COMPANY DEVELOPING IN INTERNATIONAL BUSINESS: CASE STUDY

Stela Georgiana Ciuchete[*]

Abstract

In the present world having connections across borders becomes a competitive advantage. The easy access to a constant stream of information is making the opportunities countless, adding to the equation that the Internet and supplementary techniques such as different types of software are still very young, the opportunities will keep on emerge. There are still great gaps in terms of technology between countries, which enables fast growing companies to fill a niche and gain new market shares due to their technological lead and managerial practices. This research has put the emphasis on creating a guiding discussion on how an international expansion strategy could be formulated.

Keywords: tour operator, risk, globalization, strategy.

JEL Classification: L83, D81,O32

1. Introduction

In a world where the Internet and good communications accelerates the globalization, having connections across borders becomes a competitive advantage. The easy access to a constant stream of information is making the opportunities countless, adding to the equation that the Internet and supplementary techniques such as different types of software are still very young, the opportunities will keep on emerge. Now there are still great gaps in terms of technology between countries, which enables fast growing companies such as the European tour operator Tez Tour to fill a niche and gain new market shares due to their technological lead and managerial practices. Nevertheless, how should they enter the new markets and reach the new costumers? This research has put the emphasis on creating a guiding discussion on how an international expansion strategy could be formulated.

2.1. Globalization

A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment, by distance, time zones, language, or by national differences in government regulation, culture and business systems. And we are moving towards a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advantages in transportation and telecommunications technology; material

[*] Stela Georgiana Ciuchete is a Ph.D student at the Academy of Economic Studies in Bucharest.

culture is starting to look similar the world over and national economies are merging into an interdependent global economical system. The process by which this is occurring is commonly referred to as globalization.

The tension evident in the opening case between the economic opportunities associated with going global and the challenges associated with doing business across borders is important in international business. To begin with, however, a closer attention must be paid at the process of globalization.

For businesses, this is in many ways the best of times. Globalization has increased the opportunities for a firm to expand its revenues by selling around the world and reduce its costs by producing in nations were key inputs are cheap. Since the collapse of communism at the end of the 1980s, the pendulum of public policy in nation after nation has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment for foreign businesses. This has allowed businesses both large and small, from both advanced nations and developed nations, to expand internationally.

As transportation costs associated with the globalization of production declined, dispersal of production to geographically separate locations became more economical. Because of the technological innovations discussed above, the real costs of information processing and communication have fallen dramatically in the past two decades. These developments make it possible for a firm to create and then manage a globally dispersed production system, further facilitating the globalization of production.

In addition to the globalization of production, technological innovations have also facilitated the globalization of markets. As noted above, low cost transportation has made it more economical to ship products around the world, thereby helping to create global markets. Low-cost global communication networks such as World Wide Web are helping to create electronic global marketplaces. In addition, low-cost jet travel has resulted in the mass movement of people between countries. This has reduced the cultural distance between countries and is bringing about some convergence of consumer tastes and preferences. At the same time, global communication networks and global media are creating a worldwide culture. In any society, the media are primary conveyors of culture, as global media develop, we must expect the evolution of something akin to a global culture. A logical result of this evolution is the emergence of global markets for consumer products.

Despite this trend, we must be careful not to overemphasize their importance. While modern communication and transportation technologies are ushering in the "global village", very significant national differences remain in culture, consumer preferences and business practices. A firm that ignores differences between countries does so at its peril.

2.2. Internationalization

Companies often choose to try out physical close foreign market at the beginning of internationalization and then gradually going further away from the home market. This is the case for Tez Tour also. The company has a total focus on their neighboring countries in order to avoid setbacks due to poor market knowledge.

Tez Tour was established in 1994 in Russia and since then has earned a reputation of reliable, innovative and customer focused tour operator in Russia, former Soviet republics and Eastern Europe, in countries such as Belorussia, Ukraine, Armenia, Kazakhstan, Lithuania, Latvia, Estonia, Bulgaria and Romania.

The objectives for an international expansion may differ concerning the company and the industry it is operating in.

Tez Tour mainly wanted to expand the company's geographical reach, achieve economies of scale and gain access to new distribution channels.

Expansion vs. Risk

Establishing operations in a new market is not straightforward. A company that has gaps in its knowledge and which fails to anticipate and prepare for the risks associated with entry into a new market will likely quickly find itself with an operation that adds nothing to the bottom line.

There are different risk levels depending on what sort of expansion strategy chosen. There are some general challenges with companies that are adapting an international strategy: one of the most common as the challenge of information sharing. Other challenges could be that it is hard to adapt to another national identity that could be devastating since we need to know the market in which we operate. Another common challenge is that international expansion could lead to rigidity in operations and an increased amount of bureaucracy.

