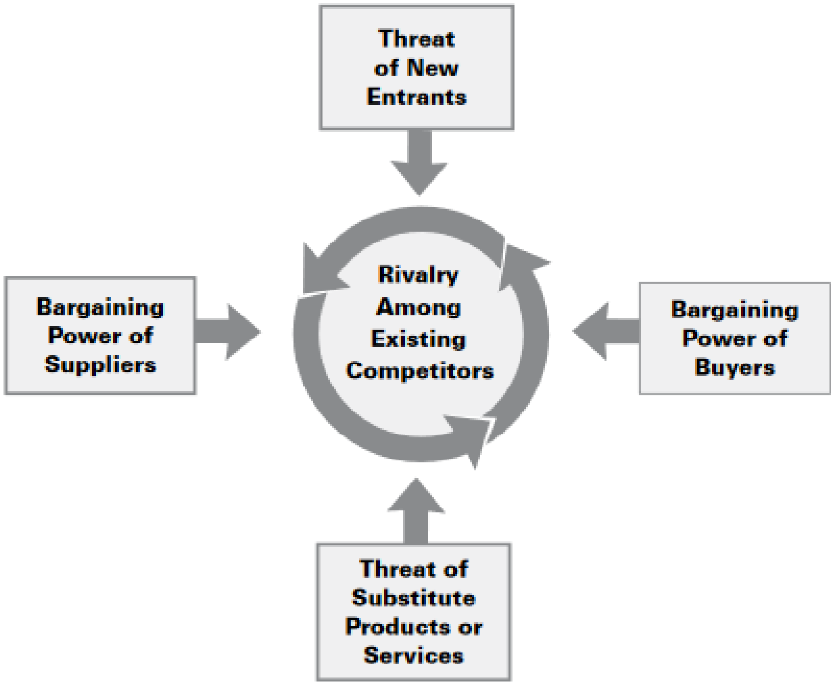
The first force is rivalry within competitors, where it could happen through several variables such as discount of price, announcement of new products, promotion strategy like the advertisement campaign and also service improvements. This force will be highly occurring in several conditions: first is the amount of competitors is various and approximately have the similar in terms of power and size, second is if the industry growth is considered as slow, because the slow growth reflect to the accelerate fight for the market share, another conditions will be when the firms cannot understand and read the other signals due to the lack of familiarity between one to each other's company and the last conditions is that the rivalry are extremely high committed to the business also have some ambition for leadership, in this case it is notably if they have objective in which go through the economic performance in any distinct of industry (Porter, 2008, p.32).

The second forces is related to the threat of the new entry, new entrant of any particular industry will make an attempt to bring a desire and new capacity in order to earn market share in which establish pressure towards cost, price and also the investment rate that could potentially will be able to compete in the market. And the threat of new entry of an industry will be depend towards the height of the entry barriers in which are present; also there are 7 major sources that could make entry barriers as an advantages which have similar relatives towards the relatives to the new entrant, first of all is: the supply side of the "economic of scale", this process emerge when company is manufacturing a large amount of quantity for any particular product and will be reflected to the lower cost that charge per unit as a result of spreading the cost to more quantity, this scale of economies also could be found in any of value chain process, second sources is the demand side benefit of scale, where this benefit show up an a condition in the industries where the willingness of the buyers to pay for the company's product is rising with the number of several buyer in which also patronize the company (Porter, 2008, p.26-27).

The third source is called "costumer switching cost", it is the fixed cost that the buyer face in a condition where they move into another supplier, this type of cost might occur as a result of several factors such as they have to retain the employee in order to use new products, reshape / modify product specifications and also adjust the process or information system. And the fourth source is capital requirements needed, it is important as the need spent it as a big investment resources for compete where it is also deter new entrants. Next source is the "incumbency advantages independent of the size", it means whatever the size, the incumbents could have the cost / quality improvement or advantages in which not available to their potential competitors. The sixth source is related to the unequal access towards the distribution channel, as most of the times access to the distribution channel is considered to be really high and new entrant have to bypass the every distribution channel or make their own distribution channel. The last source is the restrictive of government policy, as the government policy could possibly block or aid new entrant in explicit way, as well it could amplify some others entry barriers, such as the government might limit entries in any particular industries like in the liquor or airlines industries as one of the most noticeable examples (Porter, 2008, p.27-28).

