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Göttingen**

## **International Small Business Series 23**

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**Thorsten Winkelmann**

### **Internationalization Strategies of Small and Medium-Sized Suppliers in a Globalizing Economy**

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edited by:  
International Department  
Institute of Small Business  
Director: Prof. Dr. Wolfgang König

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## 1. Introduction

Liberalization and harmonization of national markets in conjunction with the diffusion of new information and telecommunication technologies has led to an intensive integration of national economies since the mid 1980s. Considerable parts of international trade take place between subsidiaries of transnational companies and more and more within international cooperations, especially within strategic alliances. Simultaneously, new competitors entered the world economy - many of them from Japan and South East Asia. As a result the competitive intensity on the product markets increased considerably.<sup>1</sup> This concerns in particular the vehicle, office communication, consumer electronics, electrical and mechanical engineering industries. Particularly producers of final products in these industries feel the increasing competitive pressure while, additionally, the demand in their inherited markets stagnates.

Against this background Original Equipment Manufacturers (OEM)<sup>2</sup> react with two strategies. First, they internationalize production and procurement, not only their sales. Second, they enforce the rationalization and reorganization of the inter-company vertical division of labour with a so-called combined outsourcing and linkage strategy.<sup>3</sup> Suppliers depend directly on these strategies of their outsourcing principals. In short, these strategies are the driving forces of the fundamental structural changes facing the supply industry which is dominated by small and medium-sized companies.<sup>4</sup>

Obviously, suppliers have to accept the systemic rationalization<sup>5</sup> attempts of their OEM to preserve competitiveness. An additional option for suppliers is internationalization. This strategy does not follow as stringent as the systemic rationalization strategy from the OEM's strategies. Moreover, cross-border activities may have different purposes in the corporate strategy of small and medium-sized suppliers. Therefore, taking up and expanding international activities is the result of autonomous strategic decisions, even if they are made against the background of an increasing external competitive pressure. In the following chapters these decisions will be analysed. Empirical basis are qualitative in-depth interviews with 18 decision makers of twelve small and medium-sized suppliers in Germany sur-

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<sup>1</sup> See United Nations (1996), p. 6 and pp. 95-97; Dunning (1993), p. 14; Dunning (1995), especially pp. 167f; Ernst/O'Conner (1989), pp. 27f and p. 30; Lemper (1995), pp. 28-33.

<sup>2</sup> In the following this abbreviation is used as a synonym for outsourcing principals.

<sup>3</sup> See Richter (1992), pp. 45-153; Hanke (1993), pp. 116-188; Winkelmann (1995), pp. 4f.

<sup>4</sup> See Fieten / Schmidt (1994), pp. 85-90 and p. 95.

<sup>5</sup> See Altmann / Sauer (1989).

veyed from September to December 1995. Diagram 1 gives an overview of the characteristic of the companies interviewed.

Diagram 1 Characteristics of the Interviewed Companies						
Com- pany	Industry		Company Size		Character of Products	
	Supplier	OEM	Turnover in Mio. DM	Employees	Complexity	Buyer Specificity
1	ME	ME	< 10	< 50	parts	very high
2	P	OC/CE	70 - 90	300 - 500	parts/systems	very high
3	V	V	> 90	> 500	systems	very high
4	V	V	10- 30	100 - 200	components	high
5	P/E	V	10 - 30	50 - 100	components	low
6	E	E	30 - 50	300 - 500	components	medium
7	ME/E	ME	30 - 50	200 - 300	systems	low
8	ME	ME	50 - 70	200 - 300	components	low
9	E	ME	10 - 30	50 - 100	systems	high
10	ME/E	ME	70 - 90	300 - 500	systems	low
11	V	V	30 - 50	100 - 200	parts	very high
12	ME/E	ME	10 - 30	50 - 100	systems	medium

CE Consumer Electronics  
DM Deutsche Mark  
E Electrical Industry  
ME Mechanical Engineering  
P Plastics Processing Industry  
OC Office Communication  
V Vehicle Industry

## **2. Development Tendencies on the Markets for Supply Products**

Considerable effects on the markets for supply products result from the combined outsourcing and linkage strategy on the one hand and the OEM's internationalization of procurement and production on the other hand. This affects market volume, competitive intensity, and market structure. At the first glance, the two OEM strategies cause contrary market trends. However, a closer look at various supply products shows, that the trends do not compensate each other but determine the future character of supply markets substantially.

