



**MS Thesis**

**Marketing and International Business**

**Miami a gateway to Latin America:**  
Entry mode to Latin America via South-Florida

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Faculty of Business

August 2014



**HÁSKÓLI ÍSLANDS**

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Félagsvísindasvið Háskóla Íslands

August 2014

This is a 30 credit thesis for the degree of Master of Science at the Faculty of Business,  
School of Social Science of the University of Iceland

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Prentun: Háskólaprent ehf.

Reykjavík, 2014

## **Acknowledgement**

This is a master's thesis in Marketing and International Business at the Business department of the University of Iceland. The thesis comprises a qualitative case study of an Icelandic company about to enter foreign markets. Writing this thesis was a challenge for me, although, at the same time, highly rewarding.

Many people contributed to this thesis and I would like to thank them all. First of all I would like to thank my supervisor, professor Dr. Gunnar Óskarsson, for his guidance and support during this period. I would also like to thank my friend and the CFO of ATMO Adalsteinn Pálsson for introducing me to his company and providing me with an endless supply of information about his company and its future plans which was vital for my thesis. Furthermore, I wish to thank the other interviewees that took time out of their busy schedule to meet and talk to me. Finally, I thank my friends and family for their patience and support during this period.

Reykjavik, July 2014

Ívar Tjörvi Másson

## Abstract

The world has changed fast in the past few decades and has become more globalized than ever before. Setting up business in a foreign country is no longer as difficult for small companies as it used to be, since foreign markets have become more accessible than before. This thesis explores three main paradigms when it comes to entry mode decisions: Transaction Cost Theory (TCT), The Research Based-View and Institutional Theory, as well as a few other options. It is important for companies to be careful when they choose their entry mode strategy as this can determine whether the company will indeed be successful abroad or go under. This research takes a close look at Florida as an entry point to Latin American markets to see if South Florida, with its strong ties to Latin America, could be used as a hub for an Icelandic company to cater to Latin American customers. ATMO Icelandic music servicing company was used as a case study to explore whether this was indeed a feasible option. The Company ATMO is now in the process of entering a few European markets and has also set its goal on entering Latin America in near future via Miami, Florida.

A phenomenology research method was applied in order to take a close look at an Icelandic startup about to enter foreign markets. Semi-structured interviews were taken with three key managers of this company to obtain an inside view of what the company is all about and what obstacles and strategy lay ahead when it came to entering foreign markets.

*The findings were that the managers saw the Icelandic market as more of a test market than something you could make a huge profit from (in this line of business). If the company wants to grow and create more revenue it is vital to enter larger markets abroad according to the interviewees. As for the difference between entering either European markets, American or Latin American markets, the interviewees felt that entering European markets was easier because they are closer to Iceland in culture, time and distance.*

This research is important in the field of entry mode since many companies are in the process of entering a foreign market via a different market as a first stage. This research contributes to entry mode strategies, especially in the field of research that examines entry modes via third territory. The thesis provides a good introduction to the main entry mode

theories and presents an Icelandic company which is about to try its luck abroad. The thesis has special angle on entry mode to Latin America via Florida, especially focusing on South Florida/Miami. Miami is the unofficial capital of Latin America and therefore makes a very interesting case for companies contemplating ways to enter Latin American markets.

## Table of contents

|  |           |
|--|-----------|
| <b>Acknowledgement.....</b>                  | <b>2</b>  |
| <b>Abstract .....</b>                        | <b>3</b>  |
| <b>Table of contents .....</b>               | <b>5</b>  |
| <b>1 Introduction .....</b>                  | <b>8</b>  |
| 1.1 Prior research.....                      | 9         |
| <b>2 Purpose and research question .....</b> | <b>11</b> |
| 2.1 Research question .....                  | 11        |
| <b>3 Theoretical part.....</b>               | <b>12</b> |
| 3.1 Entry mode choice .....                  | 13        |
| 3.2 Uncertainty .....                        | 14        |
| 3.3 Asset specificity.....                   | 17        |
| 3.4 Opportunism.....                         | 18        |
| 3.5 The resource-based view:.....            | 19        |
| 3.6 Institutional Theory .....               | 21        |
| 3.7 Risks .....                              | 22        |
| 3.8 Eclectic Framework.....                  | 24        |
| 3.8.1 Ownership-specific advantages .....    | 25        |
| 3.8.2 Location advantages .....              | 26        |
| 3.8.3 Internalization.....                   | 27        |
| <b>4 Florida.....</b>                        | <b>29</b> |
| 4.1 Miami .....                              | 29        |
| 4.2 Latin America .....                      | 31        |
| <b>5 Methodology.....</b>                    | <b>34</b> |
| 5.1 Qualitative methodology .....            | 34        |
| 5.2 Phenomenological method.....             | 34        |
| 5.3 The questions.....                       | 35        |
| 5.4 Participants .....                       | 36        |
| 5.5 Interviews and Execution.....            | 37        |
| 5.6 Ethics.....                              | 38        |
| 5.7 Limitations .....                        | 38        |
| <b>6 Deduction.....</b>                      | <b>39</b> |
| 6.1 Culture .....                            | 39        |
| 6.2 Language .....                           | 40        |

|          |  |           |
|----------|--|-----------|
| 6.3      | The krona .....                          | 40        |
| 6.4      | Central bank/currency restrictions.....  | 41        |
| 6.5      | Competition .....                        | 42        |
| 6.6      | The company.....                         | 43        |
| 6.7      | Participants .....                       | 45        |
| 6.8      | Miami/Latin America project.....         | 46        |
| 6.9      | Business and politics .....              | 49        |
| 6.10     | The Icelandic business environment ..... | 49        |
| 6.11     | Current and future plans .....           | 50        |
| <b>7</b> | <b>Reduction.....</b>                    | <b>53</b> |
| 7.1      | Culture .....                            | 53        |
| 7.2      | Language .....                           | 53        |
| 7.3      | Grey area.....                           | 54        |
| 7.4      | Distance .....                           | 54        |
| 7.5      | Near future .....                        | 54        |
| 7.6      | Latin America .....                      | 55        |
| 7.7      | Miami .....                              | 55        |
| 7.8      | Currency.....                            | 56        |
| 7.9      | Politics .....                           | 56        |
| 7.10     | Special Economic Committee .....         | 56        |
| 7.11     | Currency restrictions.....               | 57        |
| 7.12     | Finance and capital .....                | 57        |
| 7.13     | Competition .....                        | 57        |
| 7.14     | The domestic market .....                | 58        |
| 7.15     | Experience.....                          | 59        |
| 7.16     | The company.....                         | 59        |
| 7.17     | Obstacles and risks .....                | 60        |
| 7.18     | Typical day .....                        | 60        |
| 7.19     | Technology.....                          | 61        |
| 7.20     | Future prospects.....                    | 61        |
| <b>8</b> | <b>Interpretation .....</b>              | <b>63</b> |
| 8.1      | Culture .....                            | 63        |
| 8.2      | Language .....                           | 65        |
| 8.3      | Miami .....                              | 65        |
| 8.3.1    | Demographics .....                       | 66        |
| 8.4      | Latin America .....                      | 67        |
| 8.5      | Europe.....                              | 69        |
| 8.6      | Iceland.....                             | 70        |
| 8.7      | Obstacles.....                           | 71        |



|           |                           |           |
|-----------|---------------------------|-----------|
| 8.7.1     | The Krona .....           | 72        |
| 8.8       | Competition .....         | 74        |
| 8.8.1     | Global competition .....  | 75        |
| 8.9       | Experience.....           | 75        |
| 8.9.1     | The company.....          | 76        |
| 8.9.2     | The Future.....           | 77        |
| <b>9</b>  | <b>Results .....</b>      | <b>79</b> |
| <b>10</b> | <b>Discussion .....</b>   | <b>83</b> |
| <b>11</b> | <b>Limitations .....</b>  | <b>84</b> |
| <b>12</b> | <b>Conclusion.....</b>    | <b>85</b> |
|           | <b>Bibliography .....</b> | <b>87</b> |
|           | <b>Appendix .....</b>     | <b>91</b> |

# 1 Introduction

Six years have passed since the collapse of the Icelandic economy. This resulted in currency restrictions being imposed that have greatly affected doing business abroad from Iceland. It is harder to do business abroad now than before 2008 when there were no currency restrictions and the flow of capital moved freely across borders. Despite all the adversities that Iceland and people doing business from Iceland overseas have had to face, however, there is still quite a lively startup market in Iceland. What entry mode these countries choose when it comes to entering foreign markets is the main interest of my research.

