Early and accelerated internationalisation: the role of the niche strategy in a new generation of exporters

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Abstract: This study investigates the interplay of firms’ business strategies and their export activities, with a special emphasis on the role of niche strategies in the early and fast internationalisation of new and young ventures. By coupling theoretical arguments with case-based empirical evidence, we offer insights on how the niche strategic pattern can influence internationalisation. Furthermore, we discuss the evolution over time of this strategic pattern. Our case evidence sheds light on the mechanism underpinning both the ‘niche explorative phase’, in which opportunity creation and enactment processes take place, and the ‘niche exploitative phase’, in which the strategic pattern is refined and supports increasing internationalisation. Our findings uncover the critical role of reputational assets in sustaining over time the global competitive positioning of early and fast exporters.

Keywords: internationalisation; export; business strategy; strategic niches; case studies.


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1 Introduction

Export activities have always been a central area of investigation in the International Business field (Leonidou et al., 2010). They have been studied from several points of view over the last decades, with special emphasis on the drivers of export growth and performance (Miesenboeck, 1988; Aaby and Slater, 1989; Leonidou and Katsikeas, 1996; Zou and Stan, 1998; Leonidou et al., 2007; Leonidou et al., 2010). Nevertheless, there is still much to add on export strategies. Some issues are still controversial – for instance, the role of firm size and age. How can firms that apparently lack resources and experience achieve early and fast international growth? In addition, the contemporary economic trends pose a number of new challenges to exporters. On the one hand, repeated economic and financial crises, increasing global competition, growth of emerging markets and digital revolution put a lot of pressure on small and young firms. On the other hand, many companies are extremely successful in exploring and exploiting global opportunities (Eurofund, 2012).

A ‘new generation’ of exporters – embodied by firms that started their activity in the last two decades – brings forward new business models and reinterprets old ones. They
do not follow traditional export stages (Bilkey and Tesar, 1977) and their expansion to foreign markets is neither the result of unsolicited orders, nor a gradually planned activity. It is simply a natural part of their strategic pattern from the start. They are frequently reported as early and fast exporters that can quickly achieve a global selling capacity notwithstanding their limited experience in foreign operations and the resources constraints typical of small and young firms. More importantly, they show a continued growth pattern over the years.

Despite their growing contribution to the global economy, a clear understanding of the business strategies underly ing the early and accelerated internationalisation of this new generation of exporters is missing. Very few studies have investigated the link between business strategy and export activities (Cooper and Kleinschmidt, 1985; Melin, 1992; Morgan et al., 2012; Leonidou et al., 2010), especially in the case of small and medium-sized firms (SMEs) (Wolff and Pett, 2000; Hagen et al., 2012, Hagen, 2010).

This paper aims at contributing to this line of research by investigating the impact of business strategies – defined as the choice of product and market (group of customers) combinations – on firms’ export activities and on their evolution over time firms experience early and fast global growth. Our contribution to extant literature is twofold. First, we offer a better understanding of how firms’ strategic positioning (Wolff and Pett, 2000) can influence their export orientation and performance. More specifically, we explore the role played by the adoption of a niche strategy in the early and fast internationalisation of new and young ventures. The role of niche strategies in born global firms has been partially investigated in the international entrepreneurship (IE) context, starting from Rennie’s (1993) seminal work. However, as emphasised by recent studies (Hennart, 2014; Knight and Liesch, 2015), many aspects are still far from being fully understood, calling for further research. The adoption of a niche strategy is neither exclusive of born global firms nor the only way to grow early and fast in global markets but it is increasingly important to the new generation of exporters (Eurofund, 2012).

Second, we discuss the evolution of this strategic pattern over time, and its implication on firms’ internationalisation processes, offering more longitudinal evidence on early and fast internationalisers (Almor et al., 2014; Hagen and Zucchella, 2014). The remainder of the paper is organised as follows. After a literature review, focused on the niche strategy and its role in export growth, we describe our data and method. We analyse five illustrative cases of firms from different countries that internationalised rapidly by exporting their goods to foreign markets. We selected firms belonging to traditional industries, ranging from food and beverages to shoes, with the aim to observe how a new generation of exporters achieves global growth in industries partially neglected in the international business and entrepreneurship contexts (Zucchella and Siano, 2014). Further, we illustrate our key findings and discuss how they contribute to the extant literature. Our case evidence uncovers some key drivers of export performance, highlighting on one hand, the role of entrepreneurial resources (Coudounaris, 2011) and on the other hand, the role of business creation. It also unveils a more complex set of factors guiding firms’ long-term international growth. The sustainability of their businesses rests on a set of evolving competences, and on the development of isolating mechanisms such as reputational assets (Rumelt, 1987).
2 The niche strategy

The niche strategy of the firm has received relatively little attention from research in the international business and entrepreneurship fields. The issue of market spaces broken down into niches and the idea that with their offers firms address these ‘pockets’ (Hooley and Saunders, 1993) or ‘small spaces not served by competitors’ (Keegan et al., 1992) still requires investigation, especially as concerns the implications for firms’ internationalisation.

One of the first studies explicitly acknowledging niche strategies is Penrose’s (1959) Theory of the growth of the firm. However, it provides a predominantly defensive view of the niche strategy, conceiving it as a natural response of small firms to the competition of larger ones. The strategic management literature has started paying more attention to niche strategies in the early 1980s with the contributions of Abell and Porter. According to Abell (1980, p.169), “a business may be defined by three dimensions. Customer groups describe categories of customers, or who is being satisfied. Customer functions describe customer needs, or what is being satisfied. Technologies describe the way or how customer needs are satisfied.”

