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## SME Internationalization: Exploration of Unknown Territories by Strategically Seizing Serendipity

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### 17.1 Entrepreneurship: Seize Opportunities and Gain Experience

Frank Wilson has been an entrepreneur for quite a long time and describes himself as a lifelong SME entrepreneur. During his school days, he turned his hobby into a business. With several of his friends, he bought all the components that were necessary to assemble loudspeakers, putting them together on weekends and selling them to an extended circle of friends. This is not to say that constructing and selling loudspeakers generated a regular income, but at least it earned Frank enough money for all of them to expand their CD collection.

No doubt, selling self-made loudspeakers to friends was not about “profit maximization”, since sometimes they had to be sold even below production costs. Instead of gaining an “financial profit”, it was more about keeping the costs of the components low by purchasing them in East Asia. A “stop-loss” (instead of “profit maximization”) strategy kept the young entrepreneur in this venture. Finally, in retrospect, the economic success of the loudspeaker venture was less important for Frank than the business experience he was able to gain.

Nowadays, Frank makes his living in the cosmetics industry, because he realized its potential rather coincidentally and seized arising opportunities. His uncle, a well-known dermatologist in Central Switzerland, explained to him that many mass-produced skin creams do not contain a substantial degree of active substances which protect against skin

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aging. Furthermore, people who have sensitive skin tend to suffer from allergies and skin rashes because of the preservatives in traditional mass-market products. In order to help his patients, his uncle therefore developed a skin cream based on his own anti-aging formula; he believed the specific ingredients to be very effective against skin aging without the negative effects for those suffering from skin allergies.

Frank's gut feeling told him that his uncle's skin cream could be a commercial success. He invested some time into research about skin creams, interviewed dermatologists, and gathered information about existing products. It quickly became clear to him that the skin areas around the eyes in particular need special protection, constituting a skin-cream niche market with specific challenges and opportunities. When the muscles around the eye slacken with age, so-called "periorbital dark circles" develop. Only if the body's own collagen and elastin structure remains intact and so-called free radicals are intercepted, the natural aging process of the corresponding muscles can be slowed down or even stopped to some degree. In addition, the skin around the eyes is usually very thin and gets increasingly thinner with age; if conventional preservatives are applied, an allergic reaction is likely to occur.

Frank and his uncle discussed which additional active ingredients needed to be added to his existing skin cream to be effective as an eye cream. They concluded that the existing anti-allergenic base of the cream needed to be kept intact, because the sensitive skin around the eyes meant doing away with perfume, parabens, paraffin, and, of course, aluminum. However, in order to serve the special needs of the skin areas around the eyes and the eye-ring muscles, the existing formula was supplemented with a specially prepared variety of peptides. As a result, the eye cream "NatureYou" was born.

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## 17.2 Internationalization: A Matter of Strategy

Seven years after establishing "NatureYou", Frank looked back at some of the ups and downs of this venture. The start had been much harder than he had expected. No bank had granted him a start-up loan, and venture capital institutions could not be convinced of the potential of the "NatureYou" business idea. Without considerable financial support from family and friends, Frank's personal trusted social network, "NatureYou" would now not exist. In other words, Frank faced a lack of capital, and instead of expecting a profit for himself, he wondered at the beginning how long he could hold out and whether he had any prospects of actually ever earning any money with "NatureYou".

Despite the funding worries in the early phase, "NatureYou" was growing slowly but steadily and quite soon had twelve full-time employees. Meanwhile the one-product start-up had become a company with a slightly wider range of skin and eye creams. A "NatureYou" day cream—with its UV filter and active ingredients against pigment spots on the one hand and a night repair cream with retinol and a vitamin complex on the other hand—completed the successful eye cream offer. In order to bring all his products to the market, Frank had mostly been relying on direct sales via internet, which increased the

profit margins for “NatureYou”. Thereby, Frank was also closer to his customers and their needs. For him, customer needs always come first. Satisfied customers and their feedback have always been of more appeal to him than the return on investment. Frank’s customer focus may thus help secure his company’s success, but an entrepreneur can also have sleepless nights if the profit and liquidity needs of the organization are neglected.