My interest in this subject arose when I was living in Miami. I noticed how different Miami was from most other places in the United States of America I had visited. Miami has strong Latin influences and culture. Miami is some kind of interbreed between America and Latin America. As to demography it is mostly populated by Latin people and the majority of the population has a different native language than English, Spanish being the most widespread. I also noticed how many Latin American banks and financial institutions are located in Miami. Miami has long been dubbed the 'Capital of Latin America'. This made Miami the ideal city in my mind for locating a company's headquarters or operation when doing business between Latin America and the United States of America or other parts of the world. A good friend of mine was setting up a startup with a few others and his company is seriously thinking about opening up a subsidiary in Miami in order to cater down to Latin America. This perfectly fitted my interest and idea of a research project.

Iceland being such a small market it is often absolutely vital for companies to expand and take their business abroad in order to grow and prosper further. The initial process before taking that step is to conduct some research into the market you want to enter. This can be a lengthy process, but a necessary one in order for companies to maximize their success rate. When companies have decided to cater into foreign markets or set up a branch or subsidiary there, the next step is to determine the most appropriate entry mode, be it joint venture, exporting or any other mode that is suitable, making the necessary preparations before taking the jump is crucial.

The purpose of this research is to introduce some of the literature behind entry mode decisions and take a closer look at an Icelandic startup company about to enter foreign markets. Entry mode is usually applied by firms in the first three to five years, or the time that it takes to fully enter foreign markets. Entry mode decisions help to set up goals, objectives, policies and resources for firms that are about to enter foreign markets (Root, 1994). (Alternatives to entry mode are exporting, franchising, joint venture and full ownership (Root, 1994.)). The startup that this researcher will take a closer look at has plans to enter Latin America via Miami. This is the perfect match to answer my research question and explain the process of entering new markets. I used qualitative research and phenomenology research method to answer the research question. I interviewed three owners and managers of a startup here in Iceland that is now currently in the process of entering foreign markets. I used phenomenology research to take an in-depth look at this startup and to see what their future plans are.

Semi-structured interviews were conducted with three managers of a startup in Iceland. When creating the questionnaire, the researcher had the main entry modes in mind. These entry mode theories are explained in chapter 3 and future exporters or companies wanting to go abroad can use this information to further increase their knowledge on the subject before entering foreign markets.

The thesis is set up in different chapters, commencing by explaining different entry mode theories, then the researcher provides general information about Florida and Latin America and the business environment in these territories. In chapter 5 the researcher explains the phenomenology research, how the research was conducted and the processing of information. Chapter 6, 7 and 8 outlines how the data is dispersed into three categories in accordance with the phenomenology research mode (Description, reduction and interpretation). Subsequently conclusions will be introduced and discussed. Chapters 12 and 13 present limitations of the research and final words, before bibliography and appendices.

## **1.1 Prior research**

It is obvious that London and New York are world cities that enjoy connection with many different parts of the world, but there remains little consensus on what impact smaller and less significant cities can have in connection with other regions of the world. These smaller

cities, which constitute a significant part of the globalized world and work as hubs, providing links to other areas in terms of finance, trade, flow of people and ideas, are often called 'sub-global cities' or 'medium cities'. One of these cities is Miami which has played a conspicuous role as a gateway between Anglo- and Latin America (Derudder, Witlox, Taylor, & Catalano, 2007).

According to Brown, Catalano and Taylor Central America is region without any real global cities or sub-global cities. These countries, that are now an integrated part of the globalized world after opening up their economies in the 1990s, rely on Miami as their global city when conducting business with America and beyond. This is despite the fact that Miami is not considered to be a major global city. Miami does, however, have global importance when it comes to designated 'regional offices', where global service firms choose to organize their businesses. Central America as a sub-region of Latin America plays a huge role when it comes to the importance of Miami as a global city contender, especially in connection with Latin America (Brown, Catalano, & Taylor, 2002).

When Brown et al. looked at random 100 Latin American servicing firms that had regional offices operating in the US, it became clear that Miami exercised total dominance over all other US cities when it came to number of offices. Miami is integrated into this region (Latin America) and vice versa according to Brown et al. They claim the city is crucial to Latin America's connection to the world city network as the 'most foreign city' in the USA with all its cultural differences and majority Spanish speaking population (Brown et al., 2002).

## **2 Purpose and research question**

The purpose of this thesis is to provide a deeper understanding of entry mode choices that small companies are faced with when entering a foreign territory.

### **2.1 Research question**

How can Miami and South Florida be used as a hub to cater down to Latin America for small companies trying to enter the Latin American market?

### 3 Theoretical part

Transaction cost theory is the most popular theory when it comes to entry mode studies. Canabal et al. found that TCT was twice as popular as the second most used theory. Transaction cost theory explains how firms need governance structure to minimize the cost that follows the inefficiencies that is associated with entering and operating in markets abroad (Canabal & White, 2008). TCT is definitely a major determinant of entry mode decision, and is the number one method for theorizing entry mode choices (Zhao, Luo, & Suh, 2004).

Companies choose governance structure that best suits their needs to minimize transaction cost. Internalization will be preferred every time a company is capable of performing its task at a lower cost than the competitor. If not, the company will turn to the market for tasks where other companies have comparative advantage. Transaction cost theory is also used to weigh in the costs and benefits of foreign market entry mode, for example when it comes to choosing between joint venture, FDI, licensing, and export mode. Transaction cost and coordination cost can help explain the choice between internalizing or finding a partner which requires negotiations and shared control. (Puck, Holtbrugge, & Mohr, 2009).

“Transaction cost theory suggests that when structuring an exchange (or in our case multiple exchanges), a firm must compare the cost of negotiated contracts using the market with the cost of internalizing the transaction within the firm. Profit-seeking companies try to adopt organizational structures that will minimize these transaction costs (Masten, 1993; Williamson, 1985). It is important to note that transaction cost theory does not suggest that equity modes of entry are always superior to markets SME Entry Mode Choice (Hennart, 1989) (K. D. Brouthers & Nakos, 2004).”

“An important part of Transaction cost theory (TCT) deals with the question how firms organize internally the activities that usually are performed through markets. The reason for Transaction cost theory is so that companies out there “are able to economize on the cost of exchanging goods and services in the market(K. D. Brouthers & Nakos, 2004).”

Transaction cost theory also helps MNEs to decide which entry mode to choose so they can minimize the cost of foreign transaction. TCT minimizes the cost of integration and the hazards associated with the daily function of multinational enterprises (MNE) when local partners in the host country are used (Ahsan & Musteen, 2011).

### **3.1 Entry mode choice**

Transaction cost theory (TCT) can be used to calculate the best form of entry mode, wholly owned subsidiaries (WOS) and joint ventures (JVS) are the two most common entry mode choices. TCT makes an important contribution to help firms to figure out what is the best entry mode decision for them. These decisions are hard to make and TCT can provide some answers before firms take the big push to enter foreign markets.

Research by Brouthers and Nakos indicates that when small and medium sized enterprises (SME) use TCT this has positive advantages. Both when it comes to financial and non-financial performance and much higher advantages than using other forms of entry modes that lack transaction cost variables, SMEs should be able to benefit from making better entry mode choices when using the TCT and increase their financial and non-financial output by doing so (K. D. Brouthers & Nakos, 2004).

TCT depicts how companies select an entry mode that works as a balance between the advantage of integration and the cost that comes with the control (K. D. Brouthers & Nakos, 2004). Both forms involve risks and TCT can be used to calculate and limit the risk when it comes to selecting the best entry mode. This method is by no means flawless, but it can give the firm some idea what to expect when they take their chances abroad.

