This article is concerned with the entry into foreign markets of retail firms that sell products through electronic commerce (henceforth e-commerce). Online retail sales, while currently representing 1.5 percent of total retail sales in the United States, continue to increase rapidly and outperform total economic activity (US Census, 2003) and are expected to increase to ten percent of total sales by 2008 (Forrester Research, 2003). Furthermore, in certain categories like computer hardware and software and travel reservations, statistics show that online sales now account for nearly one-fourth of total retail sales in the U.S. (US Census, 2003). In other categories like books, music, and consumer electronics, between 5 percent and 15 percent of total sales have migrated to the Internet (Forrester, 2003).

These trends underscore the need for researchers to develop adequate theories and models that can account for the particular nature of digital goods and online transactions. This paper represents a step in that direction. We propose a framework that conceptualizes retail products along two key dimensions: the physical or digital nature of the goods, and the local or global appeal of the products. These two dimensions form the basis for examining the propensity of US retail firms selling products via e-commerce to enter foreign markets, and more importantly, for investigating the modes of entry used by these firms when entering foreign markets.
The two key research questions motivating this paper can thus be articulated as follows:

1) What factors explain differential rates of foreign market entry among business-to-consumer e-commerce firms?

2) What factors condition a business-to-consumer e-commerce firm’s mode of entry into foreign markets?

A large body of literature analyzing the determinants, strategies and consequences of foreign market entry already exists (e.g. Agarwal and Ramaswami, 1992; Caves, 1996; Dunning, 1993; Kim and Hwang, 1992; Kogut and Singh, 1988). Researchers however, have yet to examine how e-commerce firms expand into new geographic markets. The most likely reason for this gap is the relative newness of many of these firms, and of the sector as whole. Most US e-commerce organizations are still struggling to develop profitable business models for the domestic market and have been slow to expand internationally. Nevertheless, forecasts predict that by 2004, over 75 percent of all Internet users will be from outside North America – up from 56 percent in 2000 (eMarketer, 2000). The growing internationalization of the web means that US e-commerce firms will need to enter foreign markets just to keep pace with the growth or risk losing market share to foreign rivals. The Internet is often described as a boundaryless network that creates virtual markets where geographic factors no longer matter, many e-commerce transactions – particularly those involving the physical delivery of goods – are quite affected by borders and geographic distances. This renders the nature of many e-commerce transactions quite local – or perhaps regional and online retail sales are mainly domestic (OECD, 2002). Borders and distances are therefore not inconsequential for online commerce and the decision to enter a foreign market and the choice of an entry mode is an issue of great strategic importance that will have significant performance implications for e-commerce organizations.

The two-dimensional framework proposed in this paper represents a contribution to the growing literature on e-commerce and Internet strategies (Amit and Zott, 2001; de Figuereido, 2000; Gulati and Garino, 2000) given that it takes this nascent body of work into the realm of multinational strategy. By focusing on the product category as a determinant of international expansion, the paper also extends models of foreign market entry that usually focus on firm, country or industry characteristics to explain entry mode choice (Hill, Hwang and Kim, 1990). Examining the attributes of a product (global or local and digital or physical) allows us to gain greater insight into the underlying assets and resources (a strong global brand, proprietary digital technology, intimate knowledge of a local market) that are important success factors for new ventures in foreign markets. For resources to generate economic rents and be a source of sustained competitive advantage, they must be valuable, rare and difficult to imitate and substitute (Barney, 1991). Whether an entering firm possesses and controls these resources has thus an impact on the governance of new ventures in foreign markets. The model presented integrates these concepts from the resource-based view of the firm (Barney, 1986; Wernerfelt, 1984) to derive implications concerning foreign market entry strategies for e-commerce firms. This represents an important link between one of the dominant theoretical streams in strategic management and research on foreign market entry.

