

Strategies for Planned Growth to International Markets: An Application to the SME Appistear

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Abstract: This research aims to find the most appropriate strategy to bring the Mexican SME Appistear to an international market, focused on Latin America, so our investigation is related to the research question: what is the optimal internationalization strategy for Appistear? Using a qualitative method, based on the revised theories during this course, the best strategy for the specific case of Appistear is obtained. The results revealed that strategic alliances and franchises are considered as the best strategies of Appistear. In addition, Appistear is suggested to arrange its legal forms and manuals to adapt to its local market and create capacity for extending to international level at the same time.

Keywords: Internationalization of SMEs, SMEs in Mexico, Technological applications

1. INTRODUCTION

Small and medium enterprises (SMEs) are small-scale companies that have different classifications depending on the country of origin; for Mexico, as designated by the Ministry of the Interior (SEGOB, 2009) in a decree published on June 6, 2009 in the Official Gazette, the SMEs are classified as follows:

- A. Micro companies: those that have no more than 10 employees and annual sales of less than 4 million pesos.
- B. Small businesses: between 11 and 30 workers and services between 11 and 50 and annual sales of less than 100 million pesos.
- C. Medium enterprises: trade between 31 and 100 workers and services between 51 and 100 workers with annual sales of less than 250 million pesos.

This classification is a very important representation of the Mexican economy, which is recorded in this document. Another important point to discuss is the globalization that now is a change that facilitates and streamlines communication and integration at a global level (IMF, 1997). In business matters, globalization sometimes seems to favor only large and transnational corporations. This is not based on any facts as they are cultural, strategic issues and knowledge of resources factors limiting firms to reach international markets.

In reality, being an SME has certain characteristics that benefit it and gives it many opportunities to grow and venture into a foreign market. One of the strategies used even by large companies to obtain higher productivity is division into SMEs. Certainly, the situation to achieve SMEs leading to such market is not the same all over the world, and it is observed a greater lack of support for internationalization in Latin American economies as mentioned by Wilska & Tourunen (2001), presenting the said situation in Mexico.

So this research studies possible strategies to achieve implementation of a concept of SME selling mobile application to other markets, mainly to the rest of Latin America. It should consider all theories propounded by the great authors and their application to the small Mexican firm.

The SME for this analysis is Appistear, the company with a concept of downloadable mobile application for free on any smartphone operating system, offering home delivery service and marketing of wines, spirits and snacks. It is mainly targeted to the youth market and a night market. The concept arises from the need of coexistence of family and friends without the need to make their purchase personally. Appistear Company has a varied menu of wines and spirits, as well as a wide range of beer and snacks.

2. BACKGROUND

Today the Mexican business sector is basically made up of micro, small and medium enterprises; these represent the majority of the Mexican economy as the SME. According to INEGI, there are 4 million 734 business units representing about 99% of the Mexican economy, proving to be the real basis of the economy in the country.

Although it was mentioned earlier about the difficulty of internationalization in Latin America, Mexico has managed to enter the list of the ten trading nations worldwide and the first in Latin America, with a share of 45% in exports and 50% in total imports from Latin America. So it is clear that approximately half of businesses in Mexico that are now known to be mostly SMEs are those that gain entry to foreign markets for exports. Logically, the Mexican balance of payments still leans more towards imports than exports, giving a negative result; however, increased number of export SMEs is a current trend to be analyzed to boost SMEs growth.

The SME in this case is a concept born thanks to Lic. Carlos Galvez, who discovered that the market of the city of Guadalajara in February 2014 needed a home service that would allow the Tapatío market to have access to products and wine liquors at any time. Based on this, its mission is as follows: "Making fun and alcohol consumption in Mexico responsible and safe, and especially sharing with our friends using the technology as a point of convergence." As mentioned in its mission, the company also comprises the technology factor creating a brand specialized software. However, the customers must use the Internet, and be within the distribution area delineated by the company, to access the service and make orders.

Except for a competitive advantage over the schedule, there is a loophole that does not regulate the cellars, warehouses or distribution of alcoholic beverages for businesses that sell to the public. Moreover, in case of Appistear, being a company that has the only service through the sales application, it provides permits regulated in sales of alcohol, operating licenses or civil protection, etc. Thanks to this loophole, Appistear can cater to customers who request it at any time.

It is also necessary to mention its current major disadvantage. Appistear does not have sufficient infrastructure within warehouses, personnel and inventory to meet the demand of the entire metropolitan area of Guadalajara (MSG), and limits the exclusive service to a certain geographical area (Northwest of town). So, if the customer is outside this area or in another city, Appistear software recognizes the location and prevents him/her from ordering. It currently has two stores - one northwest and one in the southwest of the MAG, covering the western part of the city serving primarily Zapopan and Guadalajara.