TCT theory studies have showcased that the cost of negotiation; finding and monitoring local partners in the host countries has strong impact on the entry mode choice (Ahsan & Musteen, 2011). When the transaction cost is high through joint venture, multinational enterprises (MNEs) tend to choose a hierarchical form of governance. The difference in the host and the home countries can create many unforeseeable problems. For example the difference between the host and the home country creates information asymmetry which makes it hard for MNEs to find partners, and monitor their behavior in the host country. This also places additional strain on negotiating contracts. All this leads to higher market transaction costs. According to research, MNEs prefer joint ventures when the cost of transaction is low and full control when the transaction cost is high (Ahsan & Musteen, 2011).

According to Murray and Kotabe TCT is in favor of full-control modes of entry like WOSs when markets are volatile and exhibit high risk potential. (K. D. Brouthers, Brouthers, &

Werner, 2002). This is due to the fact that the company feels more comfortable having full control under these conditions (high risk potential) rather than relying on a partner company that could easily increase uncertainty and present added risk of opportunity cost.

When transaction costs are low, companies will favor transactions governed by the market itself. When the cost of dealing with uncertainty (monitoring, opportunistic acts etc.) is high, companies will favor different kinds of structure such as wholly owned subsidiary (WOS) or majority ruled joint venture (JV) (Madhok, 1997). It can be in a company's best interest to allow specialists to help out with some of the company's tasks and therefore cut out the hassle of building complicated cross-border bureaucracies between firms. This would be ideal, but in an imperfect market where the transaction cost of opportunism and bounded rationality is high, companies often need to create an internal governance structure (Anderson & Gatignon, 1986). When dealing with a market in a foreign country the company is not familiar with, specialists are often needed to help out with transactions and deal with the hassle of entering a new market. But it is also important to organize the company from within so it is more capable of tackling whatever situations and problems lie ahead.

A successful entry mode strategy combines and coordinates knowledge between firms. It also takes care of and improves the product in hand with successful upgrading and finds the best geographic location available for the MNE community (Zhao et al., 2004).

### **3.2 Uncertainty**

Transaction cost is created by behavioral unpredictability, asset specificity, and environmental uncertainties. All this affects the entry mode options that companies choose (K. D. Brouthers & Nakos, 2004). These are all risks that Icelandic companies are well aware of. Especially since, as a result of the economic crisis of 2008, these uncertainties have increased domestically, as well as abroad in many countries.

A significant part of transaction cost involves the effort of finding and negotiating with a new partner in the host country and, in addition, there is the cost that comes from monitoring the partner's company and its performance. This is also called behavioral uncertainty and is the primary focus of the TCT when it comes to entry modes. Mutual trust between the home company and the host company is highly important when firms choose to embark on a joint venture.



The greater the behavioral uncertainties, environmental uncertainties and asset specificity, the higher are transaction and control costs. Limiting these uncertainties is crucial if the company is to make it in the global market (K. D. Brouthers & Nakos, 2004). When it comes to entering markets located in the developing world, companies need to be well aware of the above risk factors as they are much more common in these territories than in the West.

It can be risky to rely on host country partners, since this could easily lead to partner uncertainty and could cause trouble when it comes to negotiating, finding and monitoring the tasks of the host-country partners, especially if the partner is in a 'culturally distant' country. This can result in self-seeking and opportunistic behavior on behalf of the host-country partners (Hennart & Zeng, 2002). Therefore it is important to carefully pick your partner and equal trust needs to be established between the two entities so that opportunistic behavior or behavioral uncertainty can be limited. Although the chance of completely eliminating opportunistic behavior of the host-country partner can never be guaranteed, measures can be taken to limit the risk of the host country partner behaving in an opportunistic way.

"According to transaction cost theory, behavioral uncertainty may lead to opportunistic behavior involving cheating, distortion of information, shirking of responsibility, and other forms of dishonest behavior. (Williamson, 1985)." (K. D. Brouthers & Nakos, 2004)

One of TCT's goals is also to explain the effect of institutions and culture on behavioral uncertainty. Cultural and institutional uncertainties are the factors that exaggerate behavioral risks. The TCT sees host-country uncertainties as a factor that can turn companies in the direction of adopting full control entry-mode strategy like wholly owned subsidiaries (Ahsan & Musteen, 2011).

When opportunism, asset specificity and uncertainty are high, market transaction cost rises. To curb those expenses MNEs try to internalize their actions instead of putting their trust in the market. On the other hand, when uncertainty, asset specificity and opportunism are low, MNEs rely on the market for example JVs (Ahsan & Musteen, 2011). This is due to the fact that when these uncertainties are low trust between the company and the host-country partner is high, and good business practices are known and further guaranteed in that region of the world.

Weak institutional environments increase information asymmetry, as this can lead to more risk for MNEs when it comes to dealing with different partners. Increased transaction cost is one of the downsides that come with operating in an environment of high institutional uncertainty (Ahsan & Musteen, 2011).

TCT suggests that asset specificity, behavioral risks, and environmental uncertainties create two main costs: market transaction cost and control cost. Williamson also suggests that frequency of interaction is an important determinant of transaction costs; however, in entry mode studies, transactions are considered continuous, thus precluding the need for a separate measure of frequency (K. D. Brouthers & Nakos, 2004).

In their article *Boundaries of the Firm* Brouthers and Hennart found out that TCT appears in half of the studies that they reviewed when looking at the theoretical perspective of international entry mode research. They point out that potential partners can act opportunistically if the chance presents itself. Brouthers and Hennart also agree with Williamson (1985) that three factors mainly influence decisions: asset specificity, uncertainty (internal and external) and frequency (K. D. Brouthers & Hennart, 2007).

Williamson (1981) concluded that interaction frequency is an important indicator of transaction cost. Transactions are continuous within entry mode studies and therefore another measurement of frequency is needed (K. D. Brouthers & Nakos, 2004). Another important factor that influences transaction cost is internal and external uncertainties and this will ultimately also impact on entry mode choice (Zhao et al., 2004).

Companies can protect themselves against uncertainties as long as the competitive advantage is not too high. One measure that companies can attempt is to internalize control which can work as a defense mechanism against unwanted hazards such as delays, opportunism, and instability and other such uncertainties that are often the results of transactions (Zhao et al., 2004).

External uncertainty refers to circumstances when companies have no influence over the risks surrounding them; these could be social, political, economic and legal risks for example. External uncertainty encourages firms to search for partners, usually in forms of joint venture. This is due the fact that local partners usually hold knowledge and skills to deal with

the government and the overall environment in the host country, also local partners can share risks and resources with the visiting firm and thus lower the market commitment in order to reduce risk. In this case joint venture works as a win-win situation for both partners (Puck et al., 2009).

### **3.3 Asset specificity**

When asset specificity is low companies will limit the cost or emphasis on protecting their business model from competitors (Hennart, 1989). On the other hand, if the asset specificity is high companies will spend more effort, time and money protecting their business model. This is due to the fact that it is hard and probably not worth the cost or the effort protecting low asset specificity, since low asset specificity means it is quite easy for the competitors to acquire or copy the business model, product or the service provided by the company.

Low specificity investment means that companies will not have to worry too much about high control-related transaction cost for the simple reason that the chance of dissemination of knowledge is low (K. D. Brouthers & Nakos, 2004). High asset specificity is a high value commodity that is well worth protecting, on the other hand. That is because it is a well developed, unique business model, product or service and hard to copy.

K.D. Brouthers & Brouthers; Delios & Beamish; Gatignon & Anderson; Hennart & Larimo; Kim & Hwang; Taylor, Zou, & Osland found no significant relationship between asset specificity and entry mode choice. Brouthers and Hennart (2007) also concluded in their review that there was little evidence to indicate that transaction cost-based entry mode studies showed a relationship between entry mode choice and asset specificity (K. D. Brouthers & Hennart, 2007). This tells us that asset specificity does not seem to influence entry mode decision. Protecting asset specificity is of high importance for the firm but does not seem to influence the entry-mode decision, according to Brouthers and Hennart.

High asset specificity exists when firms own substantial amount of management or technological knowledge. Asset specificity will occur every time there is a loss resulting from the fact that the assets were used outside of their natural element. The danger of a new partner's opportunistic behavior increases whenever asset specificity is brought into a joint venture. A considerable amount of money and time goes into the process of safeguarding this knowledge and assets belonging to firms in general. Transaction cost theory advocates

that firms internalize these assets or knowledge to protect themselves against opportunistic behavior. Two scholars, Chen and Hu claim that asset specificity is quite noticeable in China due to the fact that China lacks rules and legislation to carry out and protect intellectual property rights (Puck et al., 2009).