As a result of the outsourcing strategy the market volume of supply products increases. Though the additional demand is effective in Germany only to a limited extend due to the ongoing trend of global sourcing. Demand for norm and standard parts as well as for simple components produced in Germany will rather decrease than increase. Only the demand for technically sophisticated and quality determining parts will increase although demand will shift abroad due to the building up of international linked production systems by OEM.<sup>6</sup>

Against the background of these shifts of demand opportunities for small and medium sized supplier opportunities to internationalize become clear, especially if they are able and willing to undertake foreign production. OEM ask and promote suppliers to do the latter in order to utilize the advantages of production abroad without taking the risks of switching suppliers.<sup>7</sup> Suppliers may even become part of the multi-sourcing concept of internationally expanding outsourcing principals. The other way around, national oriented suppliers are in danger of being substituted by foreign suppliers with which a OEM had good experiences abroad.<sup>8</sup>

Furthermore the adaptation strategies of OEM imply a higher intensity of competition on supply product markets. Referring to norm and standard parts as well as to simple components this leads mainly to lower prices. Producers of complex and quality determining products on the other side are facing higher requirements in respect of R&D and the implementation of linkage elements.<sup>9</sup>

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<sup>6</sup> See Fieten (1989), p. 40; Fieten (1991a), pp. 54f; Fieten (1991b), pp. 21; Richter (1992), pp. 156-158; Abend (1992), p. 95.

<sup>7</sup> See Fieten (1990), p. 41; Engelhardt (1990), p. 48.

<sup>8</sup> See Werner (1991), p. 25; Fieten (1989), p. 40; Meyer / Becker / Kühllhorn (1995), p. 16 and p. 18; Hoffmann / Linden (1995), p. 42.

<sup>9</sup> See Fieten (1991a), pp. 60-62; Fieten (1991b), p. 21.

With regard to the structure of supply markets one can expect that the number of potential suppliers available to OEM increases. On the other hand, outsourcing principals concentrate on cooperations with a limited number of suppliers by purchasing more complex systems at only one or two supplier per product (single sourcing).<sup>10</sup> This shows the higher quantitative intensity of supplier-buyer-cooperations.

For OEM the increasing advantages of concentrating on a few suppliers result from the increasing fix costs of a certain supplier-buyer relation. These fix costs result from capital costs of buyer specific net investments which are necessary for suppliers to fulfil the higher requirements of the outsourcing principals. Moreover, these fix costs include transaction costs, which emerge because of the investments' buyer specificity. It is obvious, that OEM realize today higher external economies of scale than in the past by concentrating their demand.<sup>11</sup>

Finally, within the supply industry itself a new structure emerges. It is characterized as a multi-stage supply pyramid with a few direct providing system producers at its top. These first-tier suppliers are supplied again by component manufacturers at the second stage, which obtain parts from suppliers at lower stages.<sup>12</sup>

### **3. Goals of Internationalization and their Impetus**

#### **3.1. Internal Motivation of Decision Makers**

Three quarters of the interviewed suppliers show international activities for more than 15 years - many of them engaged abroad immediately after starting their business.<sup>13</sup> That means they internationalized in a period of time when market and competitive pressure on the supply industry in Germany was weak. Therefore, the impetus to engage in cross-border activities cannot be found outside the enterprise. The initiating factor has rather to be seen in the motivation of entrepreneurs and managers to utilize existing firm specific advantages. The factors behind these motivations are profit seeking and personal objectives as well.

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<sup>10</sup> See Hanke (1993), pp. 93-97.

<sup>11</sup> See Richter (1992), pp. 148f.

<sup>12</sup> See Deiß (1989), p. 65; Demes (1989), p. 268; Bogaschewsky (1994), pp. 106-108; Richter (1992), p. 159; Dijken / Frentz / Versfeld (1996), pp. 19f.

<sup>13</sup> Company 1, 2, 4, 5, 6, 7, 8, 10 und 12.



With increasing market and competitive pressure the already internationalized suppliers expanded and intensified their cross-border activities.<sup>14</sup> Further companies engaged abroad with increasing external pressure.<sup>15</sup>

### **3.2. Reaction to Market and Competitive Pressure**

#### *3.2.1. Horizontal Competitive Pressure*

Main goals cause suppliers to internationalize. Secondary goals on the other side lead yield only in conjunction with one or more main goals to cross-border activities.

