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Small Business Internationalization through Strategic Sourcing

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Small Business Internationalization Through Strategic Sourcing

by

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Introduction

As the world becomes increasingly internationalized and fast paced, even small businesses, which once were confined to a small geographical area, are now expanding their borders outside domestic lines. Small businesses encompass 99.7% of companies in the United States, so they are important focus points in business strategy. Moreover, these businesses face unique challenges of international expansion due to their limited size and scope. Internationalization can be described as “a process in which firms gradually increase their international involvement” (Beamish, 1990). At the same time, sourcing and procurement activities have now increasingly become value-adding activities rather than areas in which businesses should simply try to reduce cost. Specifically, strategic sourcing can be defined as “getting the best products and services at the best value while considering risks and costs” (Wong, 2018).

This thesis focuses on how small businesses can use strategic sourcing practices to help them expand internationally with success. The first section reviews prevailing theories and literature on small business, internationalization, and procurement activities. Following this, a review of two case studies illustrates the application of important points of internationalization and strategic sourcing theory. An explanation of best practices integrates the most important points learned from the previous two sections. Finally, the last section on my business capstone client attempts to practically apply these ideas to create a custom solution for a micropublishing business in Portland, OR.

Literature Review

Small Business

The US Small Business Administration defines a small business as one with fewer than 500 employees, though this definition can vary slightly by the company's NAICS industry code. In addition, small businesses comprise 98% of firms exporting goods, and 33% of exporting value, according to Census data from 2010 (Small Business Administration Office of Advocacy, 2012). A micro-business such as the Client being focused on for this thesis is defined as having 1 - 4 employees including the owner (Lessler, n.d.). As of 2015, Census data shows that 99.7% of all businesses in the United States were considered small, and 61.8% were considered microbusinesses. Detailed data and similar Oregon statistics can be seen in Figure 1 (Bureau, n.d.).

Figure 1

GEOGRAPHIC AREA	ENTERPRISE EMPLOYMENT	NUMBER OF FIRMS	NUMBER OF ESTABLISHMENTS
Oregon	01: Total	91,715	112,393
Oregon	02: 0-4	54,002	54,069
Oregon	03: 5-9	15,896	16,066
Oregon	04: 10-19	9,849	10,272
Oregon	05: <20	79,747	80,407
Oregon	06: 20-99	7,839	10,321
Oregon	07: 100-499	1,883	6,343
Oregon	08: <500	89,469	97,071
Oregon	09: 500+	2,246	15,322
United States	01: Total	5,900,731	7,663,938
United States	02: 0-4	3,643,737	3,649,989
United States	03: 5-9	1,004,555	1,016,287
United States	04: 10-19	617,390	648,694
United States	05: <20	5,265,682	5,314,970
United States	06: 20-99	526,106	697,870
United States	07: 100-499	89,479	367,335
United States	08: <500	5,881,267	6,380,175
United States	09: 500+	19,464	1,283,763

Small Business Success Factors

Measures of success for small businesses include both financial and nonfinancial factors, which both hold equally high importance to owners. Financial factors are considered the traditional criteria of success for most owners. These factors include staffing numbers, operating and net income, inventory and asset turnover, return on investment, and many more. These factors also assume that business success depends on consistently improving financial measures, known as "profit maximization" in economic terms. Ease of measurement and the ability to obtain "hard," quantifiable results are the main reason that financial criteria have been traditionally popular. Financial measures also allow for firms to be easily compared against one another (Walker & Brown, 2004).

However, financial growth measures assume that income growth is the sole motivation for small business owners, which is not always the case. Lifestyle measures such as autonomy, personal satisfaction and achievement, pride in work, and lifestyle flexibility are highly valued factors. In fact, according to a study by Walker and Brown, wealth creation is often valued lower as a success factor than these lifestyle factors. Because the success of a small business is intertwined with the owner's values and goals, this aspect should be carefully considered when pursuing a strategy. Based on this information, it should also be acknowledged that some business owners are not interested in greatly expanding their enterprise. However, this thesis will target business owners who wish to expand their business internationally.

