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Exploring the intersection of internationalization and business model theory:

A case study of young Swedish firms journeying abroad

*Master of Science Thesis
in the Management and Economics of Innovation Programme*

**JONAS FENN
FAROKH AGHAJANPOUR**

Department of Technology Management and Economics
Division of Innovation Engineering and Management
CHALMERS UNIVERSITY OF TECHNOLOGY
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JONAS FENN
FAROKH AGHAJANPOUR

Tutor, Chalmers: Ingo Rauth, Maria Elmquist
Tutor, Brightlabs: Iman Pouya

Department of Technology Management and Economics
Division of Innovation Engineering and Management
CHALMERS UNIVERSITY OF TECHNOLOGY

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Department of Technology Management and Economics
Division of Innovation Engineering and Management
Chalmers University of Technology
SE-412 96 Göteborg, Sweden
Telephone: + 46 (0)31-772 1000

“Sometimes tweaks aren't enough. Sometimes nothing short of reinventing yourself, your organization, or your community is called for. The beginning of the twenty-first century is one of those times. If anything is certain about the new millennium is the pace of change.”

(S.Kaplan, 2012 p. xiii)

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Jonas Fenn & Farokh Aghajanjpour

ABSTRACT

A majority of Swedish Small and Medium size business sense an increased competitive landscape, while the country also has been degraded in its global competitive ranking. This study focuses on young Swedish information and communication technology (ICT) firms since they are the largest contributors to the country's export and shown to be the most internationalized. Considering Sweden's small size, it should seem natural for young Swedish ICT firms to engage internationally in their quest to find demand. Internationalization is argued to lead to competitive advantage, innovativeness and productivity. This, in combination with the small market size indicates that internationalization is a necessity for young Swedish ICT firms. Therefore, it seems relevant to increase awareness of what happens to young Swedish ICT firms in their process of internationalization.

Previous research on internationalization puts focus on the process itself, while paying little attention to the effects it may imply. Recent research on internationalization indicates a need to incorporate a firm-specific perspective while assessing the process of expanding abroad. In an attempt to do so, this study introduces business model theory to create a framework for firm-specific characteristics. Moreover, even less research seems to be done on assessing the impact venturing abroad has on a young firm's business model. Therefore, this study aims to explore the influence of internationalization on a firm's business model.

In conclusion, a holistic theoretical framework combining internationalization literature with business model theory is presented. Further, the thesis identifies four main aspects related to the Business Model Canvas (BMC) that seem to be influenced the most during the process of international expansion: Customer Relationships, Revenue Streams, Key Partnerships and Key Activities.

In terms of practical outcomes, this study elaborates in what ways the BMC could be designed to prepare firms for international engagement. This helps the focal firm to achieve better insight to their own capabilities and resources from the perspective of operating in a foreign market. This could furthermore provide supporting organizations with tools for analyzing how to best serve the specific firm in need of assistance.

Keywords: Internationalization, Business Model, Business Model Canvas

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1. INTRODUCTION

Globalization through internet connectivity, more effective transportation solutions and less trade barriers, has led to increased internationalization of companies into foreign markets. Internationalization can be seen as strategically important, as it leads to increased productivity and innovativeness while also contributing to a firm's competitive advantage (Morgan & Katsikeas, 1997; Knight & Cavusgil, 2004; Tillväxtanalys, 2010). Further, Karagozoglu & Lindell (1998) emphasizes that international expansion is necessary for long term success.

The term 'internationalization' can be applied to many different activities. One description provided by Ruzzier et al. (2006), illustrates the holistic nature of internationalization, constituting three categories. Inward operations which addresses importation from foreign markets; Outward operations referring to selling of services or products on an international market; Cooperative operations, which is about starting partnerships, joint ventures, mergers and acquisitions. In line with arguments provided by Morgan & Katsikeas (1997), this study focuses on outward internationalization, since the strategic benefits mentioned above are mostly derived from this category of operations.

Sweden's economy has for long strongly depended on international business and relied on export (i.e. outward internationalization). During 2015, 45% of the country's total BNP was derived from the export sector (Schermer, 2015). This indicates the importance of international expansion and the process of internationalization for Swedish firms. Additionally, Swedish small and medium-sized enterprises (SME's) grow at a faster pace compared to the nation's large established companies (Report Tillväxtverket 2016). Ruzzier et al. (2006) also argues that globalization impact the SME sector in a more profound way in comparison to the corporate sector.

The report from Tillväxtverket (2016) further outlines that the export of services is the biggest growth engine of the Swedish economy, in comparison to the export of goods. Furthermore, Sweden's export of ICT-services has increased dramatically the last 10 years, and is today the largest part of all Swedish service exports, making it the most internationally active sector within exports. Swedish service export has

grown steadily since the early 90's and so has its fraction of BNP. In 2015, 14,3 % of BNP was made up by service export, ranking Swedish service export per capita, the 3rd highest in the world (Tillväxtverket, 2016). Due to this reasoning, the focus of this paper will be on Swedish firms within the ICT-service sector and their process of international engagement.

According to a survey conducted by Tillväxtverket (2014), 5 421 newly started (2009-2013) ICT-companies stated that, by an overwhelming majority, they mainly tailor offerings for a national market (Diagram 1). This is worrying since research on the topic suggests otherwise in order to succeed on an international market (Knight & Cavusgil, 2004).

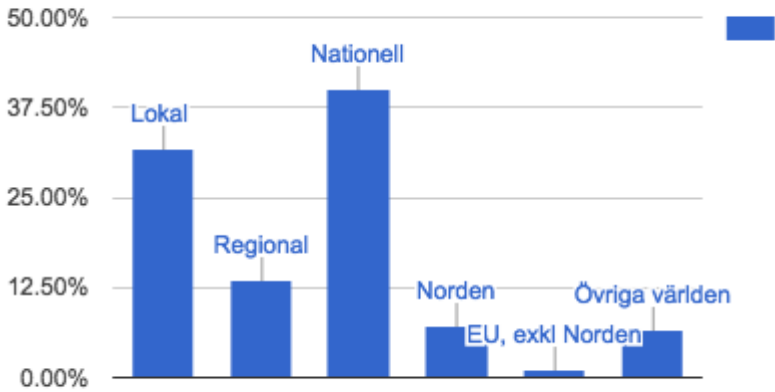


Diagram 1. Results from a survey of newly started Swedish ICT firms, conducted by Tillväxtverket (2014)

Interestingly, Tillväxtverket (2014) also reports that Swedish SME's sense an increased competitive landscape. Worth mentioning is that the findings from Tillväxtverkets report shows that, regardless of if they were internationally engaged or not, firms felt this toughened competitive landscape. This can of course partially be explained by the fact that globalization has led to the presence of more foreign competitors on the Swedish market. The threat of increasing competition is further displayed in the Global Competitiveness Index (2011; 2015), where Sweden lost its competitiveness rank, from 2nd to 10th over a period of four years. Despite a 30% increase of companies since 2002, is the fraction of Swedish firms with international

engagement more or less unchanged. Could this explain why Sweden is losing its global competitiveness rank?

However, looking at the ICT-sector, it seems as though a large portion of Swedish firms that do engage internationally "do something right". These firms contribute to the fact that Sweden has the highest valued companies per capita in Europe. A study conducted by Atomico, a VC company based in London, also concluded that: *"On a per capita basis, Stockholm is the second most prolific tech hub globally, with 6.3 billion-dollar companies per million people (compared to the Valley with 6.9) "*.

1.2 Problem Description

The increased popularity of starting new entrepreneurial firms or so called startup's (Butler and Thicher, 2015), has led to an notable increase in the inception of SME's in Sweden (Tillväxtverket 2014). Additionally, increased internationalization due to globalization has led to more foreign actors being active on the Swedish market. This has resulted in increased competition domestically, which is something Swedish firms are experiencing (Tillväxtverket, 2014). At the same time, according to CB Insights (2014), lack of market demand is the most common reason for young firms' failure. Considering Sweden's small size with a population of 9.9 million, it should seem natural for young Swedish firms to engage internationally in their quest to find demand.

Furthermore, the Global Competitiveness Index (2011; 2015) shows a notable decrease in Sweden's ranking over a short period of time. This implies the importance of Swedish firms venturing abroad as many argue internationalization leads to increased productivity and innovativeness, and ultimately strengthening competitive advantages (Morgan & Katsikeas, 1997; Knight & Cavusgil, 2004; Tillväxtanalys, 2010).

Despite the importance of internationalization, it is not until recent years that emphasis has been put on the importance of firm specific analysis in researching the internationalization process (Tillväxtverket 2016, Tillväxtanalys 2010). Traditional

research focusing on internationalization, such as the Uppsala Model (Johanson & Vahlne, 1977), mainly focuses on the process of Multinational Enterprises (MNEs). This body of literature presents an incremental process of internationalization focusing on the knowledge and resource aspect of established firms' expansion. In a later revised paper, Johanson & Vahlne (2009) indicate that research needs to be conducted using multiple perspectives of internationalization to create a holistic view of the process (Johanson & Vahlne, 2009; Ruzzier et al., 2006).

It is not until recent decades that research on internationalization has shifted focus towards the process of SME's in their quest to expand internationally (McDougall & Oviatt, 1994; Knight & Cavusgil, 2004; Coviello & Munro, 1997; Ruzzier et al., 2006). Ruzzier et al. (2006, p. 480) states that: *"Attempts to apply theories that are developed for, or based on large firms may lead to relatively awkward results when applied to smaller businesses as ideas developed for large firms do not necessarily work in a small business setting."*

In 1994 researchers started to focus on firms with an inherent international orientation, taking the perspective of the individuals within the firm (McDougall & Oviatt, 1994). During the past two decades' researchers have witnessed an increase in new firms who close to inception aim for international markets (McDougall & Oviatt 1994, Knight & Cavusgil, 2004). The motives and processes for doing so are argued to be inexplicable using traditional literature. Recent research addresses the importance of network relations, and the individuals' international experience as being key for how the process of internationalization is carried out. However, focusing on analysis of single firms, they do not investigate how firms cope with difficulties in their process of engaging internationally.

Diagram 1 implies that Swedish firms risk to encounter difficulties in operating overseas since they, by an overwhelming majority, they mainly tailor offerings for a national market. Even though domestic growth may be thought to prepare for international engagement, it does not mean that the same formula will necessarily also work in a foreign market. According to Buckley & Ghauri (1993, p. 480): *"... some features are unique to internationalization or, at least, there are significant degrees of difference between growth at home and growth internationally"*. This

indicates that in the process of internationalization, the business model of a firm needs to be adjusted to fit the specific needs required by the new market. Therefore, it is interesting to investigate the way internationalization influences a firm's business model while entering a new foreign market.

Nevertheless, there is still a considerable portion of Swedish ICT-firms that are active on the international market. This wakes the question: Is it possible to learn from their process in order to better understand what Swedish firms encounter on their journey to engage internationally?

1.2 Purpose

Previous research on internationalization puts focus on the process itself, while paying little attention to the effects it may imply. As such, this study aims to explore the influence of internationalization on a firm's business model. Instead of labeling a certain industrial sector to a specific internationalization process, the focal point is to understand what firm-specific aspects of young Swedish ICT firms' business models are modified as a result of international engagement, thereby welcoming a holistic picture of internationalization literature.

1.3 Research questions

To reach its overall purpose, this study will set out to answer the following questions:

RQ1: In which way does internationalization literature address influences on a firm's business model?

To answer this, the study will review internationalization theories in order to explore connections to business model theory. The findings will then be compiled to propositions based on the author's interpretations in an effort to explicitly *link* internationalization research to Business Model theory.

RQ2: In what ways does internationalization influence Swedish ICT-service firms' business model?

This question will be answered through the analysis of six case studies of young, Swedish ICT firms (maximum 10-15 years old) which internationalized within five years from their inception. The findings from these cases will then be compared to the theoretical propositions generated from RQ1.

1.4 Disposition

This thesis is structured in the following way:

- Chapter 1:** Introduction - An introduction to the background and problem description of this research is given together with the purpose of the thesis and the research questions it aims to answer.
- Chapter 2:** Method - In this chapter, the research design of this thesis is illustrated.
- Chapter 3:** Examination of theory - This chapter consists of two sections. In the first section, an overall presentation of Business Model theory with focus on Osterwalder & Pigneur's (2010) BMC will be provided. This will follow by altering suggestions to the BMC concept and literature on changing business models. The second section addresses three main theories in regards to internationalization which are: The Uppsala Model for expansion, Network Relationships theory and the theory on International Entrepreneurship (IE).
- Chapter 4:** Interpreting reviewed theory - This chapter's compiles propositions on how to interlink the reviewed theories on internationalization to the building blocks of the BMC. To conclude this chapter, a theoretical framework of these propositions, in the form of a summarizing table (3), is presented.
- Chapter 5:** Case Studies - This chapter consists of the empirical findings from the conducted case studies. First a short case story is presented for each interview followed by a summarizing table (4) of their internationalization process. The chapter will end with an assessment of the influence internationalization have made regarding each building block of the BMC based on the most interesting findings from the cases.

- Chapter 6:** Case Analysis and Discussion: In this chapter, the empirical findings from the conducted case studies will be compared to the interpretations of internationalization theory presented. This will be done by drawing upon insights presented in Table 3 from Chapter 4, comparing them to the findings in practice (i.e. case findings in Table 5).
- Chapter 7:** Conclusions: The results from the discussion section are concluded and the main learnings are presented. Here, suggestions for future research areas are presented together with this study's practical implications.

2. Method

In this chapter, the research design of this thesis is illustrated. First, the research process will be described on a time line. Second, the research approach is presented to explain how decisions to move the thesis forward were made. Third, the specific research methodology explains how the authors conducted the literary review and empirical data collection. The final two sections will describe the reliability of the study and define its delimitations.

2.1 Research Journey

This chapter aims to illustrate that journey, by grouping the research process into three main phases (summarized in table 1). The research process is communicated, as it was of significant influence on the development of the research subject. The chapter further utilizes certain empirical findings to show their impact on changing to route of the research.

Table 1. Displaying the journey of this study.

	Main investigated aspect within internationalization	Empirical Findings	Resulting research route
Phase 1	Why go to close, but small, markets?	Today's ICT service companies do not operate in that fashion. "Fail fast" on a global scale instead.	International Entrepreneurial activity
Phase 2	Exploring <i>while</i> Exploiting	A common obstacle is to balance domestic and foreign commitment simultaneously.	How does this effect a firm's operations?
Phase 3	<i>Transitioning</i> from Exploring to Exploiting	Common obstacles are dealt with differently	Can we match theory to circumstance, rather than firm-type?

Phase 1 was about exploring the notion that Swedish companies expand to neighboring countries first, famously highlighted in the Uppsala Model (Johansson & Vahlne, 1977). A first idea was that software companies, being less dependent on

physical goods logistics, should not “have to” consider geographical closeness. In line with that idea, a first investigation through data provided by young Swedish ICT firms indicated that they feel less bound by geographical distance, imagining business on a global scale very early. This harmonized with recent literature on international engagement (e.g. McDougall & Oviatt, 1994; Knight & Cavusgil, 2004). Furthermore, one software firm commented that they were more focused on finding a market (country) that fits their offering, than reflecting on the distance to it. Meanwhile, literature on International Entrepreneurship suggested that engaging internationally implies having to *tweak* one’s offering (e.g. Cavusgil & Knight, 2015; Weerawardena et. al., 2007).

This led to a decision (Phase 2) to investigate how young Swedish ICT firms cope with tweaking their offer on the international market, while managing original offerings on the domestic market. This implied interpreting literature from a different perspective. Instead of categorizing companies according to certain literature, literature could be categorized according to certain ways of creating and capturing value. Empirical findings showed that balancing new market exploration with established market exploitation was a common obstacle. Despite this, and other obstacles (e.g. recruitment and difference in business climate) being common across firms, it became clear that the individual firm-specific context dictated in what ways obstacles were tackled.

Analyzing our empirical data, we realized that a firm will employ various ways of operating, depending on context, thereby mirroring traits from *various* areas of internationalization literature. Also, looking further into what a firm context really is, we found Osterwalder & Pigneur’s (2010) business model canvas as a fitting framework for summing it up. So, the study posed the question: if firm context determines what bodies of literature are employed, what can be learned about developing a firm’s context (business model canvas) to be suitable for international engagement? We decided that investigating the effects of internationalization on a firm’s business model would be relevant as it might lead to insights on how business models change due to international engagement. The research continued to focus on young Swedish ICT firms, because: (1) The domestic market is relatively small; (2) ICT firms represent a highly internationalized sector (Tillväxtanalys, 2014); ICT firms

potential for rapid internationalization indicates that understanding how international engagement influences business model change is highly relevant for them.

2.2 Research Approach: Ontological and epistemological considerations

This thesis aims to explore occurrences in individual firm context, where the underlying argument is that the reality which the firm faces is subjective. From this perspective, the study takes stance in that ‘there are many truths’. As these ‘truths’ are the result of *interpretation* by the authors, this study adopts an ontological standpoint of relativism (Easterby-Smith et. al, 2012). The reviewed internationalization research has a different ontological stance; mainly aiming to connect a specific firm-type to one ‘truth’ (i.e. one way of internationalizing). We view these ‘truths’ as a bundle of alternative processes - as tools in a toolbox - available to examine business model change regardless of firm-type. Therefore, this study is not set out to explain an objective ‘truth’, quite contrarily it sheds light on various perspectives under one common managerial phenomenon. Easterby-Smith et. al (2012 p. 20) summarizes relativist ontology: “[...] *there is no single reality that can somehow be discovered, but many perspectives on the issue*”.

In relation to the perspectives of reality, this research adopts an epistemologically constructionist viewpoint. Given the nature of this thesis, where context-specific interpretations of a social phenomenon are studied, our viewpoint can be described as constructionist guiding idea generation and theoretical abstraction (Easterby-Smith et. al, 2012).