The paper is organized as follows. In the next section, we present a framework for classifying products sold via e-commerce into four mutually exclusive and collectively exhaustive categories. We then formulate empirically testable hypotheses linking the four categories with both the likelihood and mode of foreign market entry and present four cases as an initial gauge of their validity. The paper concludes with some comments on the implications of the theoretical model and hypotheses.
A Conceptual Framework for e-commerce Products

Digital vs. physical products

Products that are sold via electronic channels such as the Internet can be usefully categorized along two key dimensions: the intrinsic nature of the goods and the geographical extent of their appeal. Let us first explore the first dimension and its implications for how we categorize products sold via e-commerce. The Internet is a global electronic network that renders possible the quasi-instantaneous transmission of digitized material. Recent increases in bandwidth (the transmission capacity of a communications channel or network) have allowed for the delivery of increasingly rich types of media through the Internet. Before the advent of the World Wide Web in 1992, text was the major form of media being transmitted and exchanged online mainly by academic and government institutions. The invention of the Mosaic browser in 1993 provided a graphical interface to the Web for the first time and made the Internet a true multimedia network conducive to displaying products and processing transactions. Since then, images and sound have become ubiquitous on the Internet. As bandwidth continues to increase at a rapid pace, the transmission of streaming and real-time video will also become just as ubiquitous.

From a commercial perspective, this means that any product than can be transformed into a string of binary digits can now be sold and transmitted via the Web. These are sometimes referred to as information goods (Bakos and Brynjolfsson, 1999) and can include documents, pictures, music, movies, computer software, video games, and many other things we have not even thought of yet. Although not yet a commercial service, the tremendous growth of Napster (and other file sharing systems), with over forty million users worldwide that exchange digital files in MP3 format, illustrates the ease with which digital products can now be transmitted online. In addition, Electronic Software Distribution (ESD) is the one of fastest growing segments of all e-commerce categories with forecasts that nearly half of all packaged software will be sold and distributed online (OECD, 1998).

Similarly, the online provision of financial services, namely banking and online trading, has dramatically altered the competitive and pricing structure of the industry. New entrants such as E*Trade and Ameritrade charge an average of $15 for commissions on trades that full-service brokerage firms usually charge in excess of $100 for. The volume of online trades has grown to about 37 percent of all retail trading volume in equities and options and is expected to continue to increase as more full-service brokers offer online trading services to their customers (US General Accounting Office, 2000). Other goods and services that fall into the digital category include travel services such as airline tickets (in electronic format), hotel and car rental reservations, entertainment services and event tickets, online gaming, and adult content.

The Web’s ability to efficiently transmit digital material suggests a natural distinction among different types of products sold via e-commerce: whether the goods are delivered to the customer in digital format over the Internet (I refer to these types as digital products) or whether only the transaction is conducted online and a physical product is shipped to the customer (these are called physical products). In addition to providing a clear and unambiguous categorization of any given product, making distinctions along this dimension is very useful for examining the strategies implemented by e-commerce organizations. Firms selling products that need to be physically shipped to customers will require very different organizational structures and strategies than firms selling digital goods. The implications of this distinction for foreign market entry are elaborated further.
Global vs. local products

The second dimension of interest for our e-commerce framework concerns the product’s market appeal. In this case, the distinction is made according to the extent to which customer preferences are highly localized and differ significantly between different markets. Whether for cultural, linguistic, geographical or regulatory reasons, some products tend to be highly country-specific. For example, although there are international best sellers, about 80 percent of all books sold are published in a local language and demand tends to vary greatly across countries (Boston Consulting Group, 2000). To the extent that national or regional airlines tend to offer the most flights from a given local airport, demand for airline tickets will also be highly localized. A customer buying an airline ticket in Frankfurt is more likely to purchase it from Lufthansa or another German Carrier than from a foreign airline. Demand for highly regulated products such as financial services also tends to be very country-specific.

On the other hand, some products have a broader appeal that cuts across national boundaries or may be associated with a highly recognized, global brand. For instance, computer hardware and software, consumer electronics, automobiles, and brand name apparel fall in this category. In order to make clear the differences and lead to as unambiguous a distinction as the one between digital and physical products, goods must be categorized according to their appeal and target market rather than their actual content. Some products may be quite local in nature and content but are explicitly targeting foreign rather than local markets. For example, specialty crafts and products such as Native American art, Italian leather goods, Indonesian woodcarvings etc. sold by relatively small local retailers that are not destined for the local market are included in the global products category.