3. PROBLEM DELIMITATION

It is known that SMEs represent the mainstay of the operation of the country's economic system within the economy and the workplace. However, not all SMEs have business opportunities.

Peng and Lee (2004) speak of five main business opportunities that can be detected to give impetus to the signature: creation of a new product, creating a new method of production of a new market, discovery or creation of a new factor of production and the creation of a new organization or industry.

Because of this the company Appistear is based on indicating as international entrepreneurship initiative (McDougall and Oviatt, 2000). A discovery of a new market in Latin America is achieved, as well as creating a new industry in the technology sector, combined with the distribution and home delivery of alcohol. So that leads us to the following research question:

What are the optimal strategies of internationalization to bring the concept of Appistear to international markets, mainly in Latin America?

It is necessary to conduct analysis of different strategies proposed by theorists regarding internationalization processes and the internationalization of SMEs, and considerations based on other theories, industry, institutions and resources.

4. JUSTIFICATION

In accordance with what has been revised in this study and the economic characteristics found in Mexico, international activities should be enforced to change the balance of payments to a positive balance and to support the market against a huge demand, since investments and foreign companies are entering the country at an accelerated rate, even with existing cultural problems.

It is known from the data collected in the previous sections that SMEs in Mexico are the foundation of the economy not only with the percentage of companies that are currently SMEs, but with what they generate. Pro-Mexico (2014) mentions in its article, according to data from INEGI, that SMEs in Mexico are responsible for 52% of gross domestic product (GDP) and 72% of jobs nationwide. However, firms of this size continue to take a very small part in Mexican exports. So that an opportunity is detected to grow in new markets and develop strategies that integrate economies and their small and medium size firms.

Thus, other aspects of the internationalization of SMEs should be considered, such as the financial, economic, legal, cultural and market that are analyzed in this paper, in order to take advantage of all resources, to create opportunities for global venture, to contribute positively to the economic environment and to meet increased demand for labor with higher wages.

These reasons are the pillars to boost Appistear to bring its concept to foreign markets. Regarding the company itself, it is known that in the technology industry in Mexico currently there are 33 million users of applications to make some contact with a company for a service or product. 67% of applications are downloaded for free and 50% of these are social networking. For Latin America there are 341 million users according to the article "Direct Marketing" (Marketing Directo 2014) and growth is displayed up to 374 million by 2017.

58% of SMEs currently use applications for marketing and sales purposes, 31% of those using this media reported an increase in their sales and profit. An article by CONACYT prepared by Guerrero (2015) mentions relevant information of this industry in Mexico. According to this article, 85.8% of the population have mobile devices, which means that the phone market will reach 173 million users in the republic by the end of this year.

Regarding industry of alcohol and beer in Mexico, it is a widely consumed beverage. According to data in an article of the day by Gonzalez (2013), Mexico ranks 6th on the list of countries with the highest per capita beer consumption of 62 liters per year. As it is clear that the product is sold without advertising support or a conviction of market, it is the desired and known product in the Latin American market.

These data allow glimpsing a possible success in these markets for the concept of Appistear, and offering some assurance to venture such marketing. However, it must first review the strategies of internationalization that Mexican SMEs implemented, expose the most relevant theories on which the firm should be based and find the opportunities and risks that face the firm. The research assumes that the strategy, resources and innovations of the Mexican SME Appistear positively impact Mexico's exports to Latin America.

5. CONCEPTUAL FRAMEWORK

To analyze internationalization theories, Vargas, Guerra and Bojorquez (2014) mention that the firm must be analyzed first for certain considerations based on three main pillars, in order to prepare for its quest for internationalization.

5.1 Considerations based on industry

To analyze these considerations, it is necessary to mention the framework of the five forces of Porter (1980) that should be clarified first to give an idea of the position of SMEs analyzed in their own industry. As for Appistear it has the following table:

Table 1: Forces of Porter for Appistear

<i>Rivalry between firms</i>	Due to the type of service and product offered by the company, the rivalry with other companies producing mobile applications is very high. The war becomes primarily geographical, to locate stores in certain locations and cover the market.
<i>Entry barriers</i>	They are mainly geographical and local suppliers, competitors may know the area better and get special deals with local suppliers to reduce their costs.
<i>Bargaining power of suppliers</i>	This should be considered first of all, as for Appistear getting an economy of scale is a key point for the development of the company as well as for reducing risks such as creating their own barriers to entry.
<i>Bargaining power of buyers</i>	It is very big and no matter to which market it is directed to, as the product is notable in the sense that it neither requires great publicity nor is a new product. However, it is in great demand in all markets worldwide.
<i>Threat of substitute products</i>	There are no substitute products as the product's goal is unique. Obviously, the menu should cover all products handled at national and local level in each place.

Source: Own elaboration

Therefore, it is observed that the analysis in this regard should focus on bargaining power of suppliers and rivalry among firms, which are the main factors that can create barriers for the firm. Peng (2012) mentions that when bargaining power of suppliers is very large, it is necessary to reduce it as it can break the chain of supply of the product or significantly reduce it, causing the price increasing and removing the competitive advantages of the company.

5.2 Resource-based considerations

In this sense, it should be considered the framework of VRIO model proposed by Peng (2015), which tells of the values and rarities, not imitation and organization of company resources. These are usually intangible, although there are tangible items that can generate these values. Vargas, Guerra & Bojorquez (2014) speak of the interaction of the resources available to the company by creating an objective strategic development of factors and making capabilities generate competitive advantages.

The resources available to Appistear that can generate factors within the framework of VRIO are mainly its trade mark registered only in Mexico and must register with the WIPO (World Organisation for Industrial Property), and in each country of Latin America to enable venture. This is a very important resource since it is generated by the presence in the minds of the market and gives a dynamic quality of service and value of their products.

Another important resource to mention is the software with which the application operates as its development took more than two years and currently keeps changing according to current market demands. So it has the need to follow updates to provide better performance and accessibility and gain competitive advantage over other applications of lower technological development. In this way it could be found this time that the SME provides with a new business positioning resources as something rare or unique (Barney, 1997).

5.3 Considerations based on the institutions

Institutions can be formal or informal but they all generate certain restrictions issuing the rules, referring to the way in which they must operate firms (Peng, 2012), just as North (1993) defines them apart from regulatory, as devised constraints representatives that shape and give guidelines to the interaction of society that represents them. Also, he mentions the differentiation between formal and informal institutions pointing to the former as those that generate the rules, laws and regulations of society and to the latter as generating values, culture and ethics of society itself.

This is very important as businesses rely on these institutions for their competitiveness or decrease or increase in transaction costs as mentioned by Vargas, Guerra and Bojorquez (2014) with reference to Fadahunsi. In the case of SMEs analyzed it is even more relevant point, because as mentioned, the company operates under a loophole in Mexico that allows you to reduce transaction costs in a very relevant way and allows it to operate out of certain restrictions not be fully regulated the operation of mobile applications.

In the case of Latin America, it is something that should be reviewed in each of the legal frameworks of countries. Overall, in Latin America there is no time restriction and people can consume and buy alcohol at any time. However, all establishments offering the products are regulated. In the case of Appistear there is a store that offers products directly, although the regulations for stores and warehouses of such goods should be reviewed.

In this sense there is a great risk for SMEs that should be considered. Also, informal institutions represent an important point. Culture addresses the problems of alcoholism and other vices that can create barriers at the time of entering certain markets that have a more religious or morally ethical culture.

5.4 Theory of internationalization

This theory has its first approach thanks to Coase (1937) who explains the application about the size of companies and the cost of using the market. Its main approach says that multinational firms are a mechanism to manage value activities across national borders. SMEs face certain obstacles to bring them to an international market; the first is the high transaction costs. These costs must be reduced with an internalization and checked with local suppliers if possible to get inputs or resources.

Dunning (1988), one of the main creators of international theories talks about the advantages that allow internationalization: first is the advantage of the assets owned by the company. In case of Appistear it is mainly remembered their intangible assets such as brand and software, as a technological capability that allows you to create a competitive advantage. Another one is the ability of management and internal coordination of the activities of the firm and location that should include considerations of institutions and providers in the specific geographic area where it is intended to venture.

Regarding the internationalization process, there are certain approaches that differ from the above, an example of which is the approach, which considers the internationalization as a gradual process, it means that companies start their operations in their domestic market, and the internationalization is a direct consequence. This theory can be tailored more to Appistear. However, it still has a wide range to grow in the domestic market, and with great potential to enter an international market in the same way.

Analyzing the outputs of the theory of internationalization can raise the strategies that are most optimal for SMEs. Peng (2012) points out mainly three: direct export, licensing or franchising and foreign direct investment. The first of these strategies is the direct export, which is to sell products manufactured in the company's country of origin to other countries (Vargas et al. 2014). This strategy is not very attractive for SMEs being analyzed in this paper as the export products would increase transaction costs to the point of returning to non-profit firm. However, the product is fortunately presented anywhere in the world, with local extras products.

