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DISCUSSION PAPERS

**INTERNATIONALISATION
STRATEGIES
OF 'BORN GLOBALS' BORN IN
LATVIA**

Arnis Sauka and Laima Auza





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Discussion paper No 2

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**INTERNATIONALISATION STRATEGIES OF
'BORN GLOBALS' BORN IN LATVIA**

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Abstract

This study aims to contribute to entrepreneurship literature by exploring the internationalisation pathways of “born globals” that originate from a new EU member state- Latvia. Empirically, the paper draws on four case studies – firms that have been established by entrepreneurs from Latvia. The companies are STENDERS, a manufacturer of natural bath products and cosmetics; Munio Candela, a handcrafted candle manufacturer; Primekss, an industrial flooring manufacturer; and a manufacturer of premium jeans wear, Trousers London. Apart from identifying ‘common’ characteristics of born globals, our findings reveal characteristics that are specific to new EU member countries, in particular- Latvia. Findings also have some implications for policy makers.

Key words: born globals, internationalisation, Latvia

1. Introduction

Traditionally, international business and strategy literature has been dominated by a focus on large multinational enterprises that usually operate in their home country for a number of years and then gradually enter the geographically closest foreign markets (e.g. Johanson and Vahlne, 1977). Increasingly, however, attention has also been given to the internationalisation of small and medium-sized companies, in particular firms that start to internationalize very rapidly – almost right after business is launched (Hollensen, 2007). This phenomenon has been called ‘born global’ and characterizes the type of SME that possesses a “borderless” view of the world and tends to develop business strategies that already allow for global expansion in the first years of operation (Cavusgil and Knight, 2009).

Focusing on the time when companies enter the global market rather than the size of the global market enterers, overall, the born global phenomenon challenges traditional theories of internationalization. In this light, following the observation by Crick and Spence (2005) that internationalization strategy formation for high performing SMEs is not always systematic and capable of being described by one single theory, Coviello and McAuley (1999) conclude that the internationalization of born globals should also be viewed by integrating major theoretical frameworks. Yet, contemporary research on SMEs lacks a fitting framework to interpret the international activities of born globals. One reason for this is a lack of empirical evidence on the internationalization strategies of born globals.

More specifically, little is known about “born globals” and how and why they internationalize so early. In this light, studies that explore the internationalisation patterns of born globals also often challenge our “general knowledge” of how expansion into foreign markets should and actually is implemented by companies that turn out to be successful global market players relatively early. For instance, findings suggest that the distance from the domestic market is regarded as non-significant when it comes to



choosing the first international target markets (e.g. Peng and York, 2001). Furthermore, Madsen and Servais (1997) have argued that domestic markets are no longer an important “learning place” before international markets are entered. Arguably, these findings seem to go against “common wisdom”, which would in turn suggest that the local market can be a good starting point, where resources for global expansion can be acquired and the geographically closest markets can be more appealing for starting global expansion.

Moreover, according to Hollensen (2007) most SMEs, including companies that become successful internationally very early, enter new markets with very limited market information – in many cases without conducting any market research before entering the target markets. Instead, the selection of international markets is strongly influenced by change agents. An increasing number of studies (see Cavusgil and Knight, 2009, for review) have also emphasized the role of various company-specific characteristics that may trigger early internationalization and are typical of born globals. Yet, most of these studies focus on exploring the characteristics of born globals that originate from more advanced market economies. Considering the role of context, which also shapes entrepreneurship behaviour (Karlsson and Dahlberg, 2003), it is thus reasonable to assume that characteristics that are important for success in the global arena, especially in the early stages of a firm’s development, may also differ for companies that originate from new EU member countries, such as Latvia, as compared to more advanced market economies.

In light of this discussion, this study aims to contribute to entrepreneurship literature by exploring the internationalisation pathways of “born globals” that originate from a new EU member state. Empirically, the paper draws on four case studies – firms that have been established by entrepreneurs from Latvia. The companies are STENDERS, a manufacturer of natural bath products and cosmetics; Munio Candela, a handcrafted candle manufacturer; Primekss, an industrial flooring manufacturer; and a manufacturer of premium jeans wear, Trousers London.



In the following sections of the paper we attempt to determine whether patterns as identified by previous studies, mostly exploring characteristics of born globals that originate in more advanced market economies, also play a key role in the context of the four selected case studies, i.e. companies “born in Latvia”. We do this by providing an insight into the internationalisation pathways of each of the selected case companies, mainly focusing on the characteristics, international market selection criteria and market entry modes of these firms. Section Five, however, summarises the key findings and provides some conclusions and policy implications. Overall, the findings of this study may be relevant for companies, especially from new EU member states, that are on their way to developing a strategy for international expansion as well as policy makers for making informed decisions about investments to support the international orientation of local SMEs. Understanding the patterns of “born globals” from countries such as Latvia might also benefit entrepreneurs from more advanced economies, for instance when making a decision to enter markets in Central and Eastern Europe.