Therefore, the degree of specificity in customer demand suggests a second dimension for distinguishing among different e-commerce product categories. Within the context of our framework, products with highly localized customer preferences are referred to as local products, and those with transnational appeal are referred to as global products. As multinational corporations have long known, the characteristics and idiosyncrasies of a foreign market are critically important considerations to take into account when expanding abroad. This product dimension will thus be an important factor affecting foreign market entry in e-commerce and must be included in the model. The two distinctions proposed can now be combined to represent the entire universe of e-commerce product categories in two-dimensional space. This leads to the four quadrants shown graphically in Figure 1 with examples in each category.
Before presenting the hypotheses concerning market entry rates and modes, previous research on entry mode decisions is briefly discussed. The early literature on foreign market entry highlighted factors related to costs and focused essentially on the choice between exporting and foreign direct investment (FDI) or so-called greenfield ventures. Subsequent research included contractual modes such as licensing and models were based on the interdependence of location factors and the need for control – the internalization model (Buckley and Casson, 1981). In this view, the need for administrative control over a new foreign venture leads to exporting or FDI. On the other hand, licensing, which is contractually controlled, is a preferred mode when the need for control is not as great. In addition, location-specific factors also influence the choice of either foreign (licensing or FDI) or domestic (exporting) strategies. Together, location and control condition a firm’s mode of foreign market entry. More recently, Hill et al. (1990) propose that a firm’s entry mode choice is influenced by its need for control, for strategic flexibility and for managing knowledge spillovers, which are in turn a function of a combination of firm, country,
industry and transaction-specific variables. Empirical work has examined the choice between international joint ventures and wholly owned subsidiaries (Beamish and Banks, 1987) as well as between greenfield ventures and acquisitions (Hennart and Park, 1993).

As this brief review suggests, firms can choose among a range of strategies when entering a foreign market and this choice is contingent on a number of factors. This paper focuses on four key entry modes: exporting, contractual agreements (licensing, joint ventures, strategic alliances), greenfield ventures, and acquisitions, in the context of a bilateral transaction relationship between an entering and a host country firm. All other factors being equal, the likelihood of e-commerce entry through any of these strategies will be a function of which party controls the valuable, rare and difficult to imitate assets associated with each of the four quadrants shown in Figure 1. Our model focuses on four critical resources that satisfy the valuable, rare and difficult to imitate or substitute criteria – a global brand, a unique or rare product, proprietary digital technology, or knowledge of a local market. Whether the multinational or the host country firm controls these rent-generating resources is a function of the type of product being sold, or in which quadrant of Figure 1 is the product. In Figure 2, each one of the four cells is divided in two and shows which of the entering or the local firm controls the rent-generating resources. The empty cells indicate that the firms do not possess any valuable, rare, and difficult to imitate and substitute resources. The following sections derive the hypotheses concerning rates and modes of foreign market entry in each of the four categories. Examples from the software, hardware, financial services, and book industries are presented to illustrate how the model is grounded in empirical (albeit anecdotal) evidence.

![Figure 2. Valuable, Rare and Difficult to Imitate Resources Controlled by Firms](image)
Digital and Global Products: Virtual Exports

Products in the upper left-hand quadrant of Figure 1 are characterized as digital and global products. This category refers to products that are downloadable in digital format by consumers and do not incorporate highly localized customer preferences. Examples include electronic software distribution (ESD), downloadable music in digital MP3 format, online gaming, and adult content. Selling products that are not country-specific and hence do not require any (or very minimal) customization to local market preferences significantly facilitates a firm’s entry into foreign markets. Geographic expansion beyond a home country is a natural growth trajectory for products with global appeal. Possessing a global brand can significantly reduce marketing and advertising expenses usually required to build a brand in a foreign market. Customers will already be familiar with the product or have been exposed to advertising through mass media and the Internet. Although some straightforward translation may often be required, a firm does not need to acquire potentially costly or difficult to assimilate knowledge of local market characteristics and particularities and incorporate them into the product.