In his seminal work, Abell also considers the dynamics in businesses, and in particular business creation and change. “Finding a new way to segment a market, and differentiate the offering, especially one that cannot be easily emulated by competitors, is a creative act” [Abell (1980), p.177, italics and bold is ours]. For the purpose of our study, Abell’s work is relevant for two main reasons. First, it introduces the construct of business and its key dimensions. Second, it explicitly recognises “the new way to segment a market as a creative act”, which means an entrepreneurial decision. Though Abell did not analyse specifically the niche strategy, his conceptualisation can be used to identify a niche approach, through the key qualifying dimensions of a business (technology, customer groups and customer functions).

In parallel, in ‘The competitive strategy’ Porter (1980) also acknowledges – along with the mass market oriented strategy – the existence of a focus (i.e., niche) strategy, as a viable option to compete in certain market spaces. This occurs when the firm is “able to serve its narrow strategic target more effectively or efficiently than competitors who operate more broadly”. In a following study, Porter (1996) describes three types of strategic niches based on their positioning (i.e., variety-based, need-based, and access-based), the related specific sets of value chain activities and the resulting firm core competences.

Cooper et al. (1986) show that a niche strategy is not necessarily a defensive move of smaller firms, aimed at escaping competition from larger ones. A successful niche strategy allows in fact, small players to challenge even bigger competitors. However, Cooper et al. (1986, p.247) caution that “the conditions which created the opportunity may erode in time, rendering the successful challenger vulnerable either to retaliation by the larger firm or challenge from subsequent entrants”.

These considerations raise the issue of the sustainability of a niche strategy over time and call for further research in this field.

Notwithstanding these influential studies, the niche strategy has remained a relatively neglected topic in the strategic management literature. Besides, the entrepreneurship literature did not devote much attention to this topic, even though the above-mentioned work by Abell suggests that a niche strategy could be the result of entrepreneurial
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creativity, through the enactment of new market spaces. Among the few contributions that examined niche strategies in the entrepreneurship context, Siegel et al. (1993) highlight that focused strategies lead to a higher growth in new ventures. In contrast, Baum et al. (2001) show that focused strategies are negatively associated with sales and employment growth in new ventures.

To better understand the strategic pattern and outcomes of young and fast growing ventures internationalising to other countries, research on exploration and exploitation dynamics may be of help (March, 1991). Is the exploration of new international opportunities the result of a discovery or is it an act of creation? How does then exploitation occur and along which paths? Peng Cui et al. (2014) found that in the foreign growth of smaller firms, the fit between exploration and exploitation and the host country choice is a critical factor. In particular, they highlight that “host – home country similarity has a positive impact on an SME’s international performance when the firm adopts an exploitation strategy. Conversely, host – home country similarity has a negative impact on an SME’s international performance when it adopts an exploration strategy” [Peng Cui et al. (2014), p.67]. Investigating how having a niche positioning influences the exploration and exploitation of global opportunities, is an issue warranting further investigation.

3 The niche strategy and its impact on firms’ internationalisation

In international business studies, the relationship between a niche strategy and firms’ internationalisation is a relatively under-investigated issue. A few studies, however, have acknowledged niche strategies as a precondition and an enabling factor for small firms’ internationalisation (Dalgic and Leeuw, 1994; Calori et al., 2000). In their study on a group of small and medium-sized companies Zucchella and Palamara (2006) showed that their international performance was based on a creative niche strategy. It was not the defensive niche positioning identified by Penrose (1959), but the result of creating a market space that others had overlooked or did not exist before.

The export literature on SMEs has often underlined the role of product uniqueness and customer focus in the international growth of small firms (Koh, 1991; Wolff and Pett, 2000). Both are typical attributes of a niche strategic pattern. The role of firms’ business strategy or ‘strategic pattern’ in driving foreign growth, though, has been scarcely studied (Cooper and Kleinschmidt, 1985; Hagen et al., 2012). Export strategies and their key elements, such as standardisation and adaptation choices, have traditionally attracted significant scholarly attention. Related studies attribute special importance to internal factors such as managerial and entrepreneurial resources (Leonidou et al., 1998; Leonidou et al., 2007; Coudounaris, 2011). How decision makers leverage these resources in the export context to pursue a specific business strategy, though, is still unclear.

The surge in IE studies over the past decades has been accompanied by an increasing attention to specific drivers of early and fast internationalisation. The seminal work by Rennie (1993) on born-globals describes early, fast and broadly internationalising firms and identifies innovative niche positioning at a global level as one of the drivers of their rapid international growth. Born global firms and international new ventures are often set up to target specific market niches (Bloodgood et al., 1996; Crick and Jones, 2000;
Moen, 2002; Bell et al., 2004; Knight et al., 2004; Knight and Cavusgil, 2004; Laanti et al., 2007), where competition from global players is less intense, but profit opportunities are considerable. Zucchella et al. (2007) in their work on the drivers of early internationalisation, highlighted that early internationalisation was related to a niche positioning.

However, the IE literature also encompasses examples of born-globals that did not pursue a niche strategy (Jolly et al., 1992; Oesterle, 1997). Jolly et al. (1992) describe a case in which standardised products were launched in lead markets and firms became global within a short period of time. The emphasis was placed on the early and broad launch of second-generation products, with a focus on turbulent high growth industries where global competition was not yet established.