2.3. Planning for international expansion

Corporate objectives represent a statement as to what the company will achieve will achieve over a known time in terms of asset-management, return on investment, market positions and development of key business sectors in all countries of operation.

If the corporate objectives prescribe building market share(s) the marketing department must plan how to achieve this within the strategy. In all market oriented companies, marketing management will be involved in, and will influence the setting up of, strategy at both corporate and functional levels. This sequence can be described as follows:

- Develop long-term strategy

- Determine objectives and timing
- Design and develop plans to meet these objectives
- Allocate resources for plans, and agree costs
- Implement plans
- Control, review progress and amend (within agreed limits)
- Evaluate the effectiveness of plans in implementing strategy

These are key factors that management must take into account in setting and developing marketing strategy in the company's international operations. These include:

1. Demand – elasticity of demand; developments in taste, usage patterns and consumption; movement of economic indicators; demand stimulation and forecasting as an integral part of the marketing program.
2. Demographic factors – changes in profile by age, socioeconomic status, population density and geographical locations of new business/industrial zones.
3. Technology – impact of microcomputers on purchasing and production methods; reformulation of products and the impact on life-cycles of products of new manufacturing processes.
4. Competition – new forms of direct and indirect competition; competitive strength and weaknesses in product development; creativity in promotion and service provision.
5. Distribution – changes in channels and uses of logistics, and changes in customer uses of channels; purchasing and bargaining powers of key sectors of the distribution system.
6. Finance – profit implications of alternative marketing strategies; profit improvement projects; high turnover/ low profit versus low turnover/high business profit, and the movement of margins; key financial ratios in alternative pricing decisions; control of direct marketing costs.
7. Environment – legal, cultural and political codes; standards and the effect of regulatory laws and inspectorates.

Long term plans, also known as corporate or strategic planning, endeavour to assess future developments in the international environment and the marketing policies required to exploit them.

2.4. Motivations to go abroad

Profits are the major proactive motivation for international business. Management may perceive international sales as a potential source of higher profit margins or of more added-on profits. Of course, the profitability expected when planning to go international is often quite different from the profitability actually obtained. Profitability is often linked with international growth – yet many corporate international entry decisions are based made on expectations of market growth rather than on actual market growth. Particularly in start-up operations, initial profitability may be quite low due to the cost of getting ready for going international, and the losses resulting from early mistakes.

Unique products or a technological advantage can be another major stimulus. A firm may produce goods or services that are not widely available from international competitors. Again, real and perceived advantages must be differentiated. Many firms believe that they offer unique products or services, even though this might not be the case internationally. If products or technologies are unique, however, they certainly can provide a competitive edge. What needs to be considered is how long such an advantage will last. The length of time is a function of the product, its technology, and the creativity of competitors.

Special knowledge about foreign customers or market situations may be another proactive stimulus. Such knowledge may result from particular insights by a firm, special contact an individual may have, in-depth research, or simply from being in the right place at the right time.

Going international presents the firm with new environments, entirely new ways of doing business, and a host of new problems. The problems have a wide range. They can consist of strategic considerations, such as service delivery and compliance with government regulations. In addition, the firm has to focus on start-up issues, such as how to find and effectively communicate with customers and operational matters, such as informational flows and the mechanics of carrying out an international business transaction.

The company needs to determine its preparedness for internationalization by assessing its internal strengths and weaknesses. This preparedness has to be evaluated in the context of the globalization of the tourism industry, since the context will affect the competitive position and strategic options available.

In the course of international expansion, the firm now encounters new and unfamiliar factors, exposing it to increased risk. In the long term, increasing familiarity with international markets and the diversification benefits of serving multiple markets will decrease the firm's risk below the previous level and increase profitability as well.

Understanding the changes in risk and profitability can help management overcome the prohibitive cost of going international, since the negative developments may only be short-term. Yet, success does require the firm to be a risk taker. Satisfactory performance can be achieved in three ways: effectiveness, efficiency, and competitive strengths.

2.5. Entry strategies

International business holds out the promise of large new market areas, yet firms cannot simply jump into the international marketplace and expect to be successful. They must adjust to needs and opportunities abroad, have quality products, understand their customers, and do their homework to understand the vagaries of international markets. The rapid globalization of markets, however, reduces the time available to adjust to new market realities.

This chapter is concerned with firms preparing to enter international markets and companies expanding their current international activities. Initial emphasis is placed on export activities with a focus on the role of management in starting up international operations and a description of the basis stimuli for international activities. Entry modes for the international arena are highlighted, and the problems and benefits of each mode are discussed.