In addition, when transactions do not require a physical product to be shipped to customers, organizations do not need a physical presence in the foreign market. Therefore, foreign market entry may be construed as nothing more than conducting cross-border electronic transactions. Strings of ones and zeros are exchanged between parties in different countries over the Internet without any physical assets ever changing hands. Entering a foreign market may simply be a matter of translating a web site into a foreign language and providing customers with the ability to view prices in their local currency. The e-commerce firm does not need to acquire costly or scarce resources in order to enter a foreign market and controls the rent-generating assets in this case.

For example, although computer software and accompanying documentation may need to be translated into different languages, the quasi-universal adherence of worldwide users to the ‘Wintel’ standard ensures that software products will perform the same functions and have the same features regardless of the country or the language. Software will seldom need to be customized according to specificities of a local market and can be sold with little difficulty to foreign customers. For example, Buyonet.com is a Swedish firm that offers an extensive range of software titles distributed electronically over the Internet and boasts of customers in over 130 different countries. Buyonet.com provides six different language options and payment in 26 different currencies.

Given the relative ease and low costs of international expansion, of all four categories, firms selling global digital products are the most likely to expand beyond their home country. In addition, when choosing a mode of entry, given that no physical presence or local market knowledge is required, these firms are more likely to simply export their digital goods directly to international customers via the Internet. These arguments lead to the following hypotheses:

**Hypothesis 1A: Ceteris paribus**, organizations selling global digital products are the most likely to enter foreign markets.

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3 The all-else-being-equal qualification to the hypotheses implies that adequate firm and country-level control variables (e.g. firm age and size; country, entry mode and multinational experience; distance; political risk; Internet penetration rate…) will be included in empirical models that test these relationships in order to account for observable sources of heterogeneity in both rates and modes of foreign market entry.
**Hypothesis 1B:** *Ceteris paribus,* organizations selling global digital products are more likely to choose exporting as a mode of entry into foreign markets.

**Physical and Global Products: Go It Alone!**

In the top right-hand quadrant of Figure 1 are global physical products. Products in this category share the same global market appeal as the ones in the previous category; however, these products need to be physically shipped to customers by postal or other kinds of home delivery services. This category includes computer hardware and consumer electronics, as well as brand name apparel. Given their global appeal and brands, these products do not require any local market customization and firms will incur lower marketing expenses in promoting the brand locally, thus facilitating international expansion. Firms operating in this category can enter a foreign market on the power of their global brand or by virtue of their product’s universal appeal.

Nonetheless, a physical presence in the local market is required in order to ensure the delivery of goods to customers. The type of local operation firms require however may not need to differ substantially from the operations in their home countries or other foreign markets. No local market knowledge needs to be acquired and assimilated beyond deciding where to locate a distribution center or warehouse and perhaps translating product packaging or documentation in a foreign language. Firms can hire local employees to handle many of these tasks or even outsource some of them to local suppliers. From a resource-based perspective, the valuable, rare and difficult to imitate assets in this case are the global products that the firm is seeking to market abroad – the physical distribution assets, although valuable, are not difficult to imitate or acquire. Therefore, organizations are most likely to enter foreign markets through sole venture greenfield investments in order to maximize the return on these assets without the need to share these returns with a local partner.

Consider the example of computer hardware products, which have the same features and functionality irrespective of the local market into which they are being sold. Given the standardized and commodity-like nature of computer hardware, customers can easily compare prices and features and have little need for products with a local flavor. Dell Computer Corporation sells more computer products via electronic commerce and other direct channels, and in more countries, than any other company in the world. Dell has entered many foreign markets through greenfield ventures and currently operates wholly owned subsidiaries in 34 countries around the world as well as manufacturing operations in six locations (two in the US; Brazil; Ireland; Malaysia; and China).