A successful global niche strategy is not necessarily based on a technology advantage, but might also be based on customer orientation and customer knowledge, a strong focus on quality, and unique products (Knight and Cavusgil, 2004; Laanti et al., 2007; Gabrielsson et al., 2012). These are key factors to succeed in traditional and mature industries, largely under-represented in the IE context, which has mainly focused on high tech industries.

Recent studies define born global firms as ‘accidental internationalists’, meaning that their early and fast growth is a natural outcome of their positioning in global market niches (Hennart, 2014). There are specific elements characterising this positioning and affecting firms’ early and fast global growth in comparison to ‘traditional’ internationalisers operating in mass markets.

Notwithstanding the increasing interest in the role of niche strategies in driving early and fast global growth, still much remains to be explored. First, there is no clear understanding of what exactly a niche is as well as its dimensions and constituent elements. Second, the role of decision makers and their entrepreneurial creativity in discovering and enacting niches is unclear. Some scholars (Madsen and Servais, 1997; Knight and Cavusgil, 1996; Servais and Rasmussen, 2000; Moen, 2002) suggest that the emergence of niches is due to environmental (market and industry) changes. Others, such as Rennie (1993) support explicitly an enacted global niche and a proactive innovative positioning. We believe that developing a better understanding of the process of niche discovery versus niche creation and enactment could provide a relevant contribution to different literature streams, from strategic management and entrepreneurship to international business.

Finally, most of the above-mentioned studies are focused on the early stage of life of a firm, but little is known about the dynamics and strategic patterns characterising the following phases.

In conclusion, the conceptualisation of a niche, the processes of niche enactment and exploitation and its evolution over time still remain largely undefined. Furthering our knowledge of those aspects is especially relevant in light of the fact that most exporters growing abroad early and fast adopt a niche strategy.

4 Case analysis

This paper draws on the analysis of illustrative case studies (Patten, 2002; Halinen and Tomroos, 2005; Yin, 1994). The approach has been used in similar works (e.g., Woodward and Woodward, 2001; Haslam et al., 2014). Our selected companies have
been founded in the recent years and have achieved rapid global success in niche markets. Our data analysis entailed the triangulation of data gathered from different sources, such as Lexis Nexis and Orbis databases, press releases, company websites, interviews available on the internet, books and case histories. The purpose of research based on illustrative case studies is to find empirical evidence to elucidate and exemplify a conceptualisation. It is also used for a preliminary exploratory analysis, when the researchers need to understand which variables and relationships will drive a subsequent in depth exploratory analysis. In order to achieve this second objective, we followed a stepwise method of data collection and organisation, as described below.

The five selected firms (Table 1) were chosen on the grounds of judgemental sampling. They had to be early and fast internationalisers from mature industries and we aimed at variation in country of origin and type of business. We excluded both high tech firms and business to business cases in order to distance ourselves from the idea that global niches are typically found in these industries (Rennie, 1993; Knight and Cavusgil, 2004). The choice for mature industries allowed us to investigate the business models adopted by new entrants in traditional activities, an interesting and insufficiently investigated topic in international business and entrepreneurship (Zucchella and Siano, 2014).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Case firms’ key facts and figures</th>
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<tbody>
<tr>
<td></td>
<td>Shoes of prey</td>
</tr>
<tr>
<td>Industry/market</td>
<td>Online retail of on demand shoes</td>
</tr>
<tr>
<td>Nr of employees</td>
<td>145</td>
</tr>
<tr>
<td>Revenues</td>
<td>Not disclosed</td>
</tr>
</tbody>
</table>

Table 2 provides a synthesis of our selected firms, based on some main variables. First, based on Abell’s (1980) definition of business strategy we collected information on: groups of customers, their needs and the technology adopted to address them. According to the depth and width of these three elements, we categorised these firms as niche-oriented. This categorisation was then triangulated with interviews and press releases, in which the top managers/entrepreneurs of our focal firms supported this view. Further, we collected data on the founding team and its evolution over time, in order to understand the profile of decision makers, in particular their background and expertise. In fact, we discussed in the previous section the importance of the decision makers in understanding firms’ strategy and internationalisation outcomes. We organised data along the exploration stage, in which founders either discover or create the opportunity (niche) and enact it, and the following exploitation phase, characterised by fundraising to support growth, markets and products evolution, development of isolating mechanisms. Evidence was constantly triangulated with different sources of information (press releases, company reports, entrepreneurs’ narratives). Finally, we collected data on the different aspects of firms’ internationalisation (entry modes, scope, precocity and intensity of foreign sales).
Table 2: The empirical evidence from stepwise illustrative case study analysis: the variables illustrating the niche strategy, its evolution and its internationalisation outcomes