In addition, criteria for small business success include human resources factors such as staffing, education level, use of professional advice, and planning. A 2001 study of 131 businesses tested

a combination of 15 variables identified in literature as being significant indicators of small business success, of which the aforementioned four factors emerged as the most important. The staffing variable was defined as important because "businesses that cannot attract and retain quality employees have a greater chance of failure than firms that can." The owner's education level also can influence success or failure, as small businesses with a non-college educated owner had a higher chance of collapse. In addition, the development of a detailed business plan is an important criterion, and this plan should be consistently updated as new relevant information emerges. Lastly, the use of professional advisors, including experienced investors such as venture capitalists, can help a business accomplish its goals both in terms of financial capital and operational experience (Lussier & Halabi, 2010).

Small Business Challenges

Small business owners face several challenges and common pitfalls such as excess time commitment required, an inability to forgo control to a more experienced professional on the owner's part, a lack of business acumen, and prohibitively high capital demands.

It is commonly known that a small business requires much of the owner's personal time to get the business up-and-running. When the business is not successful, the owner pours more effort into the enterprise, as seen in the sunk cost fallacy, which eventually leads to "workaholism." In addition, the owner should be capable of recognizing which business functions are their core competencies, and bring in outside help to take care of the rest. When the owner attempts to perform all of the work on their own due to an inability to let go of control or due to financial constraints, they face the risk of making costly mistakes. This inability to properly manage the

company can create a situation of poor crisis management, wherein the owner does not have the financial or time resources to create a proper operations system, because they are occupied with "putting out the fires." In addition, lack of professional management skills can lead to business downfall as owners do not know how to best operate their business. Multiple years in business operation do not guarantee that an owner has the skills or the technical knowledge to expand their business into the international realm and create consistent growth.

Lastly, the most common cause of small business challenges are excessive capital demands. This is another example of the sunken cost fallacy. As initial personal investments do not come to fruition, the owner feels that they have no choice but to continue tying their own assets into the business. This creates a situation of incredibly high personal liability for the owners. Despite the existence of small business loans and other financing options, many owners still find themselves without enough capital to create positive cash flows (Reider, 2012). In this situation, seeking the help of experienced consultants, investors, and venture capitalists can help the business succeed, as seen earlier.

Internationalization

Overview of Internationalization

Although there are many differing definitions of internationalization, it can be broadly defined as expanding a company's operations overseas. An article by Johanson and Vahlne defines the concept as a "process in which firms gradually increase their international involvement" (Johanson & Vahlne, 1977). In addition, Beamish describes it as "the process by which firms increase their awareness of the direct and indirect influences of international transactions…and

establish and conduct transactions with other countries" (Beamish, 1990). Firms may internationalize for a variety of reasons: to increase sales, diversify operations and associated risks, gain proximity to their client base, reduce costs, and compensate for the decline of their current market (School).

Frameworks of Internationalization

This section outlines three popular models of internationalization theory: The Uppsala model, transaction cost analysis, and the business strategy approach. In addition, international licensing as a form of expansion as well as Pankaj Ghemawat's three internationalization strategies are also explored.

The Uppsala model states that firms should develop their international activities over time and in a "slow and steady" fashion. Their internationalization should depend on their knowledge development, which explains why this model prescribes a slow growth pattern. In addition, firms should expand outward by first starting in markets closest and most familiar to them, then moving farther out as their experiential knowledge grows. The authors suggest that there are three exceptions to their model – firms can internationalize more quickly when they have large resources, when market conditions are calm and allow for more risk-taking, and when the firm's management has global experience from markets with similar conditions (Johnson and Vahlne, 1997). For small businesses that have obtained and applied resources such as the creation of a business plan, a business consultant, and experiential learning (Lussier & Halabi, 2010), it would make sense to go against the Johnson and Vahlne model and internationalize quickly. Additionally, for small businesses, certain industry demands may dictate that the company

expand quickly in order to save costs and gain economies of scale quickly. This can be seen in the case of the micropublisher client, discussed in a later section.

Next, the Transaction Cost Analysis model is more firmly rooted in quantitative analysis to make decisions. It is based on the assumptions of a competitive market with many suppliers/distributors, which therefore leads to lower transaction costs. Costs are lower because less stringent monitoring and contract drafting is needed with suppliers when many are present and competing for the right to serve the internationalizing firm (Dwyer & Oh, 1988). In addition, TCA also suggests that when asset specificity (the need for specific manufacturing equipment) is high, firms should vertically integrate in their new global market by purchasing firms higher up in the value chain (Johnson and Vahlne, 1990).