2.3 Research logic

This chapter explains the underlying research logic of this study. It is important to distinguish between logic and method (Collies & Hussey, 2014). Similar to the philosophical standpoints presented above, the research logic motivates chosen

research methods and further explains the non-linearity of the research process (Chapter 4.1).

This study has been driven by “iterative curiosity”, as described in Chapter 2.1, investigating various relations between empirical observations and theoretical concepts. From start, we have let the interplay between observations and theory *guide* the development of the study. As such, this research developed as what has been described as an abductive approach (Dubois & Gadde, 2002; Kirkeby, 1994; Pierce 1931). Dubois & Gadde (2002, p. 559) explain how the approach “*is fruitful if the researcher's objective is to discover new things [...] rather than confirmation of existing theories*” .

The mentioned interplay between observation and theory is an inherent theme in this study, and it has led us to consider complementary theories which have in turn formed new research directions (illustrated in Chapter 2.1). Scholars of the abductive approach, denote such interplay as systematic combining (Dubois & Gadde, 2002).

2.4 Research Method

Building on empirical insights, that internationalization’s influence may be characterized in different ways, this research employs a comparative multiple case study design. This qualitative research method was deemed necessary to understand the contexts of the interview objects. Moreover, given the relativist perspective of this study we do not focus on finding generalizable patterns, which further out rules utilizing quantitative measures (Bryman & Bell, 2011; Easterby-Smith et. al, 2012; Yin, 1994).

2.4.1 Sampling

Initial contact was made with a small group of individuals within the researchers’ existing contacts, whom met the study’s criteria at time. These contacts contributed with additional contacts with whom interviews were conducted. Thus in search of relevant interviewees, this study has employed a snowball sampling strategy (Bryman & Bell, 2011; Easterby-Smith et. al, 2012). This approach yielded a sample

of eight interviews, where the first six merely informed the researchers and contributed to form the final area of investigation. The latter two interviews focused on the final theme of internationalization and business model theory.

Seen to the final focus area of this thesis, relevant interviewees had to be involved first hand in a firm's internationalization and have insights in that firm's business model. To further investigate internationalization in relation to business model theory, we extended the sample by four additional firms. This was accomplished through utilizing our professional contacts, whom have been involved with firms relevant for this study. As such, this final sampling strategy utilized purposive sampling (Easterby-Smith et. al., 2012) through formal contacts. Added to the two previously conducted interviews, a sample of six case studies was deemed to be extensive enough to fulfill the final research aim.

2.4.2 Sample Characteristics

All six firms who build the case studies develop ICT services. The choice to exclude physical goods production in this thesis was to limit dependencies of geographical closeness for distribution and logistics. Notably, all case studies operate in different industries to explore influences of internationalization across industry settings.

Furthermore, the aim was to involve firms that have internationalized recently, in order to avoid lack of memory from the interviewees. Two firms internationalized more than five years ago, however judging from the interview findings, the choice was made to include them in the study.

Table 2. Showing the empirical gatherings.

<u>Firm:</u>	<u>Segment:</u>	<u>Name:</u>	<u>Role:</u>	<u>Included & Approved data</u>
Knox Academy	Educational Assistance	My Klint	CEO	NO
Creandum	Venture Capital	Joel Eriksson	Investment Manager	NO
Netlight	IT-Consulting	Andreas Andersson	Consultant	NO
Business Sweden	International trade support	1. Therése Dalebrant 2. Karl Mellon	1. Ass. Investment Manager 2. Investment Advisor	NO
Nordic Innovation House	Startup support	Donnie SC Lygonis	Senior Advisor	NO
Mentimeter	Presentation Service	Jonny Warström	Co-founder	NO
Vint	Peer-to-Peer	Eva Qvam	Founding team member	YES
Klarna	Payment Service	Lina Larsson	Project Leader	YES
VisibaCare	Health Services	Johan Gustafsson	Co-Founder & CEO	YES
Hansoft	Project Management	Patric Palm	Co-Founder & CEO	YES
Publit	Digital Publication Service	Per Helin	Co-founder & CEO	YES
DigiExam	Educational Services	Johan Hägglund	Co-founder & CEO	YES

2.5 Method for Literature Review

Literature on internationalization constitutes the foundation of this thesis and has therefore been systematically reviewed throughout the duration of this research. The abductive approach has ruled out certain strains of internationalization research (e.g. speed, frequency, multinational enterprises and entry modes) as they did not match the empirical data. The three internationalization theories were deemed most relevant mainly for the following reasons: They cover larger parts of the process than other theories, and they are found to be most cited within internationalization research. Meanwhile our approach has advanced the scope of the literature review to also build on business model theory, where business model change and design in combination with international engagement was found to be a relatively young research area. Literature searches have been conducted in databases provided by Chalmers University of Technology, and complemented by using the search engine Google Scholar. Moreover, various popular science websites together with the studied firms' websites have been used when broader context was needed.

2.6 Interview methods

This study handles the complex procedure of internationalization and firm-intimate aspects (e.g. confidential business model details) which is why its primary data source was collected through personal interviews (Bryman & Bell, 2007; Denscombe 2009; Patton 2002). Considering the strategic importance of the researched area, we have made sure to receive consent regarding all interview results published in this report.

In-person interviews were considered to be beneficial as they enable interviewees to easily visualize concepts and explanations. However due to geographical separation, three interviews were held through video-link (Skype). All six focal interviews lasted between 45-75 minutes, and were recorded digitally. The recordings were used collect and revisit the extracted information in detail. By taking notes of the time when interviewees contributed with relevant information, the authors could more easily navigate the recordings in retrospect.

The interviews were held in a semi-structured format with the reason to open up for possibilities of discovery. The semi-structure enabled storytelling, beneficial for gaining firm-unique perspectives on how internationalization was carried out and how the business model was impacted. Collection of both intended data and new data in this manner helped the authors reach unforeseen insights, described in Chapter 2.1 (Dubois & Gadde, 2002). The sequence of questions regarding business models followed the building blocks of the BMC as described by Osterwalder & Pigneur (2010). Also, a general interview guideline was sent out beforehand to prepare the interviewees:

- *How would you characterize your firm? (What does the firm do, and in what way does it stand out?)*
- *Elaborating freely, how do you think that changed when you expanded abroad?*
- *Could you describe the process the firm took to go abroad? (story)*
- *What are some notable obstacles the firm faced when internationalizing, and how were they overcome?*

2.7 Research Reliability

This study does not aim to provide any generalized theory, rather to offer insight of the effects of internationalization on a firm's business model. As such, the gained insights can be seen as firm-specific. Nevertheless, by providing first insights regarding the effects of internationalization on a firm's business model, we illustrate the theoretical considerations made by combining two bodies of literature.

This research has based its comparison on the study of multiple firms. Perhaps most relevant critique to this design is the argument that *"the complexity of cross-case assessments in different contexts can make comparisons unmanageable"* (Dubois & Gadde, 2014 p.1281). As such, diverse cross-case comparisons could risk the quality of the conducted research and its findings (Miles, 1979). Nevertheless, the choice was made to underline that, *because* of different contexts, firms choose to operate

differently. In other words, this research is designed to introduce a new perspective to internationalization theory, contrasting previous paradigms where sector-wide generalizations have been standard. We acknowledge that the Uppsala Model depicts a process of internationalization in established Swedish manufacturing companies (i.e. not in SME's). However as it is recognized to be one of the most cited theories and commonly addressed as a point of departure for newer theories within internationalization, it has been deemed appropriate for the study.

In more recent literature on qualitative studies, Siggelkow (2007) points out the difficulty of motivating the accuracy of certain studies which have allowed for both dynamic theoretical frameworks and temporary empirical findings. For successful motivation, Dubois & Gadde (2014) name two significant issues: the presentation of the case study in relation to theory, as well as describing the underlying methodology used in the case studies. Indeed, if these issues are not addressed, a study may seem to result in describing nothing when trying to describe everything (Weick, 1979). This argument is further strengthened by Siggelkow (2007 p.23), who states that "a common weakness of case-based research is lack of selectivity". Key for the researcher is to carefully pick what is to be included and conveyed to the reader, and what should be left out - even though the left out bits have been crucial for the researcher's learning. The researcher should keep in mind that it is the contextual information that is important to convey to the reader (Ruddin, 2006).

The researchers of this study have without doubt "suffered" from sparked interest in every aspect of the researched subject. However, rather than including everything, this study clearly focuses on the intersection of internationalization and business model design. As Siggelkow (2007 p. 23) explains, case-based research may suffer when a researcher "can easily feel that everything is 'so interesting' and as a result [everything] should be shared with the reader". The aim of the previous method section is to illustrate how the research ended up with that focus, and in doing so it also summarizes what 'bits' were chosen not to be included in the final study. This way, we argue that through rigorously explaining our research method, the research selectivity is proven.

In discussing the limitations of this study, the authors realized that more interviews per firm would have been optimal, both for validity and depth. However, in acknowledging this, it is argued that data collection was sufficient for a first investigation and the in relation to circumstances under which the study was conducted.

2.8 Research Delimitations

In this thesis internationalization is assessed as outbound operations (i.e export, sales in other countries) of a firm. This means that import from foreign countries is not considered as a firm being internationally present. Moreover, only organic expansion is analyzed thereby excluding other forms of becoming internationally engaged such as joint ventures, mergers and acquisitions and franchise licensing.

This study further focuses on young Swedish firms (maximum 10-15 years old) which internationalized within five years from their inception. Also, all companies subjected in this study operate within the ICT-service sector. This is due to the fact that ICT, in particular the service sector, is the fastest growing as well as the most internationally engaged sector in the Swedish industry. It should also be pointed out that even though all companies in the study belong to the ICT-sector, the nature of their business varies remarkably. This was in order to reach a diverse sample and to get a comprehensive data collection within this segment. Furthermore, the aspect of “success or not” was not a relevant criterion when choosing the sample. Since the investigated field is how internationalization influences business models, success or failure are merely results of that influence.

Regarding assessments on internationalization theory, little attention is payed to elaborating on the evolution and decrease of trade barriers. With that being said, numerous organizations and stakeholders work hard to make trade barriers neglectable between countries that frequently conduct trade. Thus, we imagine that trade barriers play a more substantial role for firms who expand to uncommon countries. However, this is not treated in this thesis since this aspect is not considered to have the same impact on internationalization as before (Tillväxtverket, 2014; Javalgi, 2003) and also since this topic was not brought up once during the 12

conducted interviews. Related to this is also industry approval, which of course affects the speed of internationalization in certain industries (e.g. medical technology) more than others. This study has not delved into these effects since none of the studied cases mentioned them as a crucial element in their internationalization. Also, as mentioned in this chapter in the Method for Literature Review section, some strains of internationalization theory (e.g. Speed of internationalization, Entry modes) are excluded since they are recognized to be outside the scope of this research.

As this study is set to investigate the effects of internationalization on a firm's business models, the area of Business Model Innovation is merely mentioned to underline the importance of business model *development*. It is also mentioned to communicate that modification is not swiftly done because of interlinking elements in the business model. Thorough investigation of theory on Business Model Innovation has therefore actively been excluded in order to narrow the scope of this study. This theory section also includes reviewing a bundle of alternations regarding Business Models. However, all of these concepts are not further analyzed or used in the assessment of the research questions of this paper. The reason for mentioning them is to enlighten the reader about existing alternatives within this field of research and to broaden the spectra of understanding for the concept by the authors.

As pointed out earlier, the field of operation and the maturity of the firms investigated differs, and as a result they have different levels of resources, which of course dictates how the internationalization process could be carried out. However, as the study aims to explore examples of how internationalization theory fits with business model theory, we are less concerned with statistically proven patterns. Moreover, it is acknowledged that some of the early international expansions investigated in this report, are depicted 5-10 years in *retrospect*, which of course puts a lot of trust in the interviewee's memory and affects the story told. Also, the conclusions drawn from interview data are based on the author's interpretations which could pose as a liability aspect in the empirical findings of the study. However, these interpretations have been sent to the interviewees for approval and correction in order to avoid misrepresentation of data and assessments.

3. Exploring research on business models and internationalization

This chapter provides a review of existing literature on business models and on internationalization for the purpose of constructing a theoretical foundation to interlink the two research areas. The first section starts by reviewing research done within the field of business models as well as presenting the basic concept. This is followed by an examination of various business model frameworks, theories on changing business models and presentation of existing research on interlinking business models with internationalization theory. However, the later part mentioned above will in this report be reviewed in less depth. It is included in this paper to broaden the understanding of business models, and convey that business models are multifaceted – not entirely represented by the business model canvas theory. The presented assessments will be focused on theories and research believed by the authors to be relevant to the purpose of this research.

Second, this chapter includes theories on internationalization, where three highly cited theories are reviewed; The Uppsala model, Network Relationship theory and the International Entrepreneurship theory. These three theories provide what the authors believe to be interesting contrasts, considered fruitful for this study's purpose. While they stem from distinctive moments in time (thus underlining different courses of action), these theories all depict the internationalization process as a whole.

Third, the chapter will be concluded by interlinking interpretations made by the authors on what each internationalization theory indicates in regards to the theory presented on business model theory. The assessments will finally be summarized in order to provide a simplistic overview, easy to follow. The summary (Table 3) will later be used as a tool for the analysis in this report.

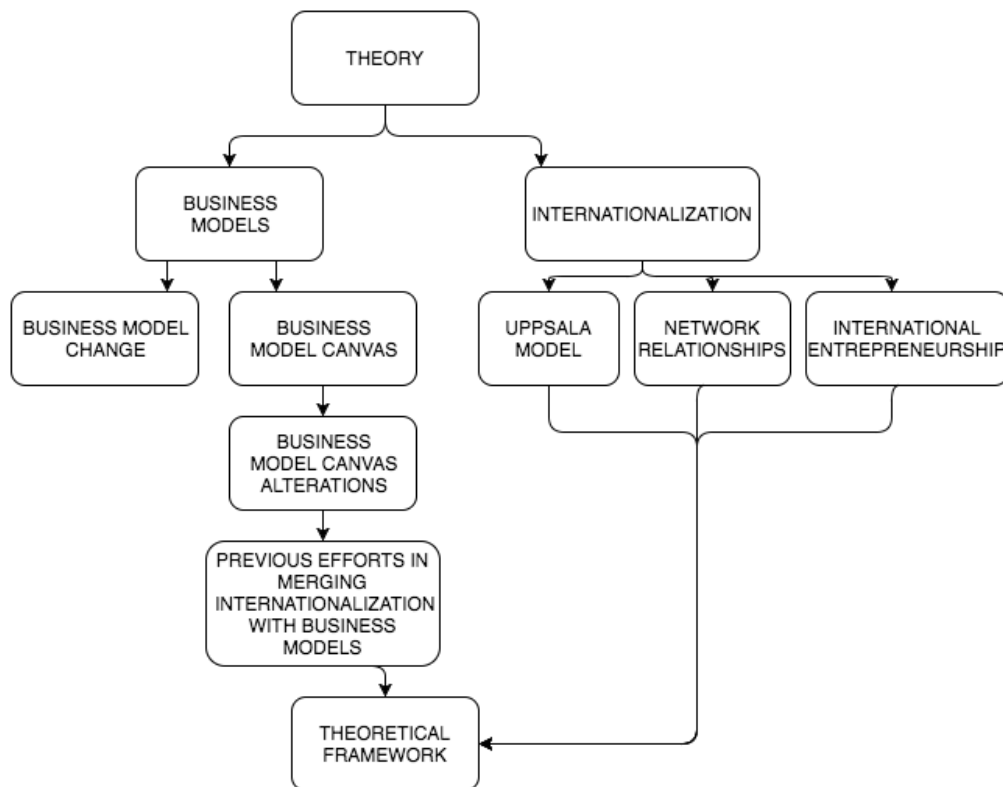


Figure 1. Illustration summarizing the theoretical review.

3.1 Business Model Theory

The term ‘business model’ raised much research interest parallel to the advance of internet-based companies during the 90’s (Magretta, 2002; Osterwalder et. al., 2005; Morris et. al., 2005; Shafer et al., 2005). Osterwalder et. al (2005) see this relationship between technology and business models as a reaction to decreased transaction costs, where information was suddenly cheap and available which opened up more options for business design choices for managers. This also contributed to that industry boundaries became vaguer, which in turn invited practitioners and theorists to analyze *the firm* instead (Osterwalder et. al., 2005 p.4): “*The business model concept is a candidate to replace the industry as a unit of analysis*”. Indeed, Buliga (2014) explains that research and conceptualization of ‘the business model’ has helped academia with being able to better analyze firms at a certain moment in time.

Osterwalder et. al (2005) found that definitions of a business model were widespread, but could be classified in two perspectives; (1) the value/customer-oriented approach, which in this study is denoted Outbound Components, and (2) the activity/role-related approach, denoted Inbound Components. Morris et. al (2005, p. 727) argue that business models can symbolize *“the essence of how the business system will be focused”*. Key in this, is that a business model represents a *system*, consisting of interrelated parts, all designed so that a firm can capture and create value (Zott et. al., 2011; Osterwalder et. al., 2005). Morris et. al (2005, p. 727) define a business model as follows: *“A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”*. However, embedded in this definition is the notion that a firm already knows what markets it will operate in. This study is set to investigate situations where markets are not necessarily chosen, but in fact can be a result of sudden demand. Thus, for the purpose of this research, a modified version of Morris et. al.’s (2005) definition of the business model is chosen, as follows:

*“A business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed **and modified** to create sustainable competitive advantage.”*

Viewing a firm’s business model has become a powerful tool for managerial purposes as well as for theorizing within business research (Stähler, 2002; Buliga, 2014; Zott et. al., 2011). Kaplan (2012) emphasizes that most company leaders are aware of the possibility of potentially capturing, creating and delivering value in a better way through an alternative business model, but mostly struggle with changing the existing one

Through classifying earlier research, Osterwalder et. al (2005, p. 5) recognize three ways of representing a business model (Figure 2), with different levels of detail ranging from the holistic concept of business models, through clustering types of business models to explaining instances, or firm-specific, business models. As this study is set out to investigate the dynamics of firm-specific business models it mainly adopts the perspective of level three in Figure 2.