2. The Case of STENDERS Ltd.

The natural bath product and cosmetics company STENDERS Ltd. was founded in 2001 by Janis Berzins and Zane Berzina, and opened its first shop in Latvia in 2002. In 2013 the ownership structure of the company has changed slightly, i.e. currently the owners of STENDERS are Ieva Eglite, Ali Jamani, Janis Berzins and Zane Dreimane. Yet, the key focus of the company has remained the same. Namely, the products, and perhaps more importantly the unique identity that is presented through creative product design as well as a focus on a healthy green lifestyle approach, soon attracted the interest of customers in Latvia in 2001 and continues to attract interest today. Arguably, since 2002, people in Latvia have not had to think twice when it comes to choosing the best present for themselves, their beloved ones, friends or colleagues – various bath and cosmetic products, simple but nicely packed, as offered by STENDERS, continue to be a good choice!



Even though this might sound like an advertising campaign, as explained by the co-founder of STENDERS Ltd., in a way the company has indeed lived the “Latvian dream”, showing that every individual can develop a successful business from scratch. “In order to live this dream, however, initially we were travelling around Europe looking for new ideas – products and services. Anything that might be interesting and not yet present in Latvia,” remembers Janis Berzins, the co-founder of STENDERS. And it was not too long to wait; while travelling they were lucky enough to come across a tiny shop with an exclusive soap concept in London.

The current founders of STENDERS wanted to franchise this company and bring the concept to Latvia, yet the bureaucracy simply took too much time. “Christmas time was approaching and it was the best time to start sales, so something had to be done very quickly!” remembers Janis Berzins, the co-owner of STENDERS Ltd. The solution appeared to be finding a similar product somewhere else and simply putting it on the shelves of a shopping mall: just to see whether there was demand for the product. “This is exactly what we did, with bath cosmetic products from Canada,” explains the co-founder of STENDERS, adding that in such a way the company explored the market, which in turn helped them to further develop the idea of producing luxurious and natural bath cosmetics.

“The experiment of producing soap,” as it is called by the co-founder of STENDERS himself, “...started with looking for various soap recipes in books and Internet sources.” As a consequence of these experiments, “Stendera soap factory” was established in Latvia with the initial aim of opening a few shops to sell its products in Latvia. Yet, the founders soon realized that there was also very good market potential in various countries across the border. For this reason, since “Stendera soap factory” was too long and rather difficult to pronounce for international markets, the company decided to export its production with the brand “STENDERS”.

2.1. Choosing the market entry mode



Indeed, not only customers in Latvia were interested in products offered by STENDERS. Already in 2002 the company received cooperation offers from partners in both Russia and Estonia, which enabled STENDERS to start their internationalisation very early in the start-up phase. STENDERS chose franchising as a global market entry strategy. The decision to prefer franchising as an international market entry mode was based on the following considerations. First, franchising requires minimal investments. Secondly, potentially it is more profitable and offers a more rapid development of the customer network. And finally, by franchising, faster international expansion is achievable, if implemented correctly. “We also considered other market entry options, of course, such as direct export, licensing, joint venture and subsidiary,” said Ieva Eglīte, Member of the Board. “However, due to the previously mentioned assumptions none of them looked appealing enough.”

According to the representative of the company, the choice of the market entry mode was one of the key elements behind the successful and rapid internationalisation of STENDERS. STENDERS chose the business format package franchising approach. This means that the business package contains most elements necessary for the franchisee to establish a profitable business in the host country in a prescribed manner regulated by the franchisor. The package contains trademarks, business know-how, geographic exclusivity, and the design of the store as well as location selection and marketing activities (Hollensen, 2007).

“In reality this means the franchisee always has to follow strict guidelines about the design of shops, the layout of the products, united marketing activities, etc.,” explained Ieva Eglīte. For instance, “the company’s designer creates the design of the stores, the furniture is also ordered from one manufacturer in order to ensure that all the shops look alike in each country,” she continued, adding that franchisees are allowed to sell only STENDERS goods and that all the products are manufactured in Latvia, regardless of the market in which they are sold. Furthermore, all the shops are required to follow the same service standard, including the uniforms of the shop assistants and the packaging of the

purchased products; franchisees are not allowed any elements that are not approved by the STENDERS Marketing Department in Latvia.

2.2. Entering global markets and expanding internationally

Similar to many other managers in Latvian companies, the founders of STENDERS did not have any previous international market entry experience. Yet they had some prior business management experience working for firms in different industries. “We all wanted independence, our own company and our common motivation, the key driving force, most probably, was the willingness to develop a successful business by producing products we really enjoy ourselves,” remembered the co-owner of STENDERS Ltd. One of the cornerstones in developing a successful company turned out to be a differentiation strategy that STENDERS already employed from the very beginning of its operation.

Namely, similarly to many other “born globals” (e.g. Cavusgil and Knight, 2009), STENDERS initially was formed as a product-based firm that subsequently emerged as an international marketer gaining worldwide acceptance, drawing on the strength of its superior products. “The main added value of our products is their appearance, i.e. packaging design, as well as the unique design of all our shops,” explained the representative of the Marketing Department at STENDERS, revealing that the unique selling point for STENDERS is that “...we do not just sell goods in our shops, we sell feelings – joy, admiration, dreams, peace and passion. With this we get our customers to return to our shops.” To pass on the feelings, naturally, a great deal of attention is paid to the development and maintenance of a unified customer service standard. “At the same time,” as once again emphasized by the representative of the company, “...the constant need to ensure that the same service standards and quality apply in all the markets is one of the prerequisites for a successful franchise-based company.”