As for the next strategy of licensing or franchising Vargas et al. (2014) first mentioned the difference between these two concepts. Licensing is where the company agrees to give some of their rights, and certain processes or the use of the mark, mainly in manufacturing. Instead, franchises are more common in services and consist of granting certain rights to the company in exchange for economic compensation fees or royalties.

In the case of Appistear it may be a good idea to pass this way its know-how and intangibles in exchange for certain fees and controls in other Latin American locations and resources as the investment in this way should not be performed directly by the company and the marketing structure can be used equally nationwide. Finally, it is the foreign direct investment strategy used to devise strategic alliances with potential partners in the country where the company wants to enter, and sell or subsidize overseas property. This way it can be set abroad and control and manage the firm with its resources of the place and the proximity to customers.

As in the first alternative transaction, costs can become very high and sometimes, depending on the intended market, can cause very complex operations, so that apart from investment and financing a certain level of administrative commitment is needed. As Appistear is an understaffed SME, this measure is not possibly the most optimal, unless a partnership with someone related to the business as a strategic alliance or through Joint Venture is made. These measures are more flexible and there is a large number of successful cases concerning the internationalization hereby. However, certain advantages and disadvantages must be considered that this strategy leads to, to be implemented in case of SMEs. While the advantages include reduced costs, risks and uncertainty faced by companies, since they do not really know the target market, partners can support with ideas that they know to be working in your area. Another advantage is the opportunity to learn from these same partners and establish networking. This way it can help to create better vertical marketing systems.

As for the disadvantages, it is choosing a bad partner, i.e. not to support the cause. Another point remains in negotiation and coordination costs of the alliance and that the target market is in a faraway place, so these costs can raise dramatically. A disadvantage of this strategy can also be the possibility of suffering opportunism of the partner and stay to the end without getting any benefit from the alliance made. Finally, there is a risk to assist the development of potential competitors and eventually to be left with only knowledge and the firm to be displaced.

In this sense, Appistear can perform certain controls to choose potential partners well and reduce this uncertainty. It may also have a planning on what are the things that can be shared and which resources will remain private for the company. It should also be considered that although partners are handled, national organizational structure should be improved to give help and support to partners in other distribution points.

6. ANALYSIS OF RESULTS

Based on the revised considerations and strategies presented for a possible internationalization of SMEs (Peng, 2012), the best strategies for Appistear can be analyzed as well as its expansion abroad through strategic alliances and licensing or franchising. Investment is achieved in both cases from partners in the international market, where it is intended to penetrate. The main difference between them is that strategic alliances and investment are needed for the Mexican SME to open a new sales point or conduct negotiations with a new partner. But it does not require an extra initial investment; the company can conduct a market study and start with the most attractive countries for investment.

But for franchises an initial investment is needed to create the structure, manualization, financial and legal development and to offer business model with international quality. This initial investment will be reflected when it starts selling franchises and a new extra investment will be not necessary every time a new sales point is opened or a new negotiation is agreed for sale because all transaction costs are already included in the franchise fee and are covered by the investor and next franchisee.

Both options require growing an organizational structure where the firm was established to support and give help for future partners as well as the need to share. In the case of Appistear, its intangible resources, i.e., its brand and software, like the knowhow of the company, refer to current processes that are in use and have been successful in the domestic market.

A very important point to consider between these two options are the remunerations and the alliance that requires not initial but continuous investment in each sales point. If the franchise is upside down, the final salaries are also different. In the case of strategic alliances the company shares the profits of each business developed and distributed in terms of resources and funding invested in it, so Appistear already has a great contribution of resources.

In the case of franchises they handle a much lower risk because profits will directly profit partner. However, the entrepreneur has to secure a share called royalties in which monthly or yearly the partner or franchisee agrees to pay. There are different ways of royalties that may be percentage of the net sales of the franchisee or may be a flat fee regardless of the amount of sales. The disadvantage of the former is equally sharing some risk, even if the business is also growing profits for both. The second form is not sharing any risk, but if the company growth does not receive any incentive and the sales point closes, it will have a direct impact on the brand name.

7. CONCLUSION

In conclusion, it can be assessed that based on the resources and organization, Appistear accounts to be the company, the best strategies for which are strategic alliances or franchises. In opinion it is believed that franchising is the best choice to start, with more firmness and less risk in the international market. This structure should organize its manuals and legal documents to allow it to really know its local market and a possibility to expand to national and international levels simultaneously.

Another point that offers the franchises is the control that is lost with the alliances more easily, as partners feel to be the equal owners of the concept and brand. Instead, franchises are made using finite contracts that allow maintaining control and supervision during the contract period. Also, regulations do not change the essence of the organization without a prior authorization.

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