The business strategy approach is the most general of the three – this involves management making tradeoffs between different decision criteria to decide on market and expansion strategy. The business strategy choice is guided by (1) market opportunity, (2) firm resources, and (3) managerial philosophy (Whitelock, 2002). Resources are defined as key components to success, which can be tangible items such as labor, capital, and land, or intangibles such as culture, knowledge, brand equity, and reputation (Rothaermel, n.d.). This model is the only one to consider the competition and market threats when deciding a method of internationalization – the first two theories mainly consider the firm itself.

Based on these theories, a few key points emerge. Uppsala states that speed of firm internationalization depends on the owner's experiential knowledge (not only taught, or objective

knowledge). The TCA theory shows that a company should acknowledge the transaction costs involved in its global market and conduct a financial and cost-benefit analysis to make more concrete decisions when expanding internationally. In addition, the business strategy model emphasizes the importance of market research and the reconciliation of both external and internal factors.

International licensing is a quick and simple way to enter a new market with ease. Licensing is a contractual agreement whereby a company transfers the right to distribute or manufacture a product or service in a foreign country, or the right to use any type of expertise." This is a good option for expansion when the company faces barriers to importation and capital constraints. As small businesses face many challenges surrounding adequate funding, international licensing can be the quintessential option available. Other than fast market entry, advantages of licensing include low capital requirements, potential for a large ROI, and low risk due to the low investment required. However, companies also have a low level of control because rights are signed away and the licensee may become a competitor. In addition, companies may lose intellectual property and misuse of the resource by the licensee may cause a damaged brand reputation (Irwin, 2012). This method also circumvents the use of suppliers, which can be beneficial to small businesses because they face challenges with obtaining cost discounts from vendors due to limited leverage ability and little to no economy of scale.

Professor Pankaj Ghemawat outlines the following three basic strategies, depending on individual situations: Adaptation strategy involves raising revenues and net income in an international context by tailoring goods to the local market. Aggregation strategy involves using

economies of scale in production volume to add value and lower costs in international operations. This strategy involves standardizing products and grouping functions in geographical areas. This method may work best for some small businesses, as they face challenges with obtaining supplier leverage due to limited economy of scale. This method can be used to heighten a smaller company's ability to negotiate with suppliers. However, with the aggregation strategy, the company must simultaneously be able to raise their sales volume while increasing production volume, or they will be financially unprofitable. Lastly, arbitrage strategy is about exploiting gaps in supply chain and production between different international markets, thereby turning these differences into opportunities for expansion (Ghemawat, 2007).

Sourcing and Procurement

Sourcing materials for a finished product has historically been a matter of finding the lowest cost provider. Increasingly, procurement departments of companies, whether large or small, are being seen as an important function rather than cost centers. Authors Margaret Pierson and Willy Shih describe sourcing as a "strategic function responsible for determining an organization's value chain, the flow of productive activities involved in bringing a product or service to market, including both the supply of goods as well as complementary services." (Pierson & Shih, n.d.). Strategic sourcing can also be defined more simply as "getting the best products and services at the best value while considering risks and costs" (Wong, 2018). These definitions all imply that sourcing is a value-adding function and can be a key driver of success when a company is expanding outside its national borders.

Benefits of strategic sourcing include better standardization of the sourcing process, improved supplier relationships, lower purchase price/cost, higher material/component quality, improved delivery reliability, and higher user satisfaction with the purchasing process (Trent & Monczka, 2003).

Common Sourcing Methods

Supply chain strategy has identified multiple sourcing methodologies for companies to obtain their goods and services. This section identifies frameworks for identifying the best sourcing option, as well as explains some of the most prevalent sourcing options used by businesses.

Two popular frameworks exist to define the sourcing situation and subsequent strategy: the Kraljic Matrix and the Transaction Cost Economic Matrix.