Transaction cost theory also stresses the importance of the specificity of an investment to explain entry mode choice. Specific assets are investments in physical and human selling points that only have value in a limited number of transactions, that is, specialized assets that are employed in one or very few cases. Under these circumstances a firm faces important exit barriers and loss of flexibility due to switching costs and the restricted range of available suppliers.

### **3.4 Opportunism**

TCT has its shortcomings also, as it tends to strongly emphasize the cost of doing transactions as well the opportunity cost; this approach, however, has its limitations when it comes to explaining the choice of entry mode in the international environment. It also exaggerates the threat of opportunism and often has simple views of institutional control (Zhao et al., 2004). TCT, which is mostly used to analyze why companies make the choice they make when entering new territories, has been under criticism on other fronts too. It has been criticized for not paying enough attention to factors that hugely influence the entry mode choice. To tackle this problem many authors have brought in other entry mode theories to supplement TCT when it comes to making entry mode decisions or explaining them (Puck et al., 2009). Despite these shortcomings, however, TCT is still by far the most widely accepted of all the theories dealing with entry mode choice. Even though it has its flaws, it nevertheless provides powerful insight into entry mode alternatives and how decisions are carried out.

K. D. and L. E. Brouthers took a closer look at the multidimensional measure of Perceived Environmental Uncertainty or PEU. They investigated differences and similarities between services and manufacturing, focusing especially on PEU risk on international entry mode strategies. Their hypothesis concluded that with regard to some unique product characteristics and modes of delivery for certain types of PEU, manufacturing and services respond in almost the same manner. But services will respond very differently from manufacturing to other particular types of perceived risk. This hypothesis was supported,

demonstrating that when a multidimensional measure of PEU was used, it further increased the understanding of strategic behavior in different industries (K. D. Brouthers et al., 2002).

To summarize what TCT stands for, it is fair to say that TCT's main goal is to limit the cost of transaction when it comes to government and infrastructure. Companies will depend on the market to handle some activities and production where comparative advantage is obvious and internalize things they can do better or cheaper. Transaction cost theory mostly emphasizes entry mode choice, for example FDI, licensing and export. Transaction cost theory conducts a cost-benefit analysis when it comes to options regarding the market. Therefore TCT needs to take into account the cost accompanying research, partners and negotiations (Puck et al., 2009).

### **3.5 The resource-based view:**

TCT, the resource-based view, institutional theory and Dunning's eclectic framework make up about 90% of all entry mode choice decision theories. Now that this researcher has covered TCT to a significant extent it is time to take a closer look at the other three main theories when it comes to entry mode choice. The resource-based view will now be explained.

The resource-based view, also known as knowledge-based and organizational capabilities theory, is one of the most popular entry mode choice theories after TCT. The resource-based view concludes that firms enter foreign markets to develop important resources, in order to utilize a particular foreign market as basis to develop and acquire new resource-based advantages. This is one of the main reasons why firms enter different markets; that is, to improve their advantages by harvesting new resources for their own benefits. Resource-based advantages are developed via firms by acquiring and developing a set of specific firm resources and capabilities that are rare, valuable, hard to imitate and have no known common available substitute (K. D. Brouthers & Hennart, 2007). Having a resource-based lead gives firms a sharp edge over their rivals. That is because these firms hold something special that not only gives them advantages over their competitors but also an extra source of strength since their resources and capabilities are not easily duplicated.

The resource-based view (RBV) is quite common when it comes to theories explaining entry mode choices. The resource-based view appeared 10 times in the article *Boundaries of*

*the Firm: Insights From International Entry Mode Research* by Brouthers and Hennart. According to RBV, in order to maintain sustainable, competitive advantages have to be unique and valuable (K. D. Brouthers & Hennart, 2007). If you have something that no one else has you are ahead in the game so to speak.

The resource-based model presents a holistic view of the firm in such a way that decisions as, for example, country market choice, mode of entry and product strategies, among others, are made not on a stand-alone basis, but within a coordinated framework of resources, capabilities and environmental contingencies. This framework assumes that certain intangible assets such as top management knowledge and experience regarding foreign markets may act as substitutes for other resource types gained through path-dependent developmental stage (Pinho, 2007).

There is considerable research which explains how companies gain experience in foreign markets and eventually go from simple exporting jobs to more challenging organizational structures such as WOSs and JVs. This creates international experience resulting in firm-specific advantages (K. D. Brouthers & Hennart, 2007). All companies need to start somewhere, so simple exporting is often just a stepping stone on the firm's journey towards graduating to a more complex and lucrative form of business strategy. Firms often start as WOSs and JVs which ultimately can lead to more experience that then creates advantages over competitors.

According to Erramilli there is a U-shaped relationship between length and scope of experience and mode choice. When the level of experience is either low or high firms tend to seek out full control modes. On the other hand, when the level of experience is intermediate companies tend to be more prone to choose market-based modes (K. D. Brouthers & Hennart, 2007). Having significant international experience will no doubt give companies an advantage over their rivals and this probably explains why having a high level of experience makes firms seek out full control modes. It is hard to say why a low level of experience has the same effect, perhaps enthusiasm and optimism plays a role as to why firms with a low level of experience also seek out full control modes.

Erramilli, Agarwal and Dev delivered quite an advanced application of resource-based theory. They took a closer look at the direct and moderating influences of five perceived

organizational resource-based advantages when it came to hotels choosing between franchising and management contracts. Even though their result varied to some degree, they generally found that when hotels possessed better resource-based advantages they usually internalized, for example using management contracts over market (i.e., franchising) entry modes (K. D. Brouthers & Hennart, 2007). This is probably because when hotels have a more resource-based advantage they are in better position to negotiate their preferred terms rather than relying on the market entry mode.

Resource-based entry mode research is still quite limited. The way resources affect mode choice is usually dealt with in studies that analyze other measures of resource advantages and also include the resource-based view via different perspectives, for example the well-known transaction cost theory (K. D. Brouthers & Hennart, 2007). (TCT is still the number one choice when it comes to explaining entry mode decisions, but resource-based entry mode nevertheless has a lot of value when it comes to the task of further explaining entry mode choices. It can also be used to supplement TCT and provide extra depth to the paradigm of entry mode choices.

### **3.6 Institutional Theory**

According to Institutional theory the environment mostly determines which countries firms ultimately choose to target. If the environment is friendly, e.g., in the form of moderate taxes and low corruption, firms are more likely to target those foreign countries when setting up businesses abroad. Institutional theory mainly examines the difference between host and home country with special focus on institutional influences. This theory also takes a close look at country risk and uncertainty, as well postulates generated by New institutional theory. (K. D. Brouthers & Hennart, 2007). This makes perfect sense; according to institutional theory countries with little corruption and low taxes look very appealing to foreign companies looking for entry into new markets. A good example of this would be Ireland which has low corporate taxes and low corruption. Ireland is the chosen location for the European headquarters of many American technology firms such as Google, LinkedIn, Twitter, and now most recently Facebook which has had its headquarters in Dublin since 2009. It is no coincidence that so many international companies see Ireland as an attractive destination for their firms and the perfect entry mode into the European Union market (Badenhausen, 2013).

### 3.7 Risks

K.D. Brouthers found that five types of risks or uncertainties are important factors of entry mode choice. These five types are: product, government policy, macroeconomics, materials, and competition (K. D. Brouthers & Hennart, 2007). When contemplating entering new market firms need to consider all the risks involved, and weigh each option before deciding to commit themselves to the new market.

Another form of Institutional theory is New Institutional theory (NIT). NIT explains how a country's institutional environment is made up of three sets of classes or categories; that is, normative, cognitive and regulatory. Each of these dimensions plays a part in business and how it is performed in different countries. These influences are pretty much the same in every country and, therefore, make it easier for managers to conduct business on a global scale. Companies must take into account institutional norms to avoid the risk of losing their legitimacy and eventually be voted out of the market entirely (K. D. Brouthers & Hennart, 2007). It goes without saying that companies must abide to the rules and regulations of the host country to succeed in business. There are also unwritten rules and regulations that firms have to take into account when conducting business abroad. These can be just as important as the official laws and regulations.