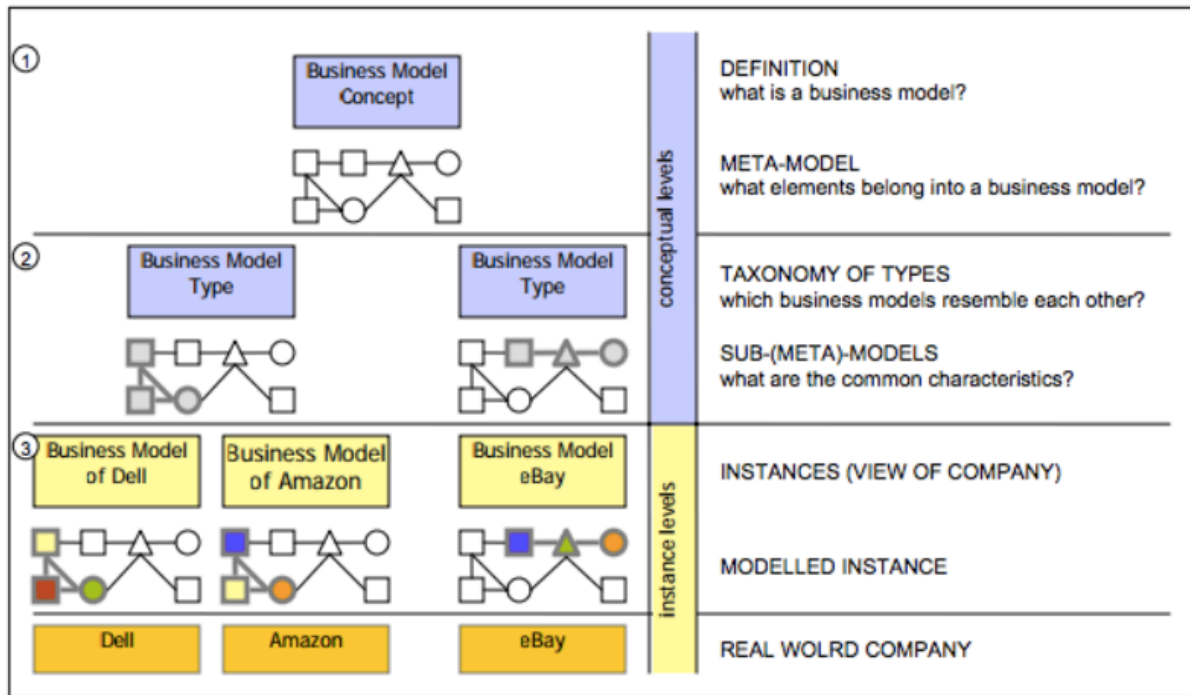


Figure 2. Illustration of three levels of detail in analyzing business models (Osterwalder et. al., 2005 p. 5)

Through conceptualizing the business model in these ways, Osterwalder et. al (2004; 2005) makes a particular practical contribution in supporting managerial decisions. Among other things, they propose that analyzing the firm’s interrelated parts could help with identifying indicators for management systems, as well as map and store knowledge about the value creation of the firm.

3.2 Business Model Frameworks

This chapter reviews suggestions on how business models can be conceptualized; mainly building on the business model canvas concept presented by Osterwalder & Pigneur’s (2010) which in terms is based on Osterwalder’s work on business model ontology (2004;2005). The business model canvas suits the purpose of this research as it illustrates a complex concept in an effective, holistic, framework that has come to be commonly used in business analysis. The following statement by Osterwalder et. al. (2005, p. 15) captures the motivation of the authors of this thesis in using the BMC: *“Business models improve the management of the business logic of the firm. The business model concept helps ameliorate the design, planning, changing and*

implementation of business models. In addition, with a business model approach companies can react faster to changes in the business environment.”

3.2.1 Business Model Ontology

In regards to recent suggestions within the field of conceptual business models, the business model presented by Osterwalder (2004) is undoubtedly the most recognized (Eppler et al., 2011; Kline, 2014). Osterwalder's business model ontology suggest four main building pillars:

- **Product:** The field of business the firms operates within and what products they offer. What is the value proposition to the market?
- **Customer Interface:** The customer base the firm addresses with its product(s). How will the product reach the consumer and how will the customer/firm interaction look like?
- **Infrastructure Management:** In what way are logistics handled, who are the suppliers and how is this relationship defined.
- **Financial Aspects:** In what way is the business model sustainable, how will revenue be made and what cost structure will the firm adapt.

In order to provide a more detailed model, these four pillars are further broken down to 9 building blocks. Osterwalder (2004) recognizes these blocks to be the core of their ontology which he emphasizes have emerged from the synthesis of the business model literature reviewed by them. Together, the following nine building blocks are proposed to constitute a business model: Value proposition, target customer, distribution channel, relationship, value configuration, capability, partnership, cost structure and revenue model; together construct the building blocks.

3.2.2 The Business Model Canvas

In more recent work, Osterwalder presents a more simplified and clean version of his previously addressed business model ontology (Osterwalder & Pigneur, 2010). The BMC builds on the same 9 blocks presented earlier with some modification to the

titles. The figure below shows the Canvas and the composition of the building blocks.

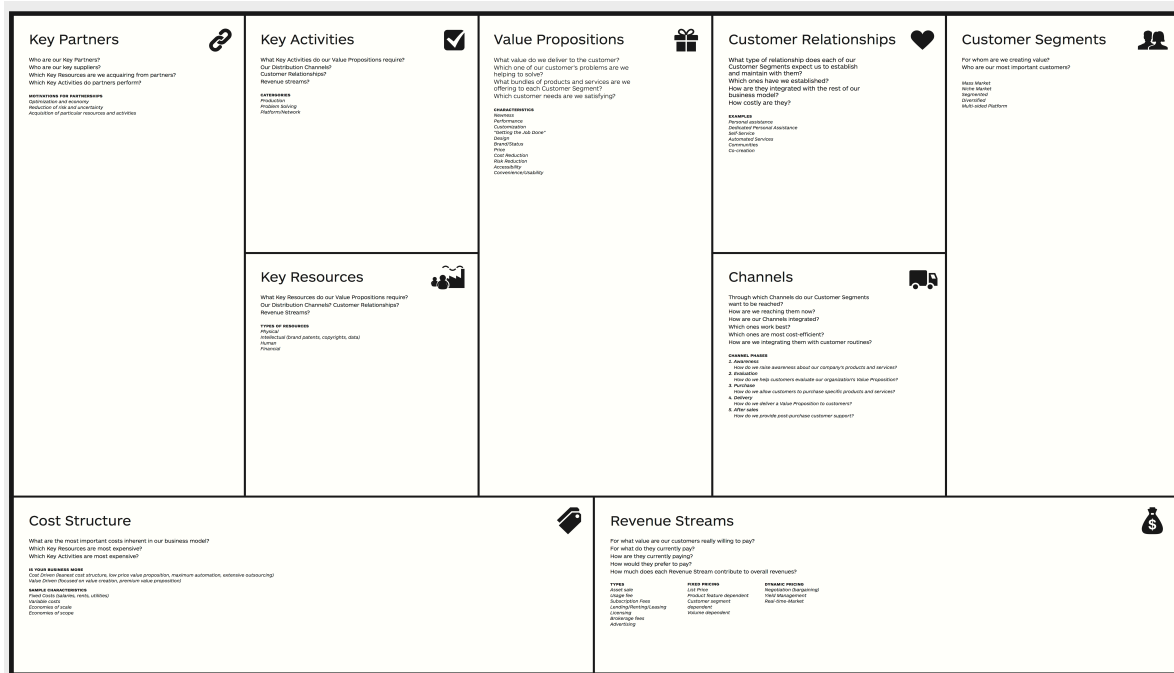


Figure 3. Illustration of the Business model canvas (Osterwalder & Pigneur, 2010) made available through strategizer.com (June 18, 2016).

Outbound components of the Business Model Canvas

Customer Segment: In this block it is determined who the target of the firm is. The definition of several segments is possible, however one needs to be chosen to be served initially. Examples of different customer segment types can be: Mass market, Niche market, Diversified, multi-sided or Segmented.

Value proposition: This block embodies the services and products offered by the firm to its defined customer segment. This block distinguishes one firm's competitive advantage in regards to its product or service from others. Elements distinguishing value propositions are for example: Performance, Newness, Price, Customization, Design, Accessibility, Risk reduction, Brand/Status, etc. In other words, proportions can be disruptive, offering something totally new, or incremental by adding new attributes and features to an existing solution.

Channels: How does the firm deliver the value proposition to its customer segment? Some of the important functions of a firm's channels are: Notifying customers about new services and products, receiving feedback from their value proposition, enabling purchases of special products/services, providing after sales support. A firm's channels can also have different constellations, they can exist through partnerships or be the companies own and either be direct (e.g. Own store, Sales force, web-shop) or indirect (e.g. Partner stores, Wholesaler).

Customer Relationships: This block describes the type of relationship a firm develops with its customer and the way the interaction happens. The block mainly addresses customer experience at the firm. The motivation behind Customer Relationships can be: Acquisition of new customers, customer retention or upselling. There are several forms of customer relationships and they generally co-exist in a firm. Examples are: Personal Assistance, Dedicated Personal Assistance, Self-Service, Automated Service, Communities and Co-creations.

Revenue Streams: This part of the canvas clarifies the way that revenue is collected from the customer segment by the firm. Even though different pricing mechanisms exist, there are essentially two types of revenue streams: Transaction revenues (i.e. one-time customer payment) or Recurring revenues (i.e. ongoing payments). Asset sales, Usage fee, Subscription fee, Licensing and Lending/Leasing/Renting are various ways to generate a revenue stream.

Inbound components of the Business Model Canvas

Key Partnerships: This segment of the canvas presents the firm's network in regards to business partners and suppliers needed to make the constructed business model to work. Partnerships can take several forms, Strategic alliances, Coopetition, Joint Ventures or Buyer-Supplier shows some of the constellations. A partnership is developed based on different motives. These can be distinguished in the following way: Optimization and Economy of Scale, Reduction of risk and uncertainty and Acquisition of particular resources/activities.

Key Activities: These are activities most important for the firm in order to operate successfully. In the same way as Key Resources, these actions are required to offer

the Value Proposition, reach the Customer Segment, maintain Customer Relationships, etc. One example of such an activity can be problem solving for a consultancy firm. Production, Problem Solving and Platform/Networks can be viewed as different types of activities.

Key Resources: This block represents the assets available to the firm. The key resources are the means in order for a business to deliver and create its value proposition. Various departments in the firm may value, utilize and rely on different key resources in different ways. For instance, a design department relies primarily on the firm's human resources while the manufacturing facility is the production departments most valuable asset. Key resources can be categorized according to: Physical, Intellectual, Human and Financial.

Cost Structure: The final part of the canvas outlines the costs occurring to accomplish the business model. By outlining the Key Resources, Key Activities and Key Partnerships, a viable estimate of the cost structure can be calculated. Broadly these costs can be separated into Value-driven versus Cost-driven structures. One example of a Value-driven business is Luxury hotels that rely on the value they offer the customer with exclusive facilities and services. Furthermore, the characteristics of cost structures can be the following: Fixed costs, Variable costs, Economies of Scale and Economies of Scope.

3.2.3 Business Model Alterations

Chesbrough (2010) emphasizes that technology in itself has no objective value until it is commercialized through some kind of a business model. Chesbrough (2010) further states that the same technology presented to the market through two different business models can yield different returns for a firm. The BMC concept and its popularity as a tool for managers and entrepreneurs, has altered in the emergence of various takes on the concept (Kline, 2014). In this section a brief summary of business model alterations is presented in order to denote the multiple viewpoints related to the BMC theory and to broaden the perspective regarding the research done within the field. However, the analysis of this thesis will mainly build on the

perspective of the BMC presented by Osterwalder & Pigneur (2010), as it has come to be widely used and referenced in Business Model literature.

When defining a business model, Chesbrough & Rosenbloom (2002 p.534) includes two aspects not covered by Osterwalder & Pigneur's (2010) Business Model Canvas:

- Description of the position of the firm within the value network linking suppliers and customers (incl. identifying potential complementary actors and competitors).
- Formulating the competitive strategy by which the innovating firm will gain and hold advantage over rivals.

The first aspect in Chesbrough's (2002) work addresses the value network that is created around the business. It is argued that the shape of this network determines the role customers, suppliers and third parties play in influencing the way value is captured from the innovation that is commercialized. By positively aligning with the value network, the firm can for example leverage from network effects among the consumers or by supplying complementary assets in order to add value to its business.

The second aspect included by Chesbrough (2002) regards the competitive landscape and a firm's competitive strategy. It is stated that in a market of reasonable size, there is a high probability of competition, several target markets and alternative technologies. Since the time and effort to serve all demand is beyond the scope of one firm, it is important to target a specific segment with an appropriate value proposition. By doing so, the firm is able to identify what activities are necessary to focus on and should be prioritized, in order to keep the competitive advantage in relation to their rivals. The business model crafted by IDEO (Figure 4) is in this study interpreted as a viable visualization of the aspects brought forward by Chesbrough (2011).

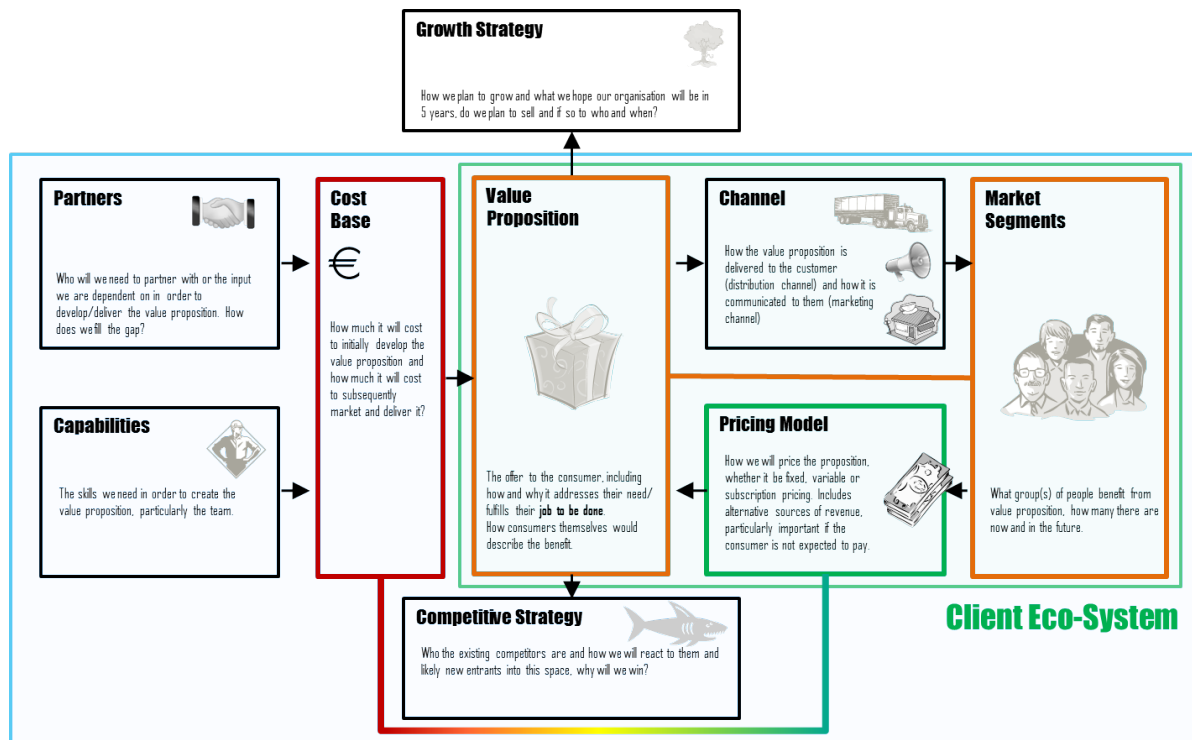


Figure 4. Illustration of a business model framework crafted by IDEO (Marmol, 2013), proposed by this study to resemble Chesbrough's (2011) two arguments not included in the BMC.

However, it should be mentioned that Chesbrough (2002) does not explicitly address growth strategy as one of the necessary aspects of a business model, but in the light of this report, the description of the positioning of the firm can partially be interpreted as interlinked with the growth strategy block in the IDEO canvas.