<table>
<thead>
<tr>
<th>Business</th>
<th>Customer groups</th>
<th>Customer needs/wants</th>
<th>Technologies/Innovation</th>
<th>Founding team/management</th>
<th>Business creation versus discovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lacoste</td>
<td>Started with: women; fashionistas; problem feet; special occasion shoe Current: customers who buy regularly.</td>
<td>Personal muesli for any occasion (from day-to-day to diet to special days)</td>
<td>Customized production enabled through Internet; site design- technology developed; marketing (and marketing analysis) is technology and data driven – application of technology in leading edge.</td>
<td>3 friends from student days; lawyer; 2 with Google experience, 3rd Advertising; Venture capital from Silicon Valley and Atlassian Founder/All on board; Open and learning-oriented culture; young team.</td>
<td>Niche creation Want to start company in 3 and actively look for an attractive business idea; put money aside while they evaluate.</td>
</tr>
<tr>
<td>My Muesli</td>
<td>Demanding fans: better tasting, organic, customised food. Current: from sports to health to demanding muesli connoisseurs.</td>
<td>Ice cream which tastes as it tasted &quot;once upon a time&quot;.</td>
<td>Customized production enabled through Internet; bottling technology developed; focus on online marketing (although their most important instrument is word-of-mouth), test and then invest; act on analytics.</td>
<td>3 friends, 2 Management, 1 lawyer during studies; By back venture capital back to 'stay independent'; Young and diverse (Founding) team.</td>
<td>Niche creation During a weekend trip to the lake; hear a terrible Muesli commercial from an established firm and decide to do better.</td>
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<tr>
<td>Innocent</td>
<td>Demanding ice-cream lovers with slow food mentality (=authenticity, high quality).</td>
<td>Enhance the nutritional qualities of their diets with something that also tastes good and it is quick to consume.</td>
<td>De-industrialize and establish new, centralized production process to protect know-how and quality.</td>
<td>2 friends from school; Enologist and manager; Fly (high quality coffee) holds 5% A share since Dec 2011 in board.</td>
<td>Niche creation Inspiration from an article by Slow Food president who states that truly artisanal ice cream with high quality ingredients and without additives does not exist anymore.</td>
</tr>
<tr>
<td>Lush</td>
<td>Health-conscious consumers looking for natural and ethical products.</td>
<td>Enhance the nutritional qualities of their diets with something that also tastes good and it is quick to consume.</td>
<td>Early days: alliance with Sun juice which dealt with manufacturing. Investments in new technologies as production scaled up; Now: &quot;manufacturing integrator&quot; among different partners involved / disintegration of supply chain.</td>
<td>3 friends from college with experience in consulting and advertising.</td>
<td>Niche creation During a snowboarding trip the 3 founders started brainstorming about ideas that could make life a bit &quot;easier&quot; and &quot;better&quot;. That’s how the idea of having something healthy to eat quickly came.</td>
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<td></td>
<td>Environmentally conscious consumers looking for unpreserved and eco-friendly products.</td>
<td>Natural products, aromas, shapes and colors; aura of exclusivity; eco-friendy and not based on animal testing; In-store experience.</td>
<td>Continuous product innovation every week a new product) Category-defying approach to NPD No high-volume production sites, but kitchen-style manufacturing sites with slightly customized production according to geographical location.</td>
<td>6 friends worked together in the past. Interests in herbal trichologist and beauty therapy. Before launching Lush, they worked for The Body Shop and run a small mail order business.</td>
<td>Niche creation After conclusion of alliance with The BodyShop and unsuccessful investment in another business, they run a cosmetic business inspired by Neil’s Yard (UK). Entrepreneurship driven by 'necessity'.</td>
</tr>
<tr>
<td>Business enactment</td>
<td>Shoes of prey</td>
<td>My Muesli</td>
<td>Grom</td>
<td>Innocent</td>
<td>Lush</td>
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<tr>
<td>Combination of consumer needs/trends (=customization, premium products) and 3D-site technology; extreme customer orientation; premium credentials are customization and the “perfect way of packaging, distribution, exclusivity etc”; anti-crash technology; Premium prices.</td>
<td>Address the consumer trends (premium product/authenticity); Premium position based on high-end and natural ingredients, production process, authenticity and provenance (Italy) abroad; Premium prices.</td>
<td>Address consumer trends towards healthier food and drinks; Premium positioning based on 100% natural, nutritious and sustainable products; Resolve brand image by using light-humoured communication cohesive with the brand’s values; Premium prices.</td>
<td>Address consumer trends via more eco-friendly and natural products; hand-made, fresh, 100% organic and sustainable products; Brand image emphasizing their sustainable positioning; Unconventional in its new product development and retail concept; Premium prices.</td>
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<tr>
<td>Actual product range</td>
<td>Infinite combinations of shoe features.</td>
<td>Infinite range of individual muesli; ready made dietary, sports, kids muesli; muesli to go; start two other projects “OhStaff” (FruitJuice) and Green Coffee and Tea (Fair Trade)</td>
<td>About 20 different seasonal ice creams and sorbets; new/different blends of ingredients are introduced; Hot chocolate and GROM bakery.</td>
<td>Smoothies, juices, fruit tubes, veg pots, kids smoothies and juicy drinks.</td>
<td>Huge variety in different scents and colours, resembling eatables: Handmade soaps, shower gels, shampoos, bath bombs, bubble bars, lotions and face masks.</td>
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<tr>
<td>Funding</td>
<td>Bootstrapped; in June 2012 Venture Capital from Silicon Valley and Australian start-upper AU $4.45 million raised in a Series A round of funding. Series A led by Khosla Ventures.</td>
<td>Bootstrapped; buy back shares in 2013 from investors coming in in the second year; Later on Bank loans.</td>
<td>Bootstrapped; Bank loan to finance production laboratory; in 2012 Illy (high quality Italian coffee maker) acquires 5% share; Lemongras Fukuoka in Japan (66%), Almara Group (5.6%) Gulf Region. Majority stake acquired by Unilever in Autumn 2015, founders remain as top managers.</td>
<td>After being turned down by banks, VC and angel investors they find an investor, Maurice Pinto, who puts £250,000. In 2009 and 2010 Coca-Cola acquired 58% of Innocent’s shares, and subsequently further scaled up to 97% with the founders keeping just 3% shares each.</td>
<td>£14,000 were raised by the Costantines (60% current shares) and their closest collaborators (between 6 and 8% each) two London millioners, John Chalk and Peter Blacker provided some financial backing. Andrew Gerrie invested his money as well (about 12% current shares).</td>