Some **main goals** of small and medium-sized suppliers have to be seen against the background of horizontal competitive pressure. For first-tier system suppliers of the automotive, office communication and consumer electronic industries internationalization with present OEM is a central instrument within the framework of intensification cooperations with OEM.<sup>16</sup> Another internationalization goal is related to the niche product strategy. By concentrating on technically demanding supply products - where the price pressure is not pronounced - suppliers accept a decreasing turnover. Internationalization can contribute to compensate for this drop in turnover.<sup>17</sup>

In the course of cost reduction programs exploiting foreign labor cost advantages has become a main internationalization goal for nearly every supplier interviewed. This leads usually to global sourcing and international subcontracting activities. Only if internal production with respect to the complexity of production related firm specific advantages is necessary, small and medium-sized suppliers undertake cost oriented foreign direct investment.<sup>18</sup>

**Secondary goals** concern the building up of firm specific advantages which result from international activities.<sup>19</sup> In the following list, these advantages are classified into various internationalization forms.

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<sup>14</sup> Company 2, 4, 5, 6, 7, 8, 10 und 12.

<sup>15</sup> Company 3, 9 und 11.

<sup>16</sup> Company 2 and 3.

<sup>17</sup> Company 4, 6, 11 und 12.

<sup>18</sup> Company 6 und 10.

<sup>19</sup> See Dunning (1988), p. 27.

- firm specific advantages which originate independently of direct investments or cooperations with foreign sales partners,
- cost advantages per unit as a result of economies of scale and scope in production<sup>20</sup>,
- purchasing cost advantages caused by a higher buying volume<sup>21</sup>,
- firm specific advantages whose origination is favored by direct investments or cooperations with foreign sales partners,
- knowledge about international market structures and developments<sup>22</sup>,
- better information about technical developments<sup>23</sup>,
- product-related application experience<sup>24</sup>,
- promoting indirect exports by safeguarding international availability of spare parts<sup>25</sup>,
- flexibility and adaptability to various cultural frameworks, especially in the sales organization<sup>26</sup>,
- firm specific advantages whose origination needs direct investments in foreign sales or production subsidiaries,
- cost advantages per unit as a result of optimization of the global production system<sup>27</sup>,
- tax minimization by transfer pricing<sup>28</sup>,
- flexibility to exploit and compensate variations in exchange rates<sup>29</sup>, and
- cost and service advantages in logistics, especially as a result of a higher flexibility of the international production system<sup>30</sup>.

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<sup>20</sup> Company 8 and 9.

<sup>21</sup> Company 7 and 8.

<sup>22</sup> Company 9 and 10.

<sup>23</sup> Company 7 and 10.

<sup>24</sup> Company 7, 8 and 10.

<sup>25</sup> Company 7, 8, 9 und 10.

<sup>26</sup> Company 7, 9 and 10.

<sup>27</sup> Company 2, 5, 6, 7 and 10.

<sup>28</sup> Company 5, 6, 7 and 10.

<sup>29</sup> Company 2.

<sup>30</sup> Company 2 and 7.

It is conspicuous that the generation of firm specific advantages becomes a conscious internationalization goal only if these kind of advantages were generated unconscious in the course of former international activities. Therefore, the complexity of the internationalization goal system is determined by the extend of cross-border activities.<sup>31</sup> Moreover, it depends on the internationalization form used in the past as the listing above indicates.

### *3.2.2. Vertical Competitive Pressure*

First, it is to notice that only suppliers of the interviewed group, which serve comparatively few outsourcing principals, feel pronounced vertical competitive pressure. Furthermore, a steady connection between the number of buyers and the perceived threat can be recognized.<sup>32</sup> This concerns without exception companies producing buyer specific developed products, which can not be sold elsewhere.

Against the background of increasing buyer specific investments and with the increasing chances and tendencies to opportunism, all companies of this group use internationalization to meet the higher vertical competitive pressure. Therefore, suppliers do not only use a strategy of buyer diversification, but also the antagonistic buyer concentration strategy. The concrete choice depends on the product complexity and the industry of the main buyer.

The way to reduce the unilateral dependency of present outsourcing principals through **buyer diversification** is used by producers of less complex supply products which need only little buyer specific investments compared to systems.<sup>33</sup> Furthermore, suppliers of the special purpose mechanical engineering industry diversify their customers. These suppliers cooperate in some cases directly with foreign users of the final products in order to overcome the restrictions made by their present outsourcing principals to serve them exclusively.<sup>34</sup>

Medium-sized system suppliers of the automotive, office communication and consumer electronics industries on the other side strive to transform a unilateral dependency into a reciprocal dependency by the way of **buyer concentration**.<sup>35</sup>

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<sup>31</sup> See Dunning (1988), p. 28.

<sup>32</sup> Company 2, 3, 9 and 11.