In addition, Frank was active in the Central Switzerland SME Business Network Association. He took every opportunity to present his business to other SME owners and also provided them with potential ideas and advice. During one of these exchanges, Frank had a conversation with another entrepreneur, Dietmar Junker, who told him that he had been in a similar situation few years ago. Everything was going well for Dietmar, and his company was making a relatively solid profit. He told Frank that at some point one needs to answer the question of how to professionalize one’s business so as to ensure the company’s long-term success. How to transform the company from a start-up which depends heavily on the entrepreneur’s personal actions and involvement into a professionalized organization of a certain sustainable size to ensure its long-term survival independently of the founder.

A question closely related to the long-term survival of the company is how far it can grow and whether the business should be internationalized for this goal; because by now, globalization has become a viable option for SMEs, too. Of course, “NatureYou” also had options to professionalize as well as internationalize, and Dietmar’s advice was that since Frank already largely used digital direct sales, his potential international customers were only a mouse click away; so why don’t you offer your successful range of creams on the global market?

After the conversation with Dietmar, internationalization suddenly seemed to be a very logical next entrepreneurial step to Frank in order to ensure the long-term survival and growth of “NatureYou”. Up to now, the option of growth and internationalization had never occurred to him. Everyday business had distracted him from considering where he would like to steer “NatureYou” to in the long term.

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### **17.3 Internationalization: Just another Business Opportunity the Entrepreneur Seizes Upon?**

Should “NatureYou” internationalize? Frank couldn’t get this question out of his mind. So he called Michael Hartman, his “wing man” since he founded “NatureYou”—a trusted colleague and friend. Even though Frank is the sole owner and final decision-maker of the company, he takes advantage of an unofficial but trusted “sounding board”, which allows him to discuss and reflect business matters he perceives as relevant. Michael is a regular practitioner in this sounding board and had also been the main driver behind Frank’s decision to strategically position “NatureYou” by utilizing a direct marketing approach via internet—recognizing that distributors would charge very high margins, which would result in “NatureYou” skin creams being unnecessarily expensive for end users.

Frank told Michael that he would like to discuss significant strategic changes: “NatureYou” should go international. Michael, who was very familiar with Frank’s spontaneous initiatives, responded immediately: “Frank, I think that you are on the right track, we should plan out more where we want to steer ‘NatureYou’ to in the future. Our products are doing well with our existing regionally focused and relatively small but loyal customer basis, no doubt about that. But at any time, the company is run on a day-by-day basis while customer demand is fluctuating sometimes unpredictably. We react when the unexpected happens, such as with promotions and discounts, but what we need to do is to more proactively develop markets so as to create more overall demand. We need to drive ‘NatureYou’s’ future more actively and strategically, and going international might be the right strategic move.”

At first, Frank didn’t feel comfortable with what he was hearing. He didn’t feel that “NatureYou” just reacts to the unexpected. From his perspective, there was no need to make major changes, apart from taking advantage of a good opportunity if it arose. Of course, Frank was aware that organizational development, including going international, should be approached strategically from a planning point of view. On the other hand, too much planning obstructs one’s view on the big picture and, in the worst case, results in failure to seize the opportunities that arise spontaneously.

Meanwhile, Michael went on talking about prospective proceedings on the basis of solid strategic planning, instead of simply relying on gut feelings about merely assumed opportunities. At the same time, he stressed the need to bear in mind that they would lose on a larger scale if something went wrong with the international expansion.

Frank had always been proud of his gut instincts and liked to tell others that he had set up “NatureYou” without a business plan. If he were to reflect on his “success”, it would probably be based on how he would embody entrepreneurship, namely “courageously seizing opportunities, utilizing networks, and finding comrades-in-arms who strongly and firmly push in the same direction”. Objectively speaking, he believed he had achieved a lot with this approach.

Frank felt that he needed some time for himself in order to reflect on the situation. He agreed with Michael that they couldn’t make such a far-reaching and impactful decision right away. Frank suggested for both of them to contemplate more about whether and how they should approach the potential internationalization of “NatureYou”—sticking with the entrepreneurial mindset that had made them successful so far, or with a stronger focus on the strategic planning process. Maybe determining the future path of “NatureYou” would require bringing these different perspectives together.

