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**Internationalisation of a Service Company  
- Case: The Turquoise Holiday Company**

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<p>Aim of this thesis is to find out about internationalising service companies and possible new market entry modes. This is a case study for UK based Turquoise Holiday Company, which is a luxury tour operator. Research problem is to find out if the case company has prerequisites for internationalising to Finnish, Swedish, and /or Norwegian markets. Internal, external and strategic factors are taken into consideration.</p> <p>Introduction defines service and clarifies the difference from manufactured product. Theory chapter presents different foreign market entry modes and internationalising strategies for service companies. Also internal, external and strategic factors affecting internationalisation are presented, and they are base for theoretical framework.</p> <p>This study is a qualitative case study. Evaluation is based on publicly available information both externally from the market and internally from the case company.</p> <p>Thesis shows that many things are to be taken into consideration when a service company is thinking about international expansion. Travel industry in general is growing constantly but also going through changes that might change the business significantly. At the moment financial resources and language skills of the personnel of the case company are the internal factors that are limiting internationalising. Scandinavian countries are relatively wealthy though, which is encouraging external factor. Although Finland, Sweden and Norway are doing quite well in economic circumstances in Europe the markets are small in size compared to the UK. The most interesting internationalisation target could be Norway due to its high level of economy. Population of the country is not very big but also competition seems to be low.</p> <p>As this study does not include any practical market research it is suggested to conduct one if the company is willing to deepen its knowledge of consumer attitudes and market potential of the countries. Also the Turquoise Holiday Company should find out its possibilities of financial resources and educating personnel for foreign markets.</p>			
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<p>Tämän tutkimuksen tarkoituksena on selvittää palveluyritysten kansainvälistämistä sekä mahdollisia uusille markkinoille menon keinoja. Tämä on case-tutkimus isobritannialaiselle Turquoise Holiday Companylle, joka on luksus matkanjärjestäjä. Tutkimusongelmana on selvittää, onko tutkimuksen yrityksellä edellytyksiä kansainvälistyä Suomen, Ruotsin, ja /tai Norjan markkinoille yrityksen sisäiset, ulkoiset ja strategiset tekijät huomioonottaen.</p> <p>Johdannossa määritellään palvelu, ja selvitetään sen ero tavaraan nähden. Teoriaosa esittää erilaisia vieraille markkinoille menon keinoja sekä palveluyritysten kansainvälistämisstrategioita. Kappaleessa käsitellään myös kansainvälistymiseen vaikuttavia yrityksen sisäisiä, ulkoisia sekä strategisia tekijöitä, jotka ovat pohja teoreettiselle viitekehykselle.</p> <p>Tämä tutkimus on laadullinen case-tutkimus. Arvioinnit perustuvat julkisesti saatavilla olevaan informaatioon, jota saadaan ulkoisesti markkinoilta sekä tutkittavalta yrityksestä sisäisesti.</p> <p>Tutkimus osoittaa, että palveluyrityksen on huomioitava monta seikkaa harkitessaan kansainvälistä laajentumista. Matkailuala yleisesti kasvaa jatkuvasti, mutta kokee myös muutoksia, jotka saattavat muuttaa liiketoimintaa merkittävästi. Tällä hetkellä rahoituskelliset resurssit sekä henkilökunnan kielitaito rajoittavat tutkimuksen yrityksen kansainvälistymistä sisäisesti. Skandinavian maat ovat verrattain varakkaita, mikä tosin on kannustava ulkoinen tekijä. Vaikka Suomi, Ruotsi ja Norja pärjäävät melko hyvin huomioon ottaen Euroopan talustilanteen, niiden markkinat ovat pienet verrattuna Iso-Britanniaan. Kiinnostavin kansainvälistymiskohde saattaa olla Norja sen hyvän talustilanteen vuoksi. Maan väkiluku on pienehkö, mutta myös kilpailu matalahkoa.</p> <p>Koska tämä tutkimus ei sisällä käytännön markkinatutkimusta, suositellaan, että sellainen tehdään, mikäli yritys haluaa syventää tietämystään kuluttaja-asenteista sekä maiden markkinapotentiaaleista. Turquoise Holiday Companyn tulisi myös selvittää sen rahoitusmahdollisuuksia sekä henkilökunnan kouluttamista ulkomaan markkinoille.</p>			
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# 1 Introduction

Service industry is becoming more and more international (Grönroos 1999, 290). International services have grown rapidly as a result of remarkable changes in the business environment and technological innovations (Czinkota & Ronkainen 1998, 575; Javalgi & White 2002, 563).

Tourism has experienced continued expansion and diversification over the past six decades. At the moment it is one of the largest and fastest growing economic sectors in the world. Many new destinations emerge and challenge the traditional ones in Europe and North America. There have been occasional shocks but international tourist arrivals have shown uninterrupted growth. (UNWTO 2012, 2.)

## 1.1 Background for the thesis

International analyses have showed that travel and tourism will globally achieve annual growth of over 5 per cent between 2011 and 2020 (Terpstra 2011, 3). According to World Tourism Organization (UNWTO 2012, 2) demand for international tourism kept growing in 2011. International tourist arrivals reached 983 million worldwide, up from 940 million in 2010 creating growth of 4,6 %. Europe was the fastest growing region in terms of receiving tourists both in relative and absolute terms relative growth being +6% tied with Asia and the Pacific. The only regions to record a decline in arrivals in 2011 were The Middle East and North Africa, resulting from Arab Spring and political transitions in that area.

In 2011 estimated international tourism receipts were at US\$ 1,030 billion worldwide. This was growth of 3,9% in real terms, increase from US\$ 928 billion in 2010. In 2012 total international arrivals are expected to reach one billion for the first time.

## 1.2 Defining service

Services represent a variable range of intangible offerings (Zeithaml et al. 2006, 5). Defining service as a company's product is essential for to be able to understand and evaluate actions special to service companies. Services differ from manufactured goods in a number of ways. This chapter presents the main differences for to be taken into account when evaluating the service industry.

The main characteristics distinguishing services from manufactured goods:

- *Intangibility*. Services are performances. They can't be touched, seen or felt whereas manufactured goods are palpable.
- *Perishability*. Services are experienced and consumed rather than stored.
- *Simultaneity/Inseparability*. Production of service offerings is often very close to the time of consuming the service.
- *Heterogeneity*. Performance of services may vary highly.

(Zeithaml et al. 1985, 33-34; Grönroos 2009, 78-82, Stanton & Stanton 2011, 29-30; Czinkota & Ronkainen 2007, 505-506; Shostack 1977, 73-74; Zeithaml et al. 2006, 6.)

Together these characteristics of services make internationalisation of services quite a demanding and challenging task. Due to intangibility of services customers are not able to sample, see, or inspect services easily. Because of this customer risk perceptions are increased and quality assessment is more difficult than for tangible manufactured goods. This means a greater challenge for companies marketing services internationally, where risk perceptions are often already increased and where distance and cultural differences might play a role. (Winsted & Patterson 1998, 295.)

Price setting is complicated as well because determination of price-value relationship is difficult for customers (Dahringer 1991, 6). It is essential for international services marketers to develop knowledge of buyer behaviour in the countries under consideration. Especially the knowledge of perceptions and understanding of the service and its utility need to be known. (Nicolaud 1989, 60.) As customers are not able to examine services before purchase, they have to rely on surrogates to make judgements much more than with tangible manufactured goods. Past experience, personal selling and word-of-mouth are possible examples of these surrogates. (Nicolaud 1989, 56.)



Perishability of services increase risk as balancing demand and supply may go wrong (Winsted & Patterson 1998, 295). Unused service capacity is impossible to store for usage in the future. Synchronising supply and demand is often problematic in service sector.- (Zeithaml et al. 1985, 34.)

Simultaneity/inseparability causes that time of producing a service can be even simultaneous with consumption. Because of this physical presence of a service provider is often necessary as customers are a part of service delivering process. (Czinkota & Ronkainen 2007, 505; Grönroos 2009, 79.) Inseparability causes risk as well, also in terms of possible big investments as local presence in the host market is required (Winsted & Patterson 1998, 295).

The human element is significant in producing services. It causes that services may not be similar from one delivery to another but heterogeneity is presence. Often services are tailor-made and interaction with the customer is close. On the other hand, service consistency is important for to fulfil customer expectations. (Czinkota & Ronkainen 2007, 506.) Heterogeneity causes difficulties in quality control. (Winsted & Patterson 1998, 295).

### **1.2.1 Hard and soft services**

Researchers have made a further distinction between service types by dividing internationally traded services into hard services and soft services. Hard service includes both a component of a manufactured good and the component of a service. Hard service can be exported as separation of production and consumption is possible. Examples of hard services include consulting, life insurance, education and music, for example. Soft services, on the other hand, require physical proximity between service provider and consumer as production and consumption are simultaneous. Examples of soft services include lodging services and health care, for example. (Erramilli 1991; ref. Ekeledo & Sivakumar 1998, 278; Erramilli & Rao 1990, 140.) According to Ekeledo and Sivakumar (1998, 278) “The hard service/soft service classification scheme meaningfully reduces the large diversity of the service sector and uncovers useful insights about international entry modes that extend beyond the individual service industries”.

### **1.3 Research problem, research objective and limitations**

Theme of this research is to find out about internationalising service companies and possible new market entry modes. This is a case study for the UK based Turquoise Holiday Company. The company might extend its business internationally if this research shows that there is market potential in Finland, Sweden and/or Norway. Phrasing of a research question is, does the Turquoise Holiday Company have prerequisites for internationalising to Finland's, Sweden's, and/or Norway's markets when taking internal, external and strategic factors of the company into consideration?

Aim of this thesis is to study internationalising chances for Turquoise Holiday Company by researching internationalising theories of service companies and by finding out about market entry modes. Looking more into the details of the process creates tools for understanding which internal and external factors affect company when it is starting expanding internationally. Competitive advantage, presence or absence of it, is also one part of evaluating the chances of international expansion. Competitive advantage is usually based on either cost advantage or differentiating (Porter 1985, 15). This thesis aims at determining if Turquoise Holiday Company has one or the other of the types. If there seems to be competitive advantage expanding the company into Scandinavian country/countries might be worth of action.

Internationalising of a service is looked from the company point of view, and characteristics of different entry modes are viewed from the company's viewpoint. Competitive advantage is researched from the market point of view, how the Turquoise Holiday Company would position on Scandinavian tour operator market and which type of advantage would it possibly exploit. Evaluation is based on statistical and numeric empirical material both externally from the market and internally from the case company. Resource based theory is omitted in terms of not looking at the costs of possible internationalisation in practise. Plan for internationalising the case company will not be presented.

There is quite a lot of academic literature and research about internationalising service companies. This is the first study ever done about internationalising the Turquoise Holiday Company.

## **2 Literature Review**

This part of the thesis represents the existing academic research relevant for this study. The literature review has been divided into seven parts. In addition, one chapter is representing the theoretical framework for the research, put together based on the literature review. First relevant theories of internationalising companies and especially of service businesses are presented.

### **2.1 Internationalisation of service industries**

During the last decade, in the era of globalisation, growing research attention has been paid to internationalisation of service industries (Terpstra & Yu 1988, 33; Javalgi & White 2002, 563). Traditional thought is that services are locally produced solutions and service firms have been seen as local establishments. Typically services are produced by small and local firms but despite that, service firms are becoming more international. (Grönroos 1999, 290.) Demand for global brands and services is increasing as tastes and preferences of consumers from country to country become more alike (Javalgi & White 2002, 563).

Major shifts in the business environment and technological innovations have resulted in international services growing rapidly (Czinkota & Ronkainen 1998, 575; Javalgi & White 2002, 563). According to Javalgi and White (2002, 565) the following can be identified as the most important driving forces for the growth of the service segment:

- Due to establishing the World Trade Organisation (WTO) and its focus on internationalising services opportunities for internationalising service firms have grown.
- Regional economic blocks, such as EU and NAFTA, regardless of national borders, create bigger markets.
- Governments' attitudes towards trade and foreign direct investment are changing. As a result, service sector's growth and importance have emerged in both developed and developing economies.
- Marketers confidence in offering their services internationally has grown because of numerous protective measures in intellectual property rights, copyrights, patents and trademarks for to mention a couple of examples.

- Innovations and advancements in information technology and transportation are enabling easier, faster and more economical ways to move data, people and service products.
- Demographic changes of consumers are taking place and are creating more demand for various services. These changes include such things as increasing affluence, more time for leisure, better education and more women in the workforce, for example.

Stanton and Stanton (2011, 30) emphasise the importance of General Agreement on Trade in Services (GATS) and ICT (information and communications technology) advances in internationalisation of service businesses. General Agreement on Trade in Services, GATS, is a multilateral agreement negotiated during the Uruguay Round of Trade negotiations concluded in December 1993 and incorporated in April 1994 (Cone 1995, 529). GATS and advances in ICT use have not only made the business environment more conducive but also widened the scope for different service types (Stanton & Stanton 2011, 30).

At the same time as number of jobs in manufacturing sector decreases, the amount of jobs in service sector is growing. Especially in industrialised nations (e.g. the EU and the USA) the importance of service sector is growing. The sector is a source of new markets and more jobs for people. (Javalgi & White 2002, 564). Although internationalising services is challenging it is an opportunity especially for service enterprises whose domestic markets are saturated or about to become obsolete (Winsted & Patterson 1998, 295).

Many authors have questioned if internationalisation theories and models developed for manufacturing sector are applicable to service industries. Researchers have also pointed out a question if process of internationalisation of services is so special that there is a need for separate internationalisation theory of service firms. (Ekeledo & Sivakumar 1998, 274; Blostermo et al. 2006, 212.) Different groups of studies suggest different findings: For example, results of the study by Terpstra and Yu (1988) support the applicability of manufacturing sector theories to service industries' internationalisation. On the other hand, findings of studies by Erramilli (1991) and Erramilli and Rao (1990, 1993) suggest that factors influencing international entry mode choice of manufacturing enterprises are not to be generalised to service sector but must be adapted to services

instead. Moreover, there are papers showing that hard and soft service firms choose different foreign market entry modes (Blostermo et al. 2006, 212).

## **2.2 Internationalising of a company**

Traditionally there are two contradicting theories on internationalising of a company to be found in the literature; *the traditional internationalisation* view (e.g. Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977, 1990; Luostarinen 1970, 1979) and *the born global* view (e.g. Oviatt and McDougall 1994; Madsen & Servais 1997; Moen & Servais 2002).

In the field of international business the internationalisation of a company has been one of the main areas of research. However, the process of internationalisation of a firm was not under that big interest until 1970's (e.g. Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977). After this, companies, governments and researchers have started to seek for international competitiveness and more research on internationalisation process has emerged.

The following Table 1. summarises the main differences of the two main theories of internationalisation process of a company. The following two chapters explore more in to details the underlying differences of the two views.

Table 1. Two views of internationalisation

	Traditional View	Born Global View
Research Question	Why does internationalisation occur in incremental manner?	How is it possible that firms enter into foreign markets already from inception?
Empirical Background	Swedish manufacturing companies, mid-1970's	Knowledge intensive firms, mid-1990's
Focus	Emphasises constraints to internationalisation (e.g. psychic distance)	Emphasises enablers to internationalisation (e.g. networks)
Role of Knowledge	Knowledge of internationalisation is acquired incrementally and from own experiences gained in foreign market	Knowledge is gained at the individual level through prior international experience or through alternative mechanisms such as networks
Pattern of Internationalisation	Process view: reactive, incremental, increasing gradually	Entrepreneurial view: rapid, proactive, risk-seeking
Regulators of Internationalisation	Experiential and contextual learning from own experiences made in the foreign market	Alternative governance structures such as networks and interaction with foreign market players

Source: Schwens & Kabst 2011, 62.

### 2.2.1 Traditional Internationalising

Gradual internationalisation is characteristics of traditional internationalisation (TI). At first, companies that internationalise according to this path gain a strong position in the domestic market. Only after this they start stepwise internationalising to host markets. (e.g. Johanson & Wiedersheim-Paul 1975; Johanson & Vahlne 1977, 1990; Luostarinen 1970, 1979.) This internationalization pattern, also known as The Uppsala Internationalisation -model or the stages –model, was developed in 1977 by two Swedish researchers, Jan Johanson and Jan-Erik Vahlne. The Uppsala model is the most frequently used model in internationalisation literature, and it is quoted in many scientific

articles (e.g. Madsen & Servais 1997; Chetty & Campbell-Hunt 2004, 59; Anderson 2004, 854; Blostermo et al. 2006)

The underlying assumption of the Uppsala Internationalisation model is that as a firm incrementally learns more about a specific market and gains more knowledge about that market it commits itself more to it. Commitment is realised as investing more resources into that market. Increased resource commitment enables progress to other internationalisation modes. Knowledge-based internationalisation process theory provides also a dynamic perspective on the internationalisation modes used by companies as they internationalise. (Johanson & Vahlne 1977; Chetty & Campbell-Hunt 2004, 59-60; Melén & Nordman 2009, 244; Schwens & Kabst 2011, 61; Yip et al. 2000, 11-12.) Stepwise approach allows for host market testing in low commitment form, which might be logical especially for risk-averse companies (Johanson & Vahlne 1977; Madsen & Servais 1997, 561-562).

The stage –model distinguishes four different stages in internationalisation process of a company: no regular exports, exports via independent agents, establishing sales subsidiary in the host country and finally own production in the host country. The stages are different depending on the degree of involvement of the firm in the market. Stages mean successively bigger resource commitments. Companies gain quite different market experience and information at different stages as well. (Johanson & Wiedersheim-Paul 1975, 307.)

According to the traditional internationalisation process theory companies also choose markets in stages first starting to export to countries with a psychically short distance. After a while they expand their foreign sales into markets with increasingly greater psychic distance. (Johanson & Wiedersheim-Paul 1975, 307-308; Chetty & Campbell-Hunt 2004, 60.) The concept of psychic distance refers to factors that prevent or disturb the flows of information between company and market. Differences in language, culture, political systems, level of education, and level of industrial development are examples of such factors. Psychic distance correlates with geographic distance in many cases but exceptions are easy to find. (Johanson & Wiedersheim-Paul 1975, 308.) In addition, many studies have revealed that psychic distance between home and host country plays a bigger role than actual physic distance between the two countries in terms of causing disturbance in information flows (e.g. Luostarinen 1970, 58; Johanson & Wiedersheim-Paul 1975; Luostarinen 1979, 131). This is an expression of the effect of cultural distance

on internationalisation process of a company and the fact that it is essential for a company to overcome that distance. Whereas physical distance between the host and the home country is a constant, psychic distance is not (Luostarinen 1979, 135).

There is also criticism against the traditional internationalising model. Forsgren (1989 ref; Andersson 2004, 855) has stated that the Uppsala model's validity is limited only in the early stages of the internationalisation process. That is when the lack of market knowledge and resources is the constraining force. These factors are not crucial at later stages and for this reason the applicability of this theory is questionable. Andersen (1993, 220-221) criticises the Uppsala model because in his opinion there is a lack of logical congruence between the theoretical and operational levels. There is empirical evidence that companies choose target countries by psychic distance and develop in accordance with the established chain in a special market. Anyhow, this does not prove that a firm's international behaviour is determined by increasing knowledge. Researcher also argues for more precise details of the boundary assumptions of the model by identifying circumstances under which the model is relevant for evaluation. The Uppsala model is also stated to be too simplistic (Fina & Rugman 1996, 201), and Oviatt and McDougall (1994, 50-52) criticise the stage theory because companies seem to be skipping stages stated and get involved in internationalisation with unexpected speed or internationalisation may not occur in stages at all.

Recently, it has become even more evident that there are limitations for the stages model. At the same time research identifies a growing number of firms certainly not following traditional internationalisation in stages. Instead, these companies aim at international or maybe even global markets right from the inception stage. (Madsen & Servais 1997, 562.) The following chapter introduces the basic elements of these so-called Born Global companies.

### **2.2.2 Born Global Internationalisation**

In 1970's scientific research showed that young firms (1-3 years old) were usually focusing their main attention on domestic markets and expanding to foreign markets was only of secondary importance, if interesting at all. (Luostarinen 1970, 85.) Since that, researchers have made different kinds of findings showing that firms can internationalise shortly after their inception (Madsen & Servais 1997). Many studies questioned the concept of the traditional stage model of internationalisation process and the interest in



born globals began early in the 1990s. Since that a growing number of publications have focused on this topic (Moen & Servais 2002, 50, 52).

On the contrary to the traditional internationalisation model outlined in the previous chapter, the born global internationalisation model identifies companies choosing an alternative internationalisation pattern. Instead in internationalising in stages and incrementally the born global theory points out that some companies enter foreign markets already at the inception of the company (e.g. Madsen & Servais 1997; Chetty & Campbell-Hunt 2004, 60). Internationalisation strategy of these enterprises is proactive (Oviatt & McDougall 1994, 49). These early adapters of internationalisation have a global view of their markets from the beginning and they develop capabilities necessary for achieving their international goals at or near the company's founding (Knight & Cavusgil 2004, 125).

Oviatt and McDougall (1994, 49) define a born global as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. The researches point out that the focus is on the age of companies when they become international, not on their size. The view of Knight and Cavusgil (2004, 124) accords with the previous definition: Born global companies are “early adopters of internationalization – that is, companies that expand into foreign markets and exhibit international business prowess and superior performance, from or near their founding”.

Previous studies suggest that born globals may appear in a wide range of industries. These studies concern high-tech businesses, services and even aquaculture. In most of the cases the companies are small in size. (Oviatt & McDougall 1994, 48, 51.) In many cases small size means scarce financial, human, and tangible resources. Despite this early internationalising firms leverage innovativeness, knowledge and capabilities for to achieve foreign market success early at their inception. As young firms are typically small in size they may be flexible as well, working out key benefits for succeeding in foreign markets (Knight & Cavusgil 2004, 124-125). Research by Knight and Cavusgil (2004, 127) also suggests that born globals are naturally entrepreneurial and innovative companies. Being young companies, born globals usually lack tangible resources that mature companies have more of and upon which they rely their performance. Instead, born globals leverage intangible knowledge-based capabilities. According to the same study (Knight & Cavusgil 2004, 128) born globals undertake research and development

(R&D) projects, which lead to new market entries, or they monitor other firms internationalising early, and imitate their acts. Luo (2000) states that capabilities-based resources are of special importance for born globals. This is because born globals are typically not rich in tangible resources but they deal with diverse environment across numerous foreign markets.

Probably the same key factors that have made internationalisation of companies possible in general have enabled the emergence of born globals as well. Knight and Cavusgil (2004, 125) point out two key trends having substantially reduced the transaction costs of foreign market expansion. Globalisation of markets is the first one and the second trend is named as technological advances in information and communication technologies. Impacts of these factors are noticeable but it is important to remember that these do not explain internal reasons why born globals internationalise early.

It is studied that entrepreneurs pursuing foreign ventures with a strong marketing orientation are likely to form born globals. Typically they leverage technological prowess, fairly unique products and a strong focus on quality for to sell in markets worldwide. Entrepreneurial culture, marketing skills, superior and distinctively positioned products, and leveraging strong distributors are operational attributes emerging as important capabilities for born globals to position themselves in foreign markets. (Knight & Cavusgil 2004, 129.)

### **2.3 Foreign Market Entry of Service Companies**

The following chapter presents foreign market entry modes and internationalising strategies for services companies. Division of services into hard services and soft services yields important insights into the variation of entry mode choice (Erramilli & Rao 1990, 140). According to Ekeledo and Sivakumar (1998) the difference between entry mode choice in manufacturing sector and hard service sector is not significant whereas the difference is remarkable between hard services and soft services.

### 2.3.1 Foreign market entry modes

As internationalising of service companies is increasing, the question of selection of an appropriate international market entry mode has become of a more critical issue (Terpstra & Sarathy 1994; ref. Ekeledo & Sivakumar 1998, 274). A foreign market entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country” (Root 1987; ref. Erramilli & Rao 1990, 136). According to Terpstra (1987; ref. Erramilli & Rao 1990, 136) the choice of a foreign market entry mode is “one of the most critical decisions in international marketing” because it determines firms’ way of marketing their products abroad, and how companies contribute to the country’s balance of payments.

Degree an entry mode involves the company into a foreign market differentiates entry modes from each other (Erramilli & Rao 1990, 139). Initial entry mode choice remarkably affects market performance and longevity of a foreign operation (Li 1995; Ekeledo & Sivakumar 1998). Level of risk-return trade-off of each entry mode is associated with the entry mode chosen by a company. (Ekeledo & Sivakumar 1998, 278). The choice of foreign market entry mode is also related to control. Control over foreign market entry mode allows service companies to supply timely and good quality services to international clients. This protects reputation as well. An alternative way to achieve control over foreign operations is to develop trust in relationships. (Blostermo et al. 2006, 212, 223.) Entry modes have great differences in their mix of advantages and disadvantages (Anderson & Gatignon 1986, 2).

The investigation by Erramilli (1991) indicates that experience factor has a remarkable effect on foreign market entry behaviour of service companies. Service companies with less experience prefer entering foreign markets similar to their home country. As experience increases and diversifies these companies seek out markets physically and psychically more distant. Contrary to traditional linear conceptualisation of foreign market entry mode choice, Erramilli (1991) suggests that the relationship between experience and desire for control may actually be U-shaped. In practise this means that service firms demand high-control modes in the early and late stages of their international evolution.

In most of the cases, selection of entry mode has two phases the first one being determination of the location of production facilities. The second phase is to make a

decision about the company's level of involvement in or the control over operations of the foreign establishment. At first, hard service company has to make the choice between exporting and production in the host market. As soft service companies do not have the possibility of exporting they have to choose between full-control or high-involvement modes and shared-control or low-involvement modes. (Ekeledo & Sivakumar 1998, 278).

There are different kinds of classifications for international entry mode choice. Classification is possible to make according to the degree of control that the mode employs. The two types are called high control mode and low control mode. Typically high control entry modes demand more resources committed abroad. At the same time the internationalising company is exposed to a higher degree of uncertainty. Low control mode requires limited amount of resource commitments but on the other hand it reduces uncertainty exposure of the internationalising company. A company is likely to choose a high control entry mode over a low control entry mode when the cultural distance between the home country and the host country is long. By establishing high control entry mode the company is able to learn about cultural and other institutional factors abroad. Service firms also gain more freedom of action by choosing high control entry mode. (Blomstermo et al. 2006, 214, 223.)

Grönroos (1999) identifies three general foreign market entry modes for service firms expanding their businesses internationally: 1) client-following mode; 2) market-seeking mode; and 3) electronic marketing mode. Client-following takes place when e.g. advertising agencies and banks follow their domestic clients to foreign markets. Market-seeking refers to a situation where a service firm enters markets abroad primarily to serve foreign customers, customers in that particular foreign market in other words. (Erramilli & Rao 1990, 141.) These three classes of entry modes are not totally mutually exclusive. For example, a company may use Internet as an electronic marketing tool and access international markets by doing so. At the same time this mode can be seen as market-seeking. (Grönroos 1999.) Research by Erramilli and Rao (1990) suggests that service companies internationalising their operations by following their existing clients exhibit remarkably greater aggressiveness in choosing market entry modes than market-seekers when serving new customers abroad.

It is possible that the mode of operation in a foreign market changes with time. For this reason decision makers in internationalising companies have to keep in mind that the initial entry mode may be the optimal one only for a short period of time. (Ekeledo &

Sivakumar 1999, 288.) Preserving flexibility is important for most companies in making the trade-off between control and the cost of resource commitments when internationalising operations. Especially in lesser-known foreign markets flexibility, the ability to change systems and methods quickly and at low cost is essential. (Anderson & Gatignon 1986, 3.)

### **2.3.2 Internationalising strategies**

The following presents different strategies for internationalising services. Examples of practical applications as well as possibilities and risks of the strategies are handled briefly.

Services have to be made accessible in the chosen foreign market when a company decides to internationalise its business. Although even a big part of the service is produced in a back office on the home market, some part of the service has to be produced locally on the host market. This applies to electronically marketed services as well. (Grönroos 1999, 293.)

Grönroos (1999, 293) distinguishes five main strategies for internationalising services:

1. Direct export
2. Systems export
3. Direct entry
4. Indirect entry
5. Electronic marketing

Strategies 1 and 2 are export strategies, mainly taking place in industrial markets. For example, repair services on valuable equipment are often exported in direct way and also some consultants work in that way. As services have to be produced immediately when entering a market, no step-by-step learning can take place. This means that risk of making mistakes may be high. Two or more firms whose solutions complement each others may use systems export. This might be the case for a service firm supporting a goods-exporting firm or another service firm. In the literature systems export is the traditional service export mode. (Grönroos 1999, 294.)

Numbers 3 and 4 are entry strategies. Service company establishing its own service-producing organisation on the foreign market is using direct entry strategy. As usually service company's foreign organisation has to produce and deliver the service from the beginning the time for learning process may be short. Pressures for the company may

increase also because of the local government considering the new international service provider a threat to local firms or even to national pride. (Grönroos 1999, 294.)

In order to decrease potential problems of a direct entry strategy the internationalising company may acquire a local enterprise operating on the same service market. By doing this, the company doesn't have to establish a new organisation but gets access to knowledge about the market as well as to know how to manage the service operation on the foreign market. In such an acquisition it is essential to keep the key people in the acquired company. Without them the company may be in the same situation as when establishing a totally new company. (Grönroos 1999, 294.)

Forming a joint venture with a local firm is one option. By doing that the local partner gains new growth opportunities and at the same time the international company can have an access to local know-how. (Grönroos 1999, 294.)

Internationalising company can enter a market indirectly in order to avoid establishing wholly or partly owned local operation. Nevertheless, the established operation can be permanent in the foreign market. Licensing and franchising are typical concepts. (Grönroos 1999, 294.) Strategic alliances, in particular franchising, are a high-growth international market entry forms (Dahringer 1991, 14). Such entry modes are employed by knowledge-deficient companies trying to acquire experiential knowledge by teaming up with individuals and organisations outside the company possessing such knowhow (Erramilli & Rao 1990, 138). Local service company gets the exclusive right to a marketing concept, possibly including rights to a certain operational mode. In this way the concept can be replicated all over the foreign market as much as the local demand allows. The internationalising company gains the local knowledge and local firm gets growth opportunities. (Grönroos 1999, 294.)

Electronic marketing is one option for an internationalising strategy. In practise it means that the service firm extends its accessibility by using advanced electronic technology. By using the Internet an internationalising company can communicate its offerings and put them up for sale, collect data about customers and use network partners to arrange delivery and payment. The company is not bound to any particular location when using electronic marketing. By using Internet customer interest in the company's offerings is created outside the local or national market. Even when a company internationalises by using electronic marketing it is not able to manage its service operations wholly by itself.

On foreign markets it has to rely on at least postal and delivery services and the company's control over such partners may be very limited. (Grönroos 1999, 295.)

Another way of classifying foreign entry options is represented by Ekeledo and Sivakumar (1998). They suggest that an entry mode is associated with a certain level of investment risk, involvement or control and resource commitment. Researchers classify entry modes into the following groups: Licensing/franchising, exporting (indirect, agent/distributor), management contract, joint venture, and sole ownership. The first one on the list has the lowest involvement in/control over resource commitment whereas the last one has the highest. Ekeledo and Sivakumar (1998, 279) also point out that service exporting is different from goods exporting due to intangibility of services. For exporting, services have to be embodied into a storage medium. In practise it may mean e.g. the use of cassettes or books and exporting the service-embedded object.

According to Grönroos (1999, 294-295), probably the least risky internationalising strategy is indirect entry when compared to direct entry, direct export and systems export. On the other hand, when using this entry strategy the internationalising company has less control over foreign operations (Grönroos 1999, 294) but the level of risk is lower as well (Ekeledo & Sivakumar 1998). No matter which internationalising mode and strategy a service firm chooses, foreign services have to be accepted by local customers on the host market (Grönroos 1999, 295).

Entry mode choice is different for hard services and for soft services. Empirically the difference may show in several ways. Export is not a choice for soft services and for this reason the other options will be chosen more frequently. Circumstances identical, when a hard service company chooses export a soft service firm uses an entry mode very close to export in terms of involvement. In practise this may mean franchising as a more involved form of licensing, for example. (Ekeledo & Sivakumar 1998, 280.) According to Blostermo et al. (2006, 222) soft service companies are more likely to choose a high control entry mode compared to hard service companies, in general. The explanation for this may be that soft service companies need more buyer-seller interaction frequency. Soft service companies find that formal organisational arrangements abroad make it possible to collect and interpret information in order to build unique competence and thereby affect perceived service quality. Presence on the host country market makes companies familiar with the requirements of foreign buyers and allows managing

interaction between the company and the client. Also adapting services to meet buyer's requirements is easier to manage.

## **2.4 Factors affecting internationalisation**

This section presents factors that are affecting service company's internationalising process. Both company-related internal factors and external factors out of company's control are discussed.

### **2.4.1 Internal factors**

Firm-related factors form one group of factors affecting decision-making that concerns foreign market penetration. A company has influence over these factors. Thus they indicate the company's abilities to respond problems or opportunities related to the foreign market. They indicate the alternative ways of the company to exploit its alternatives of doing business abroad under circumstances defined by external environment of the company. (Luostarinen 1970, 72-73.)

#### **2.4.1.1 Line of industry**

The line of an industry a company operates at seems to have an impact on the company's internationalisation. Evidently, enterprises belonging to technical, fast-growing and comparatively new industries have to a great extent extended their business to foreign markets by using different penetration modes. (Luostarinen 1970, 85.)

#### **2.4.1.2 Size of the firm**

Different operations demand different amounts of financial and other resources. That makes logical the assumption that size of the firm correlates with the use of different operation forms demanding large resources. The general hypothesis is that the larger the company the larger the resources it has. On that basis it is assumed that large companies have better possibilities than smaller ones to exploit direct investment techniques when penetrating foreign markets. (Luostarinen 1970, 73.)

Usually it is necessary to have a good financial standing in order to conduct direct foreign operations. In general this takes forms of excess cash or good credit-raising



ability. In many cases small-sized enterprises lack both of them. In addition, in cases they would have a chance to use loan capital they often don't borrow enough of it. That would be essential for to be able to start operating on the scale big enough for to compete with local firms. (Luostarinen 1970, 73-74.) The research by Winsted and Patterson (1998) supports the assumption as in their qualitative interviews of service firms most of the companies said that small firms lack resources needed for to support the remarkable initial cost of foreign expansion. Large firms are better able to handle the risk of investment for to explore the potential opportunities.

In general, non-investment operations demand much less financial and other resources than direct investment operations. For this reason also small and medium-sized companies exploit them. Mostly used are non-direct marketing investment methods. (Luostarinen 1970, 76.)

Capital is not the only key issue for to operate direct investment abroad. Experienced and skilful personnel with deep knowledge of international business operations is necessary and of bigger importance than in cases of non-direct foreign investment. As larger companies have more personnel they also have better access to qualified management and technical personnel than smaller enterprises have. There are examples of cases in which personnel's greater amount and superiority have been one of the things inducing the company to start operations abroad. (Luostarinen 1970, 73-74.) Winsted and Patterson (1998) interviewed non-exporters and their thoughts expressed that lack of international know-how and resource limitations are the major reasons for not internationalising business. International know-how was seen as knowledge and expertise in researching and developing strategies to penetrate foreign markets.

Connections and contacts, networks in other words, are one key resource of a company for to move to international market (Winsted & Patterson 1998, 307).

#### 2.4.1.3 Product-related factors

In this chapter the term "product" refers to both services and tangible goods unless otherwise stated. Company's product and its characteristics related factors, which may affect operations abroad are discussed as well.

When a company takes its product into markets abroad it may have to adapt the product to the requirements, customs, tastes and needs of target country customers. This

adaptation is easier to deal with when having closeness to markets in terms of own operations and investments in the target country. (Luostarinen 1970, 92.) Company having services easy to adapt to foreign market is likely to start international marketing activities (Winsted & Patterson 1998, 306). More about adapting the product follows in chapter 2.4.3.4 Standardisation versus local adaptation.

Product's sensitivity to business fluctuations is one thing affecting internationalisation. Sensitivity may appear in two ways: 1) The product might be sensitive to cyclical movements in the national economy as a whole and 2) The product is possibly sensitive to seasonal changes in the industry in question. If company's products have a sales volume strongly positively correlating with the booms and depressions of the home country economy it may be favourable to use marketing operations especially during depression. On the other hand it might be disfavourable to use marketing operations during boom. Companies producing manufactured goods seem to be using temporary exports if they are sensitive to business cycles, which is the case for the firms under seasonal fluctuations as well. (Luostarinen 1970, 93.)

Risk attached to both cyclical and seasonal fluctuations may be lessen by foreign operations as it is less probable that fluctuations will occur just at the same time and with the same force in both the home and the host country (Luostarinen 1970, 93).

#### 2.4.1.4 Planning related factors

The plans that a company have for the future determine the selection of operations. By showing the main lines of future actions, these factors are the basis for the total future activities. Mission of the firm expresses the customer needs that the company is going to satisfy with its services or products. Clear mission putting great emphasis on operating abroad, i.e. on satisfying the needs of foreign customers, gives an opportunity to consider operating abroad. (Luostarinen 1970, 96.)

Total objectives of a firm reveal the focus of the firm from the base of mission. It is obvious that if the primary objective of the company is to gain higher than average profit on the capital invested and the target country markets offer better opportunities to reach this objective than home market the firm prefers investing abroad than at home country market. In terms of type of the investment it's been noticed that direct investment operations are more profitable than non-direct ones. (Luostarinen 1970, 97-98.)

The total strategy of the company determines how the firm is going to achieve the total objectives set on the basis of the mission. Aggressive strategy of the firm is likely to encourage the company to use investment operations in target country markets. However, it is noticed that in firms without explicit formal planning mission, objectives and strategy might play only a seeming role in the considerations, if any. (Luostarinen 1970, 98-99.)

In addition to company targets, attitudes and perceptions toward exporting seem to affect international operations decision (Axinn 1988). Studies of attitudes and perceptions toward exporting are mainly from manufacturing industry but Winsted and Patterson (1998, 297-298) are in the opinion that similar attitudinal categories might apply to service sector as well. The same researchers also suggest that companies having international operations have much more positive attitudes about the benefits and profit potential of exporting than did companies that didn't have international markets. Managerial commitment and following clients going global also are factors motivating companies to internationalisation. (Winsted & Patterson 1998, 306.)

#### **2.4.2 External factors**

External factors, also called environmental factors, are beyond the direct influence of the company in usual situations (Luostarinen 1970, 72). On the contrary to firm-related internal factors the company has only a little or no control over external factors. Typically external factors can be classified into the following classes: 1) home country factors, 2) host country market factors, 3) political and sociocultural factors, 4) economic infrastructure, and 5) trade barriers. External factors influence on service company's entry mode choice through delineation of levels of control, degree of risk, resource commitment, and level of return associated with each mode of operation. (Ekeledo & Sivakumar 1998).

##### **2.4.2.1 Home Country Factors**

Home market characteristics, especially the size and composition of domestic demand, may be a remarkable factor leading to competitive advantage (Porter 1990, 93). Companies with a large-sized and also demanding and sophisticated home market are usually innovative and competitive (Erramilli 1996, 233). Experience in competing in a home market like that offers companies to chances to exploit economies of scale, a halo

effect in the eyes of foreign buyers, knowhow needed in competing in the market, talent to satisfy the most demanding buyers, and good self-confidence in general (Porter 1990, 86-94). Also, large home country market helps companies in international business to be relatively larger compared to their competitors from smaller country markets. This may apply to financial resources, technology, management skills, production capacity and marketing expertise. (Ekeledo & Sivakumar 1998, 284.)

In order to develop the kind of organisational capabilities that a large domestic market promotes a small domestic market may work as a disadvantage for a company. It is assumed that service companies with small home markets engage in joint ventures for to develop capabilities to operate successfully in international markets. (Ekeledo & Sivakumar 1998, 284.)

When the home country competition is oligopolistic, company's foreign investment behaviour often elicits similar behaviour from domestic competitors (Ekeledo & Sivakumar 1998, 284). Kim and Mauborgne (1988, ref. Ekeledo & Sivakumar 1998, 284) note that sometimes oligopolistic influence crosses country borders in industries consisting of a limited number of global players. This may cause that a player's action in one national market have repercussions in other markets. It is also observed that companies in the same industry are likely to be investing where their rivals have invested earlier (Davidson 1980).

#### 2.4.2.2 Host Country Market Potential

In many scientific resources the size of the potential market is seen as the most important factor affecting international operations. For this reason the market size is a key factor in internationalisation decisions. (Johanson & Wiedersheim-Paul 1975, 308.

#### 2.4.2.3 Host Country Market Structure

Competitive pressures on the market force companies to perform effectively at low cost and to deal with each other in fair, honest and good faith way for to avoid being replaced. In non-competitive industries a new entrant's degree of control has negative relation to the company's international experience. Whenever the supplier market is competitive, companies are advised to avoid integration because in this way the firm may gain both a high return and low risk. (Anderson & Gatignon 1986, 8, 17).

#### 2.4.2.4 Trade Barriers

One of the external factors to be evaluated when planning penetrating a new market abroad is trade barriers. Barriers may turn out to be a critical factor in case they are a source of prohibitive costs or difficulties. (Zimmerman 1999, 211-212.) Barriers to international services are whether direct tariffs or non-direct non-tariffs. Compared to non-tariff barriers tariff barriers are relatively straightforward and transparent. (Dahringer 1991; Ekeledo & Sivakumar 1998.)

At the same time as the amount of tariff barriers has decreased new non-tariff barriers (NTBs) against services have emerged (Javalgi & White 2002; Zimmerman 1999, 212). According to Zimmerman (1999, 214) tariffs are not used against intangible services very often but non-tariff barriers are more common. Non-tariff barriers can be either entry restraints, such as requirements for local ownership and labour restrictions, or operational barriers including discriminatory taxation, currency controls, local investment requirements and others (Zimmerman 1999, 221-222; Javalgi & White 2002, 566).

#### 2.4.2.5 Political Stability of the Host Country

Volatility of the company's environment creates external uncertainty. This uncertainty can be referred to different things but typically it translates into country risk, taking many forms such as political instability, economic fluctuations, currency changes etc. When the setting is volatile higher-control entry modes are not expected to be more efficient than lower-control modes (e.g. licences and other contractual methods). According to transaction cost analysis, entrants in uncertain markets are more easily accepting low-control entry modes. That is because by doing so resource commitments are avoided and the entrant is also able to change partners and renegotiate terms of contracts and working arrangements relatively easily as circumstances develop and change. Flexibility can be maintained by low control. (Anderson & Gatignon 1986, 14-15.)

Political stability refers to "A system of governments which permits representation of major segments of its society, enjoys the confidence of its people, generates conditions for continuity of business enterprise, and is sympathetic to private enterprise" (Goodnow & Hansz 1972, 47). Foreign companies are likely to avoid doing equity investments in countries that have had political unrest recently (Ekeledo & Sivakumar 1998, 282).

Because soft services need physical proximity between provider and consumer political instability is likely to have a greater impact on the foreign entry decision of a soft service company than that of a hard service firm. It may be possible for hard service companies to trade from a distance when the political climate is unstable until the climate improves. (Ekeledo & Sivakumar 1998, 282.)

#### 2.4.2.6 Cultural Distance

Integrated system of learned behaviour patterns distinguishing the members of any given society is one definition for culture. All the customs, language, material artefacts and shared systems of attitudes and feelings are included in it. Wide variety of elements is both material and spiritual. As different cultures have their own different meanings and expressions interactions with people from different cultures differ remarkably. This and other cultural elements and their differences have a strong impact on the acceptability and adoption pattern of services. (Czinkota & Ronkainen 2007, 54; Javalgi & White 2002, 568-569.) Good background for better understanding of national and cultural differences in management practices is Hofstede's (1983, 1994) five dimensions of culture: Power distance refers to expectations of equality among people; individualism to relationship between individual and group in society; masculinity regards gender roles; uncertainty avoidance refers to different reactions to situations; and long-term versus short-term orientation refers to orientation towards time.

Cultural distance can be seen as the human side of international business. It is defined as the factors creating a need for knowledge and at the same time as a barrier to the knowledge and hence other flows between the home and the host country. When a cultural distance is said to be long it means that cultural environments of the two countries are very different from each other. (Luostarinen 1979, 132-133.)

Usually companies having little foreign market experience prefer entering markets at a short cultural distance. On the other hand, born-global companies may start internationalising with countries at a large cultural distance from the home market. (Blostermo et al. 2006, 216.) When the cultural distance between home market and host market is minimal companies are most likely to adopt entry modes requiring high resource commitment. Cultural factors are likely to have a greater impact on internationalisation patterns of soft service companies than hard service companies. This

is because frequent and close interaction between supplier and consumer is required when it applies to soft services. (Ekeledo & Sivakumar 1998, 283.)

#### 2.4.2.7 Economic Infrastructure

Good economic performance of a host country is likely to attract foreign investments (Ekeledo & Sivakumar 1998, 283). The greater the economic distance in favour of the host country, the greater is the market pull force for the company entering the market of this country (Luostarinen 1979, 136). Internationalising companies are likely to adopt entry mode choices that involve high resource commitment when host country has adequate currency reserves, low foreign debt percentage, favourable balance-of-payment trend, easy currency convertibility and long-term capital inflow is positive (Terpstra & Sarathy 1994; ref. Ekeledo & Sivakumar 1998, 283).

If the economic infrastructure is poor it may result in a substantial difference in the entry mode choice between hard and soft service companies. In general, level of economic development of a country seems to be correlating with the number of service industries in the country. The more industrialised, the greater is the number of service industries in the particular country. (Ekeledo & Sivakumar 1998, 283.)

#### 2.4.2.8 Marketing Infrastructure of the host country

The more adequate is the commercial and financial infrastructure of the host country market, the better the firm is able to focus on its marketing task. This infrastructure refers to advertising agencies, marketing research companies, and credit and banking facilities, for example. In general, a poor marketing structure is more likely to favour entry modes representing greater distance from the market. (Ekeledo & Sivakumar 1998, 282.)

### **2.4.3 Strategic challenges for international marketing of services**

The following chapter discusses about strategic challenges a service company may have to think about when planning to penetrate a new market abroad.

Type of the service, nature of customers, perceptions of host governments and general need for control of operations are dictating delivering of services at foreign markets. Due to these, and external factors discussed above as well, internationalising service firms face many kinds of strategic challenges. (Zimmerman 1999, 211-212.)

#### 2.4.3.1 International delivery of information content

Information content varies in different cultures. For this reason advertising, for example, needs to be different in different cultures. In different cultures the amount of information an advertisement has to include is varying. In high-context cultures people typically have wide information networks among family, relatives and friends and communication and relationships are close. In low-context cultures it is common that people do not have that extensive and close information networks and relationships. Because of this they need to have other kind of sources of information. That is why the content and the source of information are very critical for consumers in these cultures. Furthermore, people in individualistic cultures seem to be dependent on specific facts to assist their decision making whereas non-verbalism and communicating through contextual and implicit codes underlying culturally defined social expectations and rules are more common in collectivistic cultures. (Tai & Chan 2001; Javalgi & White 2002, 569.)

Information technology, the Internet being one of the key determinants, is enabling free flow of information across national borders. Popularity of Internet and growth of e-commerce have generated concern about the content of material and privacy issues, and as a result some countries are regulating information content. (Javalgi & Ramsey 2001.)

Good quality of a service delivered by a provider is not enough for to generate good business in the host country. Attention has to be paid to cultural sensitivity as well. (Javalgi & White 2002, 570.)

#### 2.4.3.2 International services delivery

Delivering services into foreign countries is dictated by the types of services, as well as customers, host government attitudes, and the need for high control over operations (Zimmerman 1999, 212). Separability is characteristic to many international services (Sampson & Snape 1985; ref. Erramilli & Rao 1993, 24). This means that their production and consumption do not necessarily happen at the same time and at the same place. These services (hard services) are exportable as often they are produced outside the host country and then transferred in some tangible form to it. One example of separable services is software services. (Erramilli & Rao 1993, 24.) What is still typical for many services is the simultaneous production and consumption, inseparability (soft services) (Zeithaml 1985, 33). Higher sensitivity to cultural differences is typical for inseparable services and might necessitate better adaptation to local tastes (Erramilli &



Rao 1993, 24). Manufacturing companies internationalising their operations can go through stepwise learning process in the early stage of internationalisation, whereas in case of service firms the local branches need to be able to produce and deliver the service right from the beginning. Foreign markets may be entered at once and time for learning is short. (Grönroos 1999, 294.)

- Managing demand

Services are perishable meaning that if they are not sold storing is impossible. Especially for this reason managing demand is both high in importance and challenging. It is essential to establish direct delivery as well as short distribution channels, which are usually achieved through direct investment, mergers or acquisitions. (Zimmermann 1999, 212.) In order to meet demand and satisfy customers it is important to stay closer to the customer by offering services at convenient locations and branch offices. A skilled personnel is one essential key too. For better managing of the operation capacity in an efficient way an analysis of further demand is usable. In short, the more the service provider is present locally, the greater is its ability to respond local demand in fast pace and efficiently. (Javalgi & White 2002, 571-572.)

#### 2.4.3.3 Service quality considerations

No matter if service firm is marketing domestically or internationally service firms have realised that superior quality of their services can lead to benefits like higher customer loyalty, increased productivity, greater profits and market share and it can work as a tool of building competitive advantage (Ross & Georgoff 1991). Dimensions of service quality vary across service sectors. Parasuraman et al. (1985, 47) concluded in their survey dimensions for service quality across sectors: reliability, access, responsiveness, competence, courtesy, communication, credibility, security, understanding of the customer, and tangible considerations. Dimensions have to be emphasised differently in different countries and cultures, which is a strategic challenge for international service firm (Javalgi & White 2002, 573).

#### 2.4.3.4 Standardisation versus local adaptation

Being performances, all the services involve some level of human element. For this reason it is not possible to standardise them in the same way as manufactured goods. (Javalgi & White 2002, 572.) According to Zeithaml et al. (1985, 34) heterogeneity of

services causing difficulties for standardisation is characterised especially by variation of quality and essence from producer to producer, from customer to customer and from day to day. Also same individual's service performance may vary from day to day. Nicolaud (1989, 62) notes that services that are more people-based are more likely to vary than machine-based services. Compared to manufactured goods services are not that easily standardised. Service providers have to ensure quality control in order to offer adequate service.

Standardisation is made difficult also by host government regulations in many service sectors. Some sectors are governed by remarkably different rules in different countries. It is also noticed that what is observed about the level of product and marketing standardisation in international marketing of manufactured goods is not likely to match services. Instead, compared to tangible goods common customer needs for services are likely to vary from country to country more. Because of this internationalising of services is tending to demand localised solutions instead in standardisation across nations. (Samiee 1999, 327.) As stated in 2.4.1.3 Product-related factors, when a company's product is easy to adapt to foreign market the company is likely to start international business activities (Winsted & Patterson 1998, 306).

#### 2.4.3.5 Market research considerations

Market research is a major thrust in international marketing of services. It is necessary for to uncover customer needs and wants by a research beginning from research design to data collection, and to presentation and implementation of the information. (Javalgi & White 2002, 573.) There is a lack of comprehensive and reliable information available about international trade in services. Due to this assessment of international service and their monetary volume is challenging for governments, institutions and individuals. (Samiee 1999, 321.) Governments and private research companies are making efforts to produce good quality data. This helps to compile and compare data on service categories across nations. This is further assisting in generating better market demand analysis and economic forecasting for services. (Javalgi & White 2002, 574.)

- Competitive stance

Service marketers are facing various sets of challenges depending on their internationalisation mode. Building and sustaining a competitive advantage is characterised by the specific country or region. Competitive landscape is in continuous

change due to economic and technological developments and advancements. (Javalgi & White 2002, 574.)

According to Porter (1990), the issue of national competitive advantage in services increases among international competition in services. Both developed and developing countries are competing for international services' market share. Developed economies are producing more and larger share of services but globalisation of the sector is not happening only because of those economies' actions.

According to Yip et al. (2000, 31-32) an internationalising company needs to have a remarkable competitive advantage that can be leveraged abroad. Even the most thorough internationalisation process will not yield good and successful results without company having something special to offer.

Prior to entering a foreign market a firm can collect essential market specific information by conducting a prior foreign market analysis. This analysis is a systematic opportunity seeking approach to internationalisation and it is based on formal strategic planning, opportunity seeking, and market research. By the analysis a company is able to identify entrepreneurial opportunities and develop knowledge systematically and incrementally. (Schwens & Kabst 2011, 63.) Results from empirical research suggest that especially newly internationalising companies may benefit from such a systematic approach to internationalisation (Yip et al. 2000).

According to Nordsröm (1991; ref. Andersson 2004, 855) the most important factor explaining a company's internationalisation is market potential of the foreign market. In the particular study it was operationalized as the number of inhabitants in the country.

## **2.5 Competitive advantage**

This chapter researches more into details the subject of competitive stance and competitive advantage as one of possible factors affecting company's internationalisation.

### 2.5.1 Competitive markets

Competition is a key factor affecting company's success, or on the other hand, company's failure. Such things as company's innovations, company's internal culture and good realisation of the business affect success of the company. Competition on the market determines suitability of these success factors. Competitive strategy stands for searching out a profitable competitive position within the industry. By way of a competitive strategy a company is aiming at a profitable and sustainable position against forces determining the internal competition within an industry. (Porter 1985, 13.)

On the markets, globalisation unceasingly deepens and industry boundaries gradually blur as the pace of technological innovation quickly accelerates. As a result a dynamic and competitive environment is taking shape. New environment causes many types of uncertainty, ambiguity, and decreasing discontinuity in strategies in the course of operation. Also, the essence of competition is going through radical changes. This has its effect on company's competitive advantage and strategy choices in order to gain that advantage. Companies have to achieve a continuous innovation of strategies as they shouldn't expect currently established strategies to be carried out in a prescribed way. (Wang & Diao 2010, 1202.)

Competitive advantage of a company is based on the value delivered to the customer. This value has to be larger than the costs needed in creating the value. Value is the amount of money that customers are happy to pay for company's product or service. Incomparable value is created by offering the same benefits as the competitor with lower price for the customer. Optional way of creating customer value is by offering unique benefits, which replace generously the high price. Basically, these two types of competitive advantage are called cost leadership and differentiating. (Porter 1985, 15.) In addition, Wang and Diao (2010, 1204) point out that for to hold their dynamic competitive advantage, companies need to select a suitable and effective innovation strategy mode.

Attractiveness of the industry is the key factor determining profitability of the company. Competitive strategy of a company has to be based on a deep understanding of the rules affecting the attractiveness of the industry. Competitive strategy has to aim at dealing with these rules. When the situation is optimal the company may even reformulate these rules so that they are beneficial for it. No matter the industry or whether the company is

operating on national or international level, the rules of competition are based on five competitive forces: threat of new entrants, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers and rivalry among existing competitors. (Porter 1985, 15-16.)

The total strength of these five competitive forces defines the average net profit that a company might be able to gain on each industry. These forces are different in different industries and they might also change as the industry develops. This means that not all the industries are similar in terms of their natural profitability. If all the five competitive forces are beneficial within some particular industry many competing companies are earning big profits. But when some or all of these five forces cause pressures only very few company is able to gain profits no matter how big are the efforts by these companies' management. Profitability of an industry is not depending on the product or service details or the technology used. Instead in those factors, the structure of the industry matters. (Porter 1985, 17.)

The five competitive forces affect prices, costs and investments of the companies within the industry. These again affect the return on capital, which is why profitability of an industry is determined by them. Competition at the market and its strength has effect on prices and costs of competition in areas such as production, product development, advertising and sales. Threat of new entrants restricts price setting and is affecting investments that are essential for to prevent new entrants entering the market. (Porter 1985, 18.)

Influence of each competitive force depends on the particular industry structure. This applies especially to industry's basic economic and technical characteristics. By their strategies companies are able to impact on competitive forces. If a company is able to formulate industry structure it is also able to change attractiveness of the industry. All the five forces are not equally important in every industry and importance of structural attributes also changes along the industry. In many cases companies make their strategic decisions without taking into account how they effect on the industry structure in long term. Companies may forecast that their competitive position improves if the action succeeds. At the same time they do not take into consideration reactions of competitors and impact of their actions. Situation worsens for all the companies on the market if the industry structure gets ruined by the largest competitors imitating the actions of particular companies. (Porter 1985, 20-21.)

Company's position within an industry defines if the company's profitability is above or below the average level of the industry. A company with a good position may gain large profits even if the industry structure was fairly bad and the average profit quite poor because of that. (Porter 1985, 24.)

### **2.5.2 Creating competitive advantage**

Success in the long run better than the average is usually based on sustainable competitive advantage. A company might have different kinds of strengths and weaknesses compared to its competitors but in principal there are only two ways of creating competitive advantage: low costs or differentiating. After all, importance of all the company characteristics depends on how they affect relative costs or differentiating. As for these two, cost advantage and differentiating are based on structure of the industry. Both of them are resulting from the company's ability to deal better than competitors with five competitive forces. (Porter 1985, 24.)

When the two types of competitive advantage are connected to operational field of a company we get three basic strategies by which it is possible to achieve better success. These strategies are cost leadership, differentiating and focusing. Focusing strategy might be cost orientated or it might be orientated in differentiating. Each of the strategies means totally different way of achieving competitive advantage. Cost leadership and differentiating strategies are aiming at competitive advantage in broad segment, whereas focusing strategies fall on a narrow segment. The industry determines the special actions needed for to fulfil a strategy, and industry determines strategies that are possible to realise as well. The choice of a basic strategy is a logical way to achieve competitive advantage though choice of a strategy is not that easy. (Porter 1985, 24-25.)

According to Porter (1985, 25), competitive advantage is the core of a company strategy. In order to achieve competitive advantage it is essential for a company to choose the type of competitive advantage it is willing to gain and in which area. Willingness to be "everything for everyone" leads to strategic mediocrity and success below the industry average. This is because by doing so the company does not have any kind of competitive advantage. The following three chapters shortly present the three main strategies discussed above.

- Cost leadership

A company exploiting cost leadership strategy aims at being the only single company within the industry producing its services or products with low costs. The company has a broad operational field and it is serving many segments of the industry. Sources of cost advantage are various and based on the structure of that particular industry the company operates in. Serving wide range of operations and segments, trying to reach advantages of mass production, a special technique, and most-favored nation status in raw material procurement are examples of possible sources. Usually cost advantage companies are selling basic standard products and are focusing on advantages of mass production or absolute cost advantages. (Porter 1985, 26.)

If a company is able to achieve and keep cost leadership its ability to success is better if it is able have its prices near the average price level of the industry. When prices are the same or lower than competitor prices low costs mean larger profits. Cost leader can't ignore the basics of differentiating though. In case clients do not accept company's product or service or don't think that those are comparable to other companies' selections the company has to decrease the price below competitor prices. (Porter 1985, 26.)

- Differentiating

Company trying to achieve competitive advantage by differentiating strategy has to be somehow unique for its clients. Company chooses one or more attributes important for industry's clients, and then seeks for a position where it is able to satisfy those needs. Because of its uniqueness the company is able to increase prices. (Porter 1985, 28)

Differentiating ways vary from industry to industry. Technique may be based on the company's product itself, distribution system, marketing, and many other things. Company that manages to gain and sustain differentiating has success better than the industry on average if its price difference is bigger than the costs used for to achieve uniqueness. In other words, the differentiating company has to search for tools enabling price increase higher than differentiating costs. Nor the cost structure should not be ignored. Differentiating company is decreasing costs in all the sectors that do not affect differentiating. (Porter 1985, 28.)

Company has to differentiate attributes from competitors' special attributes for the strategy to be logical. For to be able to set higher prices than competitors company really has to be unique or at least clients have be made to think that. Different from cost leadership strategies, many successful differentiating strategies may exist within the same

industry when there are many attributes that clients appreciate in general. (Porter 1985, 28.)

- Focusing

Different from cost leadership or differentiating, company using focusing strategy is choosing a narrow competition field within an industry. Strategy is created for to serve target segments only and all other segments are ignored. In order to optimise its strategy, focuser is striving for competitive advantage on the particular chosen segments although it doesn't have competitive advantage on the market in general. (Porter 1985, 29.)

There are two optional forms of focusing strategy, cost focus and focused differentiation (Porter 1985, 29; Porter 1990, 39). Company using cost focus strategy aims at cost benefit in the target segment. Company aiming at differentiating in its target segment is using focused differentiating strategy. Both these strategies are based on the differences between the focusing company's target segments and other segments within the industry. Cost focus strategy is exploiting different cost behaviour of a certain segment whereas focused differentiation strategy is based on special needs of the chosen client segment. Focusing company might achieve competitive advantage by dedicating serving these segments only. Very narrow target segment itself does not guarantee success better than the average but the essential idea of focusing is to exploit the fact that some certain target segment is different from the industry in general. (Porter 1985, 29.)

Focusing companies are benefiting from that enterprises with a broad target segment are not functioning optimally. Companies trying to serve a very broad segment may not do enough for to satisfy certain segment, or may do too much which means costs bigger than necessary. Target segment of a focusing company has to be different from other segments for focusing strategy to be successful. (Porter 1985, 30.)

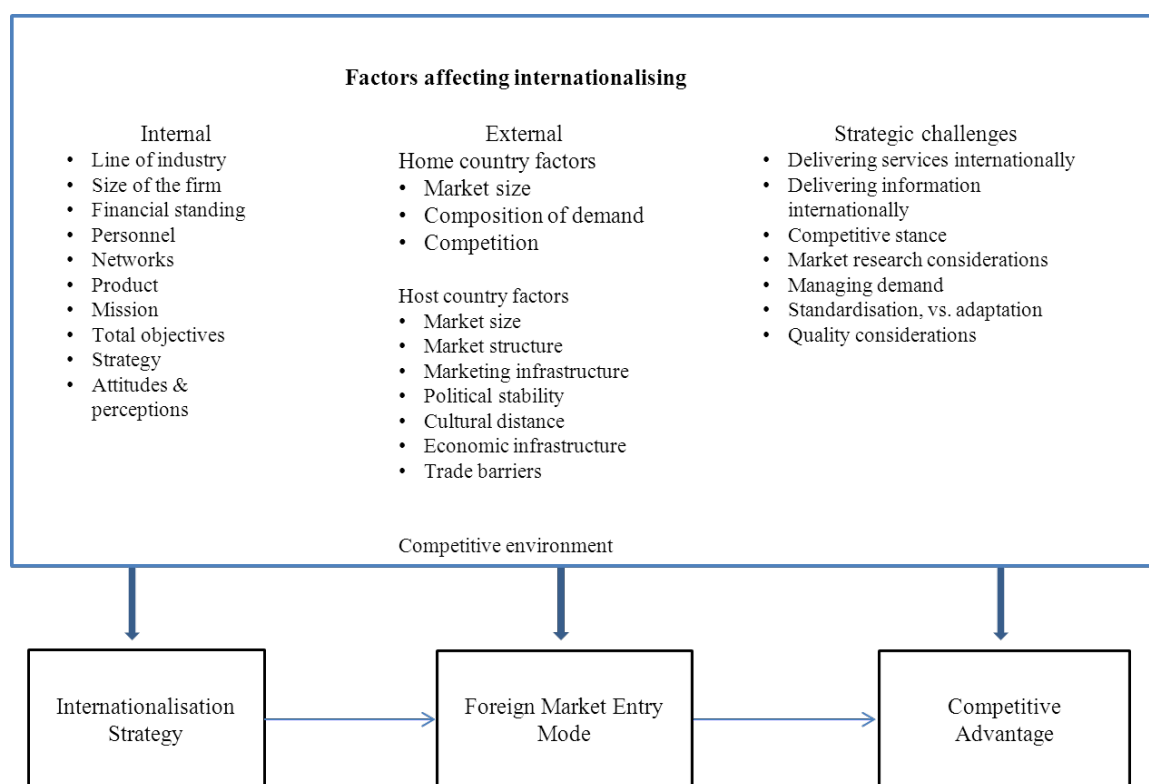
## **2.6 Theoretical framework**

This part has presented theoretical background for the research in terms of internationalising companies operating in service sector as well as the meaning of



competitive advantage. The following presents the theoretical framework for the thesis used as the basis for empirical research.

Theoretical framework starts from factors affecting internationalisation and their impact on the internationalisation decision. Those factors are the ones defining chances for possible internationalisation. Those factors also define the mode of foreign market entry and internationalisation strategy. Competitive advantage is the result that an internationalising company is willing to gain. It is essential to evaluate if competitive advantage is possible to gain under the certain circumstances, formulated by factors affecting internationalisation, and reformulated again by foreign market entry mode and internationalisation strategy that the company has chosen to use. This is illustrated in the following picture.



Picture 1. Theoretical framework for the thesis. Competitive advantage is possible to achieve by choosing the best possible and the most suitable internationalisation strategy in circumstances determined by factors affecting internationalisation.

Itemising each of factors affecting internationalisation makes operationalising possible. By doing this it is clearer to notice all the factors playing a role in the process from the company point of view. In the empirical part of the research all these factors are discussed and their effect on internationalisation decision and the possible process and its outcome is evaluated.

### **3 Industry review**

Industry studied in this research is travel and tourism. Tourism has experienced continued expansion and diversification over the past six decades. At the moment it is one of the largest and fastest growing economic sectors in the world. Many new destinations emerge and challenge the traditional ones in Europe and North America. There have been occasional shocks but international tourist arrivals have shown uninterrupted growth. (UNWTO 2012, 2.)

#### **3.1 Definition of Tourism and Tourist**

Defining tourism is not as easy as it may appear. Technical definitions of particular categories of tourism or tourist exist but the wider concept is poorly defined. Tourism may refer to wide range of activities and may incur some expenditure or none. It is possible to define tourism as being “one aspect of leisure which usually, but not invariably, incurs some expenditure by the participant”. (Holloway 2002, 1.)

Movement of people away from their normal home area further defines tourism but also brings confusion with it. It produces the question if it is the purpose or the distance which is the determining factor. Definitions by different authors and organisations vary highlighting different aspects and some aspects are totally overlooked. For example, many definitions fail to take into account domestic tourist. Common for all definitions produced by different organisations and governments is that they define tourism as temporary actions and travelling of people outside their usual environment. (Holloway 2002, 1-3.)

Komppula and Boxberg (2005, 8-9) refer to a definition for tourist made by United Nations in 1979. Definition describes a tourist as a person who travels outside her/his usual area of living for at least 24 hours but for maximum for a year other than for to earn income. Based on this, only travellers travelling for leisure are seen as tourists. Since the definition made in 1979 some differing ones have emerged. Cohen (1984, 374) presents a definition of tourist created by International Union of Official Travel Organizations (IUOTO) which states that “(international) tourists are temporary visitors staying at least twenty-four hours in the country visited and the purpose of whose journey can be

classified under one of the following headings: (a) leisure (recreation, leisure, holiday, health, study, religion and sport); (b) business (family mission, meeting)” (IUOTO 1963, 14). Holloway (2002, 7) also points out the distinction between holiday-maker and people who travel for business. According to UNWTO statistics (2012, 4), travel for leisure, recreation, holidays, visiting friends and relatives, and for other purposes accounted for 78 % of all international tourist arrivals, whereas 15 % of international tourists travelled for business and professional purposes.

This research touches only tourism and tourists that can be described as holiday-travelling and holiday-travellers. Business travelling is excluded. This is because my case company is a holiday company not offering services for business travellers.

### **3.2 Tourism Product**

For to be able to do product development and marketing the substance of tourist product has to be well understood (Komppula & Boxberg 2005, 10). An essential characteristic of tourist product is that it is a service rather than a tangible manufactured good (Holloway 2002, 4; Komppula & Boxberg 2005, 10). The industry consists of variety of businesses offering different services for tourists. Examples includes such businesses as transportation, accommodation, tour operators, travel agents, tourism promotion, and advertisement, businesses engaged in tourism insurance and finance, food and beverage, entertainment, nature parks, zoos, businesses organising concerts, theatres, and shows, gaming, convention and meeting organising, translation and guiding, producing and selling travel goods, etc. (Akbaba 2012, 178.) As can be noticed, most businesses in the travel industry are service businesses. In this thesis I concentrate totally on service business of tour operator sector.

As tourist products are services, the same attributes as mentioned in chapter 1.2 apply to them, the major one being intangibility. For example, tourist product cannot be tested prior to purchase (Holloway 2002, 4). Production and consumption of tourist service product takes place simultaneously (Komppula & Boxberg 2005, 10). As a purchase of a packaged tour is quite a big investment for many of customers it involves a high degree of trust on the part of the purchaser. The tourist product itself is not only a simple collection of services such as an airline seat and hotel room but it involves also

temporary use of a new environment, culture and heritage of the region and other intangible benefits such as atmosphere, service and hospitality. Planning and anticipation of the holiday may be as much enjoyable as is the trip itself. Tourist product is a psychological and physical experience. (Holloway 2002, 4.)

Typical for services, standard and quality of travel products vary even highly over time and under different circumstances. A packaged tour includes different combination of different products and this increases the need for elements of the product being broadly similar in quality. (Holloway 2002, 4.) Not only customer and personnel of a service company affect the experience of the service but also other clients have their effect. For example, other passengers on the same airplane have their influence on other passengers, and also all the passengers have different kind of experiences from the situation. (Komppula & Boxberg 2005, 10-11.)

Tourism cannot be brought to the customer either but the customer must be brought to the product. Also, at least in short term, the supply of the product is fixed. Market demand changes fairly frequently in tourism business but supply usually takes time to adapt. (Holloway 2002, 5)

### **3.2.1 The problem of seasonality**

All sectors of tourism face the problem of high seasonality of most tourist traffic. This is very apparent in the demand for package holidays in Europe. However, this market is highly price sensitive. Longer periods of holiday entitlement over the past years have helped to encourage many people to take their second holiday abroad too. As this happens often outside of the holiday peak periods tour operators are able to spread their fixed costs more evenly over the entire year. It also allows tour operators to contract for aircraft and hotels on a year-round basis. For to attract clients out of season tour operators use marginal costing techniques. This means pricing the holidays to cover variable costs and making some contribution to fixed costs. (Holloway 2002, 237-238.)

### **3.3 Factors influencing tourism demand changes**

Two kinds of factors are influencing demand in tourism the first one being impossible to be predetermined or forecast. These factors influence changes sometimes with very little warning in advance. Changes influenced by economic or political circumstances, climate and natural or artificial disasters belong to this group. The second type of factors includes cultural, social and technological changes emerging in society. Many of these changes are possible to forecast and usually there is time to adapt tourism products to meet new needs and expectations. For to avoid negative impact of all kinds of changes travel industry businesses should be prepared for a change, often at very short notice. Organisation and products are good to be flexible and adaptable to new circumstances. (Holloway 2002, 42-43.)

According to Holloway (2002, 43.) it is easier to predict changes in society, as well as long-term trends in travel patterns. However, industry has been slow to respond to these indicators. Travel patterns of people are affected by the change in family structure, for example. It is a fact that travel industry should note in a decent way. Also, all kinds of travellers are more sophisticated and demanding and many times even more familiar with world travel destinations and attractions than those selling products. Changes come about through changes in individual behaviour of tourists as well.

In the beginning of the twenty-first century greater choice in consumer purchasing of all kinds was leading to demand for more flexible packages of differing durations. People started to require tailor-made services to packaging. At the moment companies are establishing divisions for this purpose, which is more labour intensive and requires greater product knowledge. (Holloway 2002, 43.)

### **3.4 The economics of tourism**

Holloway (2002, 46) proposes that travel and tourism might be the single most important industry in the world. In 2002 travel and tourism accounted for at least 6 % of the world's gross domestic product and employed 127 million people worldwide. In 2011 tourism contributed to worldwide GDP estimated 5 % based on the information from

countries with data available. Tourism's contribution to employment was estimated 6-7 % in 2011 of the overall jobs worldwide. (UNWTO 2012, 3.)

Between 1970 and 1998 annual growth within the industry averaged 4, 9 % and even remained above 4 % in the early 1990's at the time of global recession. There seem not to be signs of tourism industry abating. (Holloway 2002, 46.) The amount of tourism slightly decreased in 2008 and 2009 because of the fear of financial crisis and swine flu. Despite the ash cloud in 2010 the amount of tourists increased 6, 6 %. In 2011 the growth was 5%. (HS.fi 2012.)

According to UNWTO (2012, 3), in 2011 tourism exports accounted for 30% of the world's exports of commercial services and 6 % of overall goods and services exports. As export category tourism ranks fourth globally, fuels, chemicals and food being the top three in the ranking. Especially many developing countries benefit from tourism as it may be one of the main sources of foreign exchange income, and also a source of employment and opportunities for development.

Most of international tourism is generated within the nations in Europe, North America and Japan as a result of low prices, frequent flights and large, relatively wealthy populations. Changes are occurring over time among the generating countries. (Holloway 2002, 47-48.)

As in other industries, tourism effects on the economy of the areas where it takes place. These areas are known as tourist destinations or receiving areas. Many tourist destinations are dependent upon inflow of tourism to sustain their economy. This is the case especially with developing countries, some of which are totally or at least very largely depending upon tourism. Generating areas are the areas from which tourists come to visit destinations. As tourists are taking their money with them to spend in other places, it causes a net loss of revenue to the generating area and a gain to the receiving area. (Holloway 2002, 53.)

### **3.5 Tour operator**

Tour operators purchase separate elements of transport, accommodation and other services, and combine them into a package. The package is then sold directly to

consumers or indirectly via travel agents to consumers. Sometimes tour operators are viewed as wholesalers as they buy in large quantities and then sell in smaller quantities. There are opinions that a tour operator should be classed as a principal or supplier as usually wholesalers are not changing the product they buy before distributing. Argument is that by packaging individual tourism products into a single new product the operator is actually changing the nature of original products. Tour operator provides a service that consists of buying bulk, and thus secures discounts from suppliers. These discounts could not normally be matched for customer buying directly. Tour operator is then able to assemble and present a package both convenient to purchase and competitively priced to the customer. (Holloway 2002, 77, 220-221.)

Tour operators can be divided into two groups. Mass-market operators serve a very broad segment of the market whereas specialist operators aim at a special niche market. By distinguishing their product from those of their competitors, the niche market operators avoid the intense competition the mass market operators face. Also, specialists' product is not that price sensitive. Specialists also have numerous advantages over mass-market companies in the marketplace. They are able to use smaller accommodation units as the amount of tourists is smaller and they might also use scheduled carriers. As a result, specialists can be more flexible and may switch to other destinations due to changes at the market place as they do not have a big commitment to a particular destination. (Holloway 2002, 223-224.)

Staff in a specialised tour operator company is expected to have a better knowledge of the products. Specialised companies are able to make reasonable profits as market is less price sensitive decreasing price competition. Risk that specialist face is that a larger operator would be attracted to their market and undercut them. (Holloway 2002, 223-224.)

Tour operators may specialise in different ways. Mostly tour operators are associated with carrying traffic out of the operator's home country. Some tour operators organise package holidays domestically. This business forms a smaller element of the travel and tourism industry as consumers are able to build their own holiday package quite easily. Tour operators operating in predominantly destination countries have a different role from tour operators handling outgoing tourists. These tour operators may be ground handling agents, or companies offering comprehensive range of services including negotiating with coach companies and hotels to secure the best quotations for contracts,



organising specialised holidays or tours, or providing theatre or dining arrangements, for example. (Holloway 2002, 223.)

Holloway (2002, 223-224) also states that many tour operators specialise in some particular aspect of operating. An outbound operator may specialise according to the transport mode by which their clients will travel or according to the markets they serve or the products they develop. Tour operators may also specialise by geographic destination. This specialism has a danger as some particular destination may collapse as a holiday market causing that a tour operator has not only to change destination but even its brand name and wholly re-establish and re-brand itself. Specialism by market is common as well. A company may choose to appeal to a particular age group. One opportunity is to specialise according to specific interests, activities or hobbies of clients. The singles market is a fast growing new market as social changes emerge. (Holloway 2002, 224.) The case company of my study, Turquoise Holiday Company, is originally specialised in honeymooners.

## 4 Case company

This chapter presents the case company of this research. The company is called Turquoise Holiday Company. General information about the enterprise begins the chapter, and also some key figures of the company's economic standing are presented.

### 4.1 The company in general

The Turquoise Holiday Company is a privately owned British luxury tour operator operating within luxury travel industry. The company office is located in Beaconsfield, Buckinghamshire, approximately 25 kilometres from London. The company was found in 2002 by Managing Director Brian Barton, Marketing and Sales Director James Bell and Product Director Sue Bell. All three of them still own and work for the company. The company employs about 32 staff members in total, including two remote workers and a couple of part-timers. Most of the staff members are sales consultants but also the product team is growing in numbers of employees.

Turquoise Holiday Company has grown its turnover and annual amount of bookings from establishment. The following table shows the figures more in details.

Table 2. Key figures of Turquoise Holiday Company's economical standing

Year	Turnover/£	Number of passengers	Profit/£
2003	456,000	157	-242,000
2008	5,460,000	1668	-230,000 (operational loss)
2011	8,660,000	2840	81,000
2012	9,620,000	3197	Not audited

Source: The Turquoise Holiday Company 2012, 2013

These numbers reveal that the case company turnover has almost doubled from year 2008 till year 2012. Numbers of passengers have grown a lot as well. Profit for 2012 is not audited yet but it is evaluated to be about £0.

## **4.2 Mission statement and business idea**

Mission statement of a company explains why it is set up and what kind of needs the company aims at satisfying (Komppula & Boxberg 2005, 13). Owners of Turquoise Holiday Company “founded the company with the belief they could offer unique and authentic holiday experiences in extraordinary locations around the world” (Turquoise Holiday Company). Business idea goes more into the details and describes with what kind of services the added value is created and for what kind of customers. Business idea also describes the resources and processes, which are used for to produce this value for clients. (Komppula & Boxberg 2005, 13.) Turquoise Holiday Company is a product led company striving constantly to bring customers the most exciting and enticing holiday proposals. Properties that the company is selling are really known by the staff, and those are all visited by at least one of the staff members. (Turquoise Holiday Company 2012.)

## **4.3 Case company’s clientele and product**

The Turquoise Holiday Company’s clients are independent fairly wealthy people travelling for leisure. The company is not serving business travellers. Honeymooners are the biggest client segment (60-70 %), and families and a la carte are the other segments. The company is growing family holiday business at the moment. Number of passengers is growing year by year, from 157 in 2003 to 3197 in 2012, as figure earlier illustrates.

Turquoise Holiday Company is a product led company. As most of tourist products in general, also the product of The Turquoise Holiday Company is service product (Holloway 2002, 4; Komppula & Boxberg 2005, 10). As a tour operator the company is building holiday packages for its clients. More into details, The Turquoise Holiday Company is tailor-making unique luxury holidays for its clientele. For Turquoise Holiday Company luxury means unique authentic experiences for clients, and space, privacy and style when referring to destinations the company is selling (Turquoise Holiday Company 2012).

Most of the company’s holiday destinations are in Indian Ocean and Asia. Indian Ocean attracts honeymooners especially. Top five destinations are Mauritius (23%), Maldives (21%), Thailand (14%), Bali (11%), and Tahiti (10%). Other areas that Turquoise

Holiday Company is selling are Australasia, South Pacific, Africa and Caribbean. The company is not offering any European destinations.

Turquoise Holiday Company's product is complete meaning that the company is not selling accommodation, resort transfers or flights separately. The company is selling its service, which results into a tailor-made holiday including at least international flights, transfers at the destination and accommodation. In cases clients wish, also meals and activities are included in the product. The added value of the company's product for its clients is the knowledge, care and help provided. As mentioned earlier, sales consultants really know the destinations they are selling, and their responsibility is to find the best possible holiday destinations for their clients. Usually many emails and phone calls are exchanged between a sales consultant and a client for to find the best possible holiday solution for the client. Sales consultants also help clients to get the most of a chosen destination. For example, they give ideas and share experiences of activities and excursions available. Pre-booking them is easy and quick through Turquoise. Clients are not paying separately for different services that sales consultants carry out for them but that all is included in the price. Also, if clients face any problems during their travel they can always contact Turquoise Holiday Company in order to get help in solving the situation.

#### **4.4 Competitors**

Turquoise Holiday Company has various competitors. The main competitors vary depending on the destination in question. All rival firms are luxury tour operators or travel agencies and tailor-made holidays are what they are selling. Some of the companies are specialized in some specific destinations, as Caribtours into Caribbean.

Kuoni is the main competitor of Turquoise Holiday Company in Indian Ocean and Tahiti. Kuoni is over hundred years old Switzerland-origin company. It was launched in 1906 and expanded into the UK in 1965. It is one of the leading travel companies in the world and managed to expand a lot acquiring specialist companies including Voyages Jules Verne, Kirker Holidays, CV Travel, Journeys of Distinction and Carrier. Kuoni's destination portfolio includes the destinations that Turquoise Holiday Company is selling as well as other long-haul and also European destinations. (Kuoni 2013.) Destinology as

well is one of the biggest competitors at the same Indian Ocean and Tahiti market. Destinology was found in 2004 in order to provide luxury, tailor-made holidays online at the best value for prices. Like Kuoni, Destinology's destinations include pretty much the same as the ones of the case company but in addition European and, for example, Mexican ones. (Destinology 2013.)

Turquoise names Luxury Holidays Direct as its third main competitor in Indian Ocean area. Companies called Trailfinders, Audley, Tailor made travel and Bridge & Wickers are rival firms in Australian, New Zealand, Cook Island, Fiji as well as Tahitian destinations market. Caribtours, Virgin Holidays and Elegant Resorts compete with Turquoise in selling Caribbean destinations. Asian destinations have the same competitors as Indian Ocean, that is, Destinology, Kuoni, and Luxury Holidays Direct and in addition Audley for tailor-made Indochina.

Following the websites and newspaper advertising of the main competitors is in high importance for Turquoise Holiday Company. Although companies are product led, the best offers attract new customers. Attractive visual-aesthetic design of the website is important in order to pique interest.

## **5 Research Methods**

This chapter presents research methods of this thesis. The first chapter is about the strategy exploited in conducting the study. This strategy is called case study. Generally speaking, every research strategy has peculiar advantages or disadvantages. They depend on the following conditions: the type of research question, investigator's control over actual behavioural events, and the focus on contemporary as opposed to historical phenomena. (Yin 2003, 1.)

### **5.1 Case Study**

Case study is one of the most generally used qualitative research methods in business economics, and many studies in the field exploit the method at least indirectly. Case study is a research strategy in which one or maximum a few cases chosen by some certain means are studied. Usually a case is an enterprise or a part of an enterprise, such as a department or a profit centre. Case might be functional as well, a process, for example. Actually a case study is more of a way to conduct a study than a research method, and its core is in its way to collect cases and analyse them. (Koskinen et al. 2005, 154,157.)

Case study is beneficial for business economics studies as it brings specificity and sense of complexity with it. The method also forces to understand companies holistically in an environment described in a very realistic way. Case study may take a stand on companies' practices quite powerfully as well. (Koskinen et al. 2005, 156.)

Choosing technique for to collect data is based on appropriateness (Koskinen et al. 2005, 157). In this research it is essential to understand the key points affecting company internationalisation. According to Yin (2003), a case study is possible to conduct by statistical or qualitative methods. He presents six sources of evidence commonly used in doing case studies. These are documentation, archival records, interviews, direct observations, participant observation, and physical artefacts. (Yin 2003, 85.) As can be seen, case study data as well can be both qualitative and quantitative (Järvinen & Järvinen 1995, 52).

No single one of these sources has a complete advantage over all the others. Instead, various sources are complementary, and when a case study is wanted to complete in a good manner as many sources as possible are used. (Yin 2003, 85.) Probably the most used qualitative data are interview and written material. When conducting a case study it is good to remember the reasonable use of documentation as in most of the cases it is the easiest and the cheapest way to at least get an idea of the phenomenon in question. In business economical case studies also direct observation is a technique applied when researcher is a member of the organisation or has an active role there. (Koskinen et al. 2005, 157-158.)

According to Koskinen et al. (2005, 159) it is beneficial for the case study report that it presents key information about the enterprise(s) being handled. This comprises information about such things as company history, industry, indicators of economics, size of the company, ownership, personnel, strategy, and key competitors. In this thesis this information is presented in chapter 4 Case company. Information about the industry in general is to be found in chapter 3 Industry review.

### **5.1.1 Case study data collection principles**

According to Yin (2003, 97-105) there are three overriding principles important for any data collection effort in doing case studies. The principles include 1) the use of multiple, not just single, sources of evidence, 2) creating a case study database, and 3) maintaining a chain of evidence. By following these three principles it is possible to maximise the benefits from six sources of evidence briefly discussed earlier. These principles are relevant to all six sources. When the principles are used properly they can help to deal with the problems of establishing the construct validity and reliability of the case study evidence.

*Triangulation* is a term for a rationale for using multiple sources of evidence. The major benefit of case study data collection is the chance to use many different sources of evidence. The need to use several sources far exceeds that in other research strategies. Case studies' multiple sources of evidence allows researcher to address a wider range of historical, attitudinal, and behavioural issues. However, development of converging lines of inquiry, a process of triangulation, is the most important benefit presented by using multiple sources of evidence. When a finding or conclusion in a case study is based on several different information sources it is likely to be much more convincing and

accurate. When data is really triangulated multiple sources support the events or facts of the case study. In case multiple sources are in use, typically each source of them is analysed separately. Conclusions from different analyses are compared, but data is still not triangulated. With triangulation of data the potential problems of construct validity can be addressed as well. This is because the multiple sources of evidence essentially provide multiple measure of the same phenomenon. (Yin 2003, 97-99.)

Prerequisites for using multiple sources of evidence exist. Collecting data from several sources is more expensive than data collection from one. Also, it is not enough to know only one data collection technique but researcher has to be familiar with full variety of them. If any of several techniques is used improperly chances to address a broader array of issues or to establish converging lines of inquiry might be lost. This is a reason why every case study researcher should be well versed in a variety of data collection techniques. (Yin 2003, 99-101.)

In this thesis, material for analysing internal factors affecting internationalising potential of the case company is mostly collected from internal archival records of the case company. Directors are interviewed as well in order to receive internal information. Also direct and participant observation is done as I work for the company. In order to analyse external forces affecting internationalisation potential, material in use is publicly available information collected from the websites of different institutions and companies, and from the industry journals. Collecting material from such multiple sources enables convincing and accurate research results.

The second principle concerns the way of organising and documenting the data collected for case studies. Documentation of other research strategies commonly consists of two separate collections: 1) the data or evidentiary base and 2) the report of the investigator in article, report or book form. The database of a research can be a subject of separate secondary analysis, which is independent of any reports by the original researcher. With case studies the distinction between separate database and the case study report is not very institutionalised practise yet. Most times the case study data is the same as the narrative in the case study report. As a consequence a reader is not able to inspect the raw data that led to the case study conclusions. By developing a formal, presentable database the data is made available for new research investigators. The data is reached directly and not limited to the written case study reports. This way a case study database increases reliability of the entire case study as well. (Yin 2003, 101-102.)



Notes are the most common component of a case study database. Notes may be result of a researcher's interviews, observations, or document analysis. It is required that notes are stored in a manner that other persons can retrieve them efficiently later. Classificatory system of the notes does not matter that much as long as an outside party is able to use it. Identification of the notes doesn't mean that researcher has to spend a lot of time rewriting interviews, for example, for to make the notes presentable. Editing efforts should be directed at the case study report itself, not at the notes. Organised, categorised, complete and available for later access are the only essential characteristics that the notes should fulfil. (Yin 2003, 102-103.)

Notes are the most common component of the database of this case study research as well. Empirical material of this thesis is various, varying from statistical material to direct observation. Citations and references tell observer where the data is available enabling the later use of it. It is in connection with the following discussion about maintaining a chain of evidence.

Maintaining chain of evidence increases reliability of information in a case study. This is enabled by allowing an external observer to follow the derivation of any evidence. Ranging starts from initial research questions and continues to ultimate case study conclusions. The external observer has to be able to trace the steps in either direction, from conclusions back to initial research questions or from questions to conclusions. Evidence presented in the case study report should be assuredly the same evidence as collected during the data collection process. Also, no original evidence should be lost as it would possibly fail receiving appropriate attention in considering the "facts" of the case. The overall quality of the case is increased when these objectives are achieved as a case study also will have addressed the methodological problem of determining construct validity. (Yin 2003, 105.)

In case an external observer is willing to know the basis for the conclusions of a certain report sufficient citation to the relevant portions of the case study database should have been made in the report itself. Also, upon inspection the database should reveal the actual evidence and indicate the circumstances under which the evidence was collected as well. The circumstances should be consistent with the specific procedures and questions contained in the case study protocol. This is for to show that collecting the data followed the procedures stipulated by the protocol. At the end, the link between the content of the protocol and the initial study questions should be indicated by reading of the protocol.

The ultimate “chain of evidence” is that in the aggregate the observer is able to move from one part of the case study process to another with clear cross-referencing to methodological procedures and to the resulting evidence. (Yin 2003, 105.)

Citations and references in this thesis tell observer where the statements and information used on the text is to be found. There are references to scientific articles, documents and books as well as to the case company internal information. References to different sources let observer know how to trace the source of information. This enables new researchers to reach the data for a future research. Easy access to the information of sources of evidence also increases reliability of the entire research.

### **5.1.2 Case study analysing strategy**

Having an analysing strategy helps researcher to treat the evidence in a fair way, produce convincing analytic conclusions, and rule out alternative interpretations. Relying on theoretical propositions that led to the particular case study is the most preferred strategy. The case study’s original objectives and design supposedly were based on those propositions. In turn, they reflect a set of research questions, literature review, and new hypotheses or propositions. Propositions may also shape the data collection plan and because of that give priorities to the relevant analytic strategies. A proposition may be a theoretical orientation guiding the case study analysis, for example. It also helps to focus attention on certain data and to ignore other data. Relying on a proposition also helps researcher to organise the whole case study and to define alternative explanations to be studied. (Yin 2003, 111-112.)

This research relies on propositions of internationalising theories. Those theories are a source for objectives and design of the study. Theories define what to look at and which things to have under consideration. In a way, internationalising theories also define the type of findings this research should have as an outcome in order to the case company to have real international potential and possibilities. Theoretical propositions clearly guide organising the entire case study as they guide the research objectives and decisions how to reach those objectives. It also helps choosing the relevant data and ignoring the useless. In this research it applies especially clearly to concepts to be studied in empirical section, pointed out in theoretical framework.

### 5.1.3 Prejudices against case study strategy

The lack of rigor of case study research might be one reason why case studies have been viewed as less desirable research strategy compared to experiments or surveys. Too often the case study researcher has been sloppy and not following systematic procedures, sometimes even allowing equivocal evidence or biased views to influence the direction of the findings and conclusions. When using the other strategies that kind of lack of rigor is not likely to be present. Reason for this is possibly the number of methodological texts providing investigators with specific procedures to be followed. This does not apply in that amount the case study method. (Yin 2003, 10.)

Sometimes case study teaching has confused with case study research. In teaching, deliberately altered material exists in order to demonstrate a particular point more effectively. Any such action is strictly forbidden in research, in which the researcher must carefully report all evidence fairly. It is often forgotten that bias can enter into the conduct of experiments and the use of other research strategies, designing questionnaires for surveys, for example. The problems are similar but in case study research they may be more frequently encountered and not overcome that often. (Yin 2003, 10.)

Another concern about case studies is the little amount they provide basis for scientific generalisation. Scientific facts are not often based on single experiments but based on multiple set of experiments having replicated the same phenomenon under different conditions. This approach can be used with multiple-case studies as well. This requires a different concept of the appropriate research designs. In brief, instead in generalising case studies to populations or universes case studies are generalisable to theoretical propositions. The goal in doing a case study is to expand and generalise theories and not to enumerate frequencies. (Yin 2003, 10-11.) This is the case in this research as well. It is not possible to generalise the findings to other service companies in different contexts. But as stated, it is possible to generalise internationalising theories to this case company and by doing so to gain answers to research question at issue. Still it has to be remembered that this does not mean any theory testing but using theories as sources of tools for research.

The third concern about case studies is the amount they take time and result in huge, unreadable documents. Often case study method is confused with specific data collection methods such as ethnography or participant observation. Both of them are time and

resource consuming methods. But in contrast, case studies are an inquiry form that does not depend solely on either of them. A valid and high-quality case study is possible to conduct even without leaving the library, telephone or Internet. It depends on the topic being studied. (Yin 2003, 11.)

## 5.2 Quality of the research

This chapter represents discussion about research quality. Concepts of reliability and validity are essential as well as the possible affect that researcher has.

### 5.2.1 Reliability and validity

Concepts of reliability and validity are essential tools aiming at improving the quality of research. Usually researcher uses them in evaluating whether to trust or not in a proposition presented. Idea behind the concepts is that the thinking they include guides evaluation of the research. Research does not aim at correctness only but its legitimacy is new information it produces. Reliability and validity should not be emphasized too much. Conservative principles may lead into avoiding risks. Research method should not be a source of errors or distortion though. (Koskinen et al. 2005, 253-254.)

*Validity* describes the amount that a certain argument, interpretation or result expresses the subject they aim at referring to (Koskinen et al. 2005, 254). In other words, how well researcher has managed to measure exactly the issues intended (Heikkilä 2008, 186). Typically the types of validity are internal and external validity, construct validity is classified sometimes as well. Logic and uncontradicted internal interpretation are the basis for internal validity. (Koskinen et al. 2005, 254.) The level of *internal validity* tells how equivalent theoretical concepts presented in the theory part of the research are to concepts studied in the empirical part (Heikkilä 2008, 186). Theoretical framework of this research makes operationalising of these theoretical concepts possible. Itemising all the factors affecting internationalising process makes matching concepts in theory chapters with empirical research possible.

Generalisability of interpretation to other than to the case studied would mean *external validity*. Results should be generalisable or at least the probability of error of population and generalisation should be known. (Koskinen et al. 2005, 254.) In this research the data is small (N=1) so generalising is not the target. This means that external validity

does not exist. According to Yin (2003, 37), in conducting case studies the external validity problem has been a major obstacle. Single cases are typically criticised to have a poor basis for generalising. Differing from statistical generalisation of survey research, case studies rely on analytical generalisation. Researcher is trying to achieve generalisation of a particular set of results to some wider theory.

In practice, valid knowledge typically means that the researcher has to be able to show that the findings of the research are not based on wrong statements, questions or observations done in an untypical situation (Koskinen et al. 2005, 254.)

*Reliability* is about uncontradictedness. Data may be reliable even if it was not valid but the data is not possible to be valid without being reliable. (Koskinen et al. 2005, 254-255.) The objective of reliability is to minimise errors and biases in a study. It is about being sure that if a later researcher would follow the same procedures as an earlier one and conducted the same study all over again, the later researcher should make the same findings and conclusions. It is important to remember that this covers the situation of doing the same case over again. (Yin 2003, 38.)

A prerequisite for another researcher to repeat an earlier case study is the documentation of the procedures followed in the earlier case. Without documentation a researcher could not repeat even the own work. In order to approach reliability problem-making steps as operational as possible is a way. For doing case studies a good guideline is to conduct the research in a way that an auditor could repeat the procedures and arrive at the same results. (Yin 2003, 38-39.)

### **5.2.2 Effect of researcher**

When evaluating trustworthiness of a research, one thing to keep in mind is researcher's affect. Results of a research are not allowed to be dependent on the researcher. All the studies involve subjective choices by researcher, and any researcher may make unintended mistakes. Unforgiveable is to intentionally distort results. (Heikkilä 2008, 31.)

One aspect is the fact that I have been working for the case company for more than a year and thus gained a personal insight to the company. This has also some effect to my view of the industry. Also, I have not worked within the industry in any Finnish or Scandinavian company, so I only have a view of an UK origin enterprise. My work experience within travel industry is not that long either so it also limits versatility of my

aspect. On the other hand I also have deeper understating of the case company and the way it acts. Also the point of its difference is clear to me. As a Finnish and Scandinavian person it might also be easier to study Finnish and Scandinavian market because of knowing the market structure and people's mentality better compared to someone never been living in these countries.

## **6 Results**

### **6.1 Effects of internal factors of the company**

#### **6.1.1 Line of industry**

New tourism products and services emerge, and at the same time tourism industry has increased its demand. As a result, the industry is adopting IT in general in a wide scale. Adoption of the internet as an electronic intermediary has increased especially. This means that internet serves as a communication and distribution tool for e- travellers and suppliers of travel products and services. Internet as a channel enables improving the competitiveness and performance of tourism businesses. (Law et al. 2004, 100.)

Turquoise Holiday Company widely exploits IT as a tool of service and back office duties as well. Electronic communication is widely used with clients in terms of marketing on the website and personally communicating via email. One of the most important applications in use is Travelink. Product Managers and other members of the Product Team load hotel contract details into the system as it provides with full facility of contract loading and inventory management. Travel consultants are then able to find all the relevant information (prices etc.) about the hotels. The system also enhances good quality service, and enables travel consultants to response quickly to customers. An electronic tool is in use also for booking flights. This one is called Amadeus, and it is an electronic reservation system. These tools widely used within the industry in general as well as at Turquoise Holiday Company are results of the high-speed development of exploiting IT for the needs of travel business.

On the other hand, usage of the internet as a booking tool has increased among consumers booking their holidays. This creates challenges for any tour operator or travel agency. When more and more possible clients book holidays on their own through different websites demand for tour operator services might decrease. On the other hand there are consumers who look for service, and luxury and quality that can be trusted. The case company serves this client segment, which is not that sensitive to fluctuation within economy. Clients willing to arrange holidays themselves are possibly the ones willing to save money before all. Evaluating the changes within industry is important when

planning investments. Forecasting is also a challenge that has to be looked at from different angles.

### **6.1.2 Company size and resources**

According to European Commission (2005) Turquoise is classified as a small enterprise as it has staff less than 50 people, and its balance sheet is less than 2 million €. Turquoise's annual turnover in 2011 and 2012 was more than 10 million euros, which is the limit between small and medium-sized enterprise. After all, Turquoise Holiday Company can be seen as a small enterprise. By the definition Turquoise Holiday Company is a small enterprise, and may lack resources needed in supporting the substantial initial cost of foreign expansion.

As can be seen in Table 2. Key figures of Turquoise Holiday Company's economical standing on page 50, the case company's turnover, numbers of passengers and profit are all growing in numbers annually. The only exception is year 2012 so far. Profit figure is not audited yet but it is suspected to be about at break-even £0.

Internationalising company has to have resources enough to cover initial cost of expansion. Initial cost consists of several things and the size of it depends on how powerful the initiation is as well. Turquoise Holiday Company is doing most of its marketing via the company website, brochures, email newsletters, newspapers, and by participating in the industry marketing events and fairs. In case of internationalising, the company website, or at least some parts of it, has to be translated into the language of a target country. At the moment there are two Finnish employees who could do the Finnish translation. This causes not only salary costs but also loss of their work time at some other issue. In case the company would expand to Sweden and/or Norway translators has to be found. Electronic marketing would mostly cause salary costs but printing new brochures and advertising in local newspapers cause many costs as well.

Branch office is one of the things that needs resources targeted. Turquoise Holiday Company might start in a Scandinavian country without one at the beginning. In the beginning there could be just phone service, which could be conducted from staff members homes (Turquoise has staff working remotely at the moment as well). Branch office might also work as marketing when having a good central location in a big city. In Finland that would be Helsinki, in Sweden Stockholm and in Norway Oslo. The rent for



business premises is usually very high in capital cities, which would be quite big investment in the beginning. Then again, it has to be evaluated what is the benefit of having a branch office, or what does it cause if it is not opened right from the beginning.

Personnel is another key resource. At the moment Turquoise Holiday Company do not have any member of staff with relevant international working experience within travel industry or experience of internationalising any kind of company. As mentioned, there are two Finnish employees who would be able to work with Finnish clients at the time internationalisation reached so far. Other than that, Turquoise's personnel has no language skills needed in expanding into Scandinavian consumer market.

Networks are one of the resources to look at. As Turquoise is not selling any Scandinavian destinations contacts to local ground handlers or hotel chains, for example, are not essential. Company would need connections to PR and marketing channels or to the people knowing the Scandinavian tourist base. At the moment Turquoise management lack these connections.

### **6.1.3 Product-related factors**

This chapter focuses on sensitivity of the product of Turquoise Holiday Company to changes in national economy and to industrial seasonal changes. The product will also be studied from the viewpoint of creating competitive advantage (chapter 7.4 Creating competitive advantage). Adapting the product is discussed under Strategic Challenges section in chapter 6.3.3 Standardisation versus adaptation of the service.

As presented earlier, in chapter 3 Industry Review, tourism demand in general is fairly sensitive to economic changes and is also suffering from seasonal changes in demand. Turquoise Holiday Company has managed to grow year by year, even through the toughest of national economy recessions. This points out, that its product is not that sensitive to changes in national economy.

In general, tourism demand is positively related to income and negatively with touristic prices (Salmasi et al. 2012, 518). Turquoise Holiday Company's product is a differentiated product though. It is creating customer value by offering unique benefits, which generously replace the high price. It is also stated that recession may be beneficial for the luxury market as customers prioritise quality (Appleton 2012). Turquoise's product is not targeted to budget travellers, and the company's clients are quite wealthy

in general. Product might not be that sensitive to changes in national economy because economic standing of the wealthy clientele is not too much affected by the recession, and by the desire to have long-haul holidays still. Honeymooners is a special client segment as well. People are getting married despite the economic downturn and couples still want to have the special honeymoon as it is a “once in a lifetime” -thing.

Tourism is typically an industry of high seasonality (Holloway 2002, 237). Turquoise Holiday Company is at its busiest in the beginning of the year in January, February and March. During those months the staff work from 9 am until 6 pm, whereas the rest of the year the working hours are from 9 am till 5:30 pm. Winter months in the beginning of the year probably make people feel like going for a holiday. Especially for families with schoolchildren it is time for booking summer holidays. Typically general holiday periods of the year modify the year of a tour operator, hence the year of the case company as well.

On the other hand, the peak holiday periods are the most expensive times to go for a holiday. Over the past years longer periods of holiday entitlement have encouraged people to have a second holiday abroad too. Especially people without children and honeymooners, for example, are able to go abroad at various times of the year without being dependent on school holidays. This divides demand of travel services more equally, and also Turquoise Holiday Company is able to spread its fixed costs more evenly over the entire year.

#### **6.1.4 Planning related factors**

Mission of Turquoise Holiday Company doesn't mention anything about internationalising the company. Following this, total objectives of the company are not revealing any focus on international expansion either. As this is the case, internationalisation is not very deep in the company, which has its effect on practical realisation.

On the other hand, the case company's business structure is international as suppliers and partners in cooperation are from all around the world. According to Winsted & Patterson (1998, 306), international operations of a company reveal positive attitudes towards potential benefits of international activities. Turquoise management wishing to conduct this research is a sign of positive attitude about internationalising the company.

Managerial commitment to look at the possibilities of internationalisation is an important motivator for taking action (Winsted & Patterson 1998, 306).

## **6.2 Effects of External factors of the company**

### **6.2.1 Home country factors**

Outbound travel from the UK contributes GDP 1,62% of all contributions. In 2009 this equated with an absolute GVA (gross value added) contribution of £21,4 billion. Outbound travel exceeds the contribution of many smaller sectors, such as the utilities sector, the agriculture, forestry and fishing sector, and the arts, entertainment and recreation sector. (ABTA 2012.)

The total number of visits abroad by UK residents reached a peak in 2006 when almost 70 million outbound trips were made. The number fell dramatically to 59 million in 2009 and in 2010 the amount was even lower, 55 million. Very small growth in 2011 and the lack of any sign of the market recovering to pre-recession levels any time in the near future go hand in hand with current economic circumstances. Especially the squeeze on households because of high inflation relative to income growth illustrates today's circumstances. (ABTA 2012.)

Holiday market in outbound travel including visiting friends and relatives, accounted still for over 88 % of outbound trips by UK tourists in 2011. These holiday visits abroad fell remarkably, 20-23 %, in the period of 2007-2011. UK residents made almost 45 million holiday visits (excl. visiting friends and relatives) abroad in 2007 whereas the number was only about 36 million in 2011. Very most of the visits abroad originated airports in London, the East and South East of England, the North West and Scotland. (ABTA 2012.) This presents the fact that the location of the Turquoise Holiday Company is opportune with the customer basis although the company is able to serve clients no matter their location.

In July to September 2012 UK residents made 19 500 trips abroad, which was 1 % more visits than in the same period 2011. Associated spending was 7 % higher. January-September 2012 UK origin tourists made 45,25 million visits abroad, unchanged from

2011. Holiday visits decreased 1 % while trips for other purposes increased. Most of the trips by the UK residents, 33 million, were to Europe and around 270 000 trips were made to North America in January-September 2012. (Office for National Statistics 2012a.) The further people travelled, the longer time they stayed (Office for National statistics 2012b).

What comes to market of the Turquoise biggest-selling destinations it is interesting to look at the figures of number one destination Mauritius. Figures are consistent with the general outbound travelling statistics of the UK. In 2010 UK residents made 97 548 and in 2011 88 182 trips to Mauritius which is a remarkable 9,6% decrease. For 2012 figures available cover trips made in the period of January-November the number being 79 599.

Competition on the home country market is another thing to look at. Competition is evaluated by the number of companies competing for the same client segment on the particular country's market. Turquoise Holiday Company is a luxury tour operator, which also means that it is competing with other luxury tour operators and travel agencies. In order to be sure that companies should be included in the number of luxury travel companies instead in travel companies in general there should be an indicator for being categorised as "luxury". In this research I use buyer list of ILTM Cannes by Reed Exhibitions. International Luxury Travel Market (ILTM) is a leading event for luxury travel held in Cannes. Over 1300 very finest high-end properties, most desired destinations and experiences come to showcase themselves for the VIP buyers. Both VIP Buyers and exhibitors go through a qualification process, which ensures first-class international selection of luxury travel products and services. (ILTM 2012). Turquoise Holiday Company is one of these VIP buyers. There is competition on the UK market as there were altogether 158 VIP buyers in 2012 and 152 VIP buyers in 2011 (Reed Exhibitions 2012). Population of the country was 62 million in 2012 (Worldatlas 2012).

### **6.2.2 Market potential of the host country**

The market size is a key factor in evaluating market potential of the host country. In this thesis the market potential of the host country is evaluated by previous numbers of travels from a particular country to a holiday destination in question. Key trends of each of the countries are presented shortly here.

According to Suomen Messut (2013), globalisation can be seen in Finnish tourism although the most exotic destinations are still rare. Despite the economic recession travelling did not decline among Finnish people in 2012 compared to year 2011. Instead, the figure increased from 70% to 71%. Travelling seems to be one thing not to bargain at the time of bad economic situation. Most of all types of trips Finnish tourists favour the ones planned by oneself. 43% prefer that type of a trip. About 20% of Finnish people prefer package tours and “All Inclusive”-trips attract 10%. Emphasising individuality is to be seen in tourism as well, and trips are in various styles at the moment. 12% of Finnish people are planning to make a trip to a more exceptional destination, such as Africa, Asia or South America.

According to Statistics Finland (2012, 2011) Finnish residents made almost 4,3 million leisure trips (including overnight stay) in 2011. It was 8% increase from year 2010 when the number was nearly 4 million. The top three of Finnish tourists' leisure trip destinations abroad, which Turquoise is selling, were Thailand, United Arab Emirates and USA in 2011. According to the survey one year earlier the top three was Thailand, USA, and Australia and United Arab Emirates sharing the third place. From these Thailand is the biggest selling destination for Turquoise. United Arab Emirates is growing its market and it is quite popular as a stopover destination for clients travelling to Indian Ocean destinations. USA is not that important destination for Turquoise. It is more of a stopover destination. Australia is one of the main areas The Turquoise Holiday Company is growing as a destination at the moment, and it seems to be quite popular among Finnish tourists, though its popularity seems to be changing from year to year.

In 2010 outbound travelling from Sweden rose by 11.5 % when all the trips abroad with overnight stay were taken into account. Recovery for travel abroad was remarkable after a similarly large decline (12%) in 2009. Altogether, Swedes made 13 million trips abroad of which 10.8 million were leisure trips in 2010. (Terpstra 2011, 61.)

Malay Peninsula is an important long-haul destination for Swedish tourists. In 2010 475 000 leisure trips from Sweden were made to that area which stands for Malaysia, Thailand etc. It is the highest scoring country of the Swedish leisure trip destinations that Turquoise Holiday Company is selling a lot as well. (Terpstra 2011, 61.)

Norwegian travellers made 7,6 million outbound trips in 2010 of which holiday trips were 6,03 million. In 2011 the amount of trips increased by 6,97 % the total number of

all trips abroad being 8,13 million. 6,71 million of outbound trips were holiday trips. (Statistics Norway 2012a.) According to Denstadli & Rideng (2012), in 2011 86% of international traffic from Norway was to European destinations. That moment Asia as an intercontinental destination was growing more than North America. In 2010 (Views and News from Norway) Thailand and US were reported as the only long-haul destinations on Norwegian travellers' Top Ten destinations.

Mauritius, Maldives, Thailand, Bali, and Tahiti (in this order) are Turquoise's top five selling destinations, and the company is well experienced in selling them. Because of this it is valuable to know if there is market for a specialist of those areas in Finland, Sweden, and/or Norway. The following tables present the amounts of tourist travelling from the three countries to Mauritius and Thailand. Mauritius and Thailand are the ones presented as Mauritius is the biggest selling destination of the case company. Thailand again is the most popular long-haul destination of Turquoise top five among the three possible host countries studied here.

Table 3. International Tourist Arrivals to Mauritius by Nationality, January - November 2011 & 2012 (the newest figures available)

<b>Nationality</b>	<b>2011</b>	<b>2012</b>
<b>Finland</b>	2686	1927
<b>Norway</b>	2706	3152
<b>Sweden</b>	3418	3322

Source: Mauritius Tourism Promotion Authority 2013

Table 4. Yearly International Tourist Arrivals to Thailand by Nationality 2010 & 2011 (the newest figures available)

<b>Nationality</b>	<b>2010</b>	<b>2011</b>
<b>Finland</b>	146 946	134 660
<b>Norway</b>	132 108	128 931
<b>Sweden</b>	355 214	325 460

Source: Tourism Authority of Thailand 2012

In conclusion, Finnish, Swedish and Norwegian travellers mostly travel to European destinations that are close to them. Mauritius is the bestselling destination of Turquoise Holiday Company but not very popular among Scandinavians. Instead Turquoise's third

biggest destination Thailand is much more popular among Finns, Swedes and Norwegians. One reason for this is that Thailand is much more affordable and there are direct flights available. It is reachable among many kind of client segments and ages.

### 6.2.3 Host country market structure

Structure of the host country market is one external factor to look at. ILTM presented earlier in the chapter 6.2.1 Home country factors has VIP buyers from Scandinavia as well. Confidential list of ILTM VIP buyers (Reed Exhibitions 2012) shows the following numbers of luxury travel companies in each of the Scandinavian research countries.

Table 5. Amount of competitors in each Scandinavian country studied

	<b>Finland</b>	<b>Sweden</b>	<b>Norway</b>
<b>Number of VIP buyers</b>	15	43	14
<b>Population</b>	5,366,100	9,366,092	4,896,700
<b>Inhabitants per buyer</b>	357,740	217,816	349,764

Source: Reed Exhibitions 2012 (confidential), Worldatlas 2012

Actual numbers might be slightly different, whether bigger or smaller. For example, Select Collection is listed only under Sweden as it is the company's official country of origin. However, in addition to office in Stockholm it has branches in Helsinki, Oslo, London and Copenhagen (Select Collection 2012), which mean that it affects the competition on those markets as well.

When evaluating chances for internationalising only having information of these numbers Sweden would be the most challenging market to enter and to compete at. The absolute number of luxury travel companies is the biggest one as well as the relative number. Competition in Finland and Norway is almost the same, just a very small difference, which might encourage into starting internationalising from Norwegian market. On the other hand, market potential is bigger in Sweden due to bigger amount of inhabitants.

#### 6.2.4 Trade Barriers

In Finland tour operating or package travel business is not subject to license (Suomen Yrittäjät 2012). Instead, a new company starting to operate has to make an announcement. Package travel is usually paid for in advance, and because of that package travel operators may have a lot of money at their disposal as advance payments from consumers. Because of this package travel operators have to furnish Finnish Consumer Agency (Kuluttajavirasto) with security in case of travel being interrupted or cancelled due to bankruptcy or other insolvency. Monitoring is based on an EC Directive (Travel Agency Decree 366/1995) and Finnish Consumer Agency is responsible for it in Finland. (Consumer Agency 2012.)

The Consumer Agency requires registration of all package travel companies operating in Finland. Registration is mandatory and the register is public. Consumers are then able to check that a company is registered prior to purchasing a trip. In order to register, a package travel operator has to furnish security in case of bankruptcy to compensate for consumers' advance payments and in case of the trip being interrupted to compensate for return travel and accommodation at destination. Securities are proportional to a company's obligations. Company's expenses may be evened out by using what is referred to as a periodic arrangement for security. (Consumer Agency 2012.)

In Sweden, no restrictions on ownership or operations of foreign companies exist, and the same legislation applies to foreign- and domestically owned companies (Invest Sweden 2012, 1). In Sweden, setting up a travel business requires similar preparations as in Finland. Anyone arranging travel arrangements regulated in the Travel Guarantees Act (1972:204) has to furnish with security the Swedish Legal, Financial and Administrative Services Agency before selling or marketing these arrangements. The Act applies to anyone who sells or markets package tours or travel arrangements consisting of separate transport and accommodation services that together bear a substantial resemblance to a package tour, amongst other things. This means that the Act applies to Turquoise Holiday Company as well. (Kammarkollegiet 2012.)

The act is protecting consumers in case a travel arrangement is cancelled or interrupted because of operator's bankruptcy, for example. The amount a package travel company has guaranteed can be used to compensate the costs of any payments towards the travel, value of the benefits included in the travel arrangement and possible costs of returning



clients home. If the arrangement cannot be completed, the guarantee is possible to use to reimburse the affected travellers. (Kammarkollegiet 2012.)

Based on the operator's own declaration of its business, The Legal, Financial and Administrative Services Agency determines the amount of the security for each operator individually. Every operator has to submit accurate figures, and failure to do so may lead to penalties or prosecution. The amount that an operator has to lodge is based on the sales revenues of the operator regarding the business parts for which security is to be lodged. In order to lodge security the following documents are required: the application form, the budget form and copies of marketing material. After that the Agency determines the amounts to be secured. The operator will be notified and then arrange the security. (Kammarkollegiet 2012.)

Different from Finland and Sweden, Norway is not a member of the EU. However, through the European Economic Area (EEA) agreement Norway has strong ties to the EU. (Startupoverseas 2012.) According to the Package Tours Act, all package travel organisers have to provide a security in Norway. The Norwegian Travel Guarantee Fund is a private foundation whose objective is to administer the travel guarantee requirements implemented in the Package Tours Act. Security covers package travel organisers' obligation to refund monies paid and for the costs of bringing the customer back to place of departure or to any other destination agreed by the parties in the event of organiser's insolvency. (RGF 2012a; RGF 2012b.)

Usually the security is given in the form of a bank guarantee. The Fund may accept other adequate security as well. Norwegian Package Tours Act requires a guarantee for three travel arrangement categories and they are package travels, seat only, and travel arrangements that are essentially similar to a package travel. The Fund covers all valid claims from customers if the security that an operator provides is insufficient to cover the claims. (RGF 2012a; RGF 2012b.)

### **6.2.5 Political stability of the host country**

Companies are unlikely expanding into countries with political instability. According to The World Bank Group (2012), political stability "reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism." The World Bank Group's

Worldwide Governance Indicators are a research dataset. It summarises the quality views of governance provided by numerous enterprises, citizens and expert survey respondents. Estimates of governance of Finland indicate fairly strong governance performance during years 1996-2011. Estimate -2,5 reflects weak and 2,5 strong governance performance, and between the years Finland's estimate has varied between 1,33 (1996) and 1,66 (2002). Political stability percentile rank among all countries is high year by year, varying between 95 (2010) and 100 (many years), the newest ranking being 98 in 2011. The scale ranges from 0 being the lowest to 100 being the highest. Norway's estimates indicate fairly strong governance performance as well, varying between 1,14 (2007) and 1,52 (2002). Ranking among other countries varies from 89 (2007) to 100 (1996), the newest ranking being 97 in 2011. Sweden follows the same trend as Finland and Norway. Its estimates of governance performance vary from 1,08 (2009) to 1,39 (2002). Ranking among all the countries varies from 87 (2009) to 100 (1996), the newest ranking being 92 in 2011.

#### **6.2.6 Cultural distance between host and home country**

According to Luostarinen (1979, 146) language, level of economic development, and level of education in both the home and the host country, and the differences between the two are the key points to look at when evaluating cultural distance between the countries.

The case company's language is English. In England there is a "non-statutory explanatory note in the programme of study indicating that the study of languages may include major European and world languages such as Arabic, French, German, Italian, Japanese, Mandarin, Russian, Spanish and Urdu" (Department for Education 2012). This statement and experience from working in the company office prove that there is no knowledge of Scandinavian languages among the staff of Turquoise Holiday Company in general. The very most of the staff are English people exception being two Finnish members of staff having skills on Scandinavian languages Finnish and Swedish. The other of them is Product Manager of Indian Ocean and Caribbean who is on maternity leave at the moment, coming back in the early 2013. The other one is I but at the moment (December 2012) I only work part time remotely. In conclusion, the company's language is English and there's a lack of Scandinavian language skills. However, it is good to remember the potential of the two members of staff who are able to work in Finnish or Swedish.

On the other hand, language skills of the host country population are another thing to look at. Eurobarometer survey 2012 on “European and their languages” reveals information about Scandinavian people’s skills in English. According to the survey (Eurobarometer 2012), 70% of Finnish people are able to speak English well enough in order to have a conversation in that language. Among Swedish population the number is 86%. Norway is not a European Union member so Eurobarometer numbers are not available. Number for Denmark is 86% so with this information it should be possible to assume that number for Norway is around 70-86%. In conclusion, English-speaking skills are good among Scandinavian population and most of people have the skills.

It is widely acknowledged among researchers that consumer participation in service is in great importance. This is built on the assumption that interaction and effortless communication between consumer and service personnel is possible. Flawless communication demands ability to communicate in a language that both the service personnel and the consumer are able to use. Outcome of a service encounter is largely determined by the way the consumer and the service personnel communicate. (Holmqvist & Grönroos 2012, 430.)

According to Parasuraman et al. (1985, 47) “communication means keeping customers informed in language they can understand”. Even consumers fluent in second language show an emotional attachment to their native language. Because of this, marketers should not assume that all consumers with strong skills in second language are willing or pleased to communicate in that second language. It is suggested that consumers prefer and select companies that are willing to serve them in their native language compared to ones that are not doing so. (Holmqvist & Grönroos 2012, 437.)

In an effort to evaluate the level of economic development of a country, examining real gross domestic product (GDP) per capita of the country is a tool. “GDP per capita is gross domestic product divided by midyear population”. GDP per capita is widely used for cross-country comparisons. Regardless of country, it assigns the same value to any commodity or service. (Khan 2009, 11; The World Bank 2012.)

The World Bank has GDP per capita statistics of several countries. The following table includes information of the numbers of the three Scandinavian countries and United Kingdom.

Table 6. GDP per capita (US dollars)

	<b>2007</b>	<b>2009</b>	<b>2011</b>
<b>United Kingdom</b>	46,123	35,129	38,818
<b>Finland</b>	46,538	44,890	49,391
<b>Sweden</b>	50,558	43,640	56,927
<b>Norway</b>	83,556	77,610	98,102

Source: The World Bank 2012.

As the table shows, the home country of the case company has the lowest level of economy in terms of GDP per capita when comparing to any of the possible host countries. As stated earlier, the market pull force for the company entering the market is the bigger the greater is the economic distance in favour of the host country (Luostarinen 1979, 136). From this point of view there is market potential in those countries.

Level of education is the last point to look at when evaluating cultural differences between the countries. One way to evaluate that is by looking at people's years of education and to make a comparison of those numbers between countries. According to Khan (2009, 13), years of education can be converted into level of human capital by using returns to schooling. It is assumed that people with higher levels of human capital have higher wages. This is because of their better productivity in their jobs, which results their being more valuable to their employer. As a conclusion, level of education of the population is connected with the level of economic development, which in turn has direct effect at people's purchase power.

The following table tells about the level of education in the UK and in the three Scandinavian countries. In addition to information of years of schooling between the ages of 5 and 39 years the table gives information about equivalent of a high school degree.

Table 7. Level of education in the countries of the research

	<b>High School Degree 25-64 yrs</b>	<b>High School Degree 25-34 yrs</b>	<b>Years of education between 5-39 yrs</b>
<b>United Kingdom</b>	74%	82%	16
<b>Finland</b>	82%	90%	20
<b>Sweden</b>	86%	91%	19
<b>Norway</b>	81%	84%	18

Source: OECD 2011

Numbers of the level of education in the research countries are consistent with GDP per capita values on the former table. Level of education in the case company's home country seems to be slightly lower compared to three Scandinavian countries. Differences are relatively small though.

### 6.2.7 Economic infrastructure of the host country

Good economic performance is likely to attract foreign investments. Scandinavia in general is doing well in circumstances, compared to other Europe. In the previous chapter GDP per capita for each of the countries in this study were presented (see Table 6. GDP per capita). Figures on that table point out that all three Scandinavian economies are better developed than the economy of the case company's home country.

Another key figure is central government debt, presented on the following table as percentage of GDP.

Table 8. Central government debt, total (% of GDP)

	2009	2010
<b>Finland</b>	45,4	51,2
<b>Norway</b>	36,4	36,0
<b>Sweden</b>	44,0	39,2
<b>United Kingdom</b>	73,0	82,7

Source: The World Bank 2013

Also these figures show the economic distance between the UK and each of the three Scandinavian countries, revealing the market pull force for Turquoise Holiday Company also in terms of this key figure.

As mentioned in literature review earlier, the longer the economic distance in favour of the host country, the greater is the market pull force for the company entering this country's market. There is market pull force for Turquoise Holiday Company entering Finnish, Swedish and Norwegian market. The biggest the force is for entering Norwegian market as the economic distance between the UK and Norway is the longest in terms of key figures presented.

### **6.2.8 Marketing infrastructure of the host country**

Commercial and financial infrastructure in Finland, Sweden and Norway is alike with the United Kingdom one. At the home market Turquoise Holiday Company is mostly advertising via internet, social media, newspaper and different magazines. These habitual marketing channels are adequate in Scandinavia as well. Over 80% of individuals in Finland and Sweden use internet regularly (Seybert 2011, 1). In Norway 93% of households have internet access (Statistics Norway 2012b). These facts are in high importance for the case company if it decides to expand. Especially in the beginning internet would be moneywise opportunity for marketing.

Scandinavian countries have their official statistics (Statistics Finland, Statistics Norway, and The Swedish Agency for Economic and Regional Growth used in this research) and Eurobarometer have figures for the countries as well. Also different global advertising agencies and marketing research companies operate in Finland, Sweden and Norway. Nielsen, for example, has operations in the three Scandinavian countries among over 100 countries of the world. The company provides client enterprises the most complete understanding of what consumers watch and buy. (The Nielsen Company 2012.)

## **6.3 Strategic challenges**

### **6.3.1 Delivering the service and information internationally**

Simultaneous production and consumption of the Turquoise Holiday Company's service means that its product is a soft service. For this reason the case company service is more sensitive to cultural differences than a product of a hard service, e.g. life insurance, company. Also this point of view supports the possible need for service adaptation. A challenge for the type of the case company is also the fact that it cannot go through stepwise learning process but it has to be able to produce and deliver the service right from the beginning. It might create challenges for adapting the product as well as it is quite hard to know the new clientele from the start. In Turquoise's case there is a chance for stepwise process though. The company is marketing online already. This means that it is able to gradually start publishing advertising campaigns also on its host country website. Google promotion tools might work as well when possible clients look for a

luxury travel company on internet. Gaining customer interest little by little lets the company learn about local tastes and habits without an investment too big.

All the countries in the study are European countries, Finland, Sweden and United Kingdom being members of the EU in addition. This fact eases information flow between the countries as legislation and habits are quite similar.

As stated, information technology, the internet as one of the key determinants, enables free information flow. It enables information availability not only between the Turquoise Holiday Company and its clients but also within the company. As company has internet based databases and softwares the same information and files can be used in several countries. It also enables using the same booking system and prices everywhere. Turquoise Holiday Company uses Travelink, for example, which is a tool to have the same information within the company no matter where the personnel sits as long as there is internet connection.

In chapter 6.2.6 (Cultural distance between host and home country) it was shown that the cultural distance between the United Kingdom and the three Scandinavian countries is not very long, language being the most differentiating point. It is also the key issue in delivering the service and information internationally. Flawless communication between client and service personnel is essential, and it demands communication in a language that the both sides are able to use. Because outcome of a service encounter is mostly determined by the level that consumer and service person communicate, also Turquoise Holiday Company has to take care of having personnel with diverse language skills. At the moment the language skills within the company are not at the level required in order to be able to serve Scandinavian clients.

Differences in cultures affect service and information delivery. Content of information varies which affects advertising and the amount of information advertisements include. Scandinavian countries as well as the United Kingdom have low-context cultures. Amount of information included in advertisements and on the website is pretty much the same in all of these countries. People in low-context culture countries make their decisions based on specific facts. Contextual and implicit codes are not that important as in high-context cultures, such as China. Cultural sensitivity is important for a service provider like Turquoise Holiday Company. From this point of view expanding the company to Scandinavia should not be a problem.

### 6.3.1.1 Managing demand

Prior to internationalising into a foreign country market the case company would have to conduct an analysis of the future demand, in other words, market research. This is discussed more in the chapter 6.3.4 Market research considerations. Practical market research is not included in this study.

In order to be able to offer direct delivery of service Turquoise Holiday Company would need to be close to customer. Although internet advertising is important for the company a branch in central and accessible location would be another way to attract customers. On the other hand, just a few clients visit Turquoise office in Beaconsfield and meet sales consultants personally. Still, branches in the host country would be one thing to think about. Probably the best location in each of the countries would be in the capital city. Capital city branch would attract people but also be a cost for the company.

At the moment skilled and enthusiastic personnel create the service for the company clientele, and the company has reasonable amount of staff members. More members of staff have to be employed when the company decides to expand into Scandinavia. Local people would also know the language and local culture.

Turquoise Holiday Company is not under a pressure in managing demand in terms of pre-booked flight seats or accommodation units. The company is not making any reservations for those before a booking from a client. This is especially good at initiation phase when the company does not know the market very well and not so wide customer segment is aware of the company.

### 6.3.2 Quality considerations

Dimensions for service quality were presented in chapter 2.4.3.3 Service quality considerations. As mentioned there, dimensions vary across service sectors and in different countries and cultures, which is a challenge for emphasising the dimensions.

For Turquoise the thought and idea of quality depends on client satisfaction. Quality is present in customer service and in the assortment of destinations. Client's opinion is asked constantly. Usually it takes form of an email after a holiday. Sales consultants ask how were flights, destination, accommodation, service in the hotel and other things about the trip. Usually customers write even quite long detailed emails about how was



everything during the holiday. In most of the feedback emails clients praise the sales consultant who they booked their holiday with. Knowledge, helpfulness and ability to find the perfect destination and accommodations are the themes that can be found in almost every email. These letters also give Turquoise Holiday Company detailed information about accommodation used by the client. In addition to regular educational trips that staff make, feedback by clients work as screening the destination.

One way to evaluate customer value is word-of-mouth-marketing. Very often clients in their feedback emails tell that they are going to tell about Turquoise to their friends and relatives. Turquoise Holiday Company has a lot of repeat clients as well.

### **6.3.3 Standardisation versus adaptation of the service**

As stated, internationalising of services tends to demand localised solutions instead in standardisation across nations. Also Turquoise Holiday Company might have to adapt its product when expanding into Finland, Sweden and/or Norway. Also from the service point of view the most obvious issue might be the language of the customer service. At the moment Turquoise do not have sales consultants who would be able to communicate in Scandinavian languages. Also, the website is only in English. These two things would need adaptation to the target country customer needs at the time of international expansion.

Another thing to look at is assortment of destinations. Popularity of destinations varies among customer base. Previous figures of holiday destinations of a certain country work as guidelines to make forecasts for the future. Finnish tourists' top three destinations 2011 and 2010 were Estonia, Spain and Sweden (Statistics Finland 2012; Statistics Finland 2011). Norwegian tourists travel the most to Sweden, Denmark and Spain (Statistics Norway 2011). Turquoise is not selling any European destinations at the moment so there might be a need for adapting product a little. On the other hand, Finnish people travel to Thailand a lot. Thailand is the third biggest selling Turquoise destination so from this point of view the product would match with Finnish clientele. Also, customer segment buying long-haul luxury destination holidays is not very big in Scandinavia causing the fact that statistics won't show any demand for those destinations. This doesn't necessarily mean that there wouldn't be any demand for these kinds of destinations in a specific customer segment or if there ever couldn't be.

### **6.3.4 Market research considerations**

As mentioned in literature review, there is lack of information about international trade in services. Travel industry being a service industry, lack of information applies to the industry as well. This was quickly noticed when collecting information for this research. There are statistics and some analyses as well but qualitative material is not that accessible. Comparing figures between countries is not reliable either as in many cases some of the variables were defined in a different way.

According to Terpstra (2011, 7) knowledge and statistics are key factors for success. Both public and private sectors are more and more interested in travel industry as awareness of the importance of tourism increases. Neither of these sectors is able to contribute to success if initiatives are not based on knowledge in the form of statistics and studies. Travel industry consists of large companies but in particular a large number of small enterprises, which have very limited resources to develop the market knowledge necessary for successful actions. The limited amount of statistics and studies conducted earlier affects this research and also Turquoise Holiday Company. Much of this study has to rely on evaluations, as there is limitation of time and money in use. It is easier to evaluate numeric information such as economic standing of a country but for example consumer attitudes towards travel is more difficult to estimate due to lack of qualitative data.

At the moment Turquoise Holiday Company has to rely on the studies done before. Statistics of different countries are a key source of information, and also used in this study. Official statistics of each of the three countries, Statistics Finland in Finland for example, provide with initial information, as well as various authorities making research in travel industry.

In addition to this study a proper market research should be done before penetrating any of the three Scandinavian countries. Consumers' interests need to be known as well as the best marketing channels. Paying attention to market research helps also managing demand, which is important in long-term.

#### **6.3.4.1 Competitive stance**

An internationalising company has to have a significant competitive advantage. Turquoise Holiday Company has competitive advantage on the home market but in order

to internationalise successfully the competitive advantage has to be possible to leverage abroad. This research does not include market research mentioned above or prior foreign market analysis which would help the Turquoise Holiday Company in opportunity seeking.

Turquoise Holiday Company has competitive advantage on the home market. A remarkable sign of this is the fact that the company's sales have not decreased although the travel market in general has suffered. Competitive advantage must have been built over the years. Reliability and luxury quality are the key factors attracting clients year after year, and helpful and kind personnel make them recommend the company to friends and relatives as well. This generates new clientele and keeps the former customers loyal. From these points emerges also the source of generating new market in Finland, Sweden and/or Norway if other facts of this study and the later market research reveal market potential.

## **7 Conclusions**

This chapter concludes the most important things of the results and presents the conclusions made based on them. Suggestions for further studies complete the chapter.

### **7.1 Internal factors affecting the case company internationalisation**

Tourism industry is in constant growth, which is a sign of internationalisation potential. Wide exploiting of information technology within the industry in general and within the case company eases both the industry, and the most importantly, the Turquoise Holiday Company internationalising. Although the tourism industry grows, it is essential to keep in mind and make forecasts of possible future changes. IT helps travel companies but also consumers booking online without any tour operator, which might turn into a threat to Turquoise Holiday Company as well. The case company should, among other companies, point out its added value for clients. It is essential for the company to be able to keep up the value of personal and excellent service, although the industry in general moves more and more into automated online bookings.

Resources are a key factor to look at at the time of planning internationalisation. Turquoise made zero result in 2012. One reason might have been the general economic situation in the UK and in the whole Europe. The company has also invested more in marketing and product development and the results of this might not be seen until in the following years. Following years will then show if the company has enough money for to cover the initial cost of internationalising. As mentioned already in the results section, Turquoise Holiday Company might have to expand gradually because in case the company does not make profit with its present business it does not have financial resources big enough. Online marketing by the target market language would be the cheapest way, and the brand office would be opened later when the market is known better.

Also personnel is limiting internationalisation at the moment. The current staff don't have language skills required nor any experience in internationalising of a company. The case company is not having networks in Scandinavia at the moment, which also might

slow down expanding. It might help though that Turquoise staff are active attendees to different trade shows and industry events, which might ease building those networks.

After all, Turquoise Holiday Company being a small-sized company lacks resources needed in internationalisation. Although the industry in general grows constantly, expansion of the case company might have to wait a couple of years. This is because the company would have to be more profitable. Also building networks in target countries already would help the future.

Product sensitivity to economic changes in the national economy and sensitivity to seasonal changes were studied as well. As the three Scandinavian countries as well as the United Kingdom are all in Europe the holiday seasons do not vary between the countries much. For this reason expanding would not make any remarkable change to problems of the seasonality of Turquoise Holiday Company. It is common at the time of expansion that it is less probable that fluctuations occur at the same time both in the home and the host country. But as can be seen the recent recession affects broadly. Still Scandinavia is doing better than the rest of the Europe, and Norway, which is not a member of the EU, is doing especially well. From this point of view expanding into Northern Europe could be profitable for the case company.

Although mission statement or business idea of the Turquoise Holiday Company does not include anything about international operations or expansion abroad, the management of the company seems to have very positive attitudes towards internationalisation. This, as mentioned in 2.4.1 Planning related factors, might help the company to take actions towards international expansion. Also the very international industry encourages the case company into internationalisation.

In short, resources of the case company are a key factor to look at. Company has to be profitable before expansion in order to have chances to do the operations well without needing to do things on a smaller scale on the home market. Internationalising is not a key to better profits - the company has to make good result already before going abroad.

## **7.2 External factors affecting the case company internationalisation**

UK is a bigger travel market than any of the three Scandinavian markets. Turquoise Holiday Company is experienced in competing in a large-sized, demanding and sophisticated home market, which might be possible to turn into competitive advantage if expanding to smaller-sized markets. The Turquoise Holiday Company is able to exploit economies of scale as it already has bigger clientele and so better contracts with partners than an average tour operator in Finland, Sweden or Norway. The case company also has talent to satisfy the most demanding clients and its self-confidence in general is good. In addition, although outbound travelling from the UK has decreased during the present recession the Turquoise Holiday Company has managed to grow its business. This is telling about expertise and excellent differentiation of the product, which is source of competitive advantage. Large domestic market and the competitive advantage on the market work as advantage for the Turquoise Holiday Company, and this viewpoint supports expanding into Scandinavia.

On the other hand Turquoise Holiday Company is a fairly small company on the British scale. As stated on the theory section, companies are likely to invest where their competitors have invested earlier. This might mean that a larger-sized competitor of the Turquoise Holiday Company could expand into the same Scandinavian market as the case company. Many of competitors, Kuoni for example, are larger in size, and would possibly be able to expand in a bigger scale and do more powerful marketing actions. This might ruin the case company's market position in the Scandinavian consumers' eyes. Forecasting competitors' actions is difficult before the case company has taken any action.

Host country market potential was evaluated by travels from a particular country. In the three Scandinavian countries travelling is growing at the moment, which is a positive signal for Turquoise Holiday Company. Scandinavian tourists make most of their holiday trips to countries that are nearby. Only Asian destinations, Thailand especially, are remarkable on Scandinavian statistics of the ones that are on the case company's selection as well. Although long-haul Indian Ocean destinations are not on the Top Ten of Scandinavian travellers it does not necessarily mean that there would not be any market for a new company selling them. One reason for Scandinavians not travelling to Mauritius, for example, might be that there is not that much supply of the destination or it is marketed in an unsuitable way. For the case company finding the most popular destinations, new ones as well, on each of the markets is a key issue at the time of

internationalisation. Age structure in Scandinavian countries is changing so that there will be more elderly people who have time and money. Probably this is a chance for a luxury travel company as well.

In terms of absolute amount of competitors, market structure is very different in Scandinavia compared to the UK. Competition among luxury travel companies is much heavier in the UK than in none of the three Scandinavian markets. Also this might work as an advantage for well-experienced case company. It might also be able to find a customer segment without other travel companies. On the other hand, Scandinavian markets are a lot smaller than the UK market, so the amount of possible competitors is not the only thing. Relative number of inhabitants per a VIP buyer in the UK is around 399,000 which approximately the same as in Finland, Sweden and Norway. After all, the market size might be the limiting issue, which exceeds the benefit of smaller number of possible competitors.

Trade barriers seem not to be a thing to worry about. In none of the three Scandinavian countries setting up a travel business is not subject to license. In all of them the process of making an announcement is quite similar. Only the author who requires registration varies but all the basics are pretty much the same. Qualifying for requirements should be simple for Turquoise Holiday Company as it operates in the United Kingdom already, and it has qualified for the ATOL license. ATOL is a UK version of a licence ensuring that customers do not lose money or become stranded abroad if travel company happens to collapse. (Civil Aviation Authority 2012).

Political stability of the host country in the context of this research is one thing that does not need to be worried about. Numbers presented are a proof of political stability and absence of violence in the three Scandinavian countries, which are politically stable and safe. Scandinavia in general is doing well in circumstances, especially when comparing to southern European countries Greece and Spain, for example. This point of view is not telling anything about holiday markets in the countries but at least it shows that political issues are not to be worried about.

Shorter the cultural distance the more likely the company is to internationalise. This applies to soft service companies especially. (Ekeledo & Sivakumar 1998, 283.) In conclusion, there are cultural differences between United Kingdom and the three Scandinavian countries. However, cultural distance is not that big, probably the biggest

issue being the language skills. Scandinavian people have good skills in English but as mentioned, consumers prefer and select companies that serve them in their native language. In order to satisfy this the company should have local staff at the moment of internationalisation. This is attached to company resources significantly. In terms of GDP per capita the level of economic development is the lowest of the research countries in the UK. Purchasing power in the three Scandinavian countries is bigger than purchasing power in the case company's home country. This formulates cultural distance to the way that favours internationalisation. This is not the whole truth though as GDP per capita only gives us an average. In United Kingdom differences in income are larger than in Scandinavia. The British upper class is big - the richest people are much more richer than the poor, and the group of wealthy people is a lot bigger than in Scandinavian countries. As population in the UK is around 62 million, the amount of people able to afford luxury holidays sold by the Turquoise Holiday Company is a lot bigger in the UK than in a single Scandinavian country.

Economic and marketing infrastructures are the last points of external factors to look at. As mentioned above, there might be market pull force for Turquoise Holiday Company in Scandinavia. Especially the company should think about Norway, as the force is biggest there. Population of the country is only around 5 million but economy of the country is at the highest level of the research countries. Norway's GDP per capita has grown remarkably from year 2007 as can be seen in Table 6. on page 76. In 2011 it was 98 000 US dollars whereas the same figure for UK was only around 39 000. Population in Norway is fairly small but so is the competition as well. Wealth of Norwegian should encourage the Turquoise Holiday Company to think about expanding there.

Marketing infrastructure is approximately similar in all of the countries. The same marketing tools are in use in each country and international marketing companies operate in them as well. These facts encourage the case company internationalisation.

### **7.3 Strategic challenges affecting the case company internationalisation**

Delivering the service and information content in Scandinavia should be manageable for Turquoise Holiday Company. Cultural issues are not a barrier as the UK and Scandinavia are low-context cultures. Also internet is widely used both in the home and the possible



host countries. The only significant issue seems to be language as Turquoise's present staff is not speaking any Finnish, Swedish or Norwegian. Other than that, information or service delivery should not be any of an obstacle for the case company. The case company should not have any problem with managing demand when internationalising. As the company is not making any reservations for flights or accommodation before a booking from a client it is on the safe side. Important is also to think about a branch office at a good location, which would make the company more accessible.

Dimensions of service quality have to be emphasised differently in different countries and cultures. As stated earlier in the thesis, United Kingdom is not culturally very distant from Finland, Sweden or Norway. Because of that it can be assumed that as the service of the case company is considered as good quality service in the home country it is considered similarly in Scandinavia as well. This strategic point of view encourages Turquoise Holiday Company to expand into Scandinavian markets.

Standardisation of the product is not needed in case of the Turquoise Holiday Company but the product would need adaptation to the host country market. As mentioned many times earlier, having the service on the host country language applies also here. Also destination selection might need adapting to the host country clients' tastes. Also customer base might be different in Scandinavia. Elderly people account for a big part of population, and they also have money and time. Adapting the product for this customer segment might be a thing to think about. Adapting the product to the host country market needs might mean that also marketing should be adapted. By targeted marketing actions in the correct information sources is the key element.

In order to evaluate market research considerations and competitive stance of the Turquoise Holiday Company market research should be conducted. Competitive stance at the present home market is a clue about emerging competitive stance on the possible host market. Recognising the sources of competitive advantage at the home market is a must. Without knowing the sources and key factors of competitive advantage it is difficult to integrate those factors into another market. Also, in order to expanding to be worthwhile the host country market has to be large enough as well. Excellent service and expertise knowledge are the key features that the case company has, as well as the atmosphere it is able to create with its marketing, pictures, small presents and honours it gives to its clients. Those are things to leverage abroad, onto a market potential enough.

## 7.4 Creating Competitive advantage

International expansion is worthwhile when company is able to create added value to its customers, and this is base to competitive advantage, which is possible to leverage abroad. Turquoise is creating customer value by offering unique benefits, such as excellent service and incomparable destinations. In other words, Turquoise is not competing with price but by differentiating.

Within travel industry all the five competitive forces cause quite a pressure on the industry companies. This means that only a few companies are able to gain profits. As a result also the competition is heavy. At the time of possible internationalisation the case company has to make a strategy for to be able to take a leader position at the competition. In Scandinavia, especially in Finland and in Norway, the competition is not as heavy as in the UK. As competition at the market and its strength has effect on prices and costs in areas such as production, product development, advertising and sales, the strategy may have to be different on Scandinavian markets. Strategy building and forecasts have to be made the possible changes within the industry on mind. For example, Turquoise Holiday Company could decide to expand into Finland for reason that the competition there is not as heavy as in the home country. When the company starts its internationalisation actions some home country competitor might follow it onto a new market. This changes competition on the new market, which in turn might lead into a need to change the formerly built strategy.

Differentiating as a company strategy demands a segment big enough for to satisfy. Although the statistics show that Scandinavian people do not travel much to e.g. Indian Ocean or Caribbean destinations at the moment it doesn't mean that there wouldn't be more demand in the future, even in the near future. Probably there is a segment of customers that are open to new long-haul destinations and able to afford and willing to explore new luxury destinations. Possibly advertising in certain sources and in cooperation with specified partners would give a good start and then word-of-mouth would help finding new clients. Turquoise Holiday Company also enjoys the advantage of experience of competitive and large-sized market in home country. It is also used to demanding and sophisticated home market, which usually makes company innovative and competitive. These are important characteristics in creating competitive advantage and in competing on a new market.

## **7.5 Suggestion for further research**

This research is just an initiation for a proper research about internationalising the Turquoise Holiday Company. A practical market research should be conducted in order to evaluate market potential more into details and to find out more about consumer attitudes towards an UK origin tour operator. Also the case company should find out about its internal resources and especially about extending them. It is concluded that due to its wealth Norway might be an important market to think about for expansion. A more detailed study especially on the particular country market should be conducted for evaluating the way of further actions.

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