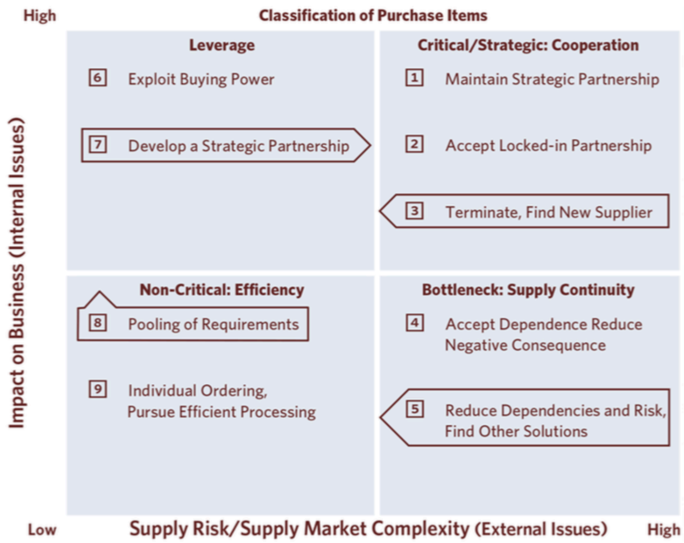
The Kraljic Matrix classifies the material or good being sourced into one of four categories based on the factors of Business Impact and Supply Risk – Leverage, Critical/Strategic, Non-Critical, and Bottleneck, as seen in Figure 2 below. The business impact refers to the spend value of the raw material in question – a high marking on this criteria indicates that the company spends a large amount of money on this item, and it would therefore make a high impact on profits. The other criteria, supply risk, refers to the complexity and challenges associated with the suppliers of this raw material. A "high" supply risk item shows that there are limited suppliers for the raw material, or that the market is very volatile. A "low" rating would indicate that the company has a stable supply situation and faces few risks in obtaining this material.

Figure 2

Source: Exhibit adapted from Peter Kraljic, "Purchasing Must Become Supply Management," *Harvard Business Review*, 61, no. 5 (Sept. 1983): 111, Exhibit 1. Copyright ©1983 by the Harvard Business School Publishing Corporation; all rights reserved. Reprinted by permission of Harvard Business Review.

Based on the classification above, the Kraljic Matrix also suggests possible sourcing methods for each situation. "Leverage" materials should be dealt with by exploiting the buying power of the firm and finding the best possible cost, or by developing a strategic partnership. Similarly, critical/strategic items should be handled by maintaining a strategic partnership with the supplier, Non-critical components should be pooled together and take up the least amount of time and effort, and bottleneck items should be sourced using other methods. These methods are shown in more detail in the chart below. Unfortunately, while this matrix encourages businesses to leverage in order to obtain the best deal, small businesses face the challenge of not being able to do so due to limited economies of scale and low buyer power. In this case, aggressive expansion is necessary, per the Ghemawat model of international expansion (Ghemawat, 2007).

Figure 3

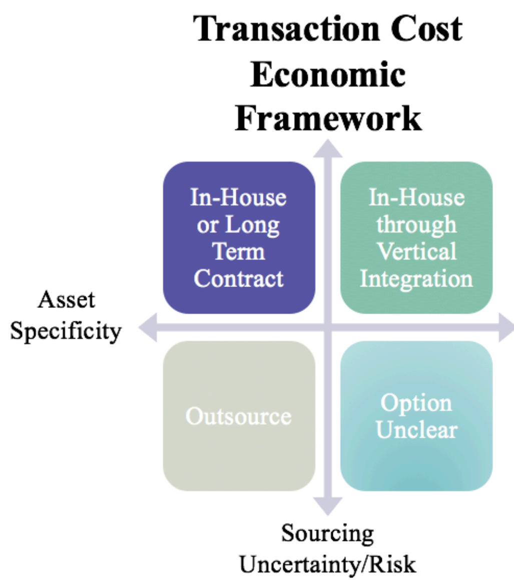


Source: Marjolein C.J. Caniels and Cees J. Gelderman, "Purchasing Strategies in the Kraljic Matrix—A Power and Dependencies Perspective," *Journal of Purchasing and Supply Management* 11, nos. 2–3 (March–May 2005): 141–155. Copyright © 2005. Reprinted and adapted with permission from Elsevier.