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<tr>
<td>Shoes of prey</td>
<td>My Muesli</td>
<td>Grom</td>
<td>Innocent</td>
<td>Lush</td>
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<td><strong>Business</strong></td>
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<tr>
<td><strong>Evolution</strong></td>
<td>From the perfect shoe for special occasions to the shoe lover concept – all shoes in the closet can be customized; Combine online with offline retail.</td>
<td>Change from “your individual organic muesli” to “your favorite muesli” for many different occasions and consumer groups; add ingredients; add brands; develop into multi-channel (online, offline – own shops and supermarkets).</td>
<td>Business model unchanged; add products (e.g., hot chocolate) and product lines (e.g., GROM Bakery).</td>
<td>From almost exclusive focus on smoothies to increased emphasis on ready-to-eat meals and juices. In 2009 Innocent’s critical financial situation led the founders to look for investors, i.e., Coca-Cola. Sell of shares to Coca-Cola raised significant concerns and criticism from customers. However, this new injection of capital contributed to make available a larger marketing budget and start pushing further international growth.</td>
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<td><strong>Internationalisation</strong></td>
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<tr>
<td><strong>Time to 1st foreign market (precocity)</strong></td>
<td>Immediately</td>
<td>immediately</td>
<td>4 years</td>
<td>1 year</td>
<td>2 years</td>
</tr>
<tr>
<td>Foreign sales/ Total sales</td>
<td>75% after one year.</td>
<td>N.a.</td>
<td>27%</td>
<td>25.79% (2013) 55.817 mil. in 2013 (export revenue)</td>
<td>63.31% (2014) 185.4 min in 2014 (export revenue)</td>
</tr>
<tr>
<td>Countries</td>
<td>Worldwide; Main markets Australia, US, Japan, Europe (France, Spain).</td>
<td>Germany (D), Netherlands (NL), Switzerland (CH), Austria, UK</td>
<td>Italy, US, France, Japan, United Arab Emirates, Indonesia.</td>
<td>15 (UK, NL, Ireland, Denmark, Germany, Austria, France, Norway, Finland, Sweden, CH, Australia, Spain, Belgium, Luxembourg).</td>
<td>49 with 935 stores all over the world. Production sites are scattered all over the world, e.g., Poole (UK), Toronto and Vancouver (Canada).</td>
</tr>
<tr>
<td>Shoes of prey</td>
<td>My Muesli</td>
<td>Grom</td>
<td>Innocent</td>
<td>Lush</td>
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<tr>
<td><strong>Entry modes</strong></td>
<td>Direct shipments; 5 offices globally, start with workshops in China which realize the product, first flagship store in Sydney and recent shop-in-shop openings in the US; first opened in Washington (end of 2014), 5 more to come. In 2013 dedicated factory in Southeast Asia; a second one is Second factory planned, will be able to handle five times more orders than the first.</td>
<td>Direct shipments; office and manufacturing facility in CH; 16 shops opened in Germany, Austria, where they are also present in 1500 supermarkets (+ Switzerland).</td>
<td>Wholly-owned shops; 65 in Italy, 7 abroad; Partnering in Japan (Lemongas Fukuoka 66% GROM holds 34% stake); Almaqua group enters in 2012 (5,6 %) with objective Gulf Region Central production site in Italy – shipment to shops abroad.</td>
<td>Export; Offices in France, Netherlands, Germany, Austria Denmark and Sweden; Drinks are all blended in Rotterdam where all fruits come in and bottled in the UK (main sites in Wales and Somerset).</td>
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<td><strong>Reputational assets</strong></td>
<td>20% of customers send unsolicited “happy” email; after one year 8000 Facebook fans and 2000 twitter followers; achieve V.C. finance; Numerous awards and high press coverage (business and fashion) giving proof of constant search for excellence (eg best online retailer 2014; Store Design of the Year – World Retail Awards – against Lagerfeld and Puma as competitors; business blog got industry recognition etc).</td>
<td>Massive press coverage; 6 awards (best German startup etc); reinforce healthy image with committed brand introduction (organic tea, coffee, fair trade etc).</td>
<td>Are among the Slow Food awarded companies; press coverage concentrated on authenticity.</td>
<td>Lush opts for different ownership structures in different countries, though its expansion has mainly occurred through partnerships. In US and in most EU countries partnering has been preferred to franchising, which has been used for a few countries such as France, Italy, or Spain. In other countries such as Japan instead full ownership has been chosen.</td>
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<tr>
<td>Sustainability practices</td>
<td>Shoes of prey</td>
<td>My Muesli</td>
<td>Grom</td>
<td>Innocent</td>
<td>Lush</td>
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<td>Internationalisation</td>
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<td>Introduce employee share plan (exceptional for start ups); do feedback rounds with all employees who can choose from whom to get feedback; sourcing of highest quality material is not outsourced to workshops; now are fully vertically integrated; Transparency as strategy – critical views are published and acted on; very democratic company culture.</td>
<td>Introduce employee share plan (exceptional for start ups); do feedback rounds with all employees who can choose from whom to get feedback; sourcing of highest quality material is not outsourced to workshops; now are fully vertically integrated; Transparency as strategy – critical views are published and acted on; very democratic company culture.</td>
<td>Exclusively use organic and -as far as possible - regional ingredients to reduce ecological impact; biodegradable packaging; Fair trade products. Relaxed company culture.</td>
<td>Stock option plan for employees; Just source highest quality and organic food (eg tested 100 peaches to find the optimal one for Sorbet); have established Mura Mura (Slow) in order to control organic cultivation; “Grom loves world” initiative in 2009 Eco logic sustainability program.</td>
<td>Their motto is to be “net positive” -source as many ingredients locally as possible; -select suppliers applying ethical standards; -100% recycling packages; -use green energy sources; -10% of profit goes to a foundation funding rural projects in the areas where the fruit comes from; -they won Barclays Green Leaders in Business Award, 2011 for sustainability initiatives.</td>
<td>Attention to environmental impact spans through product design, manufacturing and selling: App to measure environmental footprint; 62% of Lush’s products are designed to be package free “naked”. Those requiring packaging use 100% recycling materials and clients are invited to return bottles; Work with sustainable suppliers 100% natural products; No animal testing; Support for fair trade and charities (Charity Pot).</td>
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Table 2 The empirical evidence from descriptive case study analysis: the variables illustrating the niche strategy, its evolution and its internationalisation outcomes.
5 Key findings