Another example is the Lean Canvas presented by Maurya (2012). He states that the main objective of the Lean Canvas is for to be as actionable as possible while keeping its focus on entrepreneurship. It is further elaborated that by actionability, Maurya (2012) refers to the canvas's ability to capture what encounters most risk for the firm. In the Lean Canvas, which builds on BMC (Osterwalder & Pigneur, 2010), Figure 5, four of the building blocks are substituted and replaced in the following way:

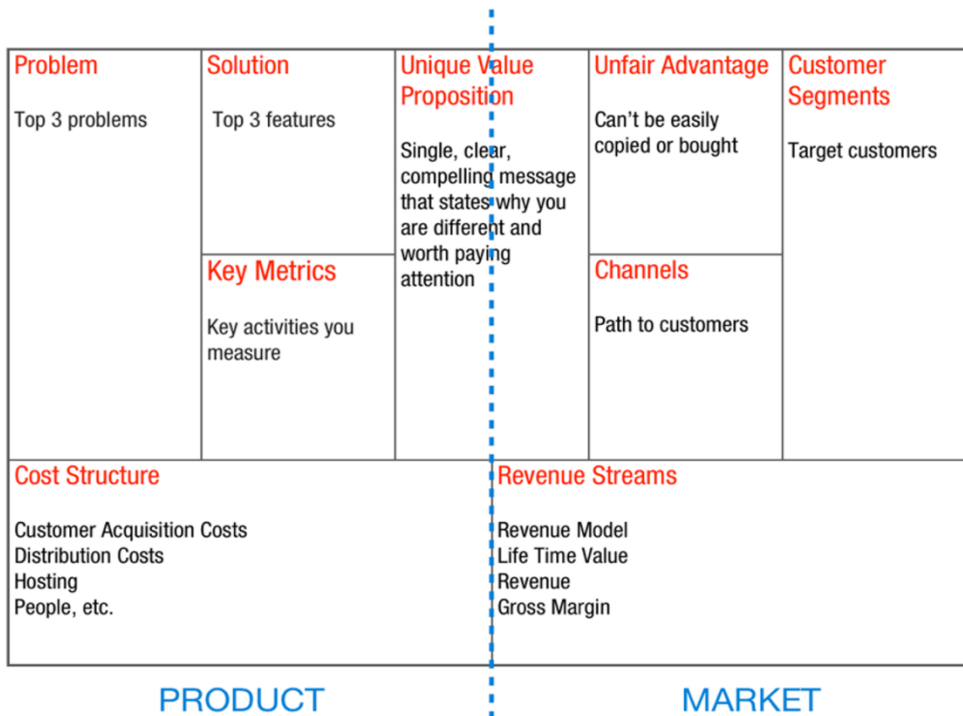


Figure 5. Representation of the Lean Canvas (Maurya, 2012).

First off, the Key Relationships block is substituted for a Problem block. Maurya (2012) argues that the reason most startups fail is that they are poor on understanding and defining the actual problem, and not because of the inability to build their intended product. Due to this, time, money and effort is deployed on doing the wrong things, whereas this box will enable preventing this pitfall.

Furthermore, Key Activities and Key Resources are both substituted for the boxes Solutions and Key Metrics, respectively. The Solution box underlines the fact the entrepreneur has understood the problem of the customers and is in a position of defining a possible solution for the problem or in other words, to convey a Minimum Viable Product. Regarding the Key Metric, Maurya emphasizes that in any given moment of a startups lifetime, there are only a few metrics or actions that truly matter. These few relevant and essential activities need to be correctly identified and listed in this building block. Lastly, the Customer Relationship block is replaced by Unfair Advantage. Unfair Advantage is explained as being equal to the more recognized term competitive advantage.

Similar to the Lean Canvas, is the Product Canvas presented by Pichler (2012), viewed in Figure 6. This canvas is however solely focused on product innovation, without offering a holistic approach for the entire business. This means that the canvas does not address aspects such as Partnerships, Cost Structures, Revenue Streams etc. A figure of the Product Canvas is represented below.

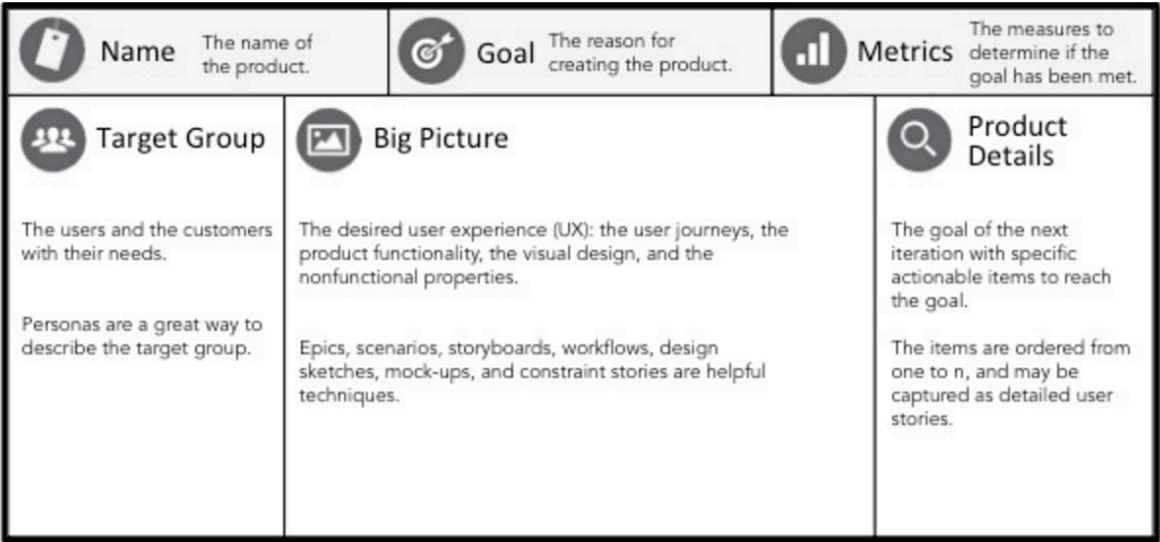


Figure 6. Illustration of the components proposed to build the Product Canvas (Pichler, 2012).

Another development of the BMC has led to the Kline’s (2014) so called Innovation Canvas. The canvas foremost emphasizes the importance and the role of design in constructing a business, both in regards to the product as well as the business model. According to Kline: *“The canvas creates a framework that integrates design and market themes, encourages innovation and entrepreneurial thinking, and fosters the iterative and social processes critical for design success.”* (Kline, 2014 p. 94).

The Innovation Canvas shown in Figure 7, is constructed of four quadrants encapsulating the Value square, representing the core of the firm’s operations. According to Kline (2014), this positioning is due to the fact that value creation is the primary object for any firm.

The Innovation Canvas

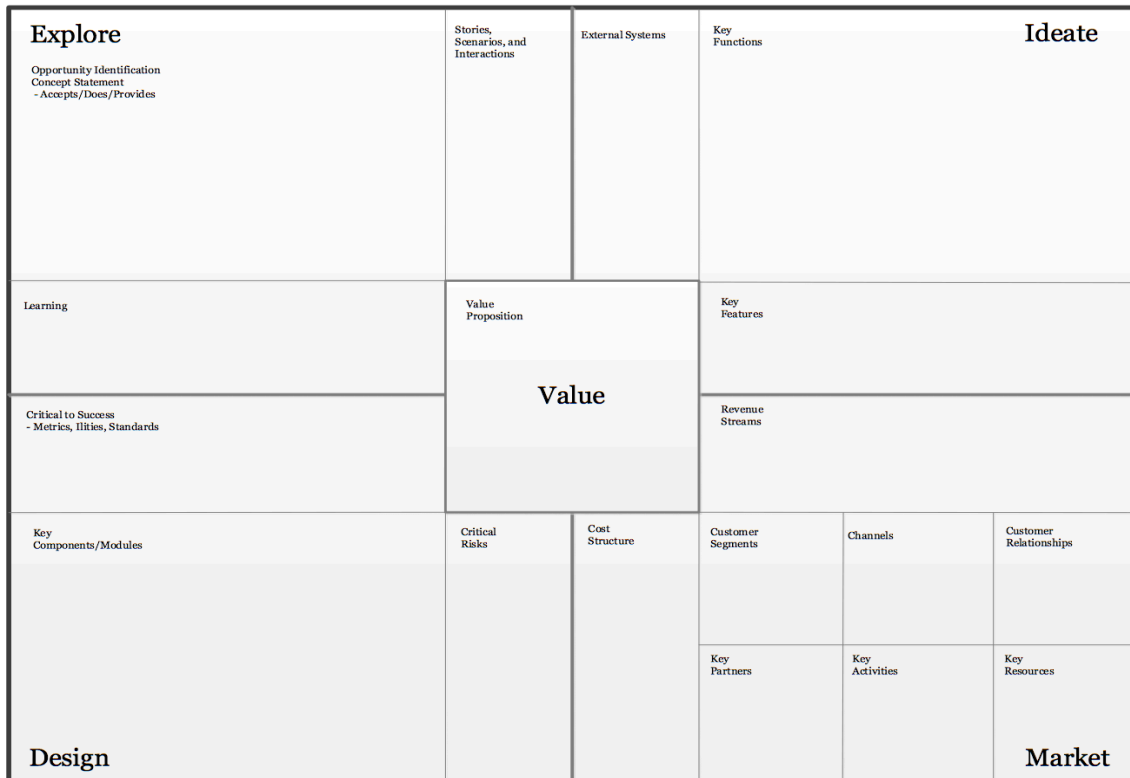


Figure 7. Illustration of the components proposed to constitute the Innovation Canvas (Kline, 2014).

At the upper left section of the innovation canvas, the Exploration quadrant is presented. This quadrant contains three parts which are: Learning, Scenarios and Customer Stories as well as the Concept Statement block. Kline (2014) argues that a new firm often begins with discussions and conversations in regards to a problem that over time evolve to a realized opportunity. In this way the Explore quadrant provide a clearer view regards to the emerging problem with the customer stories describing the implication and use of the system or product.

The Ideate block consist of Key Functions, Key Features and External Systems. This quadrants sets to describe what the system is supposed to do rather than how it is going to do it. It is argued that functions and features are the basic building blocks in a design process (Buede, 2009; Pahl & Beitz, 2007) and that the incorporation of this quadrant into a canvas enables benefits deriving from a function analysis approach.

The Design building block is constructed by three subcategories namely: Key Components and Modules, Critical Risks and Critical to Success factors. This quadrant draws inspiration from various common design themes as well as a model-

based system approach with the purpose to select a final concept in order to realize a component or a module. In this part, the features, functions and concepts developed in the Ideation quadrant are gathered, evaluated and prototyped with the focus to physically implement the link between the system and the determined features and functions.

Finally, the Market quadrant of the Innovation Canvas consists of the same building blocks forming the BMC. In this part, the focus lies on actual business model for the venue and any information used as input here, will directly contribute to inputs in the three other quadrants.

3.2.3.1 Summarizing Business Model Alterations

The above mentioned canvas versions point out aspects that the BMC does not include. In presenting them, the study highlights the complexity of the BMC building blocks and shows tools as to how one might go about designing them in depth. The versions also offer alternative aspects that managers may want to consider when designing how the firm will carry out its value creation and capture.

- Chesbrough's (2002) argument to involve competition and value stream helps in understanding a firm's context and how it may relate to other actors involved in that context.
- Through using the Lean Canvas, managers are better able to pinpoint what is critical for the firm, thereby increase understanding of potential risks.
- The Product Canvas provides depth in understanding how the product or service relates to its market, how it is used and who the user is.
- The Innovation Canvas welcomes creativity and exploration in developing the firm's business model. It too addresses what are critical aspects for the firm to operate and induces entrepreneurial problem solving.

3.3 Research on business model modification

As the business model became a unit of analysis (Stähler, 2002), various research branches sprung out. One in particular, touches upon business model innovation, and reflects the need of flexibility of business models (Chesbrough, 2010; Blank & Dorf, 2012; Euchner & Ganguly, 2014; Trapp, (2014)). The ability to adapt a firm's business model to its surroundings has become increasingly important to sustain competitive advantages (Kaplan, 2012; Euchner & Ganguly, 2014; Amit & Zott, 2012). As Osterwalder et al. (2005, p. 15) puts it: "*Modification [of the business model] is, without doubt, essential in an uncertain and rapidly changing competitive landscape.*". On that note, Trapp (2014) also states that when market condition changes or when competitors catch up it is important to seize new business opportunities by compiling the *right new* business model.

However, existing research on young firms tends to emphasize business model modification *before* scaling the business (Blank & Dorf, 2012; Eisenman et. al., 2012; Ries 2011). *After* scaling a business, it is most common to denote business model changes as 'business model innovation', and Buliga (2014) argues that research on business model innovation is mainly concerned with large enterprises, failing to address SME characteristics. For instance, Buliga (2014 p. 64) found that partnerships are "*extremely important*" for SMEs in building a successful business model, and the role of networking is central in that.

Without a doubt, business model change is necessary for firms to adapt to their surroundings. As Magretta (2002 p. 7) states: "*When a new [business] model changes the economics of an industry and is difficult to replicate, it can by itself create a strong competitive advantage.*". However necessary it may be, altering the business model is in most cases not swiftly done. It is important to understanding that when changing one part of the business model, other parts will be affected and sometimes have to change as well. Thus, it is necessary to see the interlinked parts of a business model - to imagine what future scenarios a business model change may imply (Buliga, 2014).

3.3.1 Business model design facilitating globalization

Similar to a number of researchers, seeking to interlink internationalization to business model theory (Dunford et. al., 2010; Onetti et al., 2012; Rask, 2014; Zott et al., 2011), this research has found that studies on integrating these topics is lacking. Moreover, the main approach employed in above studies is *ex-ante*; mainly regarding business models that *facilitate* early (and rapid) internationalization. This study focuses on a reverse approach, that is *ex-post*; how internationalization *affects* business models. Therefore, this section will briefly present their findings in order to manifest the spectra within this field of research. The purpose of doing so is to utilize some of these findings to inform this study of an adjacent research area.

Rask (2014) and Onetti et. al (2012) depict the business model as a value chain, where firm-inbound activities (e.g. production, partnerships) are Upstream and firm-outbound activities (e.g. sales, customer relationships) are Downstream. Rask's (2014) conceptual model (Figure 8) emphasizes that a certain business model design may result with international engagement in either Upstream or Downstream activities.

Rask (2014) further employs a three-dimensional approach to business models introduced by Onetti et al. (2012). The dimensions are illustrated ranging from the middle and out of Figure 8:

- 1) Focus (what a firm does): Describing the strategic decisions regarding allocation of resources in order to deal with the differences presented by geographical location.
- 2) Modus (actions required): Focuses on the business model design which determines how activities are managed in different locations.
- 3) Locus (where actions are conducted): Addresses the actual geographical location where activities take place.

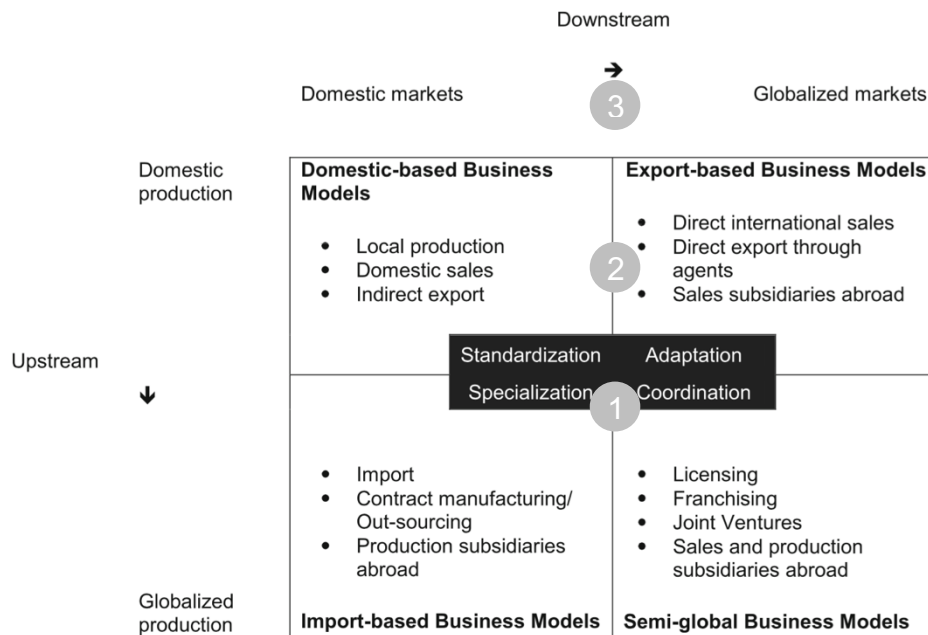


Figure 8. Conceptual model describing necessary business model designs depending on which activities are internationally engaged (Rask, 2014 p.156, numbers added).

As this thesis defines internationalization as strictly firm-outbound activities, it concerns Rask's (2014) quadrant of Export-based business models. As seen in Figure 8 this further emphasizes a firm's adaptive abilities as key.

Lastly, Dunford et. al (2010) propose an additional way of leveraging business model design for internationalization, arguing that replication of business models provides the possibility for rapid internationalization. They draw on Nelson & Winter (1982) by presenting two ways of replicating a business model; (1) Template based - Replication of a business model design in detail; and (2) Principle based - Replication of the underlying logic of a business model. Dunford et. al (2010, p. 659) emphasize that template based replication requires less staff anatomy than for principle based replication, as "required actions are more precisely specified.". The authors mainly refer to business model replication *within* a firm, i.e. replicating what works in one market for deploying in another market.

Summarizing, these theories inform the study of two contrasting viewpoints; (1) A firm's business model may be completely or partially internationally engaged, which highlights resource allocation as a difficulty for managing internationalized firms (Rask, 2014), and; (2) A firm's business model design may be used for replication in

order to benefit rapid international engagement, which points out an interesting strategy, perhaps often overlooked, namely that replicating existing firms in a new market may benefit entry to that market.

3.4 Research on internationalization

Similar to business model theory, research about internationalization has developed in harmony with technology accelerating globalization, including communications, transport and trade agreements (Johanson & Vahlne, 2009; Knight & Cavusgil, 2004; Trapp, 2014). This technological revolution in combination with the inception of new, modern firm structures, has enforced individual networking, enabled flexible working environments and provided average people easy access to global news. This change has led to the development of various organizational forms and strategies connected to international expansion.

This chapter depicts the prominent theories focusing on international expansion and their evolution, providing different perspectives within this field. The three main theories within the spectra of internationalization are found to be; The Uppsala model for expansion, The Network Relationship theory and International Entrepreneurship theory (see Chapter 2.5 for motivation).