The third force is the bargaining power of the suppliers, where in this case it means that the dominant and powerful supplier could pick up more value for their self as they could implement several things in order to make it happen, such as like setting higher prices, limit the services or could be by shifting the cost towards the industry participants. For instance is like Microsoft as they has done / contributed several actions of erosion towards the profitability between personal computer creators by increasing the prices on operation system. (Porter, 2008, p.29).

And the fourth force factor is related to the powers of the buyer, because the powerful buyer could possibly compel and force and impact to the decreasing price, demand and want better quality or service than before. Also the buyers could be more powerful if they do negotiate the leverage relatively towards the participants of the industry, notably if they are price sensitive and using their influence to force the reduction of the price. Therefore, there are some distinct groups of customer in which in this case are categorized to be differing in terms of the bargaining power. And the customer group would do negotiate leverage in some conditions if: there are several buyers and each one acquires a large amount from a single vendor, because the large volume buyer is considered to be powerful in the industry on the high fixed cost, second conditions is the product of the industries is characterized to be standardized or even undifferentiated, and if the buyers think that they could change into similar product then they favor to play one vendor against another as they have the bargaining power of it. The other condition is if the quality of buyer's product or service is influence by the industry's product, where quality is one of the most important aspects and it is really influenced towards the industry's product and the buyers are roughly less sensitive for it (Porter, 2008, p.30).




(Source: Porter, 1980)

**Marketing Mix (4P's)**

Handling a marketing mix is one of the main tasks of marketers professionals, the marketing mix is a set of an activity in which involve marketing tools that mostly summarized as the 4p's , in which are consist of Product, Price, Promotion and Place that the company utilize in order to achieve the objective from its target market (McCarthy, 2001).

According to Chisnall (1997), marketers depend on connectionist theories when it involve to a product, place and promotion in the marketing mix. Establishing an awareness about a brand is consider to be very important as it is increasing the customer experience about the product or services and without brand awareness customer will not be able to but a product as they did not aware about the existence of the brand (Peter & Olson, 1996). Also, the brand awareness in which is influence through the advertising recall, is affecting the decision of purchase not just only in the aspect of behavior but also in the affective level (Aaker & Day, 1974).

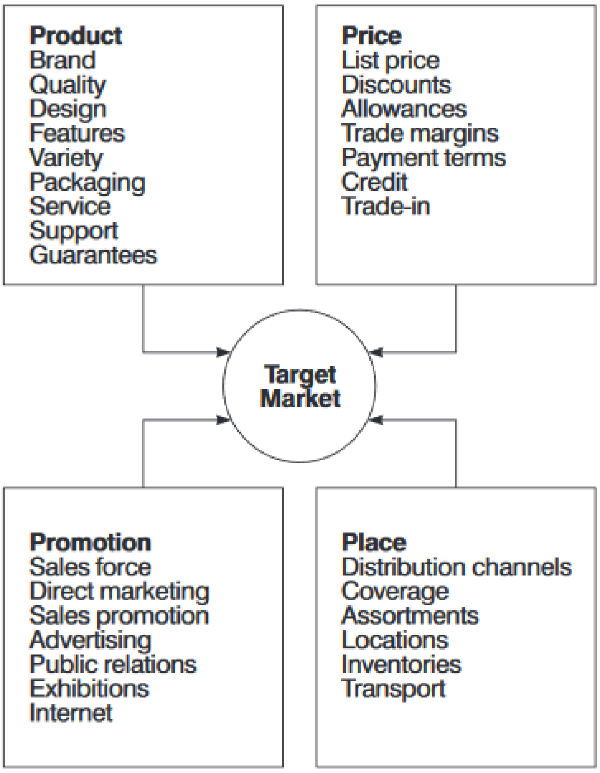



Figure 11.1 The marketing mix

**Source : Baker**, M. J. (2003)

**Product**

The basis of a firm's international operations are related to services and product, in this case the service or product are define as a combination between tangible and intangible components which differentiate it from the other participant in the marketplace. Product could be differentiating through their country of origin, composition or also the tangible features quality and features, also extended features such as warranty (Mühlbacher et. al.,2002, P297).