Our within-case and cross-case analyses allowed us to uncover common elements that sustained over time the global competitiveness of our selected firms. In particular, we discovered that the development of reputational assets was key to all investigated firms. They all relied on product quality as ‘key promise’ to their customers. Therefore, they needed to fulfil this promise over time and to strengthen it, through the development of reputational assets. Another common element in their long-term strategic pattern is represented by sustainability. All firms adopted sustainability practices. Quality and sustainable orientation are related and altogether enhance reputation, uniqueness and customer satisfaction.

All investigated firms developed their business idea through the interpretation of changes in consumer behaviour. These societal global trends include mass customisation (Shoes of Prey, mymuesli), the related need of co-creation (the product is the result of an interaction between the firm and the customer) and the trend towards premium and high-end offerings (all firms). They address in the first instance the individual and her/his needs. These needs reflect the aforementioned trends in that the need related to mass customisation lies in the perfect shoe, or the personalised muesli. Premium strategies exploiting the trend towards high-end offerings, are based on superior value positioning in terms of natural/ecological and organic, healthy ingredients. Interestingly, not only food companies but also Lush bases its business on these elements. The market niche arises then from the aggregation of homogenous individual preferences that have a global standing. The niche exploration is thus based on the interpretation of trends in consumer behaviour, on the creation of novel and small market spaces, deriving from the grouping of individual customers.

All companies combine ‘variety-based positioning’ and ‘needs-based positioning’ and none fit the ‘access-based’ positioning described by Porter (1996). They produce subsets of products and services in their industries, while serving at the same time all the needs of their narrow group of customers.

The third variable, which characterises a niche, is represented by the technology used to address customers’ needs. The trend of mass customisation and tailor-made products was mainly developed thanks to improved information and communication technologies and novel ways of manufacturing and servicing customers. Process innovation in the cases of GROM, mymuesli and Shoes of Prey aims at making the niche profitable and, importantly, to protect the know-how and guarantee outstanding quality of the product and/or service. Only in the case of Shoes of Prey we find evidence of technological innovation in its strict sense. The firm has developed innovative proprietary shoe design software that is used to improve customer experience when designing their shoes. To summarise, we find that the three variables proposed by Abell (1980) to define a business, support an appropriate definition and potential operationalisation of the niche construct.

How does the niche impact on the internationalisation behaviour of the firms and more specifically, what is the process by which the niche strategy accelerates international expansion and leads to geographically broad and intense internationalisation? The two internet-based firms have been exporting since inception but also the remaining firms internationalised early. Their speed of internationalisation is high and the geographical scope is broad. None of the firms has remained regional. All
developed on a truly international scale. It is interesting to notice that although they could have stayed successful domestically, all investigated firms internationalised early and fast, exploiting the potential of their niche. This marks a relevant difference with technology-based niches, where the market is naturally and necessarily global, thus determining a condition of ‘accidental internationalists’.

In our cases the niche is the result of a creative process of enactment, driven by the entrepreneurs’ vision, and is conceived as potentially global from the start, due to the global mind-set of the founders. The speed and scope of internationalisation seem to be affected by the chosen entry mode approach. The e-commerce – based firms could benefit from a faster and broader internationalisation (Zucchella and Hagen, 2014; Hagen and Zucchella, 2011) while those opting for ‘physical’ entry modes experienced a slower foreign growth path. Access to distribution channels confirms to be a key element in determining the timing and speed of foreign market entry (Zucchella and Servais, 2012). Cases like GROM and Lush reveal that it may be necessary to export ‘a selling concept’ and not just a product. Lush relied on franchising as a fast way to ‘export’ its business concept in different countries, while GROM established its own shops that followed in a scrupulous manner the artisanal ice cream making dictated by the headquarter. This choice made its foreign expansion slower compared to the other investigated firms, but it was the only way to maintain their original value proposition and positioning.