3.4.1 The Uppsala Model - Incremental internationalization

A renowned theory within internationalization is the Uppsala model introduced by Johanson & Vahlne (1977). The authors studied the process of internationalization in established Swedish manufacturing companies. This view is inspired by Aharoni (1966) who pointed out the complexity of what factors steer venturing abroad. Mainly, Aharoni (1966) states, as individuals (as a part of a firm) are inherently prone to underestimate risk. Venturing abroad might seem like, or be presented as, something thoroughly planned – but in real terms it evolves from a chaotic process of expanding experience and opportunistic behavior.

Based on empirical observations, Johanson & Vahlne (1977) recognized that established Swedish companies most often start their international expansion

process by developing business incrementally. The stage wise patterns recognized in Johanson & Vahlne (1977) are observed and constructed post-process. The incremental approach of the model considers both the geographical location, where neighboring countries are favored, as well as the degree of resources deployed; meaning that small commitments are to prefer, rather than making large foreign investments at a single point in time (Johanson & Vahlne, 1977). Interestingly, the pattern in regards to favoring of geographical location is still observable today. During 2016, three out of the five main export markets for Swedish companies consisted of Nordic countries, with Norway being the leading one (Carlgren, 2016).

To start with, it is important to underline that the Uppsala model builds upon the assumption that the firm aims to increase its long term profit, or in other words increasing its growth, and therefore choose to expand. In their work, Johanson & Vahlne (1977) identify the internationalization process of a firm to be related to two main cornerstones, which are market knowledge and market commitment (Figure 9). It is argued that internationalization is the process of navigating through uncertainty, where gradual decrease of the new markets uncertainty leads to increase engagement and commitment of a firm.

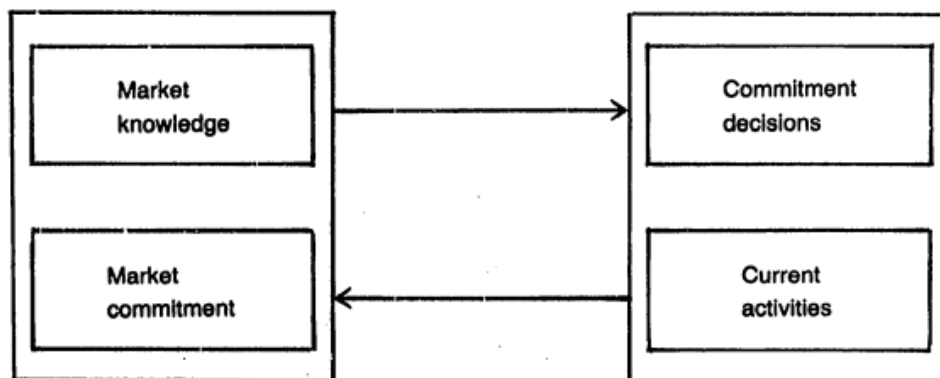


Figure 9. Illustration of how knowledge and commitment increase iteratively (Johanson & Vahlne, 1977)

In regards to market knowledge, Johanson & Vahlne (1997) define the term market-specific knowledge as: “ [...] knowledge about characteristics of the specific national market, its business climate, cultural patterns, structure of the market system, and,

most importantly, characteristics of the individual customer firms and their personnel”.

To elaborate upon the concept of market knowledge, the authors first present the term psychic distance which is described as: “... *the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development.*” (Johanson & Vahlne, 1977 p.24). Also, they further emphasize that the closer the countries are geographically, the smaller will the perceived psychic distance be. On that note, Håkansson et.al. (2015) however argue that there is an inherent subjective nature in the measure of psychic distance meaning it can work in one direction. For example, Swedes can feel a close psychic distance to the U.S. while Americans do not perceive the distance as equally close.

Market knowledge is further assessed based on two categories: Institutional market knowledge and business market knowledge. Institutional knowledge refers to lack of understanding of the rules, laws and language of the new market and is related to psychic distance. Business knowledge embodies the new partners the firm will work with and the relationships that will develop in the new foreign business environment (Johanson & Vahlne, 2009).

Furthermore, it is argued that market knowledge is related to a firm's learning process. This refers to a firm's ability to acquire and exploit relevant knowledge and its pace of learning. The model presented in 1977, solely takes the perspective that firms acquire knowledge through experiential learning (i.e acquiring knowledge through experience). This is by Forsgren (2002) been argued to have much in common with the learning curve way of logic, meaning that decision makers tend to prefer repeating known activities taking little consideration to new ways of gathering knowledge). Taking the experiential learning perspective, Johanson & Vahlne (2009) argue that the categories of market knowledge presented previously require various amount of time to overcome and that they change the perceived cost of international expansion in dissimilar ways. It is however also emphasized that if market environment is very unstable, experience will not necessarily entail decreased uncertainty. In the same way, homogeneous market conditions lead to experience

being obsolete. In relation to psychic distance, Johanson & Vahlne (1977) argue that the learning process is less complex the smaller this perceived distance is.

By learning about the new market and accumulating relevant knowledge, it is argued that the risk of committing resources will decrease. Based on this, Johanson & Vahlne present an establishment chain for firm's commitment to the market. This incremental deployment of resources consists of the following steps: no regular export, independent representative (agent), sale subsidiary, production.

3.4.2 The Network Relationship theory

When investigating the internationalization process of small software firms, Coviello & Munro (1997) found that the process was much faster than what could have been expected based on the Uppsala model. The authors attribute this speed to be driven by the firm's network relationships. In fact, they argue it is the relationships that also form a firm's market selection and mode of entry. Coviello & Munro (1997) further highlight that they consider both formal and informal network relationships to catalyze young firms' internationalization process. They suggest that this variety of network relationships influences the internationalization strategy. This is further supported by other researchers who emphasize the importance of networks when internationalizing, particularly close relations with customers, clients, partners and suppliers (Lindqvist, 1988; Bell, 1995; Sharma & Johanson, 1987).

More recently, Hatzigeorgiou & Lodefalk (2014) compiles research on how *informal* experience and knowledge of a foreign market brings noteworthy benefits for a firm's internationalization. Drawing on findings from Achtenhagen (2011), they mention that people with foreign affiliation contribute to internationalization by knowing the language, institutions and business climate of another country. Nonetheless, such individuals know, and can relate to preferences of, potential customers in a different country.

Similar to the patterns identified in the Uppsala model, the study by Coviello & Munro (1997) too argues for a stage-wise international expansion. However the authors make a clear distinction between small software firms and the large and resourceful

firms depicted in the Uppsala model: “None of these parameters fit the small, young, software firm, competing in volatile markets with rapid growth and technological change.” (Coviello & Munro, 1997 p. 371). Zhang (2015) denotes this rapid stage-wise process as a ‘Leap’ when comparing it to the incremental process portrayed in Uppsala model. Apart from assigning network relationships as the force determining where and how a firm internationalizes, Coviello & Munro (1997) argue for fewer stages spanning over three years:

1. Foreign Market Intention - Large domestic focus, but with clear international intention.
2. Active Involvement and Evaluation - Managers actively evaluate potential opportunities in new markets.
3. Committed Involvement - Growth dominated by international sales in multiple markets.

Coviello & Munro (1997) also state that the *characteristics* of their studied software firms changed during the internationalization process. The changes were from initially being resource restricted and financially limited in the first stage, to instead focusing on product diversification and establishing new sales channels in the third stage. Moreover, they connect this change in firm characteristics to earlier research (Andersen, 1993; Thomas & Araujo, 1985) suggesting that managers’ perceptions and beliefs are shaped by foreign market involvement.

In revisiting their theory of an incremental process for internationalization Johanson & Vahlne (2009) adopt the network perspective. With this perspective, they argue that networks contribute to successful internationalization in two ways. Firstly, being part of an international network is deemed fruitful for internationalization since those relationships can be leveraged for faster establishment. This means that firms who are *not* part of an international network risk the ‘liability of outsidership’, which may call for an incremental internationalization process. The inclusion or exclusion of a network is in other words linked to psychic distance; the larger the psychic distance to a network, the more outsider a firm becomes, and in such cases the authors argue for incremental international expansion for reasons stated in the previous section. Secondly, Johanson & Vahlne (2009) see networks as a source of learning and building trust which they argue both are necessary for internationalizing successfully.

They further argue that network relationships are bilateral, urging the need for *mutual* commitment in a relationship in order for it to lead to successful internationalization.

The authors further point out that, with the Network Relationship theory, internationalization has become less about overcoming barriers - since networks are borderless - and more about strengthening one's position in the network. Moreover, they agree with Coviello & Munro (1997) in that network relations form where and how a firm chooses to internationalize: "*we claim that existing business relationships, because they make it possible to identify and exploit opportunities, have a considerable impact on the particular geographical market a firm will decide to enter, and on which mode to use.*" (Johanson & Vahlne, 2009 p. 1423)

3.4.3 International Entrepreneurship - Early and rapid internationalization

A third prominent research area within internationalization takes stance in entrepreneurship theory, using the individual (rather than firm) as a unit of analysis (Jones & Coviello, 2005; Acedo & Casillas, 2007; Zhang, 2014). Though this research area involves various firm-classifications, the two most discussed being International New Ventures (McDougall & Oviatt, 1994) and Born Globals (Knight & Cavusgil, 1996), the main characteristics still remain the same; Firms that "*...do not use traditional incremental methods of exporting and begin to export from the first days of their existence.*" (Paweta, 2015 p.12).

McDougall & Oviatt (1994) discovered that previous literature on internationalization mainly addressed established companies who chose to expand their operations abroad for strategic reasons such as monopoly-seeking, imitating competition or cost optimization. In relation to to this, the authors identified an emerging new type of internationalization process of young firms which they called International New Ventures (INV). Not only was the process itself different, but so were the underlying motives for early venturing abroad;

(1) Barreto (1989) suggests entrepreneurs should spend time identifying profitable resource combinations and not simply operate based on rationality alone.

Put in the context of internationalization McDougall & Oviatt (1994) argue that entrepreneurial firms do not necessarily expand abroad to optimize costs, neither do they need to develop a domestic market before a foreign one, and they may very well engage in a new market with completely new products. This contradicts traditional theory of monopolistic advantage (e.g. Caves 1982) and product life cycle theory (e.g. Vernon, 1966).

(2) Referring to Network theory, McDougall & Oviatt (1994) point out that firms can reach high speed of internationalization through skipping important stages in the Uppsala model. They further state that firms may choose a certain location abroad for its closeness to important partners (or other value chain actors), rather than for overcoming transaction costs (proposed by Buckley, 1988).

(3) McDougall & Oviatt (1994) also highlight that INVs deny the logic of oligopolistic reaction theory (Knickerbocker, 1973), by presenting that firms may choose a new market to avoid direct competition (Jolly et. al., 1992), rather than imitate internationalization patterns of their established competitors.

These recognized reasons for, and processes of, internationalization related more to opportunity seeking, than what had previously been observed. Zara & George (2002) later framed the key drivers for such internationalization as a combination of external factors (e.g. market and demand characteristics), and internal factors (e.g. niche products and resource availability). Moreover, the fundamental driving force was found to be an entrepreneurial mindset of the founding team. If equipped with early aspirations for an international market and a means-driven way of making decisions, the internationalization process would often start early after a firm's inception (Andersson & Wictor, 2003; Knight, 2000). One such mean could be knowledge from the entrepreneur's prior international experience, which is considered to play an important role in the firm's internationalization for both finding and exploiting opportunities. Other studies (Jones, 2001; Luostarinen & Gabrielsson, 2004) suggest that high technological competence is essential for successful internationalization - especially for firms in the ICT-sector (Paweta, 2014).

Likewise, Knight & Cavusgil (2004) highlight the means-driven way of making decisions as being crucial for early (and rapid) internationalization. They point out such means being an innovative culture, knowledge and capabilities within the firm's early team. The authors further state that early internationalization, in itself, could be prosperous since young firms are often small, constrained by limited resources and human capital, which permits them to be flexible and adapt quickly to new settings. This is what Autio, Sapienza & Almeida (2000) call 'learning advantages of newness'.

4. Interlinking internationalization to the Business Model Canvas

This section addresses the intersection of the two bodies of theory presented earlier. These interlinkages are based on the author's interpretations of what each internationalization theory indicates in regards to the nine building blocks in Osterwalder et al. (2010) BMC. The reason the BMC is chosen as point of analysis is its wide recognition among scholars as well as the industry. First, an assessment of interpretations from international theory is applied to each block from the BMC. Second, the result is summarized in Table 3 to provide a simplified overview.

4.1 Outbound components of the Business Model Canvas

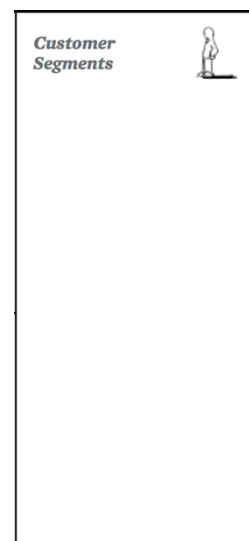
4.1.1 Customer Segment:

In the Customer Segment block, a firm identifies the market segment the target with their Value Proposition.

Uppsala model: The Uppsala Model's incremental approach suggests that that Customer Segment is best selected based on perceived psychic distance. This is interpreted since the theory does not explicitly address an approach to determine a segment but rather that it follows as a consequence by expansion to neighboring countries.

Network Relationships: This theory, similar to The Uppsala Model, does not consider a specific approach to defining a Customer Segment when engaging internationally. It is argued that the market selection (i.e customer segment) is determined by the location of the contact accessible to the firm.

International Entrepreneurship: In contrast to the two previous bodies of literature and similar to the BMC, IE -theory truly emphasizes the selection of Customer Segment. The theory for instance suggests the importance of reaching a certain segment can determine the location for a firm's expansion and its pace of



internationalization process; i.e. moving abroad before establishing in the domestic market.

Reviewing the literature on internationalization, the following strategies for choosing a customer segment become apparent:

Proposition 1: A customer segment is selected based on: a) Close psychic distance (i.e. neighboring countries), b) Accessibility (of contact), c) Don't restrict initial Customer Segment based on home market.

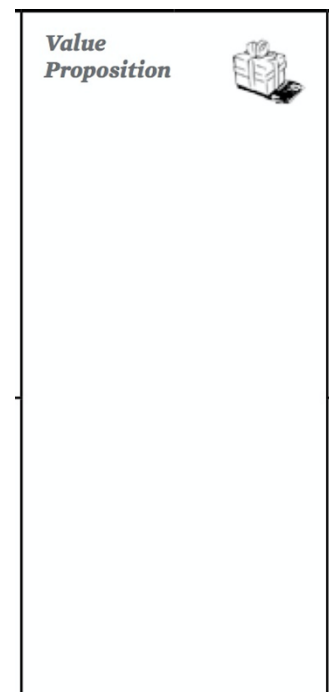
4.1.2 Value Proposition:

Value Proposition defines the firm's competitive advantage as well as the service or product it is offering to its Customer Segment.

Uppsala Model: Building on the arguments presented in regards to incremental learning, it is interpreted that the Uppsala Model does not state any revision of the Value Proposition while expanding. It is suggested that a firm should by repeating the same activities carried out in the domestic market, reduce uncertainty and incrementally alter its value proposition on the new market.

Network Relationships: The Network perspective underlines the effect of the tacit knowledge possessed by the firm's foreign contract. By utilizing this knowledge, the firm can accelerate its learning process regarding the new market, in order to prepare for cultural and regulatory differences, leading to the ability to alter the Value Proposition to fit the foreign market in a faster pace.

International Entrepreneurship: The essence of the IE-approach lies in preparing the firm's Value Proposition to fit multiple, global markets from inception. Similar to The Network Relationship theory, IE emphasizes the role of the entrepreneur's



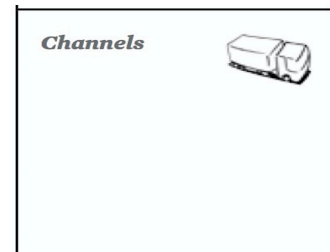
previous experience and knowledge in the forming of the Value Proposition and its adaptation to the new market.

In regards to Value Proposition, internationalization theory concludes:

Proposition 2: Value Proposition is adapted in the following way: a) Repeating home market process and incremental alteration, b) Utilizing cultural insights from contact for increasing pace of learning implemented to iterate Value Proposition, c) Develop service for worldwide use from inception

4.1.3 Channels:

Channels represent the portals a firm use to reach, maintain and inform their Customer Segment regarding its value proposition. However, this block is understood to relate to decisions concerning activities after the expansion is completed which is not thoroughly covered



by any of the bodies of literature. Moreover, the development of technology and modern logistical solutions in combination with global trade agreements and lowered export barriers have opened up versatile Channel opportunities.

Uppsala Model: This theory mainly considers establishment firms delivering physical Value Propositions. There is little covered in the theory regarding delivery Channels, however, drawing upon suggestions of repeating what is done in the home market, the conclusion is that a firm should imitate the channels developed on the home market while venturing abroad.

Network Relationships: This theory emphasizes the perspective of relationships being formal or informal. Formal being in the sense of business contacts while informal refers to personal connections. Based on this it is argued that depending on the type of contact, it is possible that the firm will be subjected to attain different sales opportunities, which in turn can determine the form of Channel established.

International Entrepreneurship: Here, conclusions are drawing upon the concept of means-driven decision making presented in this theory. It is interpreted as the theory

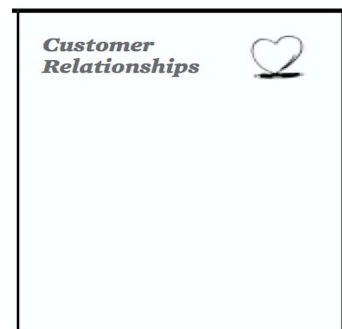
suggesting that the entrepreneur should rely on own experience and building on personal strengths trying to maximize the means at hand. IE-theory also points out that scarcity of resources in startup firms leading to decisions based on what is available for the firm at that given moment. Therefore, it is interpreted that the form of Channel constructed and the way Customer Relationships are handled will depend on the decisions maker's previous experience, knowledge and amount of resources, differing from firm to firm.