All in all this strategy, together with choosing the franchising approach, brought success for STENDERS not only in Latvia but also in many other markets internationally. Namely, in 2010, only 8 years after the first overseas shop was opened, the company had more than 180 shops in some 10 countries, including China, Japan, Saudi Arabia,



Slovenia, Greece, Croatia, Colombia and Panama. Sales in international markets generate around 70% of the company's total sales volume, and, with 106 employees, reached almost 5 million euros in 2009. And STENDERS continues to grow: in 2012, the company already had 222 stores in 22 countries: Latvia, Estonia, Lithuania, Sweden, Finland, Norway, Austria, Germany, Russia, Belarus, Georgia, Kazakhstan, Kirghizstan, Armenia, Ukraine, Croatia, Slovenia, Hungary, Poland, Japan, China and the United Arab Emirates. The turnover was around 5 million euros in 2010, 5.8 million euros in 2011, and 6.5 million euros in 2012. Aside from this, in 2011 the company invested around 150 000 euros in developing new products and redecorating the retail shops.

The main target markets for STENDERS are Western Europe, Asia and the Near East. In 2010 the company aimed to strengthen its positions in its key markets – China and Russia –endeavouring to expand the chain of its franchise shops. In 2012, however, the main sales markets were China, Russia and Latvia and for 2013 the key development market is Asia, especially the southeast regions.

Since two entrepreneurs from China expressed interest in cooperation, and both of them met the strict standards for STENDERS' potential partners, the company signed a franchising agreement and chose the Chinese market. "That forced us to set aside our plans to enter America," said a representative of STENDERS in 2010, adding that "...the operations of the competitors show that STENDERS' decision to enter Asia first was right." Namely, the main competitors of STENDERS are L'Occitane, The Body Shop and Lush. "As Lush was not represented in China, our cooperation partners were interested in expanding very rapidly to increase the market share before the competitors had strengthened their positions there," emphasized Ieva Eglite. Initially, however, the company chose to start its internationalisation by entering Russia: the first franchised STENDERS shop overseas was opened in Russia, back in 2002. "We choose Russia as the first foreign market because it is Latvia's biggest neighbour, with huge market potential," revealed Janis Berzins.

In this context, it is important to note that, even though the founders of STENDERS had



some previous personal contacts with entrepreneurs in Russia and other countries, the international expansion of STENDERS Ltd did not draw on significant global network relationships – something that seems to be one of the common fostering elements of the internationalisation of “born globals” in various countries across the globe (Bell, 1995; Coviello and Munro, 1995; Rasmussen, Madsen and Evangelista, 2001). On the contrary, the founders of STENDERS had almost no global network relationships before starting its international expansion, and all the networks were developed only after the company was founded.

“When it comes to expanding internationally,” continued the representative of STENDERS, “...we do not employ a proactive approach to search for partners with whom international markets are entered.” Indeed, and interestingly enough, almost all the franchisees of STENDERS Ltd. have approached the company themselves. “Most of them make a decision after visiting one of our shops in Latvia,” explained the representative of the STENDERS Development Team, adding that almost every day the company receives about ten e-mails or phone calls from potential partners expressing their interest in cooperation with STENDERS.

In general, the attractiveness of each country is determined by the “quality” of the potential cooperation partner. Namely, over the years STENDERS has developed criteria to evaluate potential franchisees. “We pay attention to the personality of the potential business partner as well as professional experience. The situation in the particular market is also very important, of course,” explains the representative of the company. The potential partner has to present a 5-year business plan containing information on the target market, a financial forecast and plans for expansion in the given defined market or region. “When a partner is selected, we also strictly monitor the selection of the most appropriate sales location of our shops,” continues Ieva Eglite. Namely, most STENDERS shops are situated in locations with a large flow of people, such as shopping centres or central pedestrian shopping streets. Such an approach is a consequence of some mistakes STENDERS made during the development stages in markets such as Germany, Ireland and Spain. “We were simply forced to terminate contracts because franchisees were



exceeding their legal rights and because of unfair actions. That is also one reason why a very strict franchise agreement was developed – to protect ourselves from such cases in the future,” said the representative of STENDERS. “Although the defined target markets are Asia, Europe and the United States, other markets are considered if there is a strong potential partner who is interested in developing a chain in a defined region or country.”

To further strengthen internationalisation efforts, in December 2009 STENDERS launched an Internet sales platform to reach global consumers all over the world. Even though in 2010 the owners of the company were rather sceptical about the potential outcome of this idea, today they acknowledge that the decision was right: “We continue to improve our web platform and the first significant results can already be seen in Japan. New changes will be implemented in every country eventually and STENDERS is expecting to at least double the turnover of Internet sales by the end of 2013,” says the representative of the STENDERS Development Team. This move also reflects an on-going trend all over the world in which an increasing number of SMEs, affected by the Internet revolution, are establishing global sales platforms by developing e-commerce websites (Hollensen, 2007).

3. The Case of Munio Ltd.

As emphasized by recent entrepreneurship literature (e.g. Cavusgil and Knight, 2009) born globals typically start exporting their products two to three years after the company is established, and this is considered to be an early move, of course. Furthermore, usually the export volume of born globals is approximately one quarter of the total production. Munio Ltd., better recognized by its brand name, Munio Candela, a producer of handcrafted 100% natural soy wax candles, seems to be different with regard to both indicators.

Munio Ltd. was established in January 2008 by Ieva Dekstere and Elina Cima. A passionate search for a balance between style, function and ecology while conducting



endless experiments with innovative raw waxes, indigenous flora and eco-friendly packaging resulted in the first candle sold in Latvia in November 2008. Only a few months later, in July 2009, the company entered its first international market. In 2012, Munio Candela's efforts in international markets were recognized when they received the Grand Prix award from the World Packaging Organization.

Munio Ltd. is a small but rapidly growing company and the owners of the company have chosen to develop the company step by step, without attracting investors' money. At the end of 2008, one year after the company was established, the turnover was 8000.0 EUR, reaching 40000.0 EUR in 2009. In 2010, the turnover was already 153000.0 EUR, and in 2011 it was 157000.0 EUR, whereas in 2012 it reached 265000.0 EUR. The number of employees has also risen gradually: in 2010 the company employed 4 employees, including the two owners of the firm, and in 2012 there were around 15 employees. In this context it is important to note that in 2010 as much as 80% – and in 2012 70% – of the total sales volume of the company was generated in foreign markets. Furthermore, even though the company increased the capacity of its production machines tenfold in 2012, every candle is still unique and 100% handmade.

The company is growing not only in numbers but also geographically. Namely, if in 2010 Munio Candela products could be purchased outside of Latvia in European cities such as Copenhagen (Denmark), Paris and Vincennes (France), Dublin (Ireland), Rome (Italy), Wolfsburg (Germany) and Luxembourg, while some sales took place in Japan and the United States, in 2013 Munio Candela products are sold across all of Europe, the United States, Canada, Australia, New Zealand, China, South Korea, Taiwan and Russia. The main focus of the company for the time being is Japan, Switzerland and Norway, where the product generates the most income, and the next “big market” Munio is targeting with its activities is Russia.

As emphasized by the co-owner of Munio Ltd., Elina Cima, entering the international markets as early as possible was an intentional and targeted decision. In fact, according to her, this was the “only choice” for the company: “If you want to sell premium handcrafted

candles – a high quality, niche product – in reasonable amounts, focusing on small markets like Latvia is a very bad idea,” says Elina Cima, the co-owner of the company. “For this reason,” continues the co-owner of Munio Ltd., “...from the first day the company opened its doors, the brand name, packaging design and brands of our product collections – “Naturella” and “Villa” – were designed so that they would fit the requirements of international markets.”

In this context it is important to note that, similarly to the case of STENDERS, and in contrast with the “typology” of born globals, where the owners of the companies have at least some international experience prior to starting the firm (e.g. Oviatt and McDougal, 1997), the owners of Munio did not have any prior experience in global markets. “One of us had an unfinished bachelor’s degree in economics, and the other one had a background in the arts,” reveals the co-owner of Munio “...thus, as you can imagine, we had no proper idea of what should be done exactly, when it comes to working in the international arena.”

3.1. Entering the first international market

The first international market Munio Ltd. entered was Japan and, as acknowledged by the co-owner of the company, the choice of this market was mostly a coincidence. “We planned to start internationalisation with markets in Europe and indeed many people have told us that our success in Japan was just luck,” emphasized Elina Cima. “We were very lucky with the exhibition that opened the doors to Japan’s market – this was the first international exhibition we participated in, back in June, 2009, and this exhibition did indeed determine our choice to start with Japan.” As further explained by the co-owner of Munio, the exhibition proved that the Japanese understand the product the company offers. “Also, today, the Japanese are usually the first ones to enter our exhibition booth, whether we are in New York or Paris. And this confirms the propriety of our choice.”

Another reason why Japan was considered an attractive market was the assumption that the Japanese prefer high quality design items, especially if imported from Europe. When it comes to challenges, however, as emphasized by the CEO of Munio, it is not difficult to

carry out market research in the information age. “You just have to open your laptop and have access to the Internet,” Elina Cima says. However, it was more difficult for the company to understand Japan’s market because of cultural differences: “Europe is more comprehensible with respect to culture and living standards,” admits the co-owner of Munio.

3.2. Internationalisation strategy: key success factors

Munio chose direct exportation as the key entry mode into international markets. “We are producers yet also deal with the exporting of our products, including transportation and dealing with work with our distributors,” says Elina Cima, co-owner of the company. Apart from the direct exporting approach, Munio has also established a subsidiary in the United States by opening its own factory. As a result, today one of the owners lives and runs the business in Latvia, while the other is based in the U.S. That such a move, i.e. direct exporting, is a good first step before making a direct investment, such as opening a factory, is also suggested by previous empirical evidence (e.g. Lymbersky, 2008). The benefits of one’s own factory in the U.S. are obvious: to decrease transportation costs and thus increase the profit margin in the U.S. and Japanese markets and to minimize the proportion of damage to goods that occurs during the transportation process.

Following its successful first exhibition in Japan, the company continues to focus on participation in international trade exhibitions as a way to build its business network and find distributors. The company does not miss any important trade shows in Tokyo, New York, Paris and Moscow where it can present its products; in fact, this is the main strategy for establishing network relationships with international partners. The co-owner of Munio explains: “Since none of us had previously worked in international markets, we also did not have any prior contacts that facilitated our expansion globally. All our contacts have been developed during foreign trade shows and exhibitions; we started from scratch.”

Whenever possible, Munio Candela Ltd. aims to establish contacts that enable entering several markets simultaneously, preferably with a reliable distributor reaching an agreement on exclusive distribution rights. In this context, as emphasized by the



representative of the company, especially with a factory in the U.S., geographical distance from Latvia is not such an important factor when it comes to choosing the international market. Instead, Munio considers factors such as values, lifestyle, income level and competition. Such an approach seems to correspond with the general typology of born globals, which also emphasizes the insignificance of the distance between the host and domestic markets for most born globals when it comes to choosing which market to enter (e.g. Peng and York, 2001).

Munio Ltd., like many other companies around the world, also takes advantage of various communication tools that have eliminated the boundaries between markets – to process information efficiently and communicate with partners and customers (Cavusgil and Knight, 2009). In this light, the co-owner of Munio emphasizes the value of the Internet in the role of business expansion: “For example, our products are sold in big department stores and design boutiques and distributors are responsible for laying out the products on the shelves. They simply take pictures of how our products look on the shelves and send them to us for approval – so we do not have to travel to Japan for such purposes.” The company also takes advantage of social media, especially Facebook, as a powerful marketing tool to tell the world about its products.

Apart from the market entry mode, the main reason behind the success of Munio Candela, however, turned out to be its differentiation strategy, i.e. focusing on niche markets in specific target markets. As already emphasized by M.Porter (1980), born globals indeed tend to follow differentiation or focus on a strategy that implies offering distinctive products with a differentiated design. In this light, the main selling points of Munio Ltd. are sustainability and ecology, and the handcrafting and nice packaging of their products. Namely, the company produces completely natural soy-wax candles, each artistically designed. This is a unique approach in both Europe and Asia (not in the U.S., though). The company uses recycled materials in the production strategy, thus proudly emphasizing the “green approach” as another value added element of Munio Candela products.

The company positions its products in the premium price and quality category. Indeed, superior product quality is another strength of Munio Ltd. As emphasized by Elina Cima: “Every candle we produce is poured by hand, undergoing strict quality control. Samples from each batch are test-burned to guarantee their safety, performance and aesthetic qualities.” This approach is also in line with previous findings with regard to born globals, which often offer “state-of-the-art products” that outperform competitors in design and quality (Cavusgil and Knight, 2009).

4. The Case of Primekss Ltd.

Primekss Ltd., an industrial flooring producer, was established in 1997. Today, the company can proudly position itself as the Northern European leader in industrial concrete and epoxy floors. The main reason for this undoubtedly remarkable success lies in its flagship product – the innovative, improved concrete floor PrimeComposit – developed in the laboratories of the company. Not only has the product received wide acceptance from the customers of Primekss Ltd., it has also been awarded various prizes, such as “The Most Innovative Product in Latvia 2010”, a prize in the competition “Export and Innovation Award 2009” and the “Most Innovative Product at World of Concrete 2012”.

The company’s idea arose by the observation that there was poor quality flooring in the local market. The goal of Primekss Ltd. was to do something about this and provide better quality flooring. “I remember that we bought plastic flooring from some Finnish company but it did not hold out because of the poor quality of the concrete flooring. Then we decided to try producing the concrete flooring by ourselves. We succeeded and the market potential was bigger than it seemed at the beginning,” remembers the founder and CEO of the company, Janis Oslejs.

In contrast to STENDERS or Munio, Primekss Ltd. did not plan its global expansion, especially not in the early years. “In 1997 it did not seem realistic that we could ever



expand into international markets,” recalls the CEO of the company, Janis Oslejs. “In a way, we were all looking at “foreigners” here in Latvia with our “eyes wide open”, trying to figure out who they were and what were the ways people in different countries did business,” he says, half joking. “Furthermore, at that time I could not even get a visa to Sweden easily, so entering markets we can freely travel to these days was much more complicated back in 1997,” recalls Mr. Oslejs.

At first glance it may seem that Primekss Ltd. has gone through the traditional stage model of internationalization. Namely, the company started to expand abroad step by step some five years after establishment. “We started to look toward international markets in 2002, by establishing the first subsidiary in Estonia,” says Janis Oslejs, emphasizing that the main trigger to start rapid internationalization was introducing the innovative product PrimeComposit in 2008. “We introduced a unique technology and realized that the product could also be interesting in the Estonian market – a market that is so close to Latvia,” recalls CEO of the company. Overall, the case of Primekss illustrates the so-called “born-again global company” concept (Bell, McNaughton and Young, 1997). These are firms that had no international activities when they were established, yet at some point decided to completely change their strategy towards very strong dedication to international markets.

In this light, previous studies also reveal the importance of accelerated internationalization, drawing on the strengths of an innovative product representing a significant technological advance. One reason for this is to limit competitors’ activities and thus strengthen market positions (e.g. Hollensen, 2007). Indeed, the added value and unique product qualities of PrimeComposit facilitated the company’s further expansion abroad and the change in its strategy to more rapid global expansion. Namely, the international expansion of Primekss Ltd. was followed up with Lithuania in 2004 and Scandinavian countries from 2005. In 2010 Primekss Ltd. had established subsidiaries in Sweden, Finland, Norway, Estonia, Poland, Denmark and Lithuania. By 2013, Primekss Ltd. has also opened subsidiaries in Germany, the United Kingdom and Belarus. As a consequence, almost 100 employees work for the company and the consolidated turnover

of Primekss Ltd. reached 11.4 million euros in 2009, 12 million in 2010, 25 million euros in 2011 and 23 million in 2012. It is expected that turnover will increase in 2013. It is important to note that foreign subsidiaries generated as much as 90% of the total turnover in 2009, and in 2012 already up to 95% of total turnover.