Yiu and Maikon agree with New Institutional Theory and say that all three dimensions of the institutional factors (normative, cognitive and regulatory) play an important role when it comes to entry mode choices (K. D. Brouthers & Hennart, 2007). However, Yiu and Makion suggest that in the normative dimension, cultural distance makes up the most crucial part in explaining entry mode choice (K. D. Brouthers & Hennart, 2007). This does not have to come as a surprise since in most societies the cultural factor is viewed as highly dominant and often regarded just important as, or even more so, than the regulatory and cognitive factors.

When it comes to firms, they tend to act and behave in similar manner. These are traditions that have been built in time by the expectations and constraints of our society. When firms make an effort to act in accordance with these social behaviors in terms of cognitive, regulative and normative concepts, it is usually referred to as "isomorphic pressure". Isomorphic pressure can also be both internal and external according to Rosenzweig and Sigh (1991) (Puck et al., 2009). These social behaviors serve as guidelines



when it comes to conducting business. Therefore it is highly important for firms to become familiar with them and apply them in business.

Institutional theory examines how firms enter and operate in an institutional context defined by certain rules, norms, and values. A key tenet of institutional theory is isomorphism. Embedded isomorphic pressures can have a significant influence on entering a new market. A company will mimic local host country firm action or competitor actions in the same market in order to legitimize its operations and market presence (K. D. Brouthers & Hennart, 2007). When companies enter a new market they will look at their predecessors and mimic their style and action to gain a foothold in this new market. This is normal, since there is no reason to reinvent the wheel all over again; what worked before probably will work again. This makes a safe bet for new companies to enter the host country and predict the outcome of their arrival.

Transaction cost theory has been criticized for leaving out important factors when it comes to analyzing entry mode choices into new markets. Institutional theory has, therefore, been used to supplement TCT for the purpose of explaining shortcomings in turns of entry mode choice (Puck et al., 2009). Combining these two theories, TCT and Institutional theory can enhance understanding and knowledge when analyzing corporate ambitions to enter new international markets.

TCT has had its troubles when it is necessary to take into consideration other entry mode choices than those most often used or mentioned. Researchers have suggested incorporating Institutional theory alongside TCT to explain non-rational and non-intentional entry mode decisions. Institutional theory, unlike TCT, takes into consideration the social construction of organizational behavior, and is well aware of social constraints beyond pure economics. Therefore, these two approaches, TCT and Institutional theory, can be used together to enrich the explanatory power of entry mode choices (Martinez & Dacin, 1999). This could please scholars who have criticized TCT for oversimplifying complex scenarios. Thus Institutional theory can indeed supplement TCT when the need arises to explain factors that TCT generally ignores.

Institutional theory uses technical, sociological and cognitive perspectives to explain the institutional context of organizational decision-making (Lu, 2002). Institutional theory claims

that organizations do not necessarily take decisions based on efficiency and rationality alone as TCT assumes. This is because organizations face the burden of adhering to an institutional context. Thus, organizational behavior and decision-making is highly influenced by institutional pressure (Oliver, 1991).

Institutional theory takes into account different accountabilities when explaining entry mode decisions and sheds lights on new information not usually covered in the TCT model. These two theories (TCT and institutional theory) can, as referred to above, complement each other when studying entry mode decisions and what guides them.

### **3.8 Eclectic Framework**

Eclectic theory as proposed by Dunning, is a theory on multi-theoretical approach and takes into account the presence of new factors when it comes to foreseeing entry mode choices (Pinho, 2007).

“Dunning’s (1993), Eclectic or OLI (ownership, location, internalization) Framework is also among the most frequently applied perspectives in international entry mode choice studies. Although not a theory *per se*, this framework brings together concepts that earlier research has shown to influence the mode choice decision. The three components of Dunning’s framework are ownership or firm-specific advantages, location advantages, and internalization advantages. Originally developed before many of the more popular theories had been fully articulated, Dunning’s framework can be conceptualized as a tool that combines insights from resource-based (firm-specific), institutional (location), and transaction cost (internalization) theories (K. D. Brouthers & Hennart, 2007).”

It is, therefore, fair to say that eclectic framework or OLI combines all other three major theories (TCT, institutional theory and resource-based) in an attempt to best explain entry mode choice.

As mentioned before, Eclectic Framework suggests that entry mode choice involves three main factors. These factors are ownership, location, and internalization (Dunning, 1993). Ownership advantage means that cost is controlled in terms of inter-firm relations. Location advantages have to do with availability, resource commitment and the cost thereof. Internalization advantage relates to the concern for lowering cost of transaction and coordination (Canabal & White, 2008).

Ownership advantage has everything to do with inter-firm relations. Good relations between different owners are vital, and also that they know one another's place within the company. It goes without saying that location is also a crucial factor. For a company to run smoothly, it is important that availability, resources and commitment, alongside good common practices, are properly handled so that cost does not exceed the profit. Finally, keeping cost of transaction and coordination down is essential for the success of the firm and here internalization advantage plays an important role.

Ownership, location and internalization are all factors which affect companies' *modus operandi* according to Dunning's framework which also suggests that exploring a number of interactions between different factors which had advantages in one area often reveals lack of advantages in other areas (K. D. Brouthers & Hennart, 2007). This is normal, because for a company to have a special advantage in one field, they need to put most of, if not all, their focus into that particular field. Competition in the globalized world is tough so companies usually have to focus on what they are good at and leave the rest to the others which enjoy a competitive advantage in those particular areas. If, however, companies take on too many diverse tasks instead of specializing in what they do best, they risk being reduced to mediocrity and losing their specific corporate advantage.

This multi-theoretical approach, together with the new factors of ownership, location and internalization, further enhances the depth of this paradigm and contributes additional knowledge to the subject of entry mode decisions.

### **3.8.1 Ownership-specific advantages**

Specific ownership advantages include international experience, size and the skills to make unique products (Pinho, 2007). Ownership advantage usually refers to a firm's intangible assets such as licenses, patents and such things that cannot easily be transferred between countries and regions. If ownership advantage were to be more easily transferable between regions, and especially different countries, companies would more often than not go for wholly owned subsidiaries or other such high-control modes of entry. That way the company could better utilize its own ownership-specific advantage and safeguard its knowledge and its unique products. Also, by improved control of external operations, companies are better equipped to handle risk factors (Pinho, 2007).

It is quite common for firms to seek out partnerships such as joint ventures not so much because they prefer that mode, but more often than not out of necessity. When entering new markets in a foreign country, it is important to have a partner that knows his or her way around the rules and regulations of the host-country. Moving assets between regions is often harder than it sounds and when firms enter new markets, especially in foreign countries with a new set of rules and regulations, transferring assets can be hazardous. That is why firms often find it less risky to go for modes of entry in the form of joint ventures or other non-wholly owned subsidiaries.

Studies on ownership advantages have often emphasized the significance of a firm's product uniqueness and its capacity to deliver innovative organizational and administrative methods and new modes of technology. Empirical studies show that a firm's specific advantages have to be safeguarded to prevent it from losing its competitive edge. Companies also need to be on the lookout for opportunistic behavior from competitors and remain focused on maximizing their return at the same time. To achieve these goals, firms usually establish control by choosing equity-entry mode. Thus it is a matter of high priority to protect the specific properties of SMEs when choosing the equity-entry mode, despite the fact that this choice might jeopardize likely returns (Pinho, 2007).

This is a risk that all firms must be aware of when choosing equity-entry mode. If firms are not on the lookout for all the pitfalls mentioned above they could risk losing everything that they have worked so hard for.

### **3.8.2 Location advantages**

Location advantages are important with regard to internationalization for firms entering a host country. Location-specific advantages are associated with every firm, but not all firms are capable of maximizing their return to the same degree when entering a host country market. Companies that enjoy great demand and show strong potential for future growth also benefit when it comes to long-term investment prospects (L. E. Brouthers, Werner, & Wilkinson, 1996). This can work as an encouragement for SMEs to dedicate themselves to a particular market (Pinho, 2007).

Just because a firm is doing well and showing strong profits in its own country, there is no guarantee that they will continue to do so in a different part of the world. The demands, the environment, and overall circumstances can vary significantly from one region to another.