The Transaction Cost Economic (TCE) Framework, shown below in Figure 4, similarly provides options for sourcing considering the company's unique sourcing situation. Although both Kraljic and TCE consider the impacts of sourcing uncertainty (also known as supply risk), they differ in that TCE considers asset specificity rather than business impact on the vertical axis. Asset specificity refers to the necessity of specific capital (plant, property, and equipment) in order to produce the product. Based on this matrix, if the company's supply risk is high and they also require specialized machinery to produce the goods, management should consider vertically integrating with its supplier in order to ensure control. In a similar situation, if sourcing risk is low but asset specificity is still high, the company should either insource the manufacturing process or create a strong and reliable relationship with its chosen supplier to ensure long-term success. Conversely, in a company with low sourcing risk and low asset specificity (signifying a

standardized component available through many vendors), outsourcing to the supplier offering the lowest cost at the highest quality is the best option. Lastly, in a company with low asset specificity and high sourcing risk, the best option is unclear and the company's management should explore other options.

Figure 4



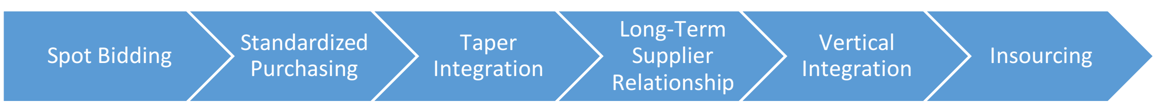
This method is highly similar to the Transaction Cost Analysis model of internationalization theory, which also encourages the company to perform quantitative analysis to ensure that their internationalization process will be cost effective and financially feasible.

<u>Buyer-Supplier Relationships</u>

Based on the previously discussed frameworks, there are many options for sourcing depending on the supply situation, as presented on a continuum below. This choice of strategy will depend on the industry, availability of suppliers, business spend, and management philosophy. The first

type in the continuum, spot bidding, is the most transactional method of sourcing, in which the buying company does not establish a relationship with the supplier. As the buying types progress through this range, the procurement relationships become more long-term and integrated. This can eventually lead to the procuring company purchasing their supplier altogether, allowing for full vertical integration. This leads to insourcing, in which the buying company manufactures their own product, rather than outsourcing. Although small businesses may find themselves in a position where spot bidding works best, it is most beneficial for their success and their internationalization goals to move towards a more long term relationship with the supplier. Long term relationships can allow a smaller company to obtain cost and quantity discounts, which is the biggest challenge that small businesses face in procurement activities.

Figure 5



This continuum of sourcing options also represents the range of business relationships possible between the procuring company and their supplier, as seen in the figure below (Wong, 2018). Small businesses should ideally aim to move closer to an alliance relationship with their supplier in order to obtain leverage.