3.1. The role of management

Management dynamism and commitment are crucial to a firm's first steps toward international operations. Managers of firms with a strong international performance typically are active, aggressive and display a high degree on international orientation. Such an orientation is indicated by substantial global awareness and cultural sensitivity. Conversely, the managers of firms that are unsuccessful or inactive internationally usually exhibit a lack of determination or devotion to international business. The issue of managerial commitment is a critical one because foreign market penetration requires a vast amount of market development activity, sensitivity toward foreign environments, research, and innovation. Regardless of what the firm produces or where it does business internationally, managerial commitment is crucial for enduring stagnation and sometimes even setbacks and failure. After all, it is top management that determines the willingness to take risks, to introduce new products, to seek new solutions to problems, and to continuously strive to succeed abroad. To achieve such a commitment, it is important to all levels of management early on in the international planning process and to impress on all players that the effort will only succeed with a commitment that is companywide.

Initiating international business activities takes the firm in an entirely new direction, quite different from adding a product line or hiring a few more people. Going international means that a fundamental strategic change is taking place. Companies that initiate international expansion efforts and succeed with them, typically begin to enjoy operational improvements-such as positioning strengths in competition- long before financial improvements appear.

Firms that opt to export or import directly have more opportunities ahead of them. They learn more quickly the competitive advantages of their products and can therefore expand more rapidly. They also have the ability to control their international activities better and can forge relationships with their trading partners, which can lead to further international growth and success.

However, firms face obstacles also. These hurdles include identifying and targeting foreign suppliers and/or customers and finding retail space, all of which are processes that can be very costly and time-consuming. Some firms are overcoming such barriers with mail-order catalogs or electronic commerce ("storeless" distribution) networks. In Japan, for example, high-cost rents, crowded shelves, and an intricate distribution system have made launching new products via conventional methods an increasingly difficult and expensive proposition. Direct marketing via e-commerce eliminates the need for high-priced shop space. In addition, particularly in industry sectors characterized by very thin profit margins, survival is determined by sales volume. Under such conditions, a large market size is essential for success-pointing many firms in the direction of international markets reached through electronic business.

As a firm and its managers gather experience with exporting, they move through different levels of commitment, ranging from awareness, interest, trial, evaluation and finally, adaptation of an international outlook as part of corporate strategy. Of course, not all firms will progress with equal speed through all these levels. Some will do so very rapidly, perhaps encouraged by success with an electronic commerce approach, and move on to other forms of international involvement such as foreign direct investment. Others may withdraw from exporting, due to disappointing experiences or as part of a strategic resource allocation decision.

Increasingly, many new firms either start out with an international orientation or develop one shortly after their establishment. Such born global firms emerge particularly in industries that require large numbers of customers, and in countries that only offer small internal markets. They tend to be small and young and often make heavy use of electronic commerce in reaching out to the world. In some countries more than one third of new companies have been reported to export within two years. Firms, managers and governments therefore will need to be much quicker than they have been in the past, when in comes to introducing firms to and preparing them for the international market.

3.2. Selecting an entry mode

Inevitably, all the entry modes on an international market have advantages and disadvantages, as summarized in the following table. Thus, trade-offs are inevitable when selecting an entry mode. For example, when considering entry into an unfamiliar country with a track record for nationalizing foreign-owned enterprises, a firm might favor a joint venture with a local enterprise. Its rationale might be that the local partner will help it establish operations in an unfamiliar environment and will speak out against nationalization should the possibility arise. However, it the firm's core competence are based on proprietary technology, entering a joint venture might risk losing control of that technology to the joint venture partner, in which case the strategy may seem unattractive. Despite the existence of such trade-offs, it is possible to make some generalizations about the optimal choice of entry mode.

3.3. Wholly owned subsidiaries

In a wholly owned subsidiary, the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market can be done in two ways. The firm either can set up a new operation in that country, often referred to as a green-field venture, or it can acquire an established firm in the host nation and use that firm to promote its products.

Tez Tour strategy for entering the Romanian market was to build the Romanian branch from ground floor.

❖ *Advantages of opening the Romanian Tez Tour subsidiary:*

First, as our company advantage is based on technological competence, a wholly owned subsidiary is the proffered entry mode, because it reduces the risk of losing control over the competence.

Secondly, it gives a firm tight control over operations. This is necessary for engaging in global strategic coordination (using profits from one country to support competitive attacks in another).

❖ *Disadvantages of opening Romanian Tez Tour subsidiary:*

Establishing a wholly owned subsidiary is generally the most costly method of serving a foreign market from a capital investment standpoint. Firms doing this must bear the full capital costs and risks of setting up overseas operations. There are also the risks associated with learning to do business in a new culture.

It is not new to us that firms often expand internationally to earn greater returns from their core competencies, transferring the skills and products derived from their core competencies to foreign markets where indigenous competitors lack those skills. We say that such firms are pursuing an international strategy. The optimal entry mode for these firms depends to some degree on the nature of their core competencies. A distinction can be drawn between firms whose core competency is a technological know-how and those whose core competency is a management know-how.

3.4. Technological know-how

If a firm's competitive advantage (its core competence) is based on control over proprietary technological know-how, licensing and joint venture arrangements should be avoided if possible to minimize the risk of losing control over that technology. Thus, is a high tech firm sets up operations in a foreign country to profit from a core competency in technological know-how, it will probably do so through a wholly owned subsidiary. This rule should not be viewed as hard and fast, however. Sometimes a licensing or joint venture arrangement can be structured to reduce the risk of licensees or joint venture partners expropriating technological know-how. Another exception exists when a firm perceives its technological advantage to be only transitory, when it expects rapid imitation if its core technology before the imitation occurs. Such a strategy has some advantages. By licensing its technology to competitors, the firm may deter them from developing their own, possibly superior technology. Further, by licensing its technology, the firm may establish its technology as the dominant design in the industry. This may ensure a steady stream of royalty payments. However, the attractions of licensing are frequently outweighed by the risks of losing control over technology and if this is a risk, licensing should be avoided.

3.5. Management know-how

The competitive advantage of many service firms is based on management know-how. For such firms, the risk of losing control over the management skills to franchisees or joint ventures partners is not that great. These firm's valuable asset is their brand name, and brand names are generally well protected by international laws pertaining to trademarks. Given the facts, many of the issues arising in the case of technological know-how are of less concern here. As a result, many service firms favor a combination of franchising and subsidiaries to control the franchise within particular countries or regions.

The subsidiaries may be wholly owned or joint ventures, but most service firms have found that joint ventures with local partners work best for the controlling subsidiaries. A joint venture is often politically more acceptable and brings a degree of local knowledge to the subsidiary.

The greater the pressures for cost reductions are, the more likely a firm will want to pursue some combination of exporting and wholly owned subsidiaries. By manufacturing in those locations where factor conditions are optimal and then exporting to the rest of the world, a firm may be able to realize substantial location and experience curve economies. The firm might then want to export the finished product to marketing subsidiaries based in various countries. These subsidiaries will typically be wholly owned and have the responsibility for overseeing distribution in their particular countries. Setting up the wholly owned marketing subsidiaries is preferable to joint venture arrangements and to using foreign marketing agents because it gives the firm tight control over marketing that might be required for coordinating a globally dispersed value chain. It also gives the firm the ability to use the profits generated in one market to improve its competitive position in another market. In other words, firms pursuing global or transnational strategies tend to prefer establishing wholly owned subsidiaries.

4. Study case

4.1. Tez Tour – motivations for entering the Romanian market

Tez Tour Romania started operating on May 2007, after the early-booking period was over (this being the most active period of the year in terms of selling tourism packages). In spite of this, in the summer of 2007 Tez Tour Romania sold approx. 15.000 holiday packages, operating seven charter flights per week to Turkey from Bucharest and Timisoara. In its first year, Tez Tour gained 20% of the Romanian market share for Turkey.

On the Romanian market there were some specialized tour operators on selling packages to Turkey as Alibaba Tour, Mr. Peter or Kusadasi, but also tour operators to whom Turkey was an important stake as J'Info Tours, Prestige Tours and Prompt Services. How did Tez Tour manage to sell so much when the clients seemed to be divided between Romanian tour operators?

Unlike other companies, Tez Tour offers services that take the process of booking a reservation to a higher level. The classic way to make a reservation is a complex method that has numerous steps and requires an overwhelming period. After the tourist makes a decision regarding the destination, he has to express his wish in writing by filling in a reservation form, for which he receives an order ticket. The following step of the process consists of a call made by the agency to the tour operator to check if the client's solicitation can be satisfied. It usually takes three days for the tour operator to give an answer, which can be both positive and negative. The reservation will be validated only if the tour operator has given an affirmative reply. Had the answer been NO the tourist is called to express another option and the algorithm starts from the beginning.

Tez Tour manages to avoid this long and frustrating process by using an online reservation system. Nevertheless, Tez Tour is the first and yet the only company in Romania that has put to use such a system. The main advantage of the online reservation system is that the time coordinate has been reduced to only ten minutes. After this incredibly short time, the tourist leaves the closest Tez Tour partner agency having the confirmed reservation, the voucher and the plane ticket, if the payment for the stay has been made.

When approaching a new market this company pays close attention to details. This is another thing that has helped Tez Tour to enter and survive the Romanian market which seemed divided among the grand tour operator companies. The newness this company brought consisted of a focused attention on the client. Therefore, Tez Tour has signed contracts with the market leaders in airline transportation, which offer services of the highest quality and at the same time have a maximum degree of safety. Moreover, tourists benefit of impeccable services once they have reached their destination. After the check-out the tourists will be guided and provided with information by Tez Tour representatives, who unlike guides from other companies speak Romanian regardless of the destination.

The popularity of the company increased among the Romanian tourists due to the consistent interest of the company in assuring the most comfortable and trouble less stay for its clients. In addition, in every hotel with which the company collaborates there is a Tez Tour bureau, where the representatives speak Romanian and are willing to assist the tourist in any problems that may occur during their stay.

4.2. Competitive advantages and strengths

Our strategy is to achieve long-term growth by continuously creating value for all stakeholders and the society. The basis of our strategy:

❖ Well-known brand name
❖ Custom oriented business model
❖ High quality business resources
❖ Strong financial structure
❖ Flat and flexible organization
❖ Unique sophisticated DBMS and IT structure

Customer Focus

- Excellent service quality and innovation
- Unmatched competency, experience and skill
- Distinction throughout the service process
- Commitment to customer satisfaction

Sound Business Model

- Concentrate on profitable business segments and markets
- Proactive business and risk control
- Continuously reducing funding costs
- Greater and more effective use of the service network

Continuous Technological Innovation

- Technology that is the best, the fastest, continuously improving, and fully integrated with all business processes.
- State-at-the art IT structure

The best Human Resources in Tourism Sector

- To create a positive culture where people feel proud to work for
- Continuous development of HR competencies and productivity

4.3. Tez Tour Travel System

Beginning with the year 2007, Tez Tour radically improved its IT structure. An integrated information network has been established between travel agents, Tez Tour incoming-outgoing offices and hotels.

The traditional fax method has been replaced with an efficient online web structure that enables fast and error free information exchange between involving parties. **Customer relationship management** (**CRM**) consists of the processes our company uses to track and organize its contacts with its current and prospective travel agencies. CRM software are used to support these processes; the software system can be accessed, and information about customers and customer interactions can be entered, stored and accessed by employees of all company's departments. Typical CRM goals are to improve services provided to customers, and to use customer contact information for targeted marketing.

ERP stands for **Enterprise Resource Planning**. ERP is a way to integrate the data and processes of an organization into one single system. Usually ERP systems will have many components including hardware and software, in order to achieve integration, most ERP systems use a unified database to store data for various functions found throughout the organization.

5. Conclusion

We have found that organizations can lower the risk and increase their profit potential by combining several strategies, that they start by expanding with a low-risk strategy and then increase the investments on the market to enable higher profitability. The benefits with this approach is that a tourism company can take advantage from the simplicity and low needs for capital and then gradually increase the investment as they get market knowledge and a solid customer base. They need to work around challenges such as cultural differences by allowing the due diligence to take time and the targeted company to become familiar with the intentions of the collaboration. It is important that the organization prepares itself for the internationalization; this is possible by the creation of slack resources. The strategy chosen has to be incorporated in the overall business strategy.

References

Brakman Steven, Grarretsen Harry, Charles von Marrewijk, Arjen van Witteloostuijn, 2006, Nations and Firms in the Global Economy – An Introduction to International Economics and Business, Cambridge

Canos Daros Lourdes, J.Mauri Castello Jordi, Albert Martinez Aparisi, 2006, Strategic Management and Business Policy, Universidad Politecnica de Valencia

Culpan Refik, 2002, Global Business Alliances: Theory and Practice-Global Alliances in the Airline Industry, Quorum Books

Hibbert P.Edgar, 1997, International Business – Strategy and Operations, Macmillan Press Ltd.

Johnson Debra and Turner Colin, 2003, International Business - Themes and issues in the modern global economy, Routledge

Maddox C.Robert, 1993, Cross-Cultural Problems in International Business: The Role of the Cultural Integration Function, Quorum Books

Paraschiv, Dorel, 2005, International Business, Editura ASE Bucuresti

R.Czinkota Michael, Ilkka A.Ronkainen, Michael H.Moffett, 2005, International Business 7th Edition, Thampas South Western

W.L.Hill Charles, 2005, International Business – competing in the global marketplace, McGrow Hill.

www.questia.com

www.teztour.ro

www.teztour.ru

www.teztour.es
www.tezagency.com
www.tezcenter.com
www.wtttc.org