## **17.4 A Strategic Approach Finds its Way into the Organizational Development of “NatureYou”**

For the next few days, Frank couldn't stop thinking about internationalization. Intuitively he knew that “NatureYou” was limited in terms of its domestic demand and growth potential. This was a small niche-focused company compared to the major cosmetic brands. SMEs like “NatureYou” just cannot compete with the marketing and brand power of the global industry giants. Frank realized that “NatureYou” very quickly gets into an existence-threatening situation if the domestic SME experienced problems with its products due to changes in customer preferences. Frank sensed that the growth question had been up in the air for a long time and that he had successfully ignored it so far, in the hope that opportunities would arise in the future.

Michael Hartman was also worried. He admired Frank for his intuition and his flair for anticipating the right timing. He had watched Frank discuss situations that required important decisions amongst a large number of stakeholders. He knew that Frank wouldn't allow himself to be confused by many different perspectives; he uses partial information and puts it together like a puzzle to form a coherent overall picture that allows him to come to a decision. Michael admires this “holistic-gut-feeling” approach, but at the same time it remains totally peregrine to him. As a graduate economist, Michael prefers to proceed in a “strategic and planned” manner by analyzing the alternatives and evaluating them using various criteria. He then selects the most promising strategy and scenario from his point of view. Surprisingly, what seems to be a contradiction between Michael's and Frank's respective methods has almost always led to quite similar results—two different entrepreneurial approaches led to the same goals; but the question is whether that would also be the case if “NatureYou” went international.

To Michael, it has long been clear that “NatureYou” ultimately doesn't generate enough profit to be able to invest the amount of money needed for research and the development of new products to serve the zeitgeist. Further development of all current products would also be too expensive, as the home market is too small to justify such an investment. Therefore, Michael realized that the time had come for “NatureYou” to set up a continuous strategic management system and to consider internationalization as a strategic growth option. Furthermore, he was convinced that in principle, the necessary knowledge of what to do was available within the company—but that they also needed help to capitalize on this wealth of knowledge. It seemed logical to him to hire a consultant for a while in order to question and discuss the strategic options and growth alternatives.

### **17.5 The Outsider's Perspective: Establishing a Systematic SME Development Process**

A week after their first meeting, Michael Hartman and Frank Wilson meet again to review the internationalization plans of “NatureYou”. The following is a description of how their conversation went:

Frank: “I think we should talk about the alternatives we want to consider for the future path of ‘NatureYou’. Over the past few years, we have been focused on the founding process and getting the existing business on a secure path to the best of our knowledge and belief. We have succeeded in doing so, and now is the time to think more about the future, about opportunities to grab and treats to manage. I agree that we cannot just rely on the hope that additional opportunities will arise in the domestic market for the future growth and prosperity of the company.”

Michael: “I see it the same way, we should proceed strategically and analyze the various options we have in order to then decide, based on concrete criteria, how we want to lead ‘NatureYou’ into the future. Let’s clarify which way we want to go. I suggest that we get outside support—someone with an objective view on our SME, who can and should ask probing questions, and who would be able to help us. What do you think about this idea?”

Frank didn’t really like the idea of calling in a consultant for helping them with the upcoming development towards internationalization possibilities and alternatives. He considered the consultant fees to be completely overpriced and ultimately “wasted money”. For him, consultants were something for managers who cannot or do not want to make decisions themselves. But was “NatureYou” and thus himself now in such a situation, was he shirking a decision?

Frank: “Michael, you know I’m not a fan of external consultants. But I understand your argument, and a consultant may be able to advise us on a few ideas and provide us with an innovative point of view to help us make the right decisions. Let’s set a budget that we are willing to spend on a consulting service. If this consultant helps, that’s great; otherwise we just accept the wasted costs. But I don’t want to have any of these ‘smart’ advisors in our company for an unlimited period of time.”

Michael, who had recently completed an MBA program at a renowned university, suggested hiring his MBA lecturer, Andrea Bucher, who taught strategic and international management and at the same time provided strategy consulting services and workshops for SMEs in the context of internationalization. Frank agreed to Michael’s idea.