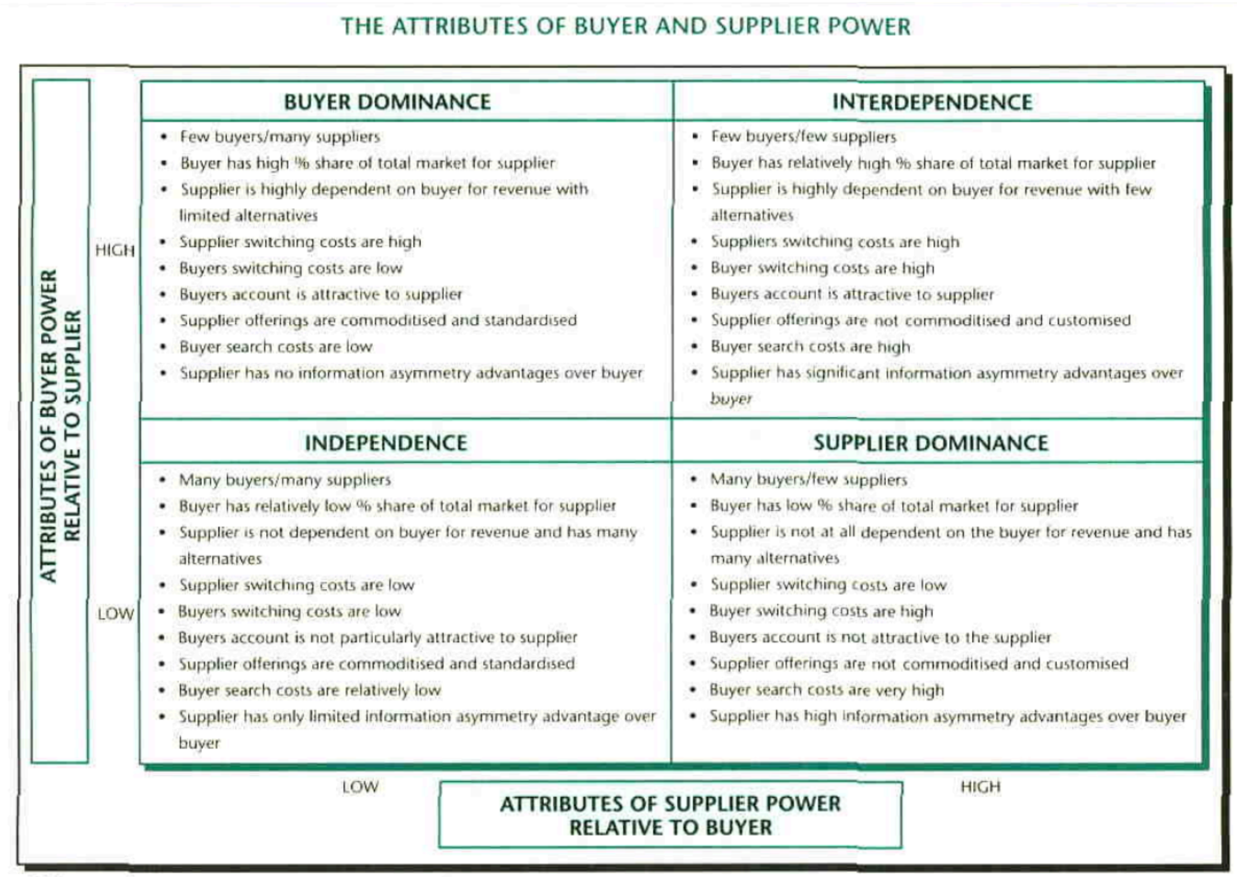
Figure 6

Challenges of Power Dynamics in Sourcing

For small businesses, a common issue faced during the sourcing process is the unbalanced power dynamic of being a small purchaser facing a large and well-established supplier. Andrew Cox, Director of the Centre for Business Strategy and Procurement at the University of Birmingham, identifies several sources of supplier power over competitors and buyers. These sources include economies of scale, reputation effects, buyer switching costs and search costs, network effects, collusive cartels, lack of substitutes, and lack of threat of backward integration (Cox, 2001b).

Cox identifies four states of buyer vs. supplier dependence, represented in the matrix below:

Figure 7



Most small businesses begin life in the supplier dominance quadrant, but the goal should be to "shift the current supply relationships from where they currently lie either into the buyer dominance box or, if this is not possible, into an alternative location that provides for a more effective leverage of quality and cost" (Cox, 2001a).

In a follow-up article, Cox identifies three routes for reducing supplier dominance and moving into one of the other three quadrants.

Figure 8

Power Dynamic Shift	**Strategy**
Supplier Dominance to Buyer Dominance	Increase buyer market share, increase selected suppliers' dependency on buyer, create commoditization, ensure cost and quality transparency
Supplier Dominance to Interdependence	Increase buyer market share, work closely with preferred suppliers for information sharing, develop long-term supplier relationships, consider joint venture/jointly owned product differentiation
Supplier Dominance to Independence	Increase number of suppliers, encourage substitutes, create commoditization, reduce buyer search costs through innovative means, lower barriers to entry

Cox suggests that for small companies with limited internal resources, it may be best to focus on proactive supplier selection. Supplier selection involves choosing the best supplier in terms of quality and cost means, but this means that the supplier will have minimal involvement in the process. This is the simplest and most easily executed method for small businesses. However, when the company gains traction in the market, it can consider developing more long term collaborative supplier relationships to incorporate innovation and higher involvement from their supplier. Ideally, as the small business advances, the relationship with its supplier will advance from arms-length to an alliance, as discussed in an earlier section. Commoditization strategy, which is discussed in the Supplier Dominance to Independence power dynamic shift, can be created when the company begins manufacturing more of its products with the supplier and can obtain economies of scale.

Research Based on Case Studies

Geographical Expansion: A Study of Five Small Businesses

A case study by Bruce Barringer evaluated five small businesses in different industries during their geographical expansion efforts. Of the five companies, there were three successful expansions – ApplianceCom (rent-to-own home appliances), Family Counseling (counseling and mental health services), and PestCo (lawn and pest control). There were also two unsuccessful expansion efforts: Drug Store (pharmacy and general drug store), The Women's Shop (women's apparel and accessories). While it was not exactly clear why Drug Store and The Women's Shop failed, it was very clear why the other three did become profitable.

The case study found six key characteristics that helped indicate whether companies would be successful in expansion efforts: planning for growth, managing growth, reasons for growth, expansion site characteristics, a set of moderator variable, and expansion performance.

Planning for growth involves creating an emphasis on formal planning processes, using outside resources such as a business consultant, and clearly defining the role of the owner/manager in the expanded firm. Of the five companies, two placed a high emphasis on these actions, two placed moderate emphasis, and one of the failing companies placed low emphasis.

Managing growth, another area of concern, involves the recruitment and selection of qualified staff, ongoing training, networking to establish stakeholder relationships, establishing internal controls, and delegating responsibility. All three of the successful companies placed high or moderate emphasis on these items, while one of the failing companies did not.

Lastly, moderators such as ability to apply and learn from experience, business management flexibility, and environmental turbulence play a role in success as well. All three of the profitable companies were able to use their experiential learning to apply changes and flexibly adapt themselves, while the other two may have recognized necessary changes but did not implement them (Barringer, n.d.).

<u>Product Sourcing Evaluation</u>

Authors Sislian and Satir have created a decision matrix using five criteria: competitive advantage, demand flexibility, process capability, process maturity, and strategic risk. Using the

matrix, a sourcing decision was evaluated for an electronic equipment manufacturer "that designs, develops, manufactures, and sells electronic equipment to large service providers."

Two of this company's products were evaluated: a brand new, innovative item that uses a differentiation strategy (Product A), and a more "industry staple" item that has been in the market for several years and generates steady income (Product B).

Using the decision matrix, it was decided that Product A offers little competitive advantage and requires high demand flexibility. The firm's possible manufacturing suppliers have low process capabilities and low process maturity (compared to the company itself). Combined, these two factors lead to high strategic risk if the company were to outsource. Therefore, Product A should be insourced. This decision can be reevaluated when the market becomes more saturated with substitute products and plentiful suppliers exist.

Given the characteristics of Product B, the opposite conclusion was reached. This product also has low competitive advantage, but differs from Product A in that it has low demand flexibility, indicating stable market requirements. The suppliers for this product have high process maturity, indicating that they are efficient and experienced in production. However, the supply situation indicates high strategic risk due to low process capabilities of the supplier. However, this risk can be mitigated through careful contract drafting and consistently tracked performance measures. This indicates that Product B should be outsourced with the buying company maintaining high control over the contract to reduce strategic risk (Sislian & Satir, 2000).

Best Practices

Based on the literature review and case studies, the following section outlines best practices for small businesses to expand internationally with strategic sourcing practices.

1. <u>Plan adequately and use outside resources</u>: Small businesses should create formal business plans (including a financial analysis) and distribute them to key stakeholders. This ensures that businesses have a pre-established process to refer to during each step of international expansion and business operations. Business plans reduce ambiguity, prevent oversight of key information, and streamline the process. In addition, outside resources such as the help of a business consultant, venture capitalists and investors, small business funding and other assistance such as that found with the US Small Business Administration.

2. <u>Establish business structure and controls</u>: Establishment of business structure involves delegating responsibilities between the management and other employees as well as training and recruiting qualified staff (especially in procurement). Internal controls help prevent opportunism, provide appropriate functional reporting, reduce inefficiencies, etc. Process documentation should be created to ensure continuous implementation of these measures.

3. <u>Gain and learn from experience</u>: Small business owners and management should come into the enterprise with appropriate education (depending on industry and individual circumstances). In addition, there should be a focus on gaining experience through

business operations. Using a focus on continuous improvement, mistakes should be improved upon in future situations, and positive outcomes should be studied to capitalize on in the future. Acquiring some of this experiential learning is essential before expanding internationally.

4. Know the market and industry: When expanding internationally, knowing the customer market and supplier industry is key to success. Market demand will differ based on culture and niche product area, and supplier situation can vary based on the industry and geographical location.

5. Establish key relationships and build a network: The business relationships held by the owner and management can spell success for the business in many ways. Business networks are a firm resource and can be used to expand internationally through licensing deals, location scouting, and exploration of business opportunities that are not publically available. In addition, establishing relationships with suppliers beyond the "paper" relationship of a contract can help obtain cost and quantity discounts, thereby increasing buyer power.

6. Evaluate the sourcing situation carefully before making a sourcing decision: Before choosing to insource or outsource, and deciding what type of relationship to establish with the supplier, the supply situation should be carefully studied and established. Regardless of which sourcing framework is used, key sourcing criteria including supply and strategic risk, business impact, asset specificity, demand flexibility, and competitive

advantage of the product in question. Based on this analysis, a decision can be made while bearing in mind all key decision criteria.

7. Draft supplier contract carefully: The contract with suppliers should be drafted carefully to ensure the inclusion of cost and quality controls and key performance indicators (KPIs). In addition, the nature of the relationship will allow for certain types of relationships. Although small businesses generally begin with arms-length relationships, as the relationship develops, closer collaboration should follow.

Business Capstone Client

Client Overview

For my business capstone class at Portland State University's School of Business, I worked with an interdisciplinary group of students in order to help create business recommendations for a micropublishing company based in the Portland area. Our group consisted of students specializing in supply chain management, finance, accounting, marketing, human resources, and management/leadership.

The micropublisher client faced challenges associated with difficulty raising sales, a lack of economy of scale, and limited time and resources dedicated to planning for the future. The company currently has a portfolio of 7 books, and publishes an average of 2 books per year. The client's goals were to expand both internationally and domestically, lower their costs, and raise sales volume. However, the book publishing industry places incredible demands on companies, requiring them to obtain massive economies of scale at a fast rate after business creation in order

to become profitable. When a publisher builds up their book portfolio at a slow rate, they face risks associated with high accumulating cost. These costs will then be difficult to overcome in the long term, as the effects of compounding interest take their toll.

The current financial situation of the publisher shows a declining business. The company has had negative net income for several years, and faces high debt levels. These issues are caused by high supplier costs due to limited book manufacturing volume, as well as low sales due to insufficient marketing and lack of brand popularity.

Recommendation

Many of the ideas learned in the process of thesis research were applied to the work for this client. The main expansion strategy recommended was to use aggregation method, per Professor Pankaj Ghemawat's model. This involves aggressively increasing production volume in order to increase economies of scale to add value and lower costs. Because the client is facing incredible pressure to lower costs, aggressive expansion tactics were the only feasible way to become financially profitable. In addition, the increase in book sales will potentially help the client obtain supplier leverage and higher negotiating power, as is described by Andrew Cox in his articles on buyer-supplier power dynamics. This suggested increase in production volume was coupled with strategies to raise sales, such as bundling products together, offering discounts, increasing book visibility through better product placement, and simply publishing more books. International licensing was also used as a mode of expansion. This allows the company to bypass suppliers altogether, and focus more on designing books and selling their licensing rights. As stated in an

earlier section, advantages of licensing include the simplicity of the process, low capital demands, and the potential for a much higher ROI.

As the Transaction Cost Analysis model of internationalization describes, it is important for small businesses to financially analyze their expansion strategy, and understand whether or not this will be financially feasible. For the client in question, our team created a pro-forma financial forecast in order to help the client understand how their strategy would play out. This analysis involved calculating what sales volume and cost decreases would be necessary quantitatively in order for the business to recover from its debt and make profits.

Conclusion and Future Implications

In conclusion, small businesses should follow several key practices to ensure that they can expand internationally with success. These actions include planning and using available resources, establishing business structure and controls, gaining experiential knowledge, understanding the market/industry, creating a business network, evaluating the sourcing situation, and carefully drafting a supplier contract. These best practices will allow small businesses to overcome the challenges they face due to limited size, such as low supplier leverage and limited resources.

In the future, this information should be expanded upon through research and studies. Manufacturing-focused small businesses should be studied before, during, and after expansion efforts to understand how they procure their goods. Similar to one of the case studies explained in this thesis, these businesses should be evaluated for success criteria and whether they used

strategic sourcing (and if so, which frameworks they applied). This can help us understand how strategic sourcing can actually affect business success, and just how important it is. Based on this new research, more accurate and focused best practices can be identified.

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