<sup>33</sup> Company 2 and 11.

<sup>34</sup> Company 9.

<sup>35</sup> Company 2 and 3.

Without analyzing the details at this point it can be said, that, on the one hand, only these suppliers have a realistic chance to generate an effective reciprocal dependency by internationalization. On the other hand, statements of these suppliers show, that they are not able to reduce the dependency of their present main outsourcing principals by acquisition of new customers, because the present buyers' share of their turnover is extremely high. The other way around, these suppliers can increase their share of the main buyers purchasing volume by serving his various international subsidiaries up to a level which makes it more difficult for outsourcing principal to switch their source of supply. As a reaction to opportunistic behavior suppliers could threaten to terminate all the supply relations. In this way these suppliers strive to transform a unilateral into a reciprocal dependency with a lower power balance.

### *3.2.3. Decreasing National Demand for Supply Products*

Last but not least a decreasing national demand for supply products got some suppliers of the examination group to internationalize.<sup>36</sup> In some case these market developments were a few years ago. In other industries it is - opposite to the overall trend of growing markets for none cost-sensitive supply products - a current development. The main reasons for a decreasing national demand are:

- First, production of certain final products shifted abroad because demand in Germany sunk and at the same time the demand in other countries rose. These development took place in the bicycle industry and in mechanical engineering for the textile industry.<sup>37</sup>
- Second, a lack of international competitiveness of some national OEM industries led to a decreasing demand for supply products in Germany. This was the case in office communication and consumer electronics industry.<sup>38</sup>
- Third, exercise of market power pushed one supplier of the interviewed group to go abroad. In this special case the combined concentration and backward integration of present buyers led to a tremendous drop in turnover.<sup>39</sup>

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<sup>36</sup> See Buckley especially for small and medium-sized companys (Buckley (1989), p. 37).

<sup>37</sup> Company 4.

<sup>38</sup> Company 2.

<sup>39</sup> Company 9.

## **4. Internationalization Strategies**

### **4.1. Derivation of Specific Internationalization Strategies for Suppliers**

Internationalization strategies are used to integrate the identified internationalization goals, which particularly compete and channel measures to realize them in consideration of power and efficiency aspects. Accordingly, internationalization strategies are seen as general comprehensive country conceptions to act. In the view of the complexity and dynamic of the international environment a well founded strategy is supposed to be a major success factor for cross-border activities.<sup>40</sup>

In the following, four generic internationalization strategies will be derived to which all the international activities of small and medium-sized suppliers can be assigned to - regardless whether strategies are formulated conscious or not. Basic condition for the derivation of supplier specific generic strategies is to refer to strategy dimensions with special relevance for the supply industry. This leads to highlight the supplier-buyer relation. Accordingly, it is first to distinguish between the foreign market entry in conjunction with a present outsourcing principal or the foreign market entry by acquisition of new customers. Second, a difference can be made with regard to the foreign market penetration. The latter expresses whether cross-border activities are focused on a single or a few outsourcing principals or on a multitude of potential buyers in each country. The systematic combination of these strategic options yields the following matrix of internationalization strategies.<sup>41</sup>

It should be mentioned that the realization of these strategies neither requires direct cooperations with outsourcing principals nor specific internationalization forms. Supplying foreign outsourcing principals can rather be carried out by independent foreign sales agents or suppliers as cooperation partners. Conceivable internationalization forms are exports, foreign direct investments, joint ventures and technology transfers.

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<sup>40</sup> See Scholl (1989), p. 985.

<sup>41</sup> See Winkelmann (1995), pp. 9f.

Diagram 2 Matrix of Internationalization Strategies			
		Foreign Market Entry Strategy	
		Cooperation with <b>present</b> outsourcing principals	Direct or indirect acquisition of <b>new</b> outsourcing principals
Foreign Market Penetration	<b>low</b> single/few outsourcing principals in each target country	Strategy I <b>Multiplication of existing supply relations</b>	Strategy IV <b>Selective outsourcing principal acquisition</b>
	<b>high</b> numerous outsourcing principals in each target country	Strategy II <b>Springboard Strategy</b>	Strategy III <b>Broad outsourcing principal acquisition</b>

## 4.2. Analysis of Particular Internationalization Strategies

### 4.2.1. Multiplication Strategy

With the multiplication of existing supply relations foreign subsidiaries of present outsourcing principals or their licensees are supplied directly by the internationalizing firm or indirectly by its cooperation partners. By this an existing supply / final product-conception and an established institutional supplier-buyer relation are multiplied in conjunction or independently of each other. Likewise, buyer orientation dominates this internationalization strategy.

This strategy is mainly used by producers of buyer specific products, of which OEM usually have several international manufacturing plants. This holds for sup

pliers of the vehicle,<sup>42</sup> office communication and consumer electronic industries<sup>43</sup> as well as for some suppliers of the special purpose mechanical engineering industry.<sup>44</sup>

The strategic focus of multiplication is characterized by systemic efficiency advantages of more intensive supplier-buyer cooperations on the one hand and the striving of suppliers to transform a unilateral into a reciprocal dependency on the other hand. By this, the multiplication strategy combines internationalization goals which emerge against the background of a horizontal and vertical competitive pressure.

Systemic efficiency advantages of internationally multiplied supply relations result from

- scale economies caused by a more intensive exploitation of assets specific to the supply relation,
- savings in transaction costs, and
- a higher flexibility of outsourcing principals to design international value-adding structures.

Assets specific to a cooperative supply relation exist on both sides, the suppliers' and the buyers'. They come into existence with the initiation of business relations, the development and auditing of suppliers, the buyer specific development of supply products and production technologies, the implementation of inter company logistic systems, and finally the implementation of an organization to coordinate cooperation. These assets are mostly fix to the transaction volume. The origin of a substantial part of these specific investments is related to transaction costs insofar, as the assets either cause transaction cost or that capitalized transactions costs themselves have the character of specific investments.

The multiplication of existing supply relations leads to an extension of the cooperation related turnover and to economies of scale due to the more intensive utilization of cooperation specific assets. This causes descending cooperation related average costs. In addition, savings of transaction cost result from the cooperation experience with particular partners and the mutual trust gained by time. In

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<sup>42</sup> Company 3, 4 and 11.

<sup>43</sup> Company 2.

<sup>44</sup> Company 1 and 9.

that way, marginal cost of an extension of existing business relations are lower compared to building up new ones.

However, additional transaction costs originate from the external coordination of various manufacturing plants of the outsourcing principal. They do not come into existence, if independent foreign buyers are supplied. This is because frictions between parent and affiliated companies of buyers' are regularly transmitted to supplier-buyer relations.<sup>45</sup>

Finally, the general preparedness of suppliers to multiply existing business connections increases the buyers' flexibility in designing international value-adding structures. By the option to fall back on world-wide competitive suppliers for certain products, outsourcing principals are able to set up new manufacturing facilities abroad within a short period of time, without negative effects on efficiency, quality and supply certainty.<sup>46</sup>

The second goal pursued with the multiplication strategy is to transform a unilateral into a reciprocal dependency of outsourcing principals. The reciprocal dependency in a concrete bilateral exchange relation is higher the more assets a buyer aligns exclusively to a supplier, the more suppliers contribute via products and services to the competitiveness of the final product, and the higher is the suppliers' share of the buyer's purchasing volume.

Moreover, the generation of power synergies presupposes that strategic purchasing and the responsibility to secure supplies to various manufacturing plants are centralized in the outsourcing principals' hierarchy. Otherwise there would be the danger, that suppliers' threats to use counter power may be ignored by the OEMs' employees, because the negative consequences would not concern the business unit they are responsible for.

Thus, the question arises how important is the multiplication strategy for the overall competitive strategy of small and medium-sized suppliers. For system suppliers of the automotive, office communication and consumer electronic industries it is an expression of the way they see themselves - as a globally available close cooperation partner of certain outsourcing principals. Moreover, they regard the multiplication strategy as an adequate reaction on the vertical pressure they feel. For other producers of buyer specific products the multiplication strategy is

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<sup>45</sup> Company 1, 2, 3 and 9. See Herlyn (1991), pp. 46-65.

<sup>46</sup> Company 2 and 3.



the result of using low-cost opportunities to extend turnover with inferior importance for the whole business.

The high importance of the multiplication strategy for system suppliers of the automotive, office communication and consumer electronics industries has to be seen against the following background. First, the OEM of these industries have manufacturing plants in various countries due to the oligopolistic market structure. Therefore, they have opportunities to extend existing supply relations. Second, in these industries economies of scale of a business relations' extension are high as a result of high cooperation specific investments in products, organization and logistics. This holds in particular for complex supply products like systems. Third, only these suppliers have a realistic chance to generate a reciprocal dependency. This is because the global centralization of the purchasing organization is common in these industries. However, this concerns only systems as strategic important procuring goods, while suppliers of simpler parts are coordinated decentralized. Fourth, high cooperation specific assets do not only exist on the suppliers' side, but also on the outsourcing principals' side. The latter mainly refers to implemented linkage elements as well as to exercised supplier auditing and development measurements. Fifth, a considerable share of the buyers' purchasing volume can only be realized by suppliers of complex systems with high value.

One has to notice that there are interdependencies between the goals pursued with the multiplication strategy. On the one hand suppliers distinguish themselves due to the ability and willingness to contribute to a systemic efficient improvement by internationalization. Besides the direct increase of turnover by supplying foreign plants of outsourcing principals this leads to an extension of the business connection to other supply products. The latter may contribute substantially to increase the suppliers' share of the buyers' purchasing volume and thereby to generate a reciprocal dependency.

On the other hand, there is the danger that the systemically gained efficiency advantages are exploited opportunistically by the outsourcing principals if they are in a stronger bargaining position. Therefore, it is necessary that a reciprocal dependency exists in so far as the termination of the supply relation leads to considerable disturbances and changing costs at the buyers' side. Besides the competitiveness of the supplier this depends essentially on the supplier's share of the buyer's purchasing volume.

These considerations show the risks of the multiplication strategy for medium-sized system suppliers of the automotive, office communication and consumer

electronic industries. To gain a high share of the OEM purchasing volume medium-sized suppliers have to concentrate on providing only few outsourcing principals. This depends on the outsourcing principals' high demand and especially their expectations to invest in foreign manufacturing plants. This requires high investments in relation to the resources and the access to financial capital of medium-sized suppliers. Considering this structure of buyers the actual cessation of one supply relation would most probably lead to the suppliers' bankruptcy. This impairs the credibility of such threatenings fundamentally so that OEM are able to exploit systemically originating efficiency gains.

With these arguments in mind, one could imagine that the multiplication strategy is not a result of an autonomous decision of internationalizing suppliers but forced by OEM which have demand power. This judgement is right in so far as the global availability of supply products and services is more and more a basic condition for continuing business connections. Buyers seek to get more or less obligatory confirmations of the supplier's willingness to invest abroad. However, it has to be seen on the other side, that the affected suppliers judge internationalization with present suppliers primary as an opportunity to extent their turnover and to improve their vertical competitive position.<sup>47</sup>

#### *4.2.2. Strategy of Broad Outsourcing Principal Acquisition*

The strategy of broad outsourcing principal acquisition is of a fundamentally contrary nature. It is characterized by the desire to strive for a high foreign market penetration and market entry by winning new foreign outsourcing principals directly or indirectly. The alignment of suppliers to several outsourcing principals is in contrast to the multiplication strategy neither of relevance in respect of foreign market entry nor market penetration. This strategy is rather an expression of a country-oriented internationalization.

This strategy is realized first of all by producers of standard products for the mechanical engineering industry<sup>48</sup> and for other industries producing in small and medium volume series.<sup>49</sup> Second, the strategy is used by suppliers of buyer spe-

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<sup>47</sup> Company 2 and 3.

<sup>48</sup> Company 7, 8 and 10.

<sup>49</sup> Company 5.

cific products.<sup>50</sup> Pending on the supply products' character the strategy of broad outsourcing principal acquisition has different strategic focuses.

For producers of standard products incentives to extent present supply relations by multiplication are low because the transaction-volume-fix buyer specific assets are low. Moreover, these suppliers are able to build up a lot of new business connections within a short period of time without burdening their resources excessively. Usually for a certain period of time they concentrate their activities on selected countries or regions to exploit the transaction-volume-fix foreign market specific (but not buyer specific) investments intensively by means of a high market penetration.

For producers of buyer specific supply products the strategy of broad outsourcing principal acquisition principally follows the strategy of selective acquisition. That means, they usually cooperate with one or a few buyers in a foreign market before they change their marketing strategy to higher market penetration. This change has to be seen against the background of suppliers gaining experience in the foreign market and thereby raise their market transparency. Additionally, in some cases they can use references of existing foreign buyers. The strategic focus of these suppliers is primary a conscious reduction of the vertical dependency by customer diversification in contrast to producers of standard products.<sup>51</sup>

#### *4.2.3. Strategy of Selective Outsourcing Principal Acquisition*

The strategy of selective outsourcing principal acquisition aims at acquiring new foreign buyers, but not at opening up a foreign market as a whole. Instead of that suppliers strive to cooperate with well-selected outsourcing principals in a number of foreign countries to whom products and services of the internationalizing supplier have a special benefit. Thereby, the strategy of selective outsourcing principal acquisition combines contributions of internationalization to improve the vertical competitive position and to strengthen the horizontal competitive position better than any other internationalization strategy discussed.

The strategy is especially suitable for suppliers of buyer specific niche products.<sup>52</sup> In this context it is conspicuous, that this strategy is especially utilized by suppliers which sell only products of a very high technological standard in foreign

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<sup>50</sup> Company 6, 9, 11 and 12.

<sup>51</sup> Company 6, 11 and 12.

<sup>52</sup> Company 1, 2, 4, 6, 9, 11 and 12.

countries because other parts of their production program are not international competitive.<sup>53</sup> The suitability results out of the following four aspects:

First, these suppliers show comparatively little number of outsourcing principals, and apart from this, a high concentration of sales so that the customer diversification can decrease the vertical dependency significantly.<sup>54</sup> Second, the number of potential buyers in single countries is low because of the niche product character. This implies activities in several countries. Third, in view of the necessity of buyer specific investments and the risk of their opportunistic exploitation it is efficient for suppliers to choose outsourcing principals selectively and after careful consideration of their willingness and individual incentives to cooperate. For producers of buyer specific niche products this holds as more as easier it is for outsourcing principals to use cheaper standard products.<sup>55</sup> Fourth, required buyer specific investments imply that economies of scale of a intensive foreign market penetration are comparatively low.

The selectiveness of outsourcing principal acquisition sees itself expressed in a passive behavior which only reacts on inquiries of foreign customers. However, one cannot conclude that these suppliers are careless in respect of their buyers' structure. The passive procedure is merely the efficient way to realize the strategy. Thus, the importance of the selective outsourcing principal acquisition for the corporate competitive strategy is ranked high by the respective suppliers.

#### *4.2.4. Springboard Strategy*

The springboard strategy is characterized by foreign market entry in cooperation with an existing outsourcing principal.<sup>56</sup> But, in contrast to the multiplication strategy, cooperation in the foreign market is not limited to the entry partner. Instead, a high market penetration is strived for. Correspondingly, this strategy is called springboard strategy. Suppliers of standard as well as of buyer specific products apply this strategy. However, the strategic focus differs fundamentally so that a distinguishing analysis is required.

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<sup>53</sup> Company 6, 11 and 12.

<sup>54</sup> Company 1, 2 and 11.

<sup>55</sup> Company 5, 9 and 12.

<sup>56</sup> This distinguishes it from the strategies of broad as well as from the selective outsourcing principal acquisition.

Some suppliers of buyer specific products use the springboard strategy in the same way as a multiplication strategy to intensify cooperation with present outsourcing principals. Facing the risks related to buyer concentration, suppliers use simultaneously the opportunity to win further outsourcing principals in the target country in order to diversify their customers.<sup>57</sup> In these cases the springboard strategy is an expression of buyer orientation.

The diversification of customers is not only relevant in respect of the entire supplier's activities but also in respect of a single target country. The latter is particularly relevant for suppliers which have to undertake site specific investments like system suppliers of the automotive, office communication and consumer electronic industries. Through the cooperation with several outsourcing principals in various countries the specificity of these assets goes down - they are no more buyer but just foreign market specific. Furthermore, the possibility to supply additional buyers in a target country is a condition to enter other foreign markets in cooperation with present buyers. The point is to achieve a minimum plant size for production or a technically oriented sales branch.

For other suppliers of buyer specific supply products the springboard strategy in conjunction with a primary buyer diversification oriented internationalization has the advantage that costs and risks of the foreign market entry are lower as a result of the cooperation with present outsourcing principals. These advantages result from utilizing and adapting foreign country related knowledge of the present partner as well as passing on market entry related investments onto him. However, the springboard strategy leads to a temporarily increasing dependency on the market entry partner. All in all, these suppliers use the springboard strategy in the context of a country-oriented internationalization.

The importance of the springboard strategy for system suppliers of the automotive, office communication and consumer electronic industries results from the necessity to lower the dependency risks. These go along with the intensification of existing supply relation against the background of a higher willingness of buyers to exercise their demand power.<sup>58</sup>

Suppliers of standard products use the opportunity to cooperate with present buyers only as an accidentally chance to lower market entry costs and risks in countries envisaged anyway. Even if they recognize these advantages quite con-

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<sup>57</sup> Company 2 and 3.

<sup>58</sup> Company 2 and 3.

sciously the springboard strategy is of a very low strategic relevance for their competitive strategy.<sup>59</sup>

## **5. Comparative Evaluation of Internationalization Goals and Strategies**

Of prime importance is the conclusion that there are fundamental differences in the internationalization goals and strategies between suppliers of buyer specific and standard products. Therefore, internationalization goals and strategies of small and medium-sized suppliers are compared with respect to these different types of suppliers.