After internationalization decision has been chosen, there is a really important question whether a company needs to make an adaptation or standardization related to their products, and there are 4 basic approaches on how firm approaching international markets: first is through transforming / modify the product for different countries & regions, second is selling the products as in the international marketplace, third is by creating new products for the foreign market and last is consolidating all the differences towards one flexible product design and introduce it into the global market. Also there are several advantages on implementing standardization on their product, first is related to the economies of scale in terms of the production process & research and development, second is the declining of the marketplace or economic integration and last is global competition. But also company could purchase several advantages if they implement adaptation strategy as their business strategy as differing use conditions, regulatory and government influence, modify the patterns of the consumer behavior and will be accurate to the marketing concept (Mühlbacher et. al.,2002, p.298-299).

Before launching the product to be selling abroad, there are several factors that will be considerations: first is the market(s) in which will become their target, and second is related to the characteristics of its product and last is about the characteristics of the company as it will be involve the resource and policy. Studies show that the most of product has been through the process of adaptation in order to enter an international marketplace one way or another. The change regularly involve a modification related to the packaging, labeling, unit measurement, usage instruction, features, brand names and also logo (Mühlbacher et. al.,2002 P.300).

**Price**

Price is an essential component of a product where a product will never exist without a price. Price is really crucial as it affect the demand and also an inverse relationship between these two are usually prevails. Price could also impact to the big economy as inflation could be happen due to the rapid accelerate of increase of price in the market (Onkvisit & Shaw, 2004, p. 473-474). Price adaptation has been one of the most interesting pricing strategies as one study, a study of marketing mix by US based industrial firms has shown that the degree of standardization has been varied across any individual components, it might happen due to the government regulations, price and also advertising elements were the most adapted (Onkvisit & Shaw, 2004, p. 473-474). A degree whether a firm should standardize the pricing is still a very debatable topic, but economists believe that arbitrage could eliminate any price differentiate between market, in this case especially related to the European Union in the as a result of free movement of goods, custom barriers elimination and the harmonization of Value added tax rates (Onkvisit & Shaw, 2004, p. 474).

There is another alternative regarding the pricing strategies, as actually pricing involves more than marking up and down the actual price, as a price that could change in terms of the increase and decrease is not just the answer to the moving product. These pricing alternatives related to the marking price include the timing of the price change, the number of price changes, number of item to change, and also bundling & unbundling (Onkvisit & Shaw, 2004, p. 480).

**Promotion**

The main function of promotion is to communicate a message and influence the buyer, an effective promotion will involve and require a good understanding of the persuasion process also on how these processes could be affected towards the environmental factors. In this case, the potential targeted buyer should not only receive the information but also it is really important that they could comprehend the information (Onkvisit & Shaw, 2004, p. 414).

One of the main promotion strategies is by using advertising; there are several advertising media which in this case is related to the international advertising. The international advertising itself define as a practice of advertising in an international or foreign media where the advertising campaign is already planned through direct or indirect way that advertised from another country (Onkvisit & Shaw, 2004, p. 443), but in order to advertise internationally a company will have to determine and check the availability of the advertising media (Onkvisit & Shaw, 2004, p. 443).

Internet has become one of the most medium that got worldwide attention. Differ from other media, internet has been create both worldwide opportunities but also problems, recent development shown that new software is enabling a multinational marketer in order to make user location directed to a particular website which in this case will enable to expose the user (Onkvisit & Shaw, 2004, p.453).

According to Kaplan and Haenlein (2010), Social media is define as "a group of internet-based applications in which create on the ideological and technological foundations of web 2.0 where it is enable the creation and exchange of user generated content". Social media embrace broad and wide range of online, word of mouth forum like blogs, consumer rating of product or services through websites or forum, and social networking websites (Mangold and Faulgd, 2009). Social media has become a huge source of business with being communication by marketers that enable for both communications between customers and allow them to listen for the response and feedback (Hansen et al. 2011, p.10).

While, The social media marketing itself is define as any pattern of direct of direct or indirect marketing which is used in order to create awareness, recognition, recall & action related to brand, product, business, person or any other entity and also bring out the using the tool of social web like blog, micro blogging and also social networking platform (Gunelius, 2010).

**Place**

According to the figure 11.1 on the marketing mix table, there are several elements that related to the terms of place in the marketing mix segment, it is involve distribution channels, coverage, assortments, locations, inventories and transport (Baker, 2003, p. 287)