Firms entering international markets must keep in mind that there is a potential for unforeseen risks such as an unstable legal, economic and political system. This can create uncertainties that are hard to control and makes investment less attractive and reduces the appeal of international commitment. With this in mind, firms that enter unstable markets often hold back when it comes to high-involvement entry mode, to protect their assets and current investments. These companies realize that it can be hard to protect one's investments when the financial commitment has already been established; this is especially true when dealing with unstable markets and business environment (Pinho, 2007).

New emerging markets often look attractive when firms start thinking of expanding, this is often because those markets have large populations and huge potential for growth compared with the domestic market, for example. It is important, however, to keep in mind that these are often risky markets, and since the countries concerned may lack property protection rights and other safeguarding rules and regulations such markets can be highly insecure.

### **3.8.3 Internalization**

After the ownership-specific advantage and location advantage we finally have internalization which is the last stage of the Eclectic Framework. Internalization will be preferred every time a company is capable of performing its task at a lower cost than the competitor. If not, the company will turn to the market for tasks where other companies have comparative advantage. Markusen explained the internalization advantage when it came to multinational enterprises as such:

“This condition [internalization advantage] is the most abstract of the three. If a company has a property product or production process and if, due to tariffs and transport cost, it is advantageous to produce the product abroad rather than export it, it is still not obvious that the company should set up foreign subsidiary. One of several alternatives is to license a foreign firm to produce the product or use the production process. Why not just sell the blueprints to a foreign firm rather than go through the costly and difficult process of setting

up a foreign production facility? Reasons for wishing to do so are referred to as internalization advantages: that is the product or process is exploited internally within the firm rather than at arm's length through markets." (Markusen, 1995)

Since internalization is about using the company's internal resources, this is quite abstract because it is not always a clear cut case whether that is even a possibility. Other choices would be to set up a foreign subsidiary or license a foreign company.

## **4 Florida**

Florida is known for sun and oranges; after all, they produce about 67% of all oranges in the United States of America and 40% of the world's orange juice supply. Florida is the 4th most populous state in America with more than 19 million inhabitants. Major cities include Miami, Orlando, Tampa and Jacksonville. Florida enjoys a tropical and subtropical climate that makes the state a year round holiday destination. Warm climate, picturesque beaches, National Parks and theme parks such as Disney World and Universal Studios are important reasons why Florida is one of the top travel destinations in the world with 87.3 million visitors in 2011 alone. The impact this massive tourism industry has on Florida's economy accounts for roughly \$67 billion in state annual revenues. Other major industries include aerospace, high tech, banking and financial office operations. The software industry, health technology and university research is also booming alongside construction that is steady due to a constant stream of new residents and holidaymakers. 40% of all US exports to Latin and South America pass through Florida (Florida, 2014). This makes Florida a highly attractive location for business, especially with countries of Latin America.

Leading up to 2006 Florida experienced a huge housing bubble mostly fueled by sub-prime mortgage loans. In 2006 to 2011 the housing bubble burst and Floridians saw the value of their houses sink more than 45% statewide. As for further consequences, Florida had the highest percent of business closures in all of America. Now, however, Florida is picking up the pieces and business is booming once again and Florida is expected to experience one of the best job growths in America for the next five years. Forbes magazine ranks Florida the 22nd best state to do business in America. A favorable business tax structure and government policies make the business environment attractive. Florida has low taxes and no state personal income tax a highly developed infrastructure and a competitive and well educated workforce (Forbes, 2013).

### **4.1 Miami**

Although the city limits of Miami only account for less than 500,000 inhabitants the Miami metropolitan area makes up around 5.5 million people, making it the fourth largest urban

area in America. For the past two decades, Miami has been growing in importance when it comes to finance, commerce, banking and international trade. In downtown Miami you will find numerous international banks as well as domestic and foreign companies that choose to have either their offices or headquarters located in Miami. It is difficult to talk about port of entry without mentioning Miami International Airport and port of Miami. The Port of Miami is the busiest passenger/cruise port on a global scale and ranks number one when it comes to accommodating some of the largest cruise ships in this part of the world. The Port of Miami is the largest cargo and container holder in Florida and 62% of all trade that goes through this port either comes from or goes to Latin American countries. Miami International Airport is the busiest airport in Florida and the most important gateway between Latin America and America with more direct flights to Latin America than any other regional city (Hawkes, 2013).

The importance of Miami in relation to Latin America is evident everywhere you look. More than half of Miami residents are born outside of the US (UN Nations Development Program). Since around 1980 there has been a steady flow of immigrants to South Florida from Cuba who have been granted citizen rights as political refugees on the basis of the 'wet-food, dry-food policy'. Cubans make up more than 34% of the Miami metropolitan area population today. Other common nationalities include Nicaraguans, Haitians and Hondurans. Spanish speakers make up the majority of the city and most of them have Spanish as their first language (Cruz & Hesler, 2013). Having professional bilingual staff that know the culture that they are doing business with can be extremely beneficial when catering down to Latin America.

Miami hosted the Free Trade Area of the Americas (FTAA) negotiations and is a candidate to become home to the FTAA trading block, mostly because of its proximity to Latin America. Because of Miami's strong connections with Latin America more than 1400 international companies have their headquarters/ operations located in and around Miami in order to cater down to Miami (e.g., AIG, American Airlines, Sony, Visa International and more). As regards culture, Miami is rich in Latin flavors; Latin restaurants, bars and clubs are located all over Miami. Spanish language media such as television stations (e.g., Telemundo, Univision and BBC Latin America) and Latin record labels have their headquarters in Miami and the city has hosted the Latin Grammys on a number of occasions. (Katz & Faries, 2013).



All these reasons mentioned above make South Florida, and particularly Miami, an important gateway hub to Latin America. Consequently, South Florida/Miami is often dubbed the 'Capital of Latin America' and also referred to as the 'Gateway to the Americas'. Miami's geographical position in southeastern Florida on the Atlantic coast makes it the perfect location to do business with Latin America due to the proximity to South America, Central America and the Caribbean. The enlargement of the Panama Canal is expected to be finished in 2015, opening access to much larger vessels to enter the port of Miami, the nearest US port to the Panama Canal that can accommodate super cargo vessels. A large population of Spanish speakers and a growing number of Portuguese speaking people is another reason why so many Latin American companies and international companies that cater down to Latin America have chosen South Florida as a location for their headquarters. It also helps when seeking the best location for your Latin American headquarters that Miami has received awards as the best place to do business in Latin America four times in a row. It is no wonder that so many multinationals have located their Latin American headquarters in South Florida, more than any other city in Americas. (Dawson, 2013)

## **4.2 Latin America**

Latin America is a group of 20 countries spanning two continents that share a similar culture, history and are located at a similar geographical position. The main languages spoken in this area are Spanish and Portuguese (Brazil). The entire population is almost 600 million total GDP amounts to \$5.7 trillion and GNI per capita is about \$9,314 as of 2013 (worldbank.org, 2013). So even though this economy is not as big as their neighbor to the north it is still massive, consisting of a large population many of whom enjoy a relatively high GNI per capita. Therefore, when it comes to entering foreign markets Latin America has huge potential for foreign companies.

Most of Latin America has enjoyed independence for more than 200 years now. The negative inheritance left by the Spanish paved the way for the adoption of British sponsored liberalism and liberal economic thinking. Mass immigration from Europe to Latin America in the 19<sup>th</sup> and 20<sup>th</sup> centuries brought about a state of lawlessness and weak property rights. The military has always played a huge role in most aspects of everyday life in Latin America. Until the 1980s both domestic and international defense policies were heavily influenced by the military that was dependent on armed forces only. Since then the military has been independent but remains one of the main institutions in Latin America.

In the 1960s the National Security Doctrine was legitimized by widespread repression and authoritarian rule, based on the assumption that leftist and opposition groups constituted a communist threat. This militarized conception of security often inspired by American interests in the region also reinforced economic modernization, industrialization and social change with the rise of the middle and popular classes. These changes, however, did not bring about democracy in most of Latin America but instead led to authoritarianism in countries such as Brazil, Argentina, Chile and Uruguay. In the 1980s and 1990s Latin America saw a transition to democracy and less emphasis on the military and armed forces. Democracy in these countries brought about more human rights, stability, institutional development, democratic ideals and civilian control over the military, leading to a better and more prosperous economy (Tickner & Blaney, 2012).