Suppliers of buyer specific products pursue with cross-border activities only a limited number of goals which have the importance of main goals. Apart from profit seeking these goals have to be viewed against the background of an external competitive pressure. Therefore, it is to conclude that producers of buyer specific products employ internationalization as an instrument in the broader framework of their competitive strategy. In detail internationalization goals are directed to intensify cooperations with buyers, the compensation of losses in turnover, the exploiting of factor cost advantages, and last but not least the improvement of the vertical competitive position. To achieve the latter suppliers use the antagonistic ways of buyer concentration and buyer diversification.

Due to the heterogeneity of internationalization goal systems and the equal importance of several goals, suppliers of buyer specific products use completely different internationalization strategies. Of high competitive importance are the multiplication strategy, the springboard strategy, and the strategy of selective outsourcing principal acquisition.

Completely opposite is the situation for suppliers of standard products. Their main goal of internationalization is a more intensive exploitation of existing firm specific advantages in order to increase profits. The impetus for doing so is internal. However, even if external competitive pressure does not push suppliers to activities abroad by itself, it leads after all to a consideration of a wide range of secondary goals.

Against this background the formulation of internationalization strategies is dominated by cost minimization considerations. Due to the homogeneity and low

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<sup>59</sup> Company 7, 8 and 10.

complexity on the main goal level, suppliers of standard products merely use the strategy of broad outsourcing principal acquisition with high priority.

To summarize, the following diagram gives an overview of the issues discussed in respect of the internationalization strategies.

**Diagram 3**  
**Characteristics of Internationalization Strategies**

<b>Suppliers of Buyer Specific Products</b>				
	<b>Strategy I Multiplication of existing supply relations</b>	<b>Strategy II Broad outsourcing principal acquisition</b>	<b>Strategy III Selective outsourcing principal acquisition</b>	<b>Strategy IV Springboard strategy</b>
Strategic focus	<ul style="list-style-type: none"> <li>• intensification of <u>cooperations</u></li> <li>• intensive using of cooperation specific assets</li> <li>• saving of transaction costs</li> <li>• improving the buyers' flexibility</li> <li>• generating <u>reciprocal dependency</u></li> <li>• using chances</li> </ul>	<ul style="list-style-type: none"> <li>• reducing dependency by <u>buyer diversification</u></li> </ul>	<ul style="list-style-type: none"> <li>• concentration on buyers which ask and pay for intensive <u>supply cooperations</u></li> <li>• reducing dependency by <u>buyer diversification</u></li> </ul>	<ul style="list-style-type: none"> <li>• reducing dependency by country-related <u>buyer diversification</u></li> <li>• get a <u>minimum size</u> for foreign subsidiaries</li> <li>• <u>intensification of cooperations</u> with present buyers</li> <li>• reducing market entry costs</li> </ul>
Relevance for the corporate competitive strategy	<ul style="list-style-type: none"> <li>• <u>high</u>: system suppliers of the automotive, office communication and consumer electronic industries</li> <li>• <u>low</u>: producers of parts and components</li> </ul>	medium to low	medium to high	high
Orientation of internationalization	buyer orientation	country orientation	mostly buyer orientation, in single cases country orientation	buyer or country orientation
User	Company 1, 2, 3, 4, 9, 11	Company 6, 9, 11, 12	Company 1, 2, 4, 6, 9, 11, 12	Company 2, 3, 4, 11
<b>Suppliers of Standard Products</b>				
	<b>Strategy I Multiplication of existing supply relations</b>	<b>Strategy II Broad outsourcing principal acquisition</b>	<b>Strategy III Selective outsourcing principal acquisition</b>	<b>Strategy IV Springboard strategy</b>
Strategic focus	<i>no users</i>	<ul style="list-style-type: none"> <li>• efficiency advantages through intensive exploiting of transaction volume fix <u>investments</u> which are <u>specific to foreign markets</u></li> </ul>	<i>no users</i>	<ul style="list-style-type: none"> <li>• using chances</li> </ul>
Relevance for the corporate competitive strategy		medium to high		low
Orientation of internationalization		country orientation		country orientation
User		Company 5, 7, 8, 10		Company 7, 8, 10



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International Department  
Institute of Small Business  
University of Goettingen  
Gosslerstraße 12  
37073 Goettingen  
Germany  
Phone: +49-551-394882, Fax: +49-551-399553