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### **17.6 Strategic Internationalization Paths and Defining Target Markets**

Andrea Bucher, who has strategically advised a large number of SMEs, invited Frank, Michael, and some other “NatureYou” stakeholders of Frank’s choice to strategy workshops. She asked the participants to analyze and define the assets, capabilities, and

core competencies of “NatureYou”. An in-depth analysis of the existing Central Switzerland market and the competitors provided a solid insight into the opportunities and risks “NatureYou” faced. Furthermore, Andrea guided them through the process of compiling strengths and weaknesses of the organization, then used the results—in combination with market knowledge already acquired in a SWOT analysis—to come up with options for various strategic initiatives.

The various further workshops reinforced Michael’s and Frank’s belief that “NatureYou” could only justify and shoulder the necessary future investments to develop and upgrade their skin cream portfolio for both the local and potentially the international markets if the organization reached a critical size. While they discussed potential growth strategies, it turned out that a wider national focus wouldn’t entirely solve “NatureYou”’s size problem; and while analyzing their customer base, they realized that “NatureYou” already supplied its skin creams beyond the Central Switzerland region. Internationalization increasingly crystallized as a rationally justified and logical strategic path for “NatureYou”.

Andrea Bucher explained various alternative internationalization strategies and encouraged the participants to reflect on the “NatureYou” context for each alternative. Frank, as the main decision-maker, founder, and owner realized that an additional one-on-one-coaching with Andrea had helped him become familiar with a traditional export strategy for the existing “NatureYou” products, as a first meaningful internationalization step. Andrea gave the team the task of analyzing various potential international markets with regard to their opportunities and risks for “NatureYou”. Gradually, based on solid alternative market analysis as well as on “NatureYou”’s strengths and weaknesses, the pilot export market of Dubai emerged as a suitable first market step in their move to internationalization.

The strategic analysis of Dubai highlights, among others, that the business-friendly governance, the free movement of capital, and a high level of internal security make the Emirates an attractive business location for even further internationalization steps in the future. Dubai is the most important trade hub in this middle-eastern region, as a market the size of the EU population opens up from there. Furthermore, the Dubai State Economic Development Agency is known for its support to new companies willing to enter the market.

What was also of importance for “NatureYou” is that the high income level of Dubai residents promised good sales opportunities of “NatureYou”’s quite high-priced skin creams—and the annually 14 million high-spending tourists who value Dubai as a shopping hub further increased sales probabilities. In Dubai City, where 85% of the three million inhabitants of the emirate live, the distribution costs for “NatureYou” were quite low. In addition, Swiss quality and luxury products are particularly popular in the United Arab Emirates, despite or perhaps even because of the high price levels.

Convinced by the analysis done by the team, Frank was confident giving a green light for Dubai as “NatureYou”’s international pilot. The next step was to work out a suitable entry strategy. In order to minimize the risk for “NatureYou”, and to maximize the chances

of success, the project team suggested to look for an experienced sales and distribution partner in Dubai.

Michael was very satisfied with the progress and the methodical approach. The “NatureYou-Dubai” project was accelerating quickly and in a focused manner. The Dubai State Economic Development Agency was extremely professional and provided initial, promising contacts. Following on the defined “action plan”, “NatureYou” set up a booth at an annual cosmetics fair in Dubai. The fair proved to be very successful for “NatureYou”—a “lucky punch”. The sales company proposed by the Economic Development Agency was very interested in the “NatureYou” skin cream products. It offered to organize the FDI approval for Dubai—and the United Arab Emirates (UAE) at large—and to initiate marketing for Dubai as well as for the other UAE emirates. Ultimately, as a first internationalization step, “NatureYou” successfully implemented the strategic plan developed for Dubai. One can speak of it as a success story even if the sales figures in Dubai were not yet within a range in which “NatureYou” actually earned money there. Undoubtedly, “NatureYou” gained the relevant knowledge on how to strategically perform internationalization steps, and once the full potential of the United Arab Emirates was raised, Frank was optimistic this step could be the game changer they had been waiting for from a profit perspective.