By the 1990s globalization and neoliberal reform were viewed as necessary corrective measures. Consensus about neoliberal doctrine was enforced by international institutions such as the World Bank and International Monetary Fund (IMF). Many saw the US involvement in these measures as imperialistic action with the aim of tricking Latin America into believing in the fairness of a free-market economy and an international system that only fostered false hope (Tickner & Blaney, 2012). In more recent times left-wing populists such as Hugo Chavez of Venezuela have been voted into to power, largely by criticizing the US and neoliberal free-market economy.

Latin America consists of many countries, each one possessing its own character. Some countries fare better and have created more economic freedom and an environment for business to blossom than others. Some of the old powerhouses of Latin America such as Brazil have been lagging behind other countries recently when it comes to economic growth. Some countries, such as Argentina and Venezuela, have adopted strict protectionism and voted in left-wing populists that have argued against further globalization and ties with America. Countries that have been experiencing stagnant economies in recent times include Brazil, Argentina and Venezuela; these countries all share the use of high tariffs, excessive taxes and red tape. Those were the countries that voted down George W. Bush's FTAA agreement and have had to deal with high inflation and devaluation of their currencies, leading to high prices and sluggish economic growth. The other side of Latin America consists of countries such as Mexico, Peru, Chile and Colombia which have embraced free

trade and experienced significant economic growth and enjoyed a low inflation rate. These countries have also enjoyed more political stability and closer ties with the United States in recent times (Luhnow, 2014).

## **5 Methodology**

This research was based on a qualitative methodology in the form of phenomenological method. The researcher selected this method after receiving advice from his supervisor that this would suit his research topic. This research method was well suited to the goals of the research, since the researcher was capable of obtaining in-depth answers from the participants in order to see what entry mode they favored when it came to entering foreign markets. The participants were interviewed about their companies, using open-ended questions, which yielded an overall picture of the participants' struggles and successes within their business organizations.

### **5.1 Qualitative methodology**

The researcher chose qualitative research conducted by interviews. There are several differences between qualitative and quantitative approaches. In the quantitative approach the researcher maintains some distance and is independent of the research. When using the qualitative approach the researcher interacts much more with those he is studying. In a quantitative study it is important to have a representative sample of the population in question. The data gathered from the sample enables the researcher to generalize about the population. The researcher manipulates one or more independent variables in order to determine whether these manipulations lead to a result, or a so-called 'cause-and-effect relationship'. Qualitative research is more informal and also more biased. The researcher is much more involved; his views and values play a part in the research. There is also more tolerance for ambiguity and lack of theory-based study. The researcher can obtain a lengthier and more in-depth perspective of the subject using a qualitative approach than is possible with quantitative research. A qualitative design focuses on meaning and often involves fieldwork, descriptive and inductive research. (Creswell, 1994)

### **5.2 Phenomenological method**

The first person to come up with the phenomenological method was Edmund Husserl in the 1960s. He explained phenomenological method as comprising a natural attitude, reflecting the way in which each of us is involved in the real world; that is, being simple and direct and

engaged in the already known world. The researcher simply describes the person's experience in the way that person experiences it him or herself. This method does not use any theoretical standpoint (Bevan, 2014). To gather data, a phenomenological method interview is the number one method used. Giorgi explains how the questions should be broad, open-ended to obtain a description of the interviewee's meaning and the interviewer should engage in active listening (Giorgi, 2005). Three stages are used in the phenomenological method; firstly description, secondly reduction, and, finally, interpretation.

The interview begins with a *description* of life history. The interviewer is an active listener and should keep his ego and opinions to himself and focus only on the person being interviewed. The researcher emphasizes the context of the interview and explains how the interview will be conducted ([Seidman, 2006](#)).

Then it is time for *reduction*; that is, the act of classifying the experience of the interview into themes. The researcher here also has to be careful not to let his bias or opinions interact with the reduction process (Bevan, 2014). The researcher carefully reads over the data and tries to understand the interviewee's experience by seeing it from his/her point of view (Guðjónsdóttir, 2013).

And, finally, *interpretation* where the researcher interprets hidden meaning and issues that were not clear at the other two stages. This is also called imaginative variation where the data from the interview is analyzed and transcribed (Giorgi, 1985). This is the time when the researcher interprets the interviews in his own words (Guðjónsdóttir, 2013).

All these three stages should give the researcher a comprehensive insight into the lives and experience of the interviewees. By using these three stages (description, reduction and interpretation) the interviewer can better interpret the data and gain a clearer understanding of the phenomenon under examination.

### **5.3 The questions**

The researcher used open questions instead of closed questions. This is how phenomenology method is set up. Open questions focus more on meaning and the cultural relativity of the meaning that the participant attaches to the question. Closed questions are

usually applied to large-scale polls, such as national survey techniques and for market research purposes (Foddy, 1993). By using open questions the participants felt free to describe and say whatever was on their minds which was indeed the purpose of the research; thus closed questions were never really considered. All the questions were presented in an informal interview style to make sure that the participants felt relaxed enough to express themselves about anything that they felt was of significance.

## **5.4 Participants**

The company chosen to participate in this research was selected because of interest in the company and because it is about to enter foreign markets. The researcher also had inside contact within the company and could therefore easily obtain information and access to the staff and data necessary for the research. The research subjects were three managers, all males aged 33 to 39. These included CFO, CEO and an active investor and adviser located in America. Emails were sent to all participants with structured questions where the purpose of the research was explained. Previously the researcher had talked to the CFO, told him about the research and asked permission to interview some of the staff. The CFO was cooperative but requested that there should be restricted access to the thesis for a period of five years since the company was just about to enter foreign markets and wanted to protect itself from information outflow at this fragile stage. This is normal, since the company is in the midst of entering foreign markets and wants to keep some information hidden at this early stage in the process. Restricted access for the next five years was granted by the University of Iceland.

The company is called ATMO, but its predecessor was Gogoyoko. In the middle of this research the company changed its name from Gokoyoko to ATMO; therefore, the company will be called both Gokoyoko and ATMO from here on. Gogoyoko was a music company that sold music online via website ([gogoyoko.com](http://gogoyoko.com)). Artists could have their music displayed at this website and the company took a modest fee for every record or song sold. This made it much easier than before for little known artists to have their music heard and sold. It also cut out the hassle of dealing with labels and middlemen. Now the company is rebranding itself and is moving away from business to customer (B2C) and into business to business (B2B). From now on the company is no longer promoting artists and music via their website but creating playlists for bars, hotels, supermarkets, gyms, and other retail outlets in order

to enhance the customers' experience of doing business at these retailers. All the music is controlled from ATMO's headquarters which send the music via web portal (music-storage box provided by ATMO) that can then be played anywhere there is an internet and a sound system. ATMO gets its revenues from monthly subscriptions and targeting advertising within the playlists. The three persons interviewed are Haukur Magnússon CEO, Adalsteinn Pálsson CFO and Gudni Valsson active investor and adviser.

## **5.5 Interviews and Execution**

The research was conducted by means of a semi structured questionnaire. The framework for the interview was entry mode. These were private interviews that took between 45 minutes and 2 hours, conducted in April and May 2014. The interviews were in Icelandic and English, since all the participants are Icelandic and all have good command of the English language. Two of the interviews were conducted at the ATMO office in Reykjavik and one interview was carried out via Skype with an adviser located in America. The questionnaire was based on prior knowledge that the researcher had of startup companies in Iceland and his knowledge of living abroad. The data gathered from the interviews was written down as soon as possible while the interviews were still fresh in the researcher's mind.

The interviewees were told how the interview would be conducted and phenomenology method was explained beforehand, both by email and in person or via Skype. First the researcher asked a few background questions, or so called initial contact questions (e.g., Can you describe to me what Gokoyko/ATMO stands for?). This was followed by a descriptive question (e.g., Describe a typical day at Gokoyoko?). Sometimes the interviewer would place a structural question or interpretative question after an answer (e.g., you mentioned 'the board', can you describe what you mean by 'the board'?). This is also called a descriptive structural aspect question. Once the distinction was identified, follow up variation questions were sometimes asked. (Bevan, 2014)

All the interviews went according to plan and there were no problems at all. Some of the interviewees had more time on their hands and some were more enthusiastic to share their views when it came to the subject as is evidenced by the time differences between the interviews (one took two hours and the other two took less than one hour). The interviewer was told that he could contact the interviewees again if he needed to do so.