An important caveat must however be proposed with respect to an additional product characteristic that may influence entry mode for these types of products. To the extent that a global product being sold in a foreign market has a very high price-to-weight ratio, a firm may not need to locate in the foreign market in order to distribute it. For example, CPU and DRAM chips tend to be quite costly items per a given unit of weight. A Silicon Valley firm wanting to sell these abroad may simply export them from the US directly to customers in the foreign market. However, for products with much lower value per ounce or pound such as apparel and personal computers, the economics of shipping directly to international customers do not work given the high cost of shipping relative to the price of the product. Firms must transfer these costs to potentially unwilling consumers who could choose to buy from a local supplier.

Therefore, a product’s average price-to-weight ratio must be included as a control variable in a model predicting entry mode in order to accurately assess the effect of membership in the global physical category.
In summary, firms selling global physical products will enter foreign markets at a greater rate than firms selling local goods and given the requirements for a physical distribution network without those of local market knowledge, they are more likely to enter through greenfield ventures. Or more formally:

**Hypothesis 2A:** *Ceteris paribus*, organizations selling global physical products on the Internet are more likely to enter foreign markets than firms selling local products.

**Hypothesis 2B:** *Ceteris paribus*, organizations selling global physical products on the Internet are more likely to choose greenfield ventures as a mode of entry into foreign markets.

**Digital and Local Products: Desperately Seeking Partners**

In the bottom left-hand quadrant of Figure 1 are products that can be delivered in digital format to customers but that incorporate local market characteristics. These types of products include travel and entertainment services and online stock trading. In these cases, organizations need to customize their product to the local market and make sure that it conforms to cultural, societal, and even regulatory norms. Acquiring knowledge of the particularities and idiosyncrasies of a local population and integrating it into a product can be a very costly and time-intensive process—even when the product is delivered in digital format rather than physically shipped to customers. The inherent difficulties involved in customizing a product to each foreign market can significantly constrain a firm’s international expansion strategy and we would therefore expect these firms to be less likely to enter foreign markets than firms marketing global products. Nevertheless, the digital nature of the products facilitates their delivery and allows an organization to leverage the Internet as a very low cost distribution channel, thus stimulating foreign market entry. We therefore propose that firms in this category will be more likely to enter foreign markets than firms marketing local physical products. This leads to the formulation of Hypothesis 3A:

**Hypothesis 3A:** *Ceteris paribus*, organizations selling local digital products are more likely to enter foreign markets than firms selling local physical products.

Rather than attempt the lengthy and costly process of acquiring knowledge of the local market by itself, an organization entering a foreign market with a digital product requiring customization to local tastes and norms can form alliances and partnerships with local firms and entrepreneurs who already possess this knowledge. In this case, the valuable, rare and difficult to imitate resources are not the products but rather the technology for transmitting digitized versions of the products efficiently. However, this technology is not as valuable in the foreign market without specific knowledge of the local market that is also valuable and difficult to imitate. The foreign firm is no longer in as strong a bargaining position as in the case of global products and both parties involved in the transaction now have something valuable to contribute. Therefore, we expect firms selling local digital products to be more likely to enter into contractual agreements of various forms (joint ventures, strategic alliances, licensing agreements) with local partners when entering foreign markets.

The preceding arguments are summarized in Hypothesis 3B and illustrated with the case of E*TRADE Group. The provision of online financial services does not require a firm to own or operate any ‘bricks-and-mortar’ assets to service clients. In fact this is key factor in the ability of so-called pure-play Internet firms like E*TRADE and others to offer lower rates and prices than traditional financial services firms. All transactions are conducted online and paper documents can be mailed to customers. However, financial services are a highly regulated (and even protected) industry. Many countries have ownership limits for foreign investors and may require a foreign
firm to partner with a domestic provider in order to enter the market. In addition to the regulatory constraints, firms wanting to offer financial services in a foreign market face significant challenges given the lack of a local market knowledge and of a global brand. E*TRADE is one of the largest providers of online banking and brokerage services and currently has operations in 12 different countries in addition to the US. Although E*TRADE has subsequently acquired many of its international alliance partners, it has entered Canada, Australia, the United Kingdom, Japan and Korea through alliances and joint ventures with local partners; and Israel, Germany, Denmark, Sweden and Norway through licensing agreements with local partners.

**Hypothesis 3B:** *Ceteris paribus*, organizations selling local digital products are more likely to choose joint ventures, strategic alliances or licensing agreements as a mode of entry into foreign markets.

**Physical and Local Products: Buying Their Way In**

The final category includes products that are highly country-specific and that need to be physically distributed to customers, such as books and groceries. Firms in this category face the most challenging international expansion situation. They must ensure that their products conform to local norms and tastes and they must have a physical distribution network to service the local market. These organizations are the least likely to enter foreign markets (H4A). When they do decide to expand internationally, they need to acquire several types of assets in order to do business in a foreign country. Given the need for a local distribution system, firms can perhaps set up a wholly owned subsidiary in the new market. However, as opposed to global products, local products require intimate knowledge of the market rarely possessed by the entering firm and greenfield ventures are thus problematic. The e-commerce firm requires a host country partner that possesses the knowledge of the local market as in the previous case where contractual relationships are favored. In this case, however, contractual agreements leave the e-commerce firm in a weak position given that it no longer controls any of the valuable, rare and difficult to imitate assets.

When products are delivered in digital format via the Internet, the e-commerce firm possesses valuable and often costly to imitate technological assets that firms selling physical products do not necessarily have. Despite the technological complexities that can be involved in the logistics of efficiently processing high volumes of online orders and shipping products to customers, these direct-to-customer fulfillment (DTCF) capabilities are not necessarily difficult or costly to imitate. If the entering firm were to partner with a local firm, what would it contribute to the relationship – neither global brand nor digital technology? Hierarchical modes of governance (Williamson, 1985) such as wholly owned subsidiaries would therefore be favored over contractual ones. Given that greenfield ventures deprive a firm of the market knowledge required to sell local products in a foreign market, acquisitions will be favored rather than starting up de novo foreign subsidiaries (H4B).

The above arguments underscore the difficulties in making greenfield investments in markets requiring a high degree of local market knowledge and the risks inherent in contractual agreements when one organization does not possess any critical rent-generating assets. Consider the previously described example of books. Books constitute a local product to the extent that demand for them is highly country-specific and so entry requires good knowledge of the local market. Amazon.com, the web’s leading bookseller, has pursued a strategy of acquisitions with its purchase of online booksellers in both Germany and the UK in its first attempts at international expansion in 1998.
**Hypothesis 4A:** *Ceteris paribus*, organizations selling local physical products on the Internet are least likely to enter foreign markets.

**Hypothesis 4B:** *Ceteris paribus*, organizations selling local physical products on the Internet are more likely to choose acquisitions as a mode of entry into foreign markets.

The predictions of the four entry mode hypotheses along with the cases discussed are shown graphically in Figure 3.

**Figure 3. International eCommerce Entry Modes**

<table>
<thead>
<tr>
<th>Nature of the Goods</th>
<th>Product Appeal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td></td>
</tr>
<tr>
<td>Digital</td>
<td>EXPORTING (H1B) (e.g. Buyonet.com)</td>
</tr>
<tr>
<td></td>
<td>JOINT ALLIANCES / ALLIANCES / ALLIANCES (H3B) (e.g. E*TRADE)</td>
</tr>
<tr>
<td>Physical</td>
<td>GREENFIELD VENTURES (H2B) (e.g. Dell Computer Corp.)</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td><strong>Local</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>JOINT ALLIANCES / ALLIANCES / ALLIANCES (H3B) (e.g. E*TRADE)</td>
</tr>
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<td></td>
</tr>
</tbody>
</table>
Conclusion

As the hypotheses concerning rates of entry suggest, the four categories impose a
hierarchical order on the likelihood of foreign market entry. Global digital products are the most
likely to be exported to foreign markets followed by global physical products, local digital
products and finally, local physical products are the least likely to be sold via e-commerce in
foreign markets. This rank ordering implies that the product’s appeal is the dimension that is the
strongest determinant of foreign market entry as global products are more likely to be sold in
foreign markets irrespective of their digital or physical nature. Although this framework has yet to
be subjected to rigorous empirical testing, we can derive several conclusions from the expected
strength of the effects of the two dimensions on the likelihood of international expansion. The
primacy of the global-local dimension over the digital-physical one illustrates how the World
Wide Web does not allow for a borderless virtual world where traditional geographic factors are
of secondary importance. This should indicate to both managers and researchers that, even though
the Internet may constitute in many ways a revolutionary and discontinuous innovation, it does
not require that we abandon all previous models of strategic management in favor of “new
economy” models (our use of the resource-based perspective to understand entry mode decisions
among e-commerce firms illustrates this principle).

At least with respect to business-to-consumer e-commerce in foreign markets, traditional
notions of host country specificities and idiosyncrasies are still critical variables to consider.
Nevertheless, the digital or physical nature of the product is also an important predictor of foreign
market entry. Within both the global and the local categories, digital products are expected to have
a higher likelihood of being sold in foreign markets than products that need to be physically
shipped to customers. Being digital or physical therefore has an important moderating effect on
the relationship between the product’s appeal and foreign market entry. This underscores the need
to revisit traditional models of strategy in light of the effects of the Internet and e-commerce
without necessarily dismissing or discarding previous models as being obsolete.

The predicted relationships between product category and foreign market entry highlight
the integration of the resource-based theory of the firm with the foreign market entry literature
within the context of electronic commerce. As we have argued, the attributes of a product lead to
differential control (between the e-commerce firm and host country firms) of the valuable, rare
and difficult to imitate and substitute assets that generate economic rents in a foreign market. By
combining Figures 2 and 3, we can see that when the entering firm possesses a global brand or
product that is desired in foreign markets, it enters on its own either by exporting or greenfield
investments depending on the nature of the goods. On the other hand, local products shift the
balance of power to host country firms that possess the knowledge of the local market required to
customize the product. In the case of local digital products, the balance of power is relatively
equivalent as both parties contribute to the venture (this is the only cell with entries for both
entering and local firms). However, in the final case of local physical products, host country firms
that possess the local market knowledge control the only valuable and difficult to imitate, rent-
generating resource, and the e-commerce firm must rely on acquisitions to enter the market.

The conclusions derived from the entry mode hypotheses highlight both the distinct
effects of the two dimensions as well as their interactions. If we divide Figure 3 along the
horizontal line bisecting the figure, we can see in the bottom half that the local appeal of a product
imposes a need for knowledge of the foreign market that is resolved either through contractual
agreements with local firms or by acquiring a firm already operating in the market. In the top half
of the matrix, the global nature of the product relieves an organization of the need to acquire local
market knowledge and the firm is free to enter on its own via exporting or greenfield investments.
Similarly, if we partition Figure 3 along the vertical axis, on the right, the physical nature of the product implies a need for control that can only be obtained through the operation of wholly owned subsidiaries (either set up through greenfield ventures or acquired). In the left half of the figure however, digital products relieve a firm of the need for a physical presence and provide it with a valuable asset and source of competitive advantage that can be leveraged to enter into contractual agreements with local organizations or simply export the products directly when no local market knowledge is required. This interdependence in the choice sets emphasizes the importance of the interaction between the two dimensions and suggests that models for predicting mode of foreign market entry for e-commerce firms need to include both variables in order to be accurately specified.

The analysis presented in this article has brought a step further in our understanding of foreign market entry decisions in the emerging e-commerce industry. The model represents a contribution to both the international strategy and the e-business strategy literature. Using the resource-based view of the firm to explain and predict entry mode decisions has also allowed us to show the benefits of integrating traditional strategic management models with new economy phenomena to gain greater insight into the dynamics of these emerging businesses.

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