Either way, Frank was extremely satisfied with the successful market entry in Dubai, and thus the consultant’s systematic and logical approach satisfied him. He was certainly very glad that he had followed Michael’s advice.

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## **17.7 Internationalization: A Social Network Constructivism Task**

Frank really enjoyed the strategy workshop lessons and the coaching Andrea Bucher had given them. He also communicated and discussed “NatureYou” going international on his social networks whenever and wherever possible. So it was no surprise that he let his long-time golf partner Rolf Enderson know about his plans over a round of golf.

Frank: “Rolf, ‘NatureYou’ is entering the international market. With the help of a consultant from university, we have analyzed and evaluated several alternatives and eventually chose Dubai. At first, I was skeptical, as I was not familiar with Dubai at all. I have no networks or contacts in Dubai who could provide me with information about the market there. Perhaps adopting a really systematic approach with the assistance of external expertise can make internationalization work for an SME? What do you think?”

Rolf: “I understand the dilemma. How can you enter an unknown market without experience and trustful partnerships? If you make the wrong decision, this can be fatal for an SME. I really don’t know much about Dubai. Ultimately, however, it is success that counts. Have you ever thought about going to Asia with “NatureYou”? The greater Asia region is certainly not an easy market to succeed on, but I have personally made very good experiences in Thailand. The country is characterized by a growing middle class with steadily rising incomes. Thailand is not just the land of smiles, but also a hub for design,



fine arts, as well as cosmetics in Southeast Asia; creams from Korea, for example, are extremely popular in Thailand according to a friend of mine who is living and working there. ‘NatureYou’ has great cosmetic products, so why shouldn’t it be successful in Thailand, too? What works in Dubai should also work in Thailand, don’t you think?”

As already a couple of times before, Rolf thus inspired Frank and activated his entrepreneurial spirit for opportunities. Frank grew very interested in the idea of going to Thailand with “NatureYou”. He would have liked to have a second international pillar besides Dubai, and Asia was a growth region everyone was talking about. In addition, he could literally “feel” this Thailand venture might work. Frank had been to Thailand several times as a tourist and was very impressed by the country and its people. During those visits, he had not seen Thailand as a potential business location, but Rolf had already awakened his interest. Nevertheless, was it really a smart idea to venture into both markets, Dubai and Thailand, nearly simultaneously? Frank’s entrepreneurial spirit and intuition came to force and he asked himself what he had to lose if he continued to pursue the coincidentally popped-up Thailand option.

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## 17.8 Internationalization by Leveraging Trusted Networks

Frank, who was looking forward to meeting Rolf again, didn’t have to wait long to meet his golf and business friend. They had been supporting each other for many years, providing each other with relevant information, business opportunities, and friendly advice. The relationship between them was based on experiences they had made together and on the resulting mutual trust; along with other business partners, the two formed a business network in its “best sense”.

Frank: “Rolf, do you really think ‘NatureYou’'s cream assortment could be successful in Thailand? The friend you told me about—the one who lives and works in Thailand—, would he be a possible contact person for me? A potential business partner to figure out possibilities?”

Rolf: “Frank, I think Matthias Keller could be a valuable contact person for you. I’ve known him for a long time, we were in the military together, I would call him a friend I can trust. He is ‘cut from the same cloth’ as we are. As far as I know, he is a member of the Thai Chamber of Commerce and the Rotary Club of Bangkok. I’m pretty sure he could prove to be a valuable business partner for you. I will establish the contact and you can discuss the matter with him.”

Rolf gave his friend Matthias Keller a personal call and quickly established the contact between Frank and him. The first contact with him turned out very promisingly for Frank. He found out that Matthias was married to a Thai woman, whose family is specialized in importing all types of goods and products from Europe. Matthias held a senior management position in the company. An opportunity to leverage within a trusted network seemed to be opening up.

### **17.9 SME Internationalization Based on Personal Relationships and “A Gut Feeling”**

Frank felt he needed to meet Matthias personally, since he did not want to make a decision about a business partner without first meeting him in person. Matthias agreed to meet in Bangkok for a personal talk at the famous Oriental Hotel.