Internationalization theory thus summarizes Channels created in the following way:

Proposition 3: Channels for reaching Customer Segment can be created by: a) Imitating home market Channels, b) The kind of opportunity presented by formal or informal contact, c) Based on means available and entrepreneurs previous knowledge.

4.1.4 Customer Relationships:

This block addresses the customer experience in regards to the firm and describes the way interaction occurs in relation to the Customer Segment. In similarity to Channels this block also relates to after entry decisions, not extensively covered by the Internationalization theories. It is also important to emphasize that the advancement of technology and the accessibility of global communication tools, offers endless opportunities to manage Customer Relationships. Thus, online communication tools are interpreted to enhance all three internationalization theories on the aspects of Customer Relationships.



Uppsala Model: This Model proposes a successively evolving entry mode roadmap. The roadmap suggests irregular sales as the first step followed by sales through an agent, opening own sale subsidiaries, ending with establishing own production. These are here being interpreted as suggestions to how Customer Relationships in the new market should be crafted. These steps are also assumed as indicators to the level of engagement a firm should adopt towards its customers.

Network Relationships: The reliance on contact knowledge about the new market embodied in this theory is assumed to result in the firm following the advice of the contact in regards to the type of Customer Relationship that best suits the new environment.

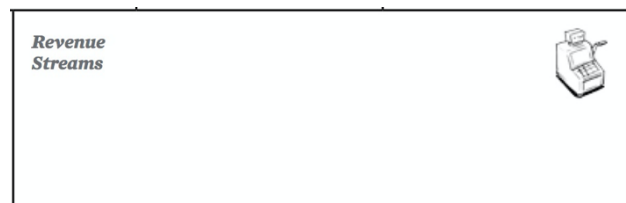
International Entrepreneurship: Similar to conclusions drawn in the Channels section for this theory, adapted Customer Relationships approach in IE builds on the entrepreneur's previous experience, knowledge and the means at hand of the firm at that given moment.

Regarding Customer Relationship, the body of internationalization theory suggests:

Proposition 4: Customer Relationships are developed through: a) Incremental entry roadmap (i.e. irregular sales), b) Develop relationships based on contacts knowledge of what is most suitable, c) Depends on the individual's previous experience, know-how and knowledge.

4.1.5 Revenue Stream:

This part of the canvas clarifies the way that revenue is collected from the customer segment by the firm.



Uppsala Model: The Uppsala Model, developed in the late 1970's, mainly considered large established companies with physical production and end products. This indicates that the theory primarily involves so-called transaction revenues created by one-time payments achieved by asset sales.

Network Relationships: Similar to the perspective taken in the previous block, this theory relies on insights acquired by the person knowledgeable about the new market. This meaning adapting the Revenue Stream based on common local methods believed to be successful by the firm contact.

International Entrepreneurship: This approach, being the latest developed, builds on the advantages offered by various types of modern online payments. It also relies on a globalized world with lowered trade barriers. This meaning that a firm can utilize any type of Revenue Stream, independent of closeness to customer or local presence on the market. It should be added that these modern possibilities for revenue streams enables reaching paying customer segments, despite them not actively being targeted by the firm.

Assessing the literature, the following procedures for choosing Revenue Streams become apparent:

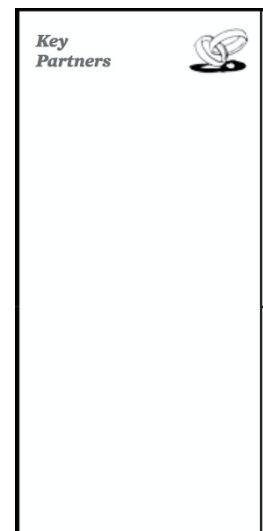
Proposition 5: Revenue Streams are crafted according to: a) Transaction Revenue (i.e. asset sales), b) Following common local methods derived from foreign contact insights, c) Building on online payment methods and modern tools.

4.2 Inbound components of the Business Model Canvas

4.2.1 Key Partnerships:

This segment of the canvas presents the firm's network in regards to business partners and suppliers needed to make the constructed business model to work. However, in the same manner as to Channels and Customer Relationships, the aspect of Key Partnerships is not fully elaborated upon in any of the theories.

Uppsala Model: From this theory it is interpreted that Key Partnerships also should have developed incrementally. By successive increase in trust building towards partners, firms can commit more resources to that market and extended the scope of the partnership. However, the suggestion of repeating domestic activities is here understood to result in establishment of partnerships with actors similar to the ones on the home market. This also means that the partners are chosen in order to fulfil



the same needs as the domestic market in order to produce the *same* value proposition.

Network Relationships: Here it is reckoned that a formal contact (i.e. sales agent), will also act as a Key Partner while establishing in the new market. However, regardless of its nature, the contact can also act as a moderator introducing the firm to potential partners.

International Entrepreneurship: This approach is understood to stand in contrast to the one described for The Uppsala Model. IE-theory indications are interpreted as suggesting that a firm should more or less tweak their value proposition and initial offering in regards to the partnership opportunities that emerge during the internationalization process.

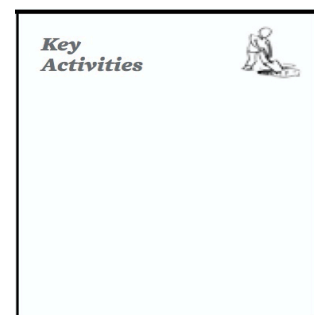
In conclusion, assessing internationalization theory in the light of Key Partnerships gives;

Proposition 6: Key Partnerships are sealed according to: a) Incremental trust building with similar partners as the ones on the home market, b) Foreign contacts become partners or moderates in finding partners, c) sees partnership opportunities which appear.

4.2.2 Key Activities:

These are activities most important for the firm in order to operate successfully.

Uppsala Model: This model underlines establishment on the domestic market as one important activity for a firm. It also emphasizes on incremental knowledge acquirement as a Key Activity. Repeating process activities from the home market in order to reduce uncertainty in iterative manner it is also pointed out as a Key Activity.



Network Relationships: Seeking acquaintances and building trusting networks falls under this perspective as Key Activities. Also developing processes to utilize the acquired information in the most efficient way is considered a Key Activity.

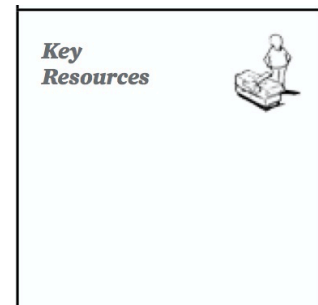
International Entrepreneurship: As a Key Activity, the IE-theory emphasizes seeking for unique business opportunities, not necessarily following the stream of competitors, rushing to a certain market. Additionally, since firms assessed in IE-theory are typically new to the market, Key Activities are interpreted to be marketing and sales oriented.

Regarding Key Activities, internationalization theory notes the following:

Proposition 7: Key Activities during the internationalization process are: a) Acquiring market knowledge incrementally by repetition of domestic activities on new market, b) Networking and developing processes for utilization of insights, c) Marketing, Sales and seeking unique market opportunities.

4.2.3 Key Resources:

This block represents the assets available to the firm. The key resources are the means in order for a business to deliver and create its value proposition.



Uppsala model: The Uppsala Model didn't originally consider the know-how and experience of the firm's individuals as Key Resources. This was however later admitted to impact a firm's internationalization process in a revised version published by the founders of the theory.

Network Relationships: This theory's core builds on the importance of having a foreign contact as a Key Resource.

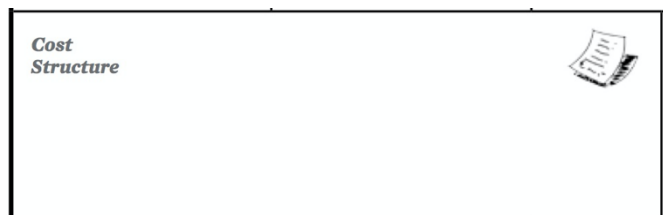
International Entrepreneurship: From this theory it is interpreted that the mindset and previous experience of the entrepreneur is considered a Key Resource. The means driven approach also indicates the importance of the entrepreneurs existing networks, encouraging him to utilize them in the most beneficial way.

Reviewing the literature on internationalization, the following are indicated to be viewed as Key Resources:

Proposition 8: Key Resources in internationalization process are: a) Domestic market know-how, b) Foreign contact and knowledge acquired through this individual, c) The entrepreneurs network and previous knowledge.

4.2.4 Cost structure:

This block represents the Costs which occur in order to create the Value Proposition and the financial needs required in fulfilling the activities in the other blocks of the Canvas (i.e. establishing sales Channels).



Uppsala Model: This theory also considers an incremental approach regarding allocation of resources. Introducing an establishment chain for near market commitment with no regular export as starting point. In light of the BMC, it is interpreted that the theory implies following a cost-driven structure where market commitment (i.e. deployment of resources) increases incrementally in pace with reduced uncertainty, which in turn is reached through an incremental learning process.

Network Relationships: The Network Relationship takes a similar perspective as The Uppsala Model, with defined stages with Foreign Market Intention being the first. However, this literature emphasizes the knowledge of the foreign contact, meaning the available insight can change the commitment mode. This is interpreted to indicate that the theory at the same time suggest that a firm should prepare for adapting a flexible cost structure, may be remarkably different from its initial domestic one. The later part resembles the approach of International Entrepreneurship, which will be elaborated upon next.

International Entrepreneurship: Drawing upon the theory presented regarding means-driven decision making, it is interpreted that the theory does not indicate following a specific cost structure (i.e. Cost or Value-driven). This is also understood as the theory suggesting that the cost structure of a firm should remain flexible and adaptable, in order to utilize the concept of "learning advantages of newness", turning the new setting of the market to their benefit. Additionally, as the firms depicted in IE-theory are typically resource restricted and financially limited, the cost structure may heavily depend on whether external funding exists or not.

Concluding internationalization theory from a Cost Structure perspective gives the following:

Proposition 9: Cost Structure indications in internationalization theory are a) Cost-driven approach with cautious resource deployment, b) Stepwise commitment however with a structure flexible to adapt after insight, c) Exploiting "learning advantages of newness".

4.3 Summarizing table

Following below is a table providing a simplistic overview of the propositions presented above.

Table 3. Summarizing the above propositions for interlinking internationalization literature with BMC.

	The Uppsala Model	Network Relationships	International Entrepreneurship
Customer Segment	Close psychic distance; Neighboring countries	Customer Segments targeted based on contacts market knowledge	Do not restrict initial Customer Segment to domestic market. Recognized opportunity
Value Proposition	Repeat domestic process, learn incrementally and alter thereafter	Take advantage of eventual cultural insights; Fast learning process due to knowledge sharing, therefore increased pace of product market fit	Develop service for worldwide use from inception Rely on previous know-how and experience
Channels	Imitation of home market Channels Incremental sales commitment	Formal vs. Informal contacts present disparate opportunities each requiring different approaches	Decided by means available for the firm at that moment in the int.process Influenced by individual's previous experience and knowledge
Customer Relationships	Incremental entry stage roadmap. First, irregular sales. Last, own sales subsidiaries	Follow contacts advise. Craft relationships based on insight, believed best to suit the market.	Decided by means available for the firm at that moment in the int.process Influenced by individual's previous experience and knowledge
Revenue Stream	Majority of Revenue from home market Transaction Revenue; Asset Sales	Construct after market insight Follow common local methods believed to be successful by a local contact.	Building on online payment methods and modern tools Sees all Revenue Streams as options due to a globalized world (i.e. lower trade barriers & int. agreements)
Key Partnerships	Incremental trust building, hence increased resource commitment Similar partnerships as home market	Contacts can moderate finding partnerships by access to foreign network Formal contacts become Key Partners once firm internationalized	Seize partnership opportunities presented, alter value proposition thereafter.
Key Activities	Mainly establish in home market. Incremental learning to reduce uncertainty Repetition of domestic activities	Networking Extracting relevant knowledge from contact Developing processes for efficient market insight utilization	Looking for unique market opportunities Marketing and Sales Optimal utilization of contacts at hand Adjustment of Value Prop. to best fit the new market
Key Resources	Domestic market know-how	Foreign contacts and relationships Domestic market knowledge insight	Previous knowledge and experience The entrepreneur's Network
Cost Structure	Cost-drive approach Increased deployment of resources due to decreased market uncertainty	Stepwise commitment mode Stay open to flexible cost structure due to contact advice	Exploit the "learning advantages of newness" Adapt the cost structure suiting the new market

5. Case Studies

The following chapter presents six case studies of young Swedish firms who operate in the ICT service sector. Information presented is mainly derived from interviews which were all held in Swedish. This section ends with a case story summary represented as a table, containing the main findings from each case.

5.1 CASE 1: VINT

Vint was founded in 2013 with the purpose to help so called passionate athletes become personal trainers or group instructors of a sport of their liking. Vint was launched in Sweden as a peer-to-peer platform, essentially meaning that anyone could sign up to be in charge of a training course or join someone else's training course through Vint.

Vint's original vision was to expand outside Sweden early to attract a large user base. The founding team of Vint had experience and contacts in San Francisco, USA. This, together with the perception that people in San Francisco are technology-mature and have a widespread habit of training, made Vint decide to enter San Francisco in 2014. With slower growth than originally predicted, Vint quickly realized that they needed to recruit *"someone who knew the American culture, for marketing and sales-type activities"*. Eva Qvam (Founding team member) expresses that the process of recruiting was tedious and took a lot of time. In August of 2014, Vint identified that trainers were taking advantage of the Vint system, claiming the right to salaries without having executed any work or simply conducting low quality training courses. The issue here was not only cost-related, but also negatively affected the Vint brand which resulted in customer dissatisfaction and high user churn.

In November 2015, Vint's financial situation reached a point where the founding team decided to move back to Sweden. All except Louise Eriksson (CEO) who started looking in to pivoting Vint's concept from being a peer-to-peer platform to becoming a *"white label software as a service solution"* (Vint, 2016), meaning that the product would target businesses instead of individuals. This new version of Vint launched during the spring of 2016.

5.2 CASE 2: KLARNA

Klarna started in 2005 with the mission to make the online payment process easier for both sellers and consumers. They first launched in Sweden as a white-label online payment service, offering merchants and retailers a customizable online payment page. With Klarna, consumers can choose to purchase through credit issued by Klarna. The technology is built up of algorithms that can determine if the buyer is creditworthy. By the time Lina Larsson (Project Manager) joined Klarna in 2010, Klarna had expanded their sales to neighboring countries.

Lina explains that Klarna's original vision was clearly geared to expand globally. At first they expanded to markets that were similar to Sweden in terms of data privacy, like the Nordics and the Netherlands. They then realized that their customers in the Netherlands could help enter to Austria and eventually Germany. During this European expansion, Klarna worked with a mindset of rapid "testing" of markets. Even though that way of expanding led to having to correct missteps, and sometimes withdraw presence on a market, Lina believes it was key for Klarna's competitiveness since it forced them to develop services much quicker. In their expansion Klarna also realized that each market entry would be different and thus planning every detail beforehand would be close to impossible. However, key for Klarna's operability in any given country are the laws on data privacy, and the country's system for private data management. Therefore, Klarna makes sure to always research regulations regarding data handling in a country before considering to enter it.

Local knowledge was key in designing the Klarna service's user interface and for understanding Klarna's market position in the financial value chain. Therefore, Klarna recruited local talent when entering the UK and USA, also to have a clear picture of which partners and first customers they needed to target.

5.3 CASE 3: VISIBACARE

In 2013, Johan Gustafsson (CEO) questioned why physicians do not use digital tools for meeting patients, especially for initial medical screening. When scanning the international landscape for comparable services, they could only find a few companies in USA that offered anything similar. So they started VisibaCare to create an online channel for any patient to book a hospital meeting or even meet a nurse or doctor via a secure connection online.

Johan explains that the team had a vision of international presence from the day they founded VisibaCare. He also admits that they were a bit naive as they had no experience of the medical industry. However, they had all worked within ICT companies before. After one year of developing the service, the team set out to find a first customer with whom they could develop the idea further. By emailing proposals to identified potential customers around the Nordics and in the UK, they ended up with a medical institution in Finland.

Thanks to this first customer in Finland being very liberal and progressive, VisibaCare was able to both sign early and learn about the Finnish system - preparing them for continued expansion to less progressive customers in Finland. Meanwhile, VisibaCare wanted to tailor their offering for the Swedish market. This meant they had to comply with regulatory issues in both Finland and Sweden simultaneously. This, together with a relatively early customer in the UK, made VisibaCare realize that they needed to prepare their service to comply with various system architectures and Identity Provider technologies (e.g. BankID in Sweden, SMS in UK). They also learned that system integration opened up for new partners, one of which was initially thought to be a competitor.

Developing the VisibaCare service for many systems and customizations has helped lay the groundwork for continued international engagement. However, Johan admits this preparation has been tedious and time consuming. In retrospect he would have prioritized activities that added actual value to the firm in that specific point of time (e.g. sales vs. R&D) rather than speculating what customers *might* need.

5.4 CASE 4: HANSOFT

In 2005, Patric Palm (CEO) started Hansoft together with two former clients. The three of them had mixed backgrounds in IT-consulting and game development. At this time, game development companies had gained complexity with projects involving multiple teams. Hansoft wanted to provide a digital project management tool for the game development industry; to manage complexity and foster creativity.

Patric remembers their initial international expansion as “*quite opportunistic*”. Hansoft looked for their first customer abroad because Swedish game developers were not interested. In search for game developers with large teams, Hansoft managed to sign with an independent firm in the UK. Working with this customer, Hansoft gained media coverage in certain game development channels. And since Hansoft’s service was available online, the team started seeing increased downloads. Hansoft was later contacted by an Australian game developer who had seen their media coverage and wanted to buy the service. Their conditions were that Hansoft would move to Australia and work together with the implementation. The Hansoft team took the opportunity and researched whether Australia had more game developers to offer. One month later, Hansoft returned from Australia with six paying customers.