4.1. Internationalisation strategy: key success factors

Several factors, such as focusing on a narrow market segment, superior product range and advances in production technologies, found to be significant drivers of international success (e.g. Dalgic and Leeuw, 1994; Oviatt and McDougall, 1997), also undoubtedly influenced the success of Primekss Ltd. Yet, as already emphasized, the key driver of the successful globalisation strategy of Primekss Ltd. lies in its product, i.e. the company has managed to develop a unique product that allows for differentiation from other companies. In this light, as emphasized by the CEO of the company, Primekss is a research and development based company: “Our PrimeComposit floors are very durable and economical and the materials used in the production of the product generate 30-50% less CO₂ emissions than the industry norm for industrial floors. This is indeed a great competitive advantage compared to our competitors!”

Since no one in the management team had any prior experience in entering foreign markets, initially Primekss Ltd. based their international expansion solely on trying to establish personal networks. “All the skills were developed through personal experience, both successful experiences and mistakes,” reveals the CEO of the company. Before entering into contact with individuals in the target country, however, Primekss usually conducted market research examining the potential demand, the state of the construction industry, macroeconomic data of the country and potential competitors.

Initially the key Primekss Ltd. strategy for entering international markets was opening subsidiaries. As emphasized by the CEO of the company, such an entry mode was chosen because it best suited the business model of Primekss: “When we received an order from outside Latvia, we transported our equipment and employees to the target country. Only construction materials were purchased on site, not least because we were interested in



redeeming the value added tax.” Such an approach, at least in the early stages of internationalisation, proved to be a good choice, not least because it allowed them to establish closer contact with the customer to evaluate the potential of further expansion in certain markets and provided them with full control over the quality.

One of the limitations for further global expansion using subsidiaries, however, was that the company had to deal with everything from the design and workmanship to quality control. The CEO of the company explains: “As we had to transport our equipment and technology as well as organize work permits for Latvian workers to work in the specific market, it was quite complicated to enter markets that were very far from our home country.” This is the main reason why Primekss Ltd. started to enter markets that were close to Latvia, at the same time thinking about other market entry modes to avoid limiting the company’s activities to geographically closer regions.

The solution turned out to be the decision made in 2009 to change the company’s strategy using a franchising model that also included selling Primekss know-how and technology. More specifically, by concluding franchising agreements, Primekss Ltd. planned, at the beginning of 2010, to expand to several markets simultaneously, thus accelerating international expansion. All in all, as revealed by the CEO of the company, “This decision was the most logical of all the options, yet it is too early to judge whether this is the best entry mode for our intentions to enter distant markets.” That year the further internationalisation plans of Primekss were indeed impressive as they aimed at markets such as Japan, the United Kingdom, Israel, the United Arab Emirates and Lebanon amongst others.

However, in 2011 there was a change of market entry mode and the company started to prefer licensing. “There is not a big difference between these two entry modes. We let our licensees who offer PrimeComposit in the host country operate with their original name and they don’t have to adopt the whole concept of our company,” says the CEO of the company. Up until 2013 Primekss Ltd. has experienced impressive expansion with some slight changes from the initial plans in 2010. The company has successfully entered



Belarus, Belgium, the Netherlands, South Africa and the United States. Therefore, the turnover of the company doubled in 2011 compared to 2010. In 2013 the United States is considered to be the most attractive market.

“Primekss cannot provide PrimeComposite floors worldwide without qualified flooring contracting partners,” says J.Oslejs. Potential PrimeComposite licensees must fulfill minimal requirements. The flooring contractor must possess sufficient specialized equipment, including laser-equipped screed machinery and machines for finishing the floors according to the highest standards, as stated on the company’s website.

“Yes, the globalization of Primekss was triggered by the product PrimeComposit,” says the CEO of the company “...and we are aware that at the moment we are the only ones offering the unique technology of improved concrete floors, but this will not be for long.” The company has also licensed the new product but, according to the CEO of the company, this does not guarantee that competitors cannot and will not come up with similar or even better technologies. “This is the reason we constantly monitor the market trends and our laboratory employees work hard to meet the new challenges of the markets.”

5. The Case of Trousers London

Three entrepreneurs from Latvia – Kaspars Upmanis, Arturs Naumovs, and Mareks Kaminskis – together with Angel Tan from the U.K. established a premium jeans wear company, Trousers London Ltd., in February, 2008. Even though the business idea was born in Latvia, London, U.K., was chosen as the place for the establishment of the firm. The decision to start the business in London, not Latvia, was influenced mostly by the highly developed fashion industry in the U.K. as well as the bigger local market size as compared to Latvia. Besides, one of the company’s founders already had prior experience living in London while studying e-business at one of the universities there. In this light, several studies (e.g. Madsen and Servais, 1997) emphasize that firm owners’ experience acquired while living abroad is indeed one of the factors that, through personal



networking, international contacts, education and a more in-depth understanding of the local environment, positively influence the internationalisation of born globals.

Needless to say, the intention to expand globally has existed since the inception of Trousers London Ltd. For this reason, similarly to the practices of most born globals, both the company name and logo were chosen to fit the international plans. As explained by Kaspars Upmanis, one of the founders of Trousers London: “London is usually associated with top level fashion, especially in Asia, but also parts of the world outside Europe and the U.S. For this reason we not only opened the company in London but also used ‘London’ in our brand name, and for the same reason: to develop the necessary association with our brand name.”

The main idea behind launching Trousers London Ltd. was to create very high quality limited edition premium jeans for men as well as other items such as socks, shirts and undergarments. “We did not have any experience in the fashion industry or in manufacturing, before starting the firm,” reveals Kaspars Upmanis. Thus, it took some time to understand the industry in depth and create a significant business network to open up opportunities for expansion in London and other markets around the world. In this light, as emphasized by the CEO of the company: “Personal contacts and networking are indeed very important in London and should always be considered as a top priority, especially in the fashion industry. Literally everything is determined by ‘whom you know’.” He adds that “creating personal networks, similarly to many other activities, such as advertising, PR and the manufacturing process itself, would be much cheaper to implement in a country like Latvia, of course.”

It seems, however, that the diversity of backgrounds of the Trousers London Ltd. owners does compensate for the lack of experience in the fashion industry prior to starting the company. This is also what Kaspars Upmanis emphasizes: “Including the diverse fields of architecture, advertising, business, design and social media marketing, the varied backgrounds of our team in many ways contributed to the success of the company.” More specifically, without knowledge of how to follow the “mainstream”, often promoted by

the conventional schools of fashion, the team had no choice but to bring in their own approach. “This in turn made us different, in many cases more appealing, when it came to processes such as methodology in fashion design, marketing and promotion,” says the co-founder of the company.

“We view the world as our marketplace,” emphasizes Kaspars Upmanis, and the facts speak for themselves. The manufacturing process of Trousers London is organized in an outsourced factory in Italy, while organic premium denim is purchased in China. Trousers London started to expand outside London only six months after the company was established. Similarly to the case of Munio Candela, the first international market the company entered was Japan and, interestingly enough, this choice was also more of a coincidence than a decision planned well in advance. “We concluded the agreement with a Japanese wholesaler while participating in a trade show in Japan,” reveals the representative of Trousers London.

According to 2010 data, Trousers London exports about 70% of their total production, and jeans with the Trousers London brand name can be purchased in eight shops in Japan, three shops in London, one shop in Latvia and one in Stockholm. Interestingly enough, all this was achieved by the three owners of the company themselves – without employing any extra staff. “This is possible since we outsource most of our activities,” explains Kaspars Upmanis. Such an approach in turn corresponds to the findings from studies of various born globals across the world, highlighting the effectiveness of outsourcing when it comes to expanding globally with limited financial and human resources (e.g. Cavusgil and Knight, 2009).

5.1. Internationalisation strategy

Trousers London enters international markets with the help of local partners in each target market, whereas in London all the sales are organized by the company itself. As emphasized by the co-founder of the company, being established in London, the company is very close to U.K. customers: “...thus it is only natural that we deal with the sales process in London ourselves.” The main advantage of such an approach is, of course, the



opportunity to follow customers' needs and get quick feedback to continuously improve the product. "The know-how we acquire in London is also very important when it comes to working with other target markets," emphasized the representative of Trousers London.

Apart from carefully observing the requirements of direct customers in London, the company also conducts some market research prior to choosing both the target market and distributor to work with internationally. As explained by Kaspars Upmanis, market research, however, is more based on the intuitive decisions made by the founders of the company than on strict, formal guidelines. "For instance, I regularly monitor all the blogs and social networks to see what is written about jeans and denim. This is one of the ways we follow the world's fashion trends and get to know our potential customers abroad better," he says. "Then, in the management team, we analyse these fashion trends and select target countries with a potential interest in premium class jeans wear and other products launched by Trousers London."

Trousers London, similarly to other born globals, employs a differentiation strategy and targets niche markets. "Our target is to create an exclusive series of coveted designs in organic denim, moving away from disposable clothing trends towards a new tradition of fashion," says the representative of the company. He further emphasizes that the main ambition of Trousers London is to maintain a specialization in high-quality, directional men's denim: "Each new jeans model is numbered in the order of its design; to ensure the exclusivity of the jeans, besides carefully selecting materials and applying intricate details, we give every pair of jeans a unique ID number," reveals Kaspars Upmanis.

When it comes to both production and organizing the distribution of products to international markets, Trousers London has chosen to contract a manufacturing company in Italy. Indeed, according to entrepreneurship literature, many internationally oriented companies choose to outsource their manufacturing process in order to reduce fixed costs, thus enabling them to focus on their competitive advantages (e.g. Lymbersky, 2008). The choice of outsourced manufacturing and distribution was also determined by lower investment requirements and less financial risks. As explained by the representative of



Trousers London, “We are liaising with distributors and shipping companies as well as taking care of picking up the goods from the manufactory, etc. The manufacturer only makes the product.”

At the beginning of 2010 an Internet sales platform was introduced by Trousers London: “Online commerce erases the borders between nations and the Internet sales platform is very important for our company – it generates 30% of sales annually. We forecast that its role will increase every year,” says the representative of the company, highlighting the need to constantly look for new solutions to become further established in the global markets. Indeed, Trousers London has a very strong international outlook and entrepreneurial orientation even today: “There is never a bad time to start doing something. If you don’t try, you will never know,” says Kaspars Upmanis, leaving the strong impression that the company is on its way to further successful international activities. Furthermore, Kaspars reveals that all three owners of Trousers London are also developing other business concepts that are not directly linked to fashion.

6. Conclusions and Implications

When it comes to understanding the general patterns of born globals originating from Latvia, empirical findings from the four case studies suggest the following key characteristics. First, born globals seem to have superior product ranges, knowledge and quality, which allows them to compete in the international arena. These companies usually produce niche products and seek to achieve growth via market diversification and economies of scale. Second, one of the characteristics, and at the same time advantages, of “born globals” is that they have management structures that allow for a relatively easy decision-making process to take place. This in turn makes both planning and implementation of expansion strategies more effective. Third, managers of born globals have a very strong international orientation and the motivation to create a successful-growth oriented business.

Furthermore, born globals purposefully, and usually at the very early stages of their



business activity, choose a company name and brand name taking into consideration the ease of pronunciation and clarity of meaning in international markets. Also, the product design and the structure of the company are created to suit international markets long before these markets are actually entered. It can also be observed that international expansion strategies are very much driven by the features of the product the company is offering, which also influences the choice of the international market. The early internationalization of most of the companies analysed above is also influenced by the size of the home market and by the firm's production capacity and competition in target markets.

Responding to a growing trend of environmentally friendly products and understanding the impact of human activity on the earth's ecosystem, born globals tend to choose "green" marketing strategies. The cases also suggest that born globals end up exporting about 70% of their total production. Furthermore, in contrast to born globals that originate from more advanced market economies, these entrepreneurs do not have any prior international business experience before planning their international expansion strategies. This pattern can be explained by the relatively recent shift from planned to market economy in Latvia and the fact that Latvia entered the European Union only in 2004. For this reason, most probably, reliance on personal and business networks is also not a dominant feature and business networks are usually developed through foreign business operations.

Interestingly enough, despite lacking international experience and facing financial constraints, born globals "born in Latvia" tend to choose to enter several markets simultaneously in order to seize an emerging chance or forestall competition. Two key strategies are used when making a strategic decision to select target markets: the proactive way of screening markets where demand is theoretically the biggest or the reactive way of accepting offers from cooperation partners.

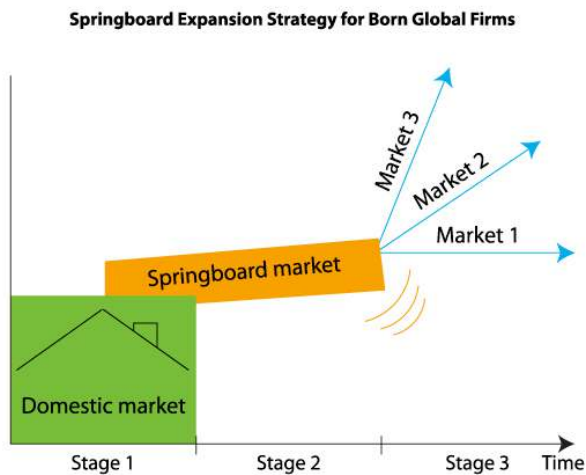
Furthermore, aiming to answer the question of how born globals should plan their expansion strategy in order to succeed internationally, we propose a model that could



potentially be used for internationally oriented companies, especially those that originate in small economies with a limited local market size, such as Latvia. In building the model we draw both on the relevant conceptual discussion in the entrepreneurship and strategy literature and on findings from the case studies. To summarise, we find that the sooner born globals start their internationalization, the better. This is important since typically born globals have products that are usually developed in the “local” market and possess unique value added features as compared to competitors. Our observation suggests that it is important to act very quickly in order take advantage of such value added features.

One way to do this is by carefully selecting the first foreign country or “springboard market”, which would allow the company to meet economies of scale and to acquire the needed experience and financial resources for successful future growth. The logic behind the “springboard strategy” (see Figure 1) is that born global companies usually start to internationalize in the first years after establishment, as the niche market is too small in the domestic market to provide uninterrupted growth. Usually such companies have developed unique or technologically advanced products that help them to differentiate themselves from competitors and to develop their own niche market. However, the companies are aware that, taking into consideration the tough competition in the global arena, such a superior position is not likely to last for a long period of time. This creates pressure on born global firms to expand globally very rapidly in the first years after foundation. Therefore, born global companies should accumulate knowledge and experience in the home market as quickly as possible.

Figure 1. Springboard Expansion Strategy for Born Global Firms



Source: Authors

For this reason, we suggest that a company should not operate in a domestic market for longer than six months. Meanwhile, we suggest starting to select the first strategic foreign market, which would allow the company to meet economies of scale and to acquire the needed experience for further successful growth. It is also important to consider that, especially with limited resources to invest in international expansion, entering global markets can take time – this is another reason to start working on this from the first day of operations. The first market could thus act as a “springboard” that allows the company to achieve more rapid growth and accumulate needed financial resources in order to continue the growth in several host markets simultaneously.

We acknowledge the shortcoming of the case study approach, of course, when it comes to the generalization of the model and thus welcome further research on this topic.

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