After just a few hours of small and business talk, Frank and Matthias came to an agreement. Both were “old-school entrepreneurs” and, as Rolf Enderson had assumed, “cut from the same cloth”. Together, the two businessmen agreed to seize the opportunity and give “NatureYou”’s skin creams a try in Thailand. They set out a financial and organizational conceptual framework that was intended to ensure a successful market entry and, at the same time, remained within a cost range. Matthias was to receive distribution rights for “NatureYou” in the long run, and in return, he would take care of FDI approval, customs procedures, and the various sales activities. If the set minimum turnover that was agreed upon by both of them was not reached within two years, the business relationship could be terminated by either side. Frank agreed to make a certain number of his skin creams available as promotion and advertising samples and furthermore promised to provide the creams on a “cost-price basis”. Matthias would utilize his company’s network and sales organization to open the doors for “NatureYou” in Thailand.

The contracts were not yet legally formulated, but the chemistry between the two future business partners seemed to match. Frank was very optimistic that a business partnership with Matthias would lead to a win-win situation, which, to a certain extent, was a great leap of faith on his part. But his gut feeling confirmed that he was on the right path, flanked by a stop-loss strategy regarding the overall investment.

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### **17.10 Many Roads Lead to Rome, but which One Is the Most Effective and Efficient?**

After a few months, it turned out that “NatureYou”’s business activities in both Dubai and Thailand were developing promisingly. Frank took into account that “NatureYou” still had quite a way to go to generate a sustainable profit in both markets. However, he was already thinking about entering other markets in Asia. In addition, Michael and Frank sketched a plan that included the development of a whitening cream for the new markets as soon as sales opportunities allowed.

Regarding further internationalization steps, in case the two international pilot markets fulfill profit expectations, Frank was wondering which steps he should take next. Should “NatureYou” even start producing its skin creams in Thailand? Should he dare to make a direct investment in a Southeast Asian country? Should he wait for opportunities such as the Thailand move and look for allies in his network to conquer further markets, or should he—as Michael had suggested—initiate a permanent strategic management process for internationalization within his team? Would the use of substantial funds for a well-planned

internationalization strategy be justified, as in the case of Dubai? Would it make sense to hire a full-time strategy expert or would the help of consultants suffice? Would he need more advice from trusted sources in the future, just to be on the safe side? Or should he maybe just combine both internationalization approaches he had applied recently, “strategically helping fortune perform”?

Frank drew up a preliminary conclusion on the internationalization of “NatureYou” so far. Without the strategic workshops, the in-depth analysis, and discussions with the team, they would not have taken the Dubai step. The Dubai endeavor was the ice-breaker, and the Dubai experience had been so promising that Frank, according to his temperament, had eagerly undertaken the Thailand opportunity. He decided that having a strategic planning approach, along with strategic decision-making as well as combined with entrepreneurship and exploiting opportunities, is not mutually exclusive but rather a complement to each other.

#### **Further Questions on This Case:**

1. How would you describe the alternative pathways of “NatureYou”’s internationalization? Would you relate your answers to concrete examples as exhibited in this case? Is there a path you would prefer?
2. Was Frank Wilson just lucky with his internationalization of “NatureYou”? Do you believe a “rude awakening” will soon follow?
3. What characterizes Frank Wilson’s entrepreneurial activity? To what extent do you think his way of making strategic decisions is typical of SMEs?
4. What do you think about the importance of “social networks” and “trust” for SMEs in general—and in the context of SME internationalization in particular?
5. Are SME entrepreneurs less inclined by nature to implement strategic planning before undertaking internationalization than MNE managers? If so, why do you think so?
6. Is there a common, or even superior, pathway on which SMEs internationalize their business? Is “NatureYou” a role model for SME internationalization? What do you think about the preliminary conclusion Frank had drawn from the internationalization of “NatureYou” so far?
7. If Frank Wilson had asked you how to “seize opportunities” to internationalize “NatureYou”, what would your advice have been? Do you think one of the approaches taken in this case is more or less superior than the other one? What would be your preferred pathway of internationalization?