Hansoft continued to grow, attracting customers in North America, Asia and Europe. The team started to target other industries where complex projects were common (e.g. Telecom, Defense, Electronics and Aerospace). Hansoft found that their service had a high “*pedagogical threshold*”; not only requiring them to educate their customers, but meaning that selling the service implied changing the customers’ behavior. This agenda was not always aligned with the partners of Hansoft, who acted as sales agents. As a result, Hansoft realized they needed to spread their philosophy through actively educating both customers and partners.

5.5 CASE 5: PUBLIT

Per Helin (CEO) and some friends started Publit in 2008 after questioning why certain book titles are not available in print. The mission was to make it easier to publish and sell books online. As Per had a background in music production, he had seen first hand how digitalization had changed the music industry and he was curious to be a part of that transformation within book publishing. The book publishing industry has quite a complex infrastructure ranging from publishers and printers, to large and small sales distributors of physical books, e-books and audiobooks. Publit set out to connect the complete value chain to offer on-demand printing and distribution.

Per reflects that Publit's original mindset was to go international. They were active speakers in international industry seminars early on, which attracted orders from abroad. However Per has found it difficult to scale the business making money from single transactions. When actively engaging in the German market, Per says "*The focus of our product completely changed*". He finds it interesting that Swedish and German customers see different value in the same service; Swedish publishers value Publit's distribution network, while German publishers are attracted by the business intelligence that Publit's service offers. Also, online B2C sales are more popular in Germany. In re-evaluating the business, itself, Publit is now investigating whether they should strictly license their service.

Up until 2014 Publit focused on building relationships with large book publishers who wanted to digitalize, before they realized that small customers may be just as valuable. The new strategy is about retaining relationships with small customers and hope that they grow.

5.6 CASE 6: DIGIEXAM

Johan Hägglund and a classmate Nima Marefat (Co-founders) were frustrated that their university exams had to be hand-written. They were much more comfortable with using keyboards to type quickly and edit afterwards. Seen to that all other tasks involving writing were done digitally, they questioned why exams could not be made digital. DigiExam was started in 2012 with the mission to provide a digital tool for creating, administering and writing exams.

From inception, both founders' main rule was to design DigiExam for international use since they saw the Swedish market as too small. In their minds, this meant scaling their service down to involve as few visible functions as possible to *“take the technology out of the technology”*. They partnered with their alma mater to develop the service. From there, affiliated schools in Latvia, Russia and Israel started using DigiExam. Johan explains that the active goal was to build customers in UK and USA, mainly because of their large market sizes and for the market density of other innovative education technology. The aim was also to connect with prestigious schools in UK and USA to build the brand's image and credibility. DigiExam were surprised to find few competitors on the American market, and chose to engage there before UK.

In their choice to keep the service as simple as possible, DigiExam was consciously designed to not integrate with other software. Johan mentions this down-scaling as difficult because it also meant having to carefully pick which customer preferences to include, without designing DigiExam to country-specific curriculums: *“As a business, you can't know beforehand how everything will play out. You have to make hypotheses. Ours was that 'teaching is conducted pretty much the same way globally'”*. When arriving to USA, DigiExam found that they needed to integrate with the industry standard, learning tools interoperability (LTI), in order to operate on the market. Despite this adjustment taking time, Johan is thankful that they learned about the industry standard early on.

5.7 Summary of Cases

Table 4. Summarizing all six case studies.

	Vint	Klarna	VisibaCare	Hansoft	Publit	DigiExam
What they originally did	Peer-to-Peer workout platform (C2C). (2013)	Issue credit online. (2005)	Medical / health screening by connecting physicians with clients online. (2013)	Project management for game developers. (2005)	Online publishing on-demand (2009)	Digitalized Exams. (2012)
What they do/added	SaaS white-label (B2B). (2016)	White label online payment service. Private payment App (2016)	Flow tool; virtual queue, client booking. (2016)	Agile project management for multiple industries, large & small scale. (2016)	Business intelligence tool, (2016)	Digitalized Exams, offline possibility. (2016)
Mindset. Why internationalize?	International to build user base	International to help users	International to find first customers	International to find first customers.	International for market size	International for overall success.
Internationalization (When, How, Where)	1 year after inception. Through personal contacts. USA.	< 5y after inception. Imitate domestic; Nordics. Experimentation; NE→AU, GER. France (fail). Hire local knowledge; UK→US. 18 Countries in total.	1 year after inception. Targeted sales; Finland, Sweden, UK.	1 year after inception Targeted sales; at first (UK). Publicity & Randomness; AUS, CA, JPN, CHI, USA, South Korea.	< 5 after inception. Passive international sales thanks to branch-specific PR. Active sales thanks to partnership abroad; GER.	1 year after inception. Through customer network & active sales 45 countries.
First customer	Peers in Sweden	Retailers in Sweden	Care giver in Finland	Game developers in UK	Publishers in Sweden	High school (Partnership) and University (MVP) in Sweden
Internationalization Obstacles	Recruitment. "Be heard" through all the buzz. Branding	Balancing local knowledge with disruptiveness	Developing broad integration possibilities = tedious work.	Selling organizational transformation. Scaling from few/large customers.	Scaling with a transaction model. Balancing both MVP and fully developed service.	Compliance. Limiting customer customization. Customer acquisition funnel.
Interesting Findings	Branding and perceived product quality was controlled by users. This was key for customer retention.	Fail fast philosophy. Each new market is unpredictable. Clear aim to gain local know-how	Initial competitor = partner. Super users important for marketing.	Starting niche & good PR = global reach. "Randomness" works. Realized they sold operational transformation.	Designed for Sweden. Found new opportunities when expanding knowledge.	Found that super users are marketing agents Initial business design very conscious about international markets.

6. Case Analysis and Discussion

The following chapter will present briefly how each firm needed to change their nine building blocks (in BMC) when engaging internationally. The section is rounded up with a table summarizing the content to provide an overview of the business model adaptations.

CUSTOMER SEGMENT

- Currently all studied cases have businesses as official customers.
- While all studied cases explain that they had an international vision, every firm chose to turn to the domestic market first. Of them, only two (Hansoft and VisibaCare) found their first large customer abroad due to lack of demand in Sweden. Hansoft admits wanting to start in Sweden because of proximity and collaborated with small Swedish companies at first, but was forced to search abroad for market traction. VisibaCare failed to gain initial customers domestically as well, but had luckily included foreign customers in their initial customer reach-out. Despite starting in Sweden, DigiExam consciously designed their service as minimalistic as possible to prepare for internationalization.
- Vint saw domestic sales as proof of concept and chose to internationalize without foreign sales, to a location anticipated to fit their value proposition and build a user base.
- Klarna, VisibaCare and DigiExam have however learned that super users are key, resulting in increased commitment to understand the end user behavior, through local knowledge (Klarna), close relationships (VisibaCare), or offering free services (DigiExam). Hansoft and Publit and have consciously broadened their customer segment to include small businesses and entrepreneurs, hoping it can benefit customer conversion.
- Vint recently pivoted to target business segments, as a way to stabilize user churn and to re-gain control of the Vint brand.

VALUE PROPOSITION

All studied cases were started based on recognized opportunities, mainly through the entrepreneurs own personal or professional experience.

- Publit explicitly found new value in their service thanks to foreign perspective, and have altered their business model to support that new insight.
- All value propositions have been altered to include new customer segments. While Vint's original value proposition has changed completely, the remaining firms have merely added values, mainly for the reason to convert and retain customers.

CHANNELS

- All firms operate in the ICT service industry. As such, the main channel for sales has come to be online. Notably those who started with businesses as customers (i.e. all but Vint) started with direct sales face to face and have turned to the online channel for scalability.

CUSTOMER RELATIONSHIPS

- Vint's pivot to B2B could be partially described by trainers taking control of their brand image resulting in high user churn.
- Common for VisibaCare, Hansoft and Publit is that close customer relations turned out to be essential. These three firms offer a service that implies transforming the way customers work. Thus educating customers seems to be important for customer retention. Hansoft explicitly states that even though customers use and pay for the service online, new deals often depend on physical engagement.
- Klarna internationalization strategy involves close relations with a select few customers to both design their service and to empower marketing.

REVENUE STREAM

- Klarna could deploy its fail-fast mindset thanks to stable revenue from the Swedish market.
- In realizing that customer acquisition was troublesome, Publit and DigiExam have altered their revenue model to invite super users more easily through

offering a free option. In DigiExam's case, they consciously chose to wait with launching a free trial version in order to fully develop the enterprise version first.

- Hansoft has not changed their revenue stream design for the initial product, however introducing an additional software implied an altered revenue stream design.
- In changing their customer group to businesses, Vint has modified its revenue model to become subscription based.
- VisibaCare's revenue model remains highly dependent on the social healthcare system of a given country, to the extent that it determines which country is viable to enter.

KEY PARTNERS

- Interestingly, VisibaCare gained a valuable partner who was initially thought to be a competitor.
- Hansoft partnered with system integrators, but found that they did not necessarily share the same sales agenda. In efforts to increase partner commitment, Hansoft created an education which proved valuable for their customers as well.
- Through internationalizing, Klarna has learned the importance of tapping into local know-how. They gain know-how through local partners, and build local marketing through a select of few customers. Likewise, Vint saw value in tapping into local networks which was made possible through their VC-firm.
- DigiExam, developed their service in close collaboration with their first partner, Stockholm School of Economics, who's international network led to DigiExam's first sales abroad.
- Publit found that partnering up with foreign customers could serve well for testing new value propositions.

KEY ACTIVITIES

- Inspired from early customers in three different countries simultaneously, VisibaCare set out to prepare the system infrastructure for integration with most functions imagined. The aim was to design something that could easily

be deployed online. Activities have however come to involve more close customer contact than first assumed. Likewise, Hansoft realized that changing a customer's way of working meant engaging closely through education. Parallel to this, they are introducing a new service to help with customer conversion. DigiExam went through a similar process; initially focusing activities to design their service free of country-specific elements, to now focus on effective customer acquisition activities.

- Publit pays tribute to their activity in branch-specific media as key in attracting international customers. With a somewhat more active internationalization plan, they are shifting focus to testing services with a select few foreign markets.
- Somewhat unanticipated, Vint had to spend considerable time on recruitment to gain local know-how initially. Circumstances of pivoting the business later shifted focus to re-developing its core.
- Klarna's initial approach to internationalizing was to create go-to-market strategies from analyses based on information retrieved from a distance. It still is to some extent, like researching rules and regulations surrounding personal data handling. However, the power of local know-how is nowadays crucial to Klarna, which has led to key activities in internationalization being local recruitment and partnerships.

KEY RESOURCES

- The Vint team's informal network played an important role for initial service launch, to gain traction on the Swedish market. Their network and experience further helped in entering USA. As the new service remains in the training industry, previous accumulated formal contacts will serve as a starting point for launching. Klarna (Lina Larsson) believes that their "younger" attitude to bootstrap and fail fast with most technological functions accelerated their internationalization. Though it meant fixing system flaws after launching or entering a new market, Klarna managed well. In later years however, they realized their way of developing needed to be changed to scale faster when entering new markets. The new back-end system enables faster software development for a certain market need.

- Though VisibaCare (Johan Gustafsson) regrets spending considerable time preparing the service for eventual system integrations, it now allows them to adapt faster for new market customizations.
- The members of Hansoft's previous experience with game development and ICT-consulting considered to be a competitive advantage, however with new customers and changing industry dynamics they now rely heavily on customer references and metrics for customer conversion.
- Publit still values its innovative brand image, which has led to customers reaching out to them. Foreign requests for Publit's service have driven the firm's internationalization.
- DigiExams rapid internationalization was first thanks to both formal and informal networks. Early expansion to USA introduced them to industry-standard functionalities that they had otherwise encountered later. This early mover advantage together with customer references and off-line operability are considered key resources.

COST STRUCTURE

- After deploying internationally VisibaCare, Hansoft, Publit and DigiExam have allocated resources to focus on operations supporting customer acquisition.
- Klarna's way of internationalizing is more committed than previously, to ensure the context of the local market is captured (i.e. accelerating the learning process).

6.1 Summarizing the change to each building block

Table 5a. Depicting how each business model block shifted due to internationalization.

	VINT		KLARNA		VisibaCare	
	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER
International Engagement						
Customer Segment	Individuals as trainers and trainees	Businesses as trainers	Merchants	Merchants (indirectly consumers/users), Consumers	Hospitals (Regions)	Hospitals (indirectly nurses/doctors)
Value Proposition	Training peer-to-peer	Training Business-to-consumer	Issue credit instantly	White-label payment system, Increasing customer conversion Private payment system	Health evaluation online	Decrease administration, Virtual queue, Client-booking
Channel	Online, App	Online	Online	Online, App	Online	Online
Customer Relationships	Trust-based, Through trainers	N/A	Automated, Standardized	Thorough engagement, Customer support	Collaborative	Close trust-based
Revenue Stream	Commission	Subscription	Commission	Commission	License	License
Key Partnerships	Trainers VC-firm	Customers VC-firm	N/A (Bootstrapping)	Local agents, Design & Reference Merchants	System integrators	Previous "Competitor"
Key Activities	Build user base, Recruitment	Re-development	Foreign analysis domestically	Recruit locally	Develop broad infrastructure	Meet and educate super users
Key Resources	Network	Network	"Fail fast" mindset: Bootstrapping	Local know-how Back-end system scalable for international adaptation	Partners Developers	Customer support, Technology infrastructure
Cost Structure	Pay trainers	Re-development	Fail fast	Fully committed in important markets	Development	Customer acquisition

Table 3b. Depicting how each business model block shifted due to internationalization.

	Hansoft		Publit		DigiExam	
International Engagement	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER
Customer segment	Game developers	Aerospace, Telecom, Electronics and small business	Large book publishers	Small book publishers and online sellers	Schools (communities)	Teachers & Schools
Value Proposition	Agile project management tool for enterprises	Added an Agile project management tool for small business.	On-demand publishing	Publishing Business Intelligence	Create, write and manage exams digitally	Create, write and manage exams digitally
Channel	Direct sales, Branch-specific media	Online, partners	Online, Branch-specific media	Online, partners	Online, customers	Online, partners
Customer Relationships	Close trust-based	Close trust-based, Education	Close trust-based	Close trust-based	Economic user (school executives)	Super user (teacher)
Revenue Stream	Enterprise License. Limited free download	Enterprise license, Freemium and Subscription	Transaction	License	Large scale direct sales	Freemium for super users
Key Partnerships	System integrators	System integrators	Book publishers, domestic printer	Customers, Foreign printer	Alma mater (informal)	Industry leaders (formal)
Key Activities	Sales	Customer conversion, Customer Education	Coordinating value chain	Testing new design (few customers)	Scale product (UI, simple)	Scale customers (acquisition funnel)
Key Resources	Industry know-how	Metrics, Customer references	Firm culture, Innovative brand	Firm culture, Innovative brand	informal networks	References (formal) LTI-standard, Off-line function
Cost Structure	Development	Analytics Customer acquisition	Development	Customer acquisition	Development / support	Development / support

6.2 Case Discussions

In this chapter, the empirical findings from the conducted case studies will be compared to the interpretations of internationalization theory presented. This will be done by drawing upon insights presented in Table 3, and comparing them to the findings in practice (i.e. case findings) presented in Table 5. Through this, the chapter helps to develop an understanding of the links between the blocks proposed in Osterwalder & Pigneur's (2010) canvas model and the three main research areas within internationalization literature. The comparisons will then be discussed in the light of alternating business model theory believed to be relevant for the purpose of this study.

CUSTOMER SEGMENT

Similar to what has been described in most cases, a majority of the firms reacted to the new demands of the foreign customer segments to a certain extent. Only Klarna and Vint consciously aimed to enter specific markets. This active decision was taken to expand their customer segment, while the other cases engaged in expansion due to concrete foreign demand.

Vint chose to enter San Francisco because of a notion of market similarities with Sweden regarding tech savviness and exercise culture. Considering their personal experience, they also felt a close psychic distance to that particular market. However, as a result of lacking business market knowledge Vint was forced to pivot their customer segment.

Klarna expanded to neighboring countries first, as market similarity was important for their service to function properly. This resembles arguments made in the Uppsala model for psychic distance (Johanson & Vahlne, 1977). Specifically, for Klarna's case, it is seen that institutional knowledge was necessary for them in order to expand their customer segment across country borders. Interestingly, Klarna has used this dependency quite strategically: In aiming for a large market, they have *first* expanded to smaller but psychically closer markets (e.g. the Netherlands and Austria before Germany; the UK before USA). Such a conscious stepping-stone strategy is not explicitly covered in internationalization theory. **This indicates that in cases**

where institutional knowledge is crucial for a firm's operability, psychic distance could be used strategically to approach an end market by entering similar markets first.

Both Klarna's and Vint's cases further illustrate that customer networks can cultivate cross-border activity. Expanding Chesbrough's (2010) argument for understanding your own value chain, it seems like internationalization develops firms' understanding of their *customers'* value chain, enabling them to recognize new potential segments.

VALUE PROPOSITION

Reviewing the case studies, it is apparent that most firms have either added or altered their value proposition. However, it is difficult to conclude to which extent this was a result of internationalization, rather than a growth decision. Only Publit explicitly expressed that their *new* value proposition was an outcome of international engagement.

When internationalizing, Publit increased their commitment to the German market by establishing local presence and partnerships with no value proposition alterations. Viewing this incremental process, similarities are detected with what is described by the Uppsala model (Johanson & Vahlne, 1977). However once present on the German market, Publit learned from formal contacts that their service could offer a different value. This adaptation to Publit's value proposition has resulted in variations to other BMC building blocks as well as the way Publit views their own positioning in the value chain.

This indicates that internationalization theories may very well complement each other; foreign market entry through incremental commitment (Uppsala model) does not necessarily rule out foreign market exploitation through network connections (Network Relationship theory).

Further, the case of Publit shows that engaging with international contacts may alter the firm's self-awareness and foster innovation. This highlights the

importance of gaining foreign perspectives early, in order to picture the firm's value proposition in an international context. Viewing the value proposition in such a context could in our opinion be done through e.g. Pichler's (2012) Product Canvas.

CHANNELS

As the studied cases all offer digital services the primary sales channel has been online throughout their internationalization. Interestingly Hansoft explicitly states that even though customers use and pay for the service online, new deals often depend on physical engagement. This indicates that even though modern channels could be used as means to reach out to customers, direct sales in form of physical presence remain important, especially in B2B sales. This points out an important contrast to the Uppsala model, where digital B2B firms seem to follow the theory backwards; **focusing on physical presence at initial contact, and transition to physical absence (online) when reaching growth. Also, in this transition partners seem to act as new sales channels.** This seems in line with the suggestions presented by the Network Relationship theory in our theoretical framework. In the case of DigiExam, their first customer moderated foreign business to an informal contact, resulting in their second customer.

Hansoft's and Publit's use of branch-specific media early after inception resulted in international business inquiries. Using marketing this way to find international customers is not new, however not explicitly found in internationalization theory as a means to find foreign market traction. **While Network Relationship theory suggests tapping into informal or formal contacts, it does not mention advantages in tapping into *unknown* networks such as niched media channels with global reach. This could however have its explanation in the fact that these types of channels were less common at the time this theory was developed.**

CUSTOMER RELATIONSHIPS

Looking at the findings presented in Table 5, it becomes apparent that internationalization impacts a firm's way of developing customer relationships. The

majority of the cases indicate a clear change in the way their firm interacted with its customers after expansion. Interestingly, these firms choose to modify relationships with their customers for growth, rather than looking for alternative sales channels or new customer segments. Initial customer relationships seem to start with co-creation to polish the value proposition, but change over time to a more passive state focused on customer conversion. This could partially be explained as an effect of overcoming the liability of outsidership with initial customers, making it easier to manage a more detached relationship as trust is built. For instance, DigiExam started with approaching school boards, but managed to scale quickly through targeting teachers instead. Redirecting the service to super users this way proved to be beneficial for convincing schools to invest in the service. Also another explanation could be related to the aspect that close customer relationships are increasingly difficult to handle as the customer base increases. This can in turn be an effect of the notion of increased competition that comes with internationalization, forcing firms to decrease their dedication to the customers.

Summarized, this indicates a need to understand how customer relationships will be dealt with when the firm grows. **Thus derived from the cases, it seems like internationalization implies shifting relationship focus from an enterprise level to a super-user level. For B2B firms, this implies finding a target group *within* the customer.**

In the case of Klarna it can be seen that cultural differences while expanding to US, compelled the firm to engage more commitment with customers by developing processes to gain trust and thereby enable sales. This indicates another interesting aspect in the case findings, namely that some firms have established forms of relationships that are not explicitly addressed in Osterwalder & Pigneur's (2010) categorization of customer relationships. This is by the authors chosen to be called *dedicated automated services*, which are tailor made (i.e. dedicated) services, established specifically to provide the expectations of the new market, but still offered online (in contrast to personal assistance).

REVENUE STREAM

Digitalized services imply having the option to utilize various versions of revenue streams, ranging from paid mobile applications to large enterprise licenses. Thus these revenue streams via digital channels differ from those connected to physical goods, and this difference may be the main reason for the rise of young firms with rapid (or direct) international sales observed in IE-theory (e.g. Knight & Cavusgil, 2004).

In the cases presented in this study, it is witnessed that some firms choose to broaden the design of their revenue stream as a means to enable or satisfy modified customer relationships, as a result of internationalization. Meanwhile Revenue Streams are also seen as a main aspect that *leads to* internationalization. Publit's and DigiExam's cases show us this cumulative relationship between revenue streams and internationalization. Online revenues were accumulated through channels which attracted international awareness through media and partnership contacts. The sources of these revenues later provided Publit with a direction for increased international commitment, and funded DigiExam's conscious aim for the US. With increased international presence, both firms later altered their revenue stream design to grow their customer base.

Drawing on the presented cases, one reason for revenue stream modification *after* early internationalization seems to be that the initial design helps fund the internationalization. Thus it serves as a safeguard for the risk of failing to enter a new market, in line with arguments in the Uppsala model. Once established abroad the firm may recognize that the previous risk diminishes, while an increased risk of competition presents itself. With the global reach of digital channels mentioned in IE-Theory, and increased knowledge of their users, these firms might then be able to swiftly alter their revenue model to attract further customers.

To summarize, digital revenue streams seem to be one way of gaining global presence, but are observed to alter as a result of increased competition brought forth by internationalization.

KEY PARTNERSHIPS

In the case findings, it becomes apparent that partnerships play an important role in forming a firm's way of establishment on the new market. Klarna's collaboration with local partners in the US accelerated foreign market entry notably faster compared to entering previous markets without local partners. For VisibaCare, engaging early with partners helped them learn that an anticipated foreign competitor could in fact become a partner. What comes across as interesting in this, is the formation of unexpected partnerships in a serendipitous way rather than by strategic planning, falling in line with the arguments regarding the Network Relationship theory (Table 3). While it seems like partnerships can be used for internationalization, it is observed that *new* partnerships are mostly developed in retrospect (i.e. after new market entry). This could be explained by arguments found in the Uppsala Model, that internationalization incrementally broadens a firm's knowledge. Before such knowledge expansion firms may have difficulties in identifying the nature of new problems that they might encounter, and therefore fail to recognize suitable partnerships for solving them.

Thus it is interpreted that internationalization unveils new issues that can be mitigated by the formation of new partnerships.

This raises an aspect that is concluded to be lacking in the BMC but is better covered by the Lean Canvas. By introducing the Problem and Solution blocks, it is believed that the Lean Canvas allows a firm to develop a clearer picture of what they perceive as an obstacle in regards to their business and are also forced to define possible solutions for overcoming them.

KEY ACTIVITIES

In assessing Key Activities regarding the cases, it is observed that five out of six firms' operations fall in line with the IE-interpretation presented in Table 3. This is because the firms initially focused on activities related to sales and marketing in their process of internationalization. Klarna started its expansion with well developed financial resources from home market establishment, while the remaining firms' first activities considered chasing customers and infusing the brand to the right segments on the new market. However, shortly after acquiring the first customers, the

remaining firms shifted their activity focus towards R&D and adapting other parts of the operations (e.g. customer relationships, revenue stream etc.) to the new circumstances. For instance, after engaging with foreign customers, Vint was surprised by the effort they needed to devote to recruitment. Also following internationalization, Klarna, VisibaCare and DigiExam realized the importance of committing time to develop core modules for their services so that it could easily be implemented regardless of future market location. This underlines the argument made previously in this thesis regarding that internationalization leads to innovation, competitive advantage and productivity.

This indicates that internationalization obligates firms to shift activity focus or introduce new activities to their daily operations, which contradicts the suggestions for activity imitation made by the Uppsala Model.

To gain insight in future activities and how to prioritize them, firms could consider including Chesbrough's (2002) aspect of defining competition in their BMC. This would enable them to recognize activities needed in an increased competitive landscape.

KEY RESOURCES

As stated in IE-theory, Key Resources are very firm specific. The cases show that these resources are strongly impacted by the procedure of the firm's internationalization. It is identified that two common categories of resources were impacted in all cases, influencing each case in a different way, after international expansion: Foreign contacts and foreign market knowledge. Even though agreeing with IE-theory, it is still to emphasize the Network Relationship theory, which underlines the fact that having foreign networks are essential in the expansion process. This is in the cases shown to be a result of the increased pace of learning about the new market due to knowledge sharing which is inline with the suggestions made by the theory.

The most interesting finding in regards to Key Resources comes from the Vint case. Though initially failing in their expansion to the US, due to lack of cultural market insights, Vint managed to reform its Value Proposition enabling them to capture an

unpredicted market segment. This indicates another side to Key Resources, being that by retaining initial core resources at a firm's disposal (in this case the established contacts and product know-how) it is still possible to pivot to a new, suitable Value Proposition and thereby maintain presence in the new market although misstepping initially.

In viewing the cases it seems as though internationalization enriches firms resources in a way that is beneficial for continued establishment, even if other BMC building blocks are forced to change. It should however be pointed out that this could be the case since all the firms in this study operate in the ICT-sector, where the need for tangible resources is less prevalent than for firms with physical products and production.

COST STRUCTURE

With increased costs essential to internationalization and changes to other inbound components of the BMC, it is apparent in the cases that the firms' cost structures change as well. Regarding the changes to Key Resources and Key Activities due to expansion, it becomes apparent that a reaction is necessary in order to achieve a balance in deployment of resources to acclimate to the new circumstances.

As depicted in Vint's case, unforeseen costs occurred when activities such as recruiting and marketing needed extra attention. These costs were described to directly relate to lack of local knowledge. This is similar to the underlying reasoning in the Uppsala Model where the incremental approach is suggested to mitigate risk and therefore minimize sudden costs.

Furthermore, it is found that digital service providers have an innate possibility to gain economies of scale and scope rapidly and at relatively low cost. This difference with firms providing physical goods is believed to be another reason for the rise of so called Born Globals and INV's in IE-theory. Exemplified by Hansoft and DigiExam we can distinguish three phases overlapping their internationalization; **(1) Focusing on product scale** emphasizes resource allocations to product development and close customer contact; **(2) Gaining organizational scale** stresses allocating resources to reach automated internal activities such as customer support, and; **(3) Extending**

customer scope implies reallocating resources to external business development activities. This dynamic suggests that firms in multiple markets are challenged to balance a suitable mix of cost structures for the level of maturity in a given market.

Thus, internationalization seems to influence firms' cost structure indirectly due to implied changes in the firms' inbound and outbound activities. These changes appear to stretch the cost structure, which presents the firm with a challenge regarding how and where to invest their resources.

7. Conclusions

A majority of Swedish small and medium sized businesses sense an increased competitive landscape, while the country also has been degraded in its global competitive ranking. This study focuses on young Swedish ICT firms since they are the largest contributors to the country's service export and shown to be the most internationalized. Considering Sweden's small size, it should seem natural for young Swedish ICT firms to engage internationally in their quest to find demand. Internationalization is argued to lead to competitive advantage, innovativeness and productivity. This, in combination with the small market size indicates that internationalization is a necessity for young Swedish ICT firms. Therefore, it seems relevant to increase awareness of what happens to young Swedish ICT firms in their process of internationalization. This thesis limits internationalization to organic activities (i.e. excluding mergers and acquisitions, joint ventures) and excludes import.

Previous research on internationalization puts focus on the process itself, while paying little attention to the effects it may imply. While internationalization is argued to increase firms' competitive advantages, few have studied how this is manifested in firms' business models. By conceptually combining research on internationalization and business models, this study aims to explore the influence of internationalization on a firm's business model. In order to reach that aim, the study answers the following research questions:

RQ1: In which ways does internationalization literature address influences on a firm's business model?

Through reviewing internationalization literature and business model theory, this study provides an interpretation of their interlinkage, consisting of propositions summarized in the following table:

	The Uppsala Model	Network Relationships	International Entrepreneurship
Customer Segment	Close psychic distance; Neighbouring countries	Customer Segments targeted based on contacts market knowledge	Do not restrict initial Customer Segment to domestic market Recognized opportunity
Value Proposition	Repeat domestic process, learn incrementally and alter thereafter	Take advantage of eventual cultural insights; Fast learning process due to knowledge sharing, therefore increased pace of product market fit	Develop service for worldwide use from inception Rely on previous know-how and experience
Channels	Imitation of home market Channels Incremental sales commitment	Formal vs. Informal contacts present disparate opportunities each requiring different approaches	Decided by means available for the firm at that moment in the int.process Influenced by individual's previous experience and knowledge
Customer Relationships	Incremental entry stage roadmap. First, irregular sales. Last, own sales subsidiaries	Follow contacts' advise. Craft relationships based on insight, believed best to suit the market.	Decided by means available for the firm at that moment in the int.process Influenced by individual's previous experience and knowledge
Revenue Stream	Majority of Revenue from home market Transaction Revenue; Asset Sales	Construct after market insight Follow common local methods believed to be successful by a local contact.	Building on online payment methods and modern tools Sees all Revenue Streams as options due to a globalized world (i.e lower trade barriers & int. agreements)
Key Partnerships	Incremental trust building, hence increased resource commitment Similar partnerships as home market	Contacts can moderate finding partnerships by access to foreign network Formal contacts become Key Partners once firm internationalized	Seize partnership opportunities presented, alter value proposition thereafter.
Key Activities	Mainly establish in home market. Incremental learning to reduce uncertainty Repetition of domestic activities	Networking Extracting relevant knowledge from contact Developing processes for efficient market insight utilization	Looking for unique market opportunities Marketing and Sales Optimal utilization of contacts at hand Adjustment of Value.prop to best fit the new market
Key Resources	Domestic market know-how	Foreign contacts and relationships Domestic market knowledge insight	Previous knowledge and experience The entrepreneur's Network
Cost Structure	Cost-drive approach Increased deployment of resources due to decreased market uncertainty	Stepwise commitment mode Stay open to flexible cost structure due to contact advice	Exploit the "learning advantages of newness" Adapt the cost structure suiting the new market

RQ2: In what ways does internationalization influence young Swedish ICT-service firms' business model?

The study includes six case studies which are discussed in relation to presented theory and the propositions generated from RQ1. The findings in the discussion can be summarized as follows:

Main internationalization influence on outbound components of the BMC

Considering a firm's outbound components of the BMC, two main areas seem to be influenced by internationalization:

- **Customer relationships:** As well as playing a crucial role in where a firm first chooses to engage internationally, Customer Relationships seem to change from close and collaborative on an enterprise level at first, to later focus on finding a target group within that enterprise. This could partially be explained as an effect of overcoming the liability of outsidership with initial customers, making it easier to manage a more detached relationship once trust is built. The move to detached relations is observed to be a reaction to cope with increased customer scale.
- **Revenue Streams:** Designing Revenue Stream in a creative way seem to be one way of gaining global presence, but the initial design is observed to alter as a result of internationalization. Initial revenue streams are observed to fund internationalization, serving as a safeguard for the risk of failing to enter a new market. Once established abroad the firm may recognize that the previous risk diminishes, while an increased risk of competition presents itself, hence alterations to the revenue stream design focus on customer conversion.

Main internationalization influence on inbound components of the BMC

Considering a firm's inbound components of the BMC, two main areas seem to be influenced by internationalization:

- **Key Partnerships:** It seems that internationalization unveils new issues that found to be mitigated by the formation of new partnerships. This could be explained by the view that internationalization incrementally broadens a firm's

knowledge. Before such knowledge expansion firms may have difficulties in identifying the nature of new problems that they might encounter, and therefore fail to recognize suitable partnerships for solving them pre-expansion. There are also indications that utilizing local partners is preferred in order to optimize the process of gaining market know-how. This raises an aspect that is concluded to be lacking in the BMC but is better covered by the Lean Canvas.

- **Key Activities:** The study indicates that internationalization requires firms to shift activity focus or introduce new activities to their daily operations, which contradicts suggestions in the Uppsala Model for imitating domestic market activities. For instance, it is observed that firms undergo three activity phases when internationalizing; from focusing on product scale, to gaining organizational scale, to extending customer scope. In turn, this dynamic presents challenges to resource allocation.

8.1 Future research implications

By viewing business model change through the lens of internationalization theory, we highlight that different areas of internationalization research may complement each other, a topic little research is conducted on, but in the light of this study called for.

Notably previous research on internationalization either mainly regards expansion as a process carried out by an entire firm, or takes the perspective of an individual, taking little consideration to the firm's resources at hand (i.e. the business model). A business model mainly depicts a firm in a static state, what the design of activities and resources looks like at a certain moment in time. In introducing processes such as internationalization to Business model theory, this study provides a dynamic view on the BMC; how it is influenced by a process over time. In our view, this opens up for an interesting area of research namely to practically and longitudinally investigate international engagement, in attempting to portray the evolution of correlated BMC modifications.

Furthermore, more research could be conducted with the aim to develop a conceptual internationalization business model canvas. In doing so, it would be interesting if future studies incorporated firms with physical production in order to expand the knowledge space of this research, and to enable further investigation of how influences of internationalization differ between firm types.

8.2 Practical implications of this research

In the light findings from this study, the influence of internationalization on a firm's BMC becomes apparent. Translated to practical use, the findings could be used as a framework leading to reflections and informing strategic decision making regarding internationalization. The findings can further support in understanding how aspects in the BMC may be viewed or prepared for internationalization.

Seen from a firm's perspective, this study indicates that understanding the context of both customers and partners is beneficial for internationalization. The case studies highlight that initial customers can in fact become to act as partners as well. Thus, building close customer (i.e. outbound) relations may automatically generate new partner (i.e. inbound) relations. Establishing a clear understanding of the customers' value stream (e.g. how the service is used and who uses it) seems crucial in order to later develop detached customer relations necessary for reaching scale. Further, mapping the networks of partners and customers can give insight to where internationalization may be most suitable for the firm. Also by, in an early stage, trying to identify obstacles that the firm believes could be encountered during expansion could enable the firm to better prepare and investigate required partnerships that may ease overcoming these obstacles.

Moreover, other stakeholders such as venture capitalists or supporting organizations (e.g Business Sweden, Nordic Innovation House, etc.), may use the findings in this research as a supporting tool in assessing and assisting firms' internationalization potential. Based on this study, such stakeholders may consider the dynamic effects that internationalization has on firm-specific characteristics.

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