

Changes in Internationalization Strategy: Differences between Platform Based Enterprises and Traditional Production Based Enterprises

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Abstract. In the digital age, many companies intend to expand to foreign countries. Nevertheless, the internationalization strategy of platform firms is distinct from that of traditional manufacturing firms to some extent, as the former provides digital products, and the latter offers physical products. This paper explained various internationalization strategies between both types of enterprises based on the OLI Framework. By analyzing the cases of Adesemi and Celtel, a case study approach was employed, where Adesemi is a traditional manufacturing firm that deals with the sale of public telephones, while Celtel is a platform firm that deals with the sale of mobile packages. It compared both companies in the same industry that expanded to the same region and country and adopted different strategies. Eventually, the conclusion was made. While determining their internationalization strategies, platform firms have fewer restrictions than traditional production-based firms. Consequently, platform firms are more inclined to adopt a greenfield mode of entry. In contrast, traditional manufacturing firms are more inclined to pursue a more prudent internationalization strategy, namely selecting a host country or entering the market by means of joint ventures or acquisitions. This study has significance for platform firms and traditional production-based firms with the ambition of internationalization, as it can be the reference for these companies to select proper internationalization strategies during their expansion overseas.

Keywords: Internationalization strategies, Platform firms, Traditional production-based firms, OLI.

1. Introduction

1.1. Research Background and Motivation

In the wake of the world entering the digital age, there is an increasing number of digital firms venturing into foreign countries. Digital economy is an essential path for the global exploration of new economic growth. At the present time, the development of global digital economy is subject to tremendous competition, risks and challenges, which makes it a major challenge for enterprises to accurately examine the direction of the new round of international rules in the era of digital economy, and to explore the future development path of digital firms [1]. The question lies in whether the internationalization strategy of a platform firm is distinguishable from that of a traditional production firm? If so, how does it vary the strategy? Taking into account the differences between digital products and physical products, the internationalization strategy of platform enterprises is more flexible and asset-light than that of traditional production enterprises. The differences eventually led to firm's variation in the OLI advantages. The OLI advantage is that the ownership specific (O) advantages named under which they are classified technology and other tangible and intangible resources, the internalization (I) advantages that describe the extent to which it is advantageous for the owning firm to utilize its resources either via a contractual mode of international production, the Location (L) advantages, which include natural resources and created endowments, existed in foreign locations that complement the firm's (O) advantages [2]. In this paper, three parts will be presented. The first is about varying internationalization strategies, which accounts for the ways in which differences between digital and physical products can contribute to distinct internationalization approaches taken by platform firms and traditional firms. The second is on influencing factors on decision making, which gives an account of the ways in which factors based on the OLI framework affect the decisions that firms make about host countries, entry modes and the pace of

internationalization. The third is to compare and justify the argument by taking the example of two telecommunication companies, Adesemi and Celtel, which have extended into the identical host countries and regions with separate products and distinct strategies.

1.2. Literature Review

Over recent years, the increase in the macro-environment and ecological uncertainty of supply and demand in overseas markets has resulted in traditional firms, which originally relied on the advantage of labor costs, also commencing to fall into a growth bottleneck, with sales performance far less favorable than in the past. In the face of the bottleneck of stagnant growth of overseas business of traditional firms and the increasing cost of overseas business development, Zhou stated that the traditional firms should take the construction of brand as the ultimate goal in the expansion of overseas market and lay out different overseas channels and host countries in an orderly manner in accordance with their own situation. In this way, they can achieve the transformation of the corporate growth model, thereby enhancing the anti-risk ability of the brand [3]. As a new type of economic form leading the development of the global economy, the platform economy adopts data as the crucial production factor and a new generation of information technology as the centerpiece impetus, which has spawned new industries and new modes such as live streaming and cross-border e-commerce. By breaking down time and space constraints, Grzybowska argued that the platform firms can furnish products and services of superior quality to meet the needs of consumers worldwide in a more precise and quicker way, thereby bringing about subversive reforms to comprehensively improve the level of opening up to the outside world [4]. The globalization of platform firms can facilitate the development of digital supply chains and digital trade in an effective manner, promote economic operations across geographical boundaries, make the global allocation of resources more convenient, as well as make win-win collaboration across the supply chain possible.