## **5.6 Ethics**

It was explained to the interviewers how the research would be conducted and how the data from the interviews would be used. The interviewees were told that they were not under pressure to answer any question they did not feel comfortable answering. They were also told that there would be restricted access to the thesis for the next five years.

The interviews were recorded on a Dictaphone and when the interviewer was asked to pause or stop the record the researcher complied with the wishes of the interviewees. The researcher tries to report as accurately as possible all the descriptions given in the interviews. It is important that the research capture what is being researched to ensure its validity. The interviewer tries to reproduce the interviewees' narratives as closely as possible. To ensure this direct quotes play an important role in the research (Guðjónsdóttir, 2013).

## **5.7 Limitations**

It may be seen as a limitation that only three people were interviewed and only one company was researched that as yet has not experienced the success or failure of entering foreign markets. By interviewing more companies that have experience of different entry modes the researcher could have come up with more comprehensive answers to the research question. But it is also important to keep in mind that this is a very narrow subject and there are not that many companies in Iceland that are in the process of potentially entering a foreign market using South Florida as a hub to cater down to Latin America.

This is, therefore, a unique case, studied here in order to see what entry mode could possibly be the best scenario in this particular case. The following chapters take a closer look at the actual data from the interviews. The research starts with descriptive interviews, then moves on to reduction and, finally, interpretation.



## 6 Deduction

The first stage of the phenomenology research is to conduct a deduction. Deduction is when direct quotes from the interviewees are categorized into themes. Below you will see direct quotations from the interviews categorized into 11 themes. These themes are: *Culture, language, the krona, the Central Bank/currency restrictions, competition, company, participants, Miami/Latin America, Politics and business, the Icelandic business environment and future plans.*

### 6.1 Culture

Haukur: Europe is closer to us in time and culture, it is easier to set up a business in Europe than in America because we know how things work in Europe. America is more x-factors and we need to be more careful there. America is more of a risk for us.

Gudni: The way to do business in Latin America is somewhat similar and also very different from Iceland. What is similar is that most business in Latin America is done by relationships. If you don't have relationships with the correct people you're not going to be doing deals over there. It's a huge market where the population of Latin America is roughly twice the size of the US. The demographics are different, these are developing (third world) countries so their GDP per capita is much lower in comparison to the western world. It's quite different doing business in Latin America versus Scandinavia; you need to be a lot more careful when doing business in Latin America. Take care when it comes to whom you do business with and trusting people with payments and such. You can lose a lot of money quickly in Latin America if you're not careful. It's much riskier to do business in Latin America than Scandinavia, because a lot of the business in Latin America is done in a 'grey area'; as for Scandinavia everything is done by the book. There is also a corruption in Miami on the political level but not so much on the business level.

If Colombians only want to do business with other Colombians they can do so. Miami is a hotspot of different cultures, especially Latin cultures. It's very easy to do business in Miami if you're coming from Latin America compared to rest of the USA.

As for Scandinavia and Holland the markets are very similar to Iceland, making it quite easy to replicate the Icelandic business model over there.

## **6.2 Language**

Haukur: Europe is closer to us in time and culture, also language wise. If we're doing business, say, in Norway, we usually use Norwegian and many Icelanders know Norwegian or one other Scandinavian language. Although English is usually not too much of a problem for Icelanders, Spanish and Portuguese are not so widespread in Iceland and that makes it harder to do business in Latin America for us.

Gudni: The demographics are very important; 50% plus of the people living here [Miami] have a different mother tongue than English. Spanish is the most popular language in Miami of those people that don't have English as their first language. Portuguese speakers are also growing in numbers with more Brazilian people moving to South Florida. So it's really easy to get Spanish and Portuguese speaking people to deal with business outside and within America. Brazilians now make up more than 300,000 in south Florida alone. This also makes it easy for people from Latin America to come to America to do business, not just because of language advantages but also in terms of culture. Their culture is here, Brazilian restaurants and banks, everything you need.

## **6.3 The krona**

Adalsteinn: As for having the krona for currency, it can be a good thing, because the krona is quite weak so we can make money out of that. But this also causes a lot of uncertainty... we don't know what's going to happen when the currency restrictions are lifted.

The krona is a good thing as it can work in our favor when euros are transferred to kronas. But this is all very subjective as this can all change in a blink of an eye. Our business [ATMO] is in Icelandic kronas so sometimes having revenues in euros can be beneficial and sometimes it can be a drag.

Haukur: there are costs and benefits to having the krona as our currency; it's really quite subjective how you look at it. We have to take into account all kinds of foreseeable and unforeseeable errors when we're dealing with two different currencies. It can be troublesome to calculate the difference and make plans ahead of time. It can be an upside having a low valued currency when we get paid from abroad. When it comes down to it, there is always this uncertainty looming over us with the krona.

Gudni: I would like to see Iceland adopt a new currency, doesn't matter if it's dollar, euro or something else. For example in Panama; they had a similar situation as in Iceland with a weak independent currency and inflation. They adopted the US dollar and now business is flourishing, making Panama one of the most important cities in Latin America in terms of business.

#### **6.4 Central bank/currency restrictions**

Adalsteinn: The currency restrictions are quite inconvenient. The Central Bank decides who gets a license to work abroad and this process requires a lot of work and time. We need to fill out an application with help from a lawyer. There is also a lot of uncertainty involving this process. We never know what the final verdict will be, if we get the green light from the Central Bank we still need to turn in all our profits afterwards, this can cause problems. So that we can go abroad, we have to get license from the Central bank; that is unfortunate.

So that we can do business abroad, we need to apply for exemption to the Special Economic Committee which is an integrated part of the central bank. The central bank requires us to turn in an application if we want to start a business or transfer money overseas. The application needs to be professional; that requires help from professionals (lawyers and accountants) the special economic committee needs all kinds of information and documents about the business model, cash flow and also an introduction to the firm itself. This takes a lot of time and is hard work.

Haukur: All business done overseas needs to be approved ahead of time by the Special Economic Committee of the Central Bank. It's a must to get a green light from the central bank to operate and deal with foreign capital.

It is clear that at the moment there are some unhealthy economic factors dampening the flow of business. After the economic meltdown in Iceland in 2008 many decisions have to go through the Special Economic Committee headed by the Icelandic Central Bank. This is both a costly and time-consuming process. Everything that has to do with capital and the product has to be managed in consultation with the Special Economic Committee. This makes business so much harder than before.

Gudni: The krona and the currency restrictions are very damaging for business. The

fluctuation when it comes to the krona is way too much. It makes it very hard to plan ahead when it comes to doing business. The currency restrictions are very time consuming and expensive as well. Nobody wants to do business in Icelandic kronas. First of all the Icelandic market is very small and when you add a weak fluctuating independent currency and currency restrictions into the mix the encouragement to do business in Iceland dwindles even more. It might be beneficial to a handful of people but in terms of the greater good it's very damaging when it comes to doing business.

## **6.5 Competition**

Adalsteinn: There is no business like ATMO in Iceland that provides customized music experience for clients. Competition in Iceland in this niche market is limited, what I can mention are DJs and retail owners themselves that are doing this work on their own (using Spotify, internet radio or making their own playlist). This service is nothing like ours, we change the playlist from time to time. DJs don't change the playlist, they just make one and if they change it again they get paid again. Our biggest competitor on a global scale however is Mood media. Mood Media sells music, visualization and scents to clients. GogoYoko is now working on visualization but has not gone into scent yet.

Internet radios are also our competition, but it's not customized like the service that GogoYoko creates. You still need to do the work yourself when it comes to picking music or playlists and would have to do it for each and every store also. This could be very time consuming and would perhaps not target the audience/clientele as well as our customize service does.

GogoYoko takes care of the hustle and bustle of constantly worrying about what music is being played at each store (if it is a franchise or branch for example). GogoYