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The Startup Dilemma of International Market Expansion

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Abstract

This paper explores the multifaceted challenges startup firms face when expanding into international markets. While existing literature has extensively examined the internationalization of entrepreneurial firms, a gap remains in understanding the specific considerations that shape startups' market expansion strategies. This study delves into the intricate interplay of marketing, managerial decision-making, and investment dynamics that tech startups must navigate. By building upon existing research, it incorporates contemporary developments in investment trends and market expansion concepts. The paper presents a comprehensive framework that integrates management objectives with internal capabilities and external market conditions across the domains of marketing, management, and investment.

Keywords: Startups, international, market expansion, internationalization, growth versus profit

1. Introduction

In the dynamic landscape of globalization and advancement in technology many startups face the strategic dilemma regarding the desired pace of international market expansion. Entrepreneurs often grapple with the choice between rapid entry into multiple markets and a more cautious approach that allows for thorough analysis and confidence-building in new territories. While this dilemma intersects with the overarching goal of achieving growth versus prioritizing profits, they are not synonymous. Growth can sometimes be attained by focusing efforts on a select few markets rather than spreading resources thinly across expansions. However, for innovative companies with entrepreneurial spirit, market expansion represents a significant avenue for growth. Recent shifts in the global economic climate have underscore the importance of profitability for startup investors, intensifying the strategic discourse within the startup ecosystem. This trend is particularly pronounced in the realm of Software as a Service (SAAS), where rapid growth is often perceived as essential for survival.

The global opportunities come with significant challenges, particularly for tech startups operating in dynamic and competitive environments. Technological Startups are frequently characterized by limited financial and human resources, lack of experience in international marketing, high uncertainty and no business name recognition. This paper examines the complex interplay of marketing, managerial, and investment considerations that tech startups must navigate when pursuing international market expansion.

2. Literature Review

McDougall, Shane and Oviatt (1994) argued that theories from the field of international business did not explain the international expansion of startup firms because they were based on the experience of large mature firms. McDougal and Oviatt (1994) presented a model of how the speed of entrepreneurial internationalization is influenced by the entrepreneurial opportunity with enabling forces of technology, competition, networks, managerial perception and knowledge. Knapp and Kronenberg (2013) study focuses on the main driving factors influencing the path (i.e. the decision- making process) of SMEs to internationalize and explains reasons for choosing different entry modes as strategy. They offer a framework of internal and external as well proactive versus reactive influences.

2.1 Marketing

The marketing literature of international expansion by startups recognize the issues of limited resources and brand recognition and concentrate on the areas of market entry strategies, adaptations versus standardization and cultural understanding. Market entry strategies acknowledge the resource constrains of exporting, joint ventures and subsidiary development and focus on leveraging digital platforms. Cavusgil and Knight (2015) argue that born global firms are driven by a strong entrepreneurial mindset, with a focus on innovation, proactiveness, and risk-taking. This mindset plays a critical role in their rapid internationalization. Brouthers et al. (2023) discuss how digitalization allows startups to bypass traditional barriers enabling them to enter multiple markets simultaneously with relatively low investment. Crick and Crick (2021) examine the "born-global" phenomenon in tech startups, emphasizing the role of digital platforms in rapid internationalization. Liu et al. (2022) discuss the impact of strategic flexibility on the internationalization of high-tech startups, arguing that adaptability is crucial for overcoming the liability of foreignness. Magnusson et al. (2012) analyzed the conditions under which first-mover advantages were enhanced for internationalizing service firms in emerging and developing markets. Their study reveals that early entrants often outperform later entrants**,** with the first-mover effect being moderated by environmental dynamics. Aspelund et.al. (2007), reviewed 11 empirical studies of marketing strategies and performance of infant firms that operate internationally and concluded that there was great heterogeneity on the factors that influence strategy and performance.

2.2 Management

Baum et al. (2015) explore how different internationalization objectives (e.g., market seeking, resource seeking) influence the speed and scope of startup internationalization. Coviello et al. (2017) found that the The objectives behind international expansion often vary, with some firms aiming for market diversification, while others seek growth, innovation, or resource acquisition. The role of entrepreneurial orientation in driving international expansion has been well-documented (Coviello and Jones, 2004). For tech startups, this orientation often manifests as a proactive, risk-taking approach to entering foreign markets. Gabrielsson et al. (2013) examine the trade-offs between profitability and growth in international new ventures. They suggest that while rapid international expansion can lead to significant market share gains, it may also strain resources and impact profitability. Founders with a higher appetite for risk are more likely to pursue aggressive expansion strategies, while risk-averse managers may favor incremental approaches (Andersson, 2011). Autio et al. (2000) found that founders with prior international exposure are more likely to pursue aggressive internationalization strategies. Their networks also provide valuable contacts and market knowledge. Gerschewski et al. (2020) investigated the performance outcomes of early internationalization in tech startups. Their findings suggest that rapid international expansion can lead to superior financial and non-financial performance, but also increases operational complexity. Wu and Voss (2015), suggest that dynamic capabilities are crucial in overcoming the risks which stems from the unfamiliarity of the foreign environment, cultural differences, and the lack of legitimacy in the host country. A study by Singh et al. (2023) highlights that startups often face a talent gap in international markets.

2.3 Investment

Securing investment for international market expansion is a challenging task for many startups. González, J. C., and Guzmán, A. (2023) arguing that sufficient financial resources are critical to overcoming the barriers associated with foreign market entry. Rialp, A., Rialp, J., and Knight, G. A. (2005) emphasize the role of financial resources in supporting rapid internationalization, particularly among firms that internationalize early in their lifecycle. Wright, M., and Filatotchev, I. (2021) emphasizes the role of venture capital in supporting international growth and the challenges faced by startups in securing funding for overseas expansion. Gabrielsson and Gabrielsson (2013) explored the growth strategies of new ventures and the trade-offs between short-term profitability and long-term growth in international contexts. Zepeda M. and Brandel J. (2019) argue that more startups should not prioritize growth above all else. Prashantham and Yip (2018) found that startups with venture capital backing expand internationally faster than self-funded firms. However, according to Rasmussen and Tanev (2022) reliance on external funding also pressures startups to prioritize short-term revenue over long-term market positioning.

Many references in the literature offer valuable empirical findings. However, few provide a comprehensive, integrated perspective on the three distinct areas that influence market expansion by startup firms.

3. Marketing Considerations

The literature suggests that various strategic and tactical marketing factors influence the internationalization of new venture firms. In this paper, we focus on the rate of international market expansion and identify three key marketing factors that are critical to this decision (Ayal & Zif, 1979; Zif, 2020).

3.1 Nature of the Product

The complexity and novelty of a startup's product play a significant role in determining the optimal pace of market expansion. Products vary in complexity, and this can affect both distribution and adoption. Products that can be sold online and Software as a Service (SaaS) products are generally easy to distribute and implement. However, some software solutions may be considered complex if they require extensive training or integration with existing systems.

Customer adoption is another crucial factor. Some products involve a straightforward purchasing process, while others require lengthy approvals, regulatory compliance, or specialized setup. Highly technical products may also demand significant adaptation, customization, or user training, which can slow expansion efforts.

Additionally, complex products can pose challenges for firms in establishing the necessary infrastructure in each new market. While breakthrough innovations may generate strong demand, their inherent complexity often slows the pace of international expansion.

3.2 Response function

There are at least two very different possible response functions to new product introductions by startup firms: a slow S curve and a rapid concave.

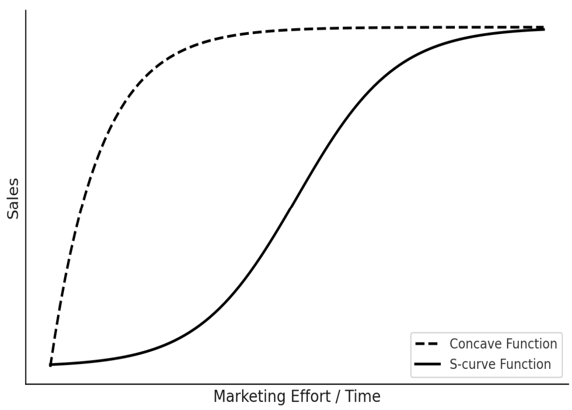

Figure 1. Sales Response to Marketing Effort

Many innovations encounter inertia and resistance to change from both customers and distribution channels. When faced with the slow sales response typical of an S-curve, an innovating firm must exert considerable effort until reaching a takeoff point. For a startup with limited resources, it is often more effective to focus on expanding within a few key markets before moving on, ensuring a solid foothold before scaling further.

In contrast, when a technological startup introduces a breakthrough offering that directly addresses customers' needs or desires, the sales response can follow a different pattern. A concave sales function assumes a rapid initial uptake without requiring sustained, concentrated effort. In such cases, swift entry into multiple markets becomes a logical strategy.

In practice, responses to innovation are often more complex than these two scenarios. However, the nature of early market reception remains a critical factor in shaping expansion strategies.

3.3 Competitive Lead Time

The speed at which competitors are likely to respond to a startup's innovation can significantly influence market expansion. A common objective is to establish a strong first-mover advantage in multiple markets before competitors enter. Being the first in a market often provides a valuable awareness advantage. If the expected competitive lead time is short, the startup is incentivized to expand rapidly across multiple markets. Conversely, if competitors are expected to take longer to respond, there is less urgency for swift expansion.

4. Management Considerations

4.1 Firm Objectives

Managerial decision-making involves three key areas: (1) firm objectives, (2) analysis of internal resources and capabilities, and (3) analysis of external conditions. In the context of international market expansion, relevant startup objectives include leadership aspirations, the trade-off between growth and profit, risk tolerance, and the desired level of control.

Leadership aspirations are particularly relevant for breakthrough products or services. Achieving this objective requires early entry into key markets, prioritizing rapid growth—often at the expense of profitability for many years. A notable example is Amazon, which pursued aggressive expansion for years while sustaining significant losses.

Even without leadership ambitions, prioritizing growth over profit can be a rational strategy, especially when management believes that without growth, the company's long-term viability is at risk. This logic is particularly pronounced in the Software as a Service (SaaS) industry, where rapid expansion is often seen as essential for survival (McKinsey, 2014). Fast growth typically necessitates early entry into multiple markets.

However, rapid expansion comes with financial, operational and reputational risks, including miscalculations, loss of control, and negative customer feedback due to product or service failures. On the other hand, delaying market entry carries the risk of missing key opportunities. Managerial objectives must therefore carefully consider the level and type of risk the firm is willing to assume.

Some management teams—especially those with limited resources, a risk-averse mindset, and a strong preference for control—may opt for a slower, more disciplined market entry strategy with a greater focus on profitability.

Disagreements over objectives among a firm's leadership are not uncommon. For example, venture capital investors may favor short-term gains that conflict with the long-term vision of entrepreneurial management. When cohesion within the management team is lacking, executing an ambitious expansion strategy becomes particularly challenging.

4.2 Internal Resources and Capabilities

While aggressive international market expansion can sometimes be achieved with limited resources by outsourcing marketing functions to third parties, many startups without established reputations may struggle to secure committed partners. As a result, limited managerial, financial, and operational resources are likely to hinder expansion.

Startups led by technology entrepreneurs often lack experienced marketing executives with the necessary knowledge and understanding of foreign bureaucracy and regulations, marketing and promotional channels, and cultural norms. As highlighted in the literature review, these capabilities are closely linked to rapid market expansion. Firms with a deep understanding of internet technologies can leverage online marketplaces to bypass traditional entry barriers and accelerate market expansion (Forbes 2023).

4.3 External Networks

International market expansion can be pursued with varying levels of marketing commitment. One approach is to delegate the marketing function to one or more international organizations that have both the capability and willingness to manage expansion efforts in foreign markets. However, in the early stages of a startup—when it lacks an established reputation—finding a committed partner to execute an effective international marketing strategy can be challenging. The alternative approach requires a substantial investment of financial and managerial resources to introduce and support the new offering in each market. However, if key managers have prior connections that allow them to quickly establish international networks of potential distributors, partners, or customers, the first approach becomes more feasible, and the second approach is eased by sharing the burden.

5. Investment Considerations

Many, if not most, startups rely on funding not only for rapid market expansion, but also for basic operations. The startup's financial position, the availability of external funding, and the requirements of funding sources significantly influence its market expansion strategy.

5.1 Financial Situation

All forms of international market expansion require funding, and for startups without prior reputation, or name recognition, the process is particularly resource-intensive. As González and Guzmán (2023) note, "sufficient financial resources are critical for overcoming the barriers associated with foreign entry." A well-funded startup backed by venture capital can typically expand more rapidly than a self-financed firm—assuming that investors support an aggressive expansion strategy.

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5.2 Funding Availability

External funding plays a crucial role in financing the international expansion of startups. The willingness of venture capitalists, private equity firms, and strategic investors to invest in startups varies based on economic conditions, industry outlooks, and financial trends. At times, investors actively seek opportunities in specific industries, such as AI, while other sectors may struggle to secure funding. Investors are generally more inclined to support startups with clear international growth potential but may hesitate to fund risky expansions if a startup’s global prospects are uncertain.

5.3 Funding Requirements

Shifts in the global economic environment have influenced investor preferences, with a growing emphasis on short-term profitability over aggressive growth strategies. However, in technology industries characterized by strong network effects and first-mover advantages, investors often prioritize rapid expansion over immediate profits. This approach is particularly relevant in highly competitive markets where a "winner-takes-all" dynamic prevails. For many other startups, securing funding often requires demonstrating a clear path to profitability. This is especially true for startups with high burn rates, limited financial commitments from investors, and significant uncertainty about their economic potential. Investors in these cases tend to favor sustainable growth strategies over aggressive expansion to mitigate financial risk.

6. Integration and Conclusions

The findings underscore the multidimensional nature of the market expansion dilemma faced by startups, highlighting the interplay of marketing dynamics, investment requirements, and management priorities. Figure 2 presents an integrated framework that encapsulates the key considerations influencing expansion decisions.

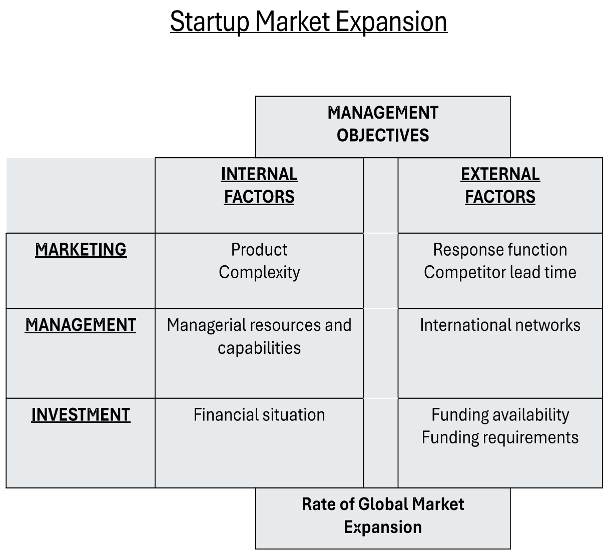

Figure 2. Integrated framework

Decision-making in this context revolves around three critical areas:

1. **Defining Objectives:**

- What do we aim to achieve?
- Are we prioritizing short-term survival or long-term growth?
- How important is maintaining control?
- What level and type of risk are we willing to assume?

2. **Assessing External Conditions in Marketing, Management, and Investment:**

- **Marketing:** What is the anticipated market response? How competitive is the landscape? How quickly can rivals replicate our offering? The answers would be different for different industries and different situations.
- **Management:** Do we have—or can we rapidly establish—networks that facilitate international expansion?
- **Investment:** Can we secure the necessary funding? What are the expectations of potential investors? Do financial backers prioritize profit or growth?

3. **Evaluating Internal Capabilities in Marketing, Management, and Investment:**

- **Marketing:** How complex is our product in terms of usage and understanding? Consumer products are usually simpler than industrial technical products. Can it be sold online? What training or support is required? Are there logistical challenges or regulatory approvals needed?
- **Management:** Do we have the managerial expertise for rapid expansion? Do we understand foreign cultures and bureaucratic systems? Can we recruit the necessary talent? Can we efficiently supply goods and services across diverse markets?
- **Investment:** Do we possess the financial capital to sustain expansion and mitigate unexpected challenges?

By systematically addressing these factors, startups can make more informed strategic decisions, reducing uncertainty in market expansion efforts. The analysis can lead to two kinds of conclusions: determining the optimal rate of expansion and identifying strategies to overcome challenges revealed by the analysis. Possible moves to deal with difficult findings may include simplifying the product or service offering to enhance scalability, seeking marketing partnerships to simplify market entry, and recruiting additional skilled personnel to support expansion efforts. Companies may also need to reorganize production capacity and supply chains to support growth, explore alternative funding options, and collaborate with venture capitalists to coordinate funding for expansion plans. Additionally, establishing a process to acquire critical missing knowledge and adjusting cash flow priorities to align with expansion needs can further support sustainable expansion.

Additionally, this framework enhances empirical research by offering a more holistic view of the interdependencies among these critical variables.

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