2. Various Internationalization Strategies

The differences between physical and digital products have brought to the fore the diversity of internationalization approaches and strategies. First and foremost, physical products impose more constraints on firms as compared to digital products. Physical products fail to be flexible enough to undergo changes after sale, which necessitates traditional firms to devote a substantial amount of research and time to ensure that the product can be tailored successfully to the market. As a consequence, traditional firms are exposed to dual challenges from both the external market and the internal environment during the process of internationalization. Consequently, apart from variations in consumer tastes and systems, attention must also be devoted to changes in their management and workforce. Moreover, digital products are available to enable platform firms to pursue internationalization strategies, and enter foreign markets with much lower thresholds and enhanced capabilities. With the possibility of making changes anytime and anywhere by means of the Internet, platform firms are in a position to internationalize their brands without physically penetrating the host market, resulting in minimal internal risk. In addition, the platform firms are also in a position to save time and monetary savings, given that they are not required to undertake extensive market research to gain a thorough insight into the preferences of their customers. This is the case as a result of the fact that fixed preferences can be established for digital products that have just been introduced into the global market for a short period of time. Therefore, platform companies enter foreign markets with greater control because they have fewer challenges from external and fewer competitors compared to traditional firm. For this reason, traditional firms are more inclined to prefer acquisitions or joint ventures for a more secure entry into the market, since local firms are in a position to furnish knowledge concerning the local culture and institutions. In conclusion, product differences can in turn exert an influence on the capabilities of firms to accommodate to new markets and achieve economies of scale, whilst risk analysis can shape firm-specific decisions. Nevertheless, the product differences alone are probably not sufficient to adequately account for the internationalization choices

of firms, such as the country in which they select to exploit a foreign market, and the timing of the decision to enter that market.

3. Influencing Factors in Internationalization Decisions

The decision of firms to expand overseas is predicated on whether their comparative advantages can outweigh their liabilities of foreignness (LOF), namely the additional costs of operating globally [5]. If all three OLI advantages are concurrently advantageous to the firms, they are likely to enjoy a successful and sustainable internationalization strategy [6]. Additionally, differences in the OLI advantages of firms are likely to account further for their decisions on entry type, speed, location, as well as strategy.

3.1. Ownership Advantages

O-advantage denotes the transferability of comparative advantages. With a view to sustaining excellence on a global scale, firms are called upon to create a sustainable comparative advantage that is also operational in other countries. The critical aspect of sustainable resources and capabilities lies in the tangible nature of the assets. First and foremost, tangible assets encompass financial resources and physical assets, such as plants and equipment. This is followed by intangible assets, such as human resources, reputational resources as well as innovative resources. The capabilities of a firm define the extent to which it can capitalize on its assets, while the tangible nature of its assets defines the sustainability of its comparative advantage. The success of traditional firms is most heavily contingent on both intangible and tangible assets, given that the success of their products is contingent on innovation and human resources, while production is contingent on tangible assets, such as factories. In this way, the comparative advantage of a traditional firm in its home country is partially unsustainable, especially if it boasts a factory in the home country that delivers low production costs. The traditional firms are likely to be compelled to rebuild their factories and pursue an analogous comparative advantage abroad. Conversely, the assets of platform firms are more readily transferable, given that all resources and products are primarily digitized and intangible, such as human resources and innovations. Through digital empowerment, platform firms can take full advantage of their intangible assets, thereby enhancing their intelligence, connectivity and analytics capabilities to address industry pain points and unmet needs uncovered in their business processes [7]. In the meantime, through innovation and human resources, platform firms are in a position to facilitate the evolution of value co-creation in the three aspects of interaction and cooperation among firms, resource sharing and cost reduction and efficiency enhancement, so as to ultimately realize a win-win situation for all parties. This advantage of platform firms presents new thinking on the operational logic and practical process of digital empowerment to advance value co-creation, while also furnishing valuable lessons to be learned for the sustainable development of platform firms and traditional firms [8].

3.2. Locational Advantages

L-Advantages are critical in determining host country locations. There are several aspects that companies take into account when determining an overseas location. The first is resources, such as natural resources, skilled labor, R&D capabilities, as well as infrastructure. The second is costs, such as low labor costs, transportation, in addition to production costs. The third is government policies, such as tax incentives, subsidies, free trade agreements, in addition to comparatively low trade barriers. The last is future potential, namely the likelihood of success in the market as well as the strengths of prospective entry into other foreign countries. In accordance with the cage analysis, firms can further analyze the costs of venturing out of the country by means of assessing the "distance" between the home country and the host country. Traditional firms are exposed to more costs when venturing out of their home country. In addition to the extra production costs and labor costs, traditional firms are likely to be exposed to higher trade costs stemming from transportation and trade

barriers. However, most countries lack taxes on digital products, so the total cost of platform companies will be relatively small. To be specific, the stationing of platform firms is conducive to enhancing the advantages of the local government in attracting investments, as well as strengthening the innovative vitality of the whole city and concentrating the resources of local import and export enterprises, thereby leading to the upgrading and stable development of the relevant industries. Moreover, the development of platform firms can also stimulate innovation and entrepreneurship in all walks of life, absorb foreign trade professionals with global vision and applied technology and skills, thereby providing more new jobs [9]. As a general rule, platform firms enjoy a cost advantage over traditional firms in foreign countries. Nevertheless, the costs associated with government policies and corruption are unforeseen, irrespective of the product or type of firm.

3.3. Internationalization Advantages

I-advantage stands out as the most pivotal factor in determining the mode of entry. The mode of entry is subject to the influence of a multitude of factors. The first is transaction costs, which comprise information costs, contractual costs and implementation costs. The second is resource availability, which involves the financial and managerial capabilities of the firm in the host country. The third is the need for control, which means whether the firm is in a position to assume more control and a higher level of risk. Next is cultural distance, namely whether the cultural differences are substantial and whether there is a need to impose costs or time on the integration process. The last is institutional weakness, namely whether the institutions of the host country are weak and whether they will create more unexpected costs for the firm. In the light of the industry in which the firm operates and the motivation for internationalization, the mode of entry varies dramatically.

4. The Application of Adesemi and Celtel

A comparison of two companies in the identical industry, expanding into the identical region and country whilst having different products can illustrate the point in a much clearer way. Celtel and Adesemia are two telecommunication companies pursuing international expansion in Africa [10]. Adesemi is a traditional manufacturing firm that deals with the sale of public telephones, while Celtel is a platform firm that deals with the sale of mobile packages. When determining the mode of entry, Adesemi preferred to partner with the Ghana National Petroleum Corporation (GNPC) and Western Wireless in Tanzania, so as to ensure that the mode of entry would be more secure and more expeditious, since this would ensure more efficiency both institutionally and with regard to resources [11]. Conversely, Celtel Telecom took into account the lower distribution costs in Africa and the lesser barriers to entry into the platform market, especially when the platform infrastructure was not yet well established. In this regard, Celtel Telecom chose to enter the three markets in Africa through a radically new approach of setting up base stations in each country on its own. When determining which countries to access, Adesemi was more apprehensive about arbitrage than Celtel. Celtel managed to enter two markets during the intervention period, however, the success was primarily attributed to the demand for higher technology, as well as the flexibility and asset-light nature of the product. On the other hand, Adesemi was highly prudent in selecting countries to avoid economic and political uncertainty apart from cultural distance [12].

Despite the fact that both companies sought to expand their markets through regional integration, it is also possible to identify a difference in strategic focus between the two companies. Adesemi kept its focus on only two companies, while Celtel favored entering several countries concurrently, since it only needed to construct one base station to support an entire country. In its expansion into Sri Lanka and Côte d'Ivoire, Adesemi also faced a need for \$6 million to expand into both markets. In contrast, Celtel required only \$250,000 to construct an additional base station. In the face of market failure, the two companies also confronted distinct choices. In addition, Adesemi preferred to devote substantial effort and time to addressing its disagreement with the Tanzanian government, while Celtel forewent paying \$750,000 in license fees in Tanzania, thereby forestalling further disruptions

to its international projects. The differences in decision-making and strategy between Adesemi and Celtel were principally attributable to differences in ownership advantage. However, the differences in ownership advantages all derived from the transferability and sustainability of the comparative advantages that the products constrained.

The restrictions are higher for physical products, while the barriers to entry are lower for platform firms. The difference can be illustrated by the initial cost of entry for the two companies: Adesemi faced a further investment of \$5 million in infrastructure and physical resources, whereas Celtel incurred \$250,000 per site per country. Furthermore, Adesemi devoted a significant amount of time and money to obtaining a payphone license, whereas Celtel obtained a platform license for free as a result of its underdeveloped infrastructure. To put it simply, Celtel enjoys more O-advantages and L-advantages, since the platform is intangible, which enables the company to select an asset-light internationalization strategy in a flexible manner, thereby guaranteeing the capability of Celtel to specialize in the aggregation of its products in the host country. In comparison, the strategy of Adeesemi is more asset-heavy, given that its products involve manufacturing.

5. Conclusion

In the digital era, it is crucial to distinguish the strategies between platform firms and traditional production-based firms during their internationalization process. This paper, based on the OLI Framework, argued factors that influence internationalization decisions, namely, Ownership Advantages, Locational Advantages, and Internationalization Advantages. Next, a method of case study was applied through the analysis of the case of Adesemi and Celtel. Eventually, the conclusion was made. Traditional firms are subject to additional constraints in identifying their internationalization strategies, which encompass substantial transaction costs, the cost of re-establishing their tangible and non-transferable comparative advantages, in addition to the extensive time devoted to market research and institutions. As a consequence, traditional firms are more likely to undertake more conservative internationalization strategies: selecting host countries where costs can be reduced and where more labour and technological resources are accessible; preferring to enter the market by means of joint ventures or acquisitions, with a view to accessing more local knowledge and more support from local firms; and pursuing strategies that are more oriented towards adaptation and arbitrage, thereby ensuring sustainable success in the long run. Alternatively, platform firms are less subject to constraints in identifying their internationalization strategies. This is not only on account of the fact that platform firms possess standardized products that require minimal adjustments when entering various markets, but also on account of the fact that platform firms are characterized by more straightforward management systems and distribution channels for their products. For this reason, platform firms are more likely to pursue a greenfield entry model, given that their knowledge or brand name is of excessive value, which cannot be left unprotected, and that their aggregation strategy prioritizes the expansion of economies of scale over customization. This research is significant for companies with the aspiration of international expansion when choosing their strategies. The limitation of this study is a shortage of data support. For further research, data can be collected and processed, and quantitative analysis can be carried out when analyzing different strategies of both categories of firms in terms of different industries.

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