Putting the niche creation and the profile of the founding teams together, all firms show a strong entrepreneurial international orientation. All teams have built on global trends when designing their business and, furthermore, have successfully created and exploited a global niche, as their early and accelerated international expansion confirmed. The niche positioning seems to be not only a profitable option, but also a resource-saving global strategy. All investigated firms have approached their start-up phase with limited financial resources. The choice for a niche strategy certainly has a prominent role in driving early and fast global growth: addressing a small group of customers, distributed in different countries, makes internationalisation more compelling, though our cases are not ‘accidental’ internationalists (Hennart, 2014). As we previously mentioned, they could have also grown just in their domestic market, but international orientation was part of their strategic pattern since the beginning thanks to the vision and strategic posture of their funding teams.

The evolution of the strategic patterns of our focal firms reveals some interesting elements. Although the niches were initially small, they might grow to large markets. Innocent is becoming a large size leader in premium natural drinks, maintaining a similar strategic pattern, but targeting a broader market, from the initial niche to the wider segment of conscious drinkers of healthy and natural drinks. They have also diversified their natural drinks offer at the same time. Similar findings hold for Lush. The evolution over time of the original niche-focused strategy goes towards targeting a broader segment of customers, but maintaining the focus on high quality and/or customisation. As the cases of GROM and Innocent show, the successful development of a customer-oriented quality claim for international markets, can pave the way to acquisition from multinationals (Coca cola and Unilever respectively). The latter can thus enrich their portfolio with new business streams, their high quality offerings and loyal customers.
6 Discussions

In the previous theoretical section we identified three major research gaps, with regard to the niche strategy and its impact on early and fast international growth. First, the lack of a clear conceptualisation of the niche construct. Second, the limited knowledge about how the niche is either created or discovered and which role the key decision makers play (in our cases, the founders). Third, the lack of literature about the evolution over time of this strategic pattern. In particular – given the concern expressed in some works (Cooper et al., 1986) about its sustainability – we need to understand which factors (isolating mechanisms) support the global competitiveness over time of the firms adopting a niche approach. The research context is represented by relatively young firms, which experienced early and fast international growth, all belonging to mature industries. We thus address an additional gap in studies, because research on born globals and international new ventures mostly focuses on high technology sectors, in which a niche strategy seems more naturally accompanied to a global expansion.

Niches are sometimes defined as small markets consisting of an individual customer or a small group of customers with similar characteristics or needs (Dalgic and Leuuw, 1994). The characteristics of the niche market (as compared to the segment) are its smaller size, the absence (or limited number) of competitors, the fulfilment of specific customer needs and the idea of specialisation (Kotler, 2003).

Our case studies fit with the construct suggested by Chalasani and Shani (1992), who define the niche strategy as “a creative process of carving out a smaller part of the market whose needs are not fulfilled. By specialisation along market, customer, product or marketing mix lines, a company can match these lines”. This approach refers to the so-called bottom up process or reverse segmentation, where the firm starts with the individual and builds a single and potentially multiple niches later on. In order to pursue specialisation successfully, the investigated companies leverage on distinctive technology and competencies to enable and/or protect the niche from competition. This permits us to integrate the above ‘market’ view of the niche with the ‘internal’ (technology) perspective: the combination of a narrow group of customers, their specific needs and a dedicated technology are the three dimensions along which we can observe a niche strategy and operationalise it, building on Abell (1980). For example, Shoes of Prey developed a novel technology to offer a solution to women who need the perfect shoe, where the customer is involved in the customisation process. It is a distinctive competence embracing innovative knowhow, web technologies, and a customer-oriented culture, coupled together in an original combination. The combination of the three elements constitutes an idiosyncratic bundle of factors, which enhance distinctiveness and uniqueness of the firms’ offer.

A second finding of our research refers to the process of niche exploration: in all our cases there is evidence that the niche strategy is the result of a creation (entrepreneurial) process, based on the interpretation of some market changes, through the lenses of the founders’ vision and background. This research suggests that this process takes place also because of the interplay between the diverse backgrounds of members of the entrepreneurial team. We argue that the niche exploration – as explained above – is a bottom-up process of reverse segmentation. The second element of the niche exploration
process is its geographical scope. From this perspective, it is a process of horizontal micro-segmentation of global markets (Zucchella and Palamara, 2006): the founders conceive the world as their potential (geographic) market and carve a niche of global customers with homogenous preferences, which may be located in very different regions (Hagen and Zucchella, 2011). Leveraging on customers’ similarities permits an early and fast international growth. However, the niche exploitation process varies in speed and scope of internationalisation in the different firms, depending on which entry mode strategy fits best their global customer orientation. Thus, the niche creation and its enactment (Alvarez and Barney, 2007) are then followed by a niche exploitation process, which may happen along different paths, as we outline below.

Our case analysis allowed us to identify some evolutionary patterns of the initial niche strategy. In the niche exploitative phase, the firm consolidates its positioning and refines progressively its value proposition, developing customer relationships and reputation, as key isolating mechanisms (Rumelt, 1987). The first stage of exploitation corresponds to a deepening strategy, during which the firm increasingly targets its narrow global group of customers, developing reputation assets in a community of actual and potential buyers. The older firms like Innocent and Lush permit to observe a further evolution of the strategic pattern, which moves out of the initial niche towards a wider target market, through related product diversification and selling channels expansion. In the case of Innocent, the acquisition from Coca Cola Company paves the way to the entry of their products in a number of distribution channels and markets. Similar considerations hold for GROM, acquired by Unilever in autumn 2015.

In our findings the niche explorative phase – as discussed above – is a bottom-up process where creativity and insight, a diverse team and global orientation play an important role. In mature industries creativity is fundamental to identify new ‘visions’ of the market and ‘non-traditional’ ways to serve needs in (apparently) traditional businesses. The niche exploitative phase is based on the entrepreneurial team capabilities and on the capacity to attract external sources of funding. Young firms are thought to be characterised by resource scarcity, which could limit their international expansion. Although a global niche strategy might be a sustainable option from this viewpoint, still the founders will need to find new ways to compensate for the lack of adequate financial resources. Some firms successfully leveraged on the private equity market to solve this issue. Beyond funding, investors provided the company with diverse resources, such as strategic relationships or managerial competencies. The willingness and capacity to raise funds through venture capital permit to these firms to scale up quickly and achieve faster growth. In our case firms, we can observe that the prevailing idea that smaller and younger firms are resources-constrained, should be reconsidered. In particular, the capacity to access to financial resources rests on a good fit between motivated founders and a good business idea, shaped in a sustainable model of business (the niche in our cases). Entrepreneurial teams and adequate models of business can overcome the limits usually associated to small size and/or young age.

This exploitative phase is also characterised by the progressive development of a ‘unique’ value proposition tailored to the market niche. The development of reputation through the so called ‘first mover advantage’ (Lieberman and Montgomery, 1998) represents an option to defend the strategic niche positioning. In GROM (ice cream) case, a number of entrepreneurs entered the market by proposing high-quality ice-cream, adopting a ‘slow food’ claim and using local ingredients: Mackie’s, La Romana, Comfy Cow, Pretto, and so on. However, GROM remains the one who ‘reinvented’ the
ice-cream to the market. Among the factors of uniqueness we found differentiated reputational assets (progressively built up via product quality and company trustworthiness), further enhanced by the adoption of a sustainable development orientation, both social and environmental. Shoes of Prey and mymuesli for example successfully establish a ‘shoe-lover’ or a ‘muesli-lover community’ and build emotional bonds with their customers. In the Lush and Innocent cases this emotional bond is based on the firms’ ethical stance.

7 Conclusions

Our contribution highlights the role niche strategy plays in firms’ early and fast international growth. We address a research gap in IE and international business literature, which acknowledge this role but miss in bridging this construct with the strategic management literature and in conceptualising it accordingly. A second gap is represented by the lack of studies about how the process of niche creation and enactment exactly occurs and how it is linked to early and fast internationalisation. Third, little is known about the evolution over time of the strategic pattern of early and fast internationalising firms, and in particular those pursuing a niche strategy. Finally, we support that IE studies should pay more attention to strategic innovation and international entrepreneurial behaviour in mature industries.

Through an explorative study of five illustrative case studies, our research uncovers some key preliminary findings, which may represent a relevant contribution, both to theory and to practice. The variety of studied companies served the purpose to feed the reliability of findings, which cut across cases. First, our research tests and refines a niche construct, derived from strategic management studies, along the three dimensions of customers’ groups, customers’ needs and the technology addressing these needs. We thus contribute to enhance the validity of this construct for future studies. Second, we find that the observed firms innovate through the creation and enactment of market niches, through a process of bottom-up or reverse segmentation. We did not find evidence about opportunity discovery: opportunity creation and enactment characterise all the firms. They achieve substantial global growth through the horizontal micro-segmentation of global markets, targeting a narrow group of customers dispersed in different countries and leveraging on their similarities. We did not find evidence of ‘defensive’ approaches to global competition as suggested by Penrose, neither of what Hennart called ‘accidental internationalisation’. The companies could have stayed in the domestic market and still gain sufficient market share (differently than many high tech firms). The entrepreneurial teams played a key role in the exploration and exploitation of the niche. They could overcome resources constraints leveraging on different sources of financing. The founding teams (relatively young, well-educated and with global mind-set, though usually lacking experience) were a major factor of global growth orientation. Their openness to partnerships, new shareholders and venture capitalists enabled the firms to better achieve the desired growth. We could also identify factors which contribute to the sustainability over time of this strategic pattern, notably first mover advantages coupled with continual development of reputational assets. This finding can prove particularly relevant for its managerial implications. Reputation is a key for companies which leverage on high quality of their offer and target demanding global customers. This also
involves paying attention to their customers’ environmental sensitivity, by adopting sustainability practices. The development of reputational assets is related to the global niche positioning, in which uniqueness derives from an idiosyncratic blend of factors, among which we found quality, traceability, sustainability and innovativeness.

We could also identify possible evolutionary patterns of the niche strategy over time, which represents an additional relevant finding both for theory development and for the practice of management. While the younger firms are focused on developing reputational assets, and increasing exploitation of their global niche market potential, the older firms experience a product diversification and progressive enlargement of their original niche orientation, though this is not necessarily the only possible pattern. This represents a gap in extant research which will be addressed in future studies.

Future research directions also include an exploratory study through an in-depth case study induction, in order to refine better the relevant variables and possibly outline a complete research model, encompassing firms belonging to different industries. The limitations of this work lie primarily in the adoption of a preliminary exploratory research approach, based on five illustrative cases of firms, all belonging to mature industries. This method permitted to gain further insight about the niche strategy and its relationship with early and fast internationalisation, particularly through the adoption of a stepwise approach.

References


Early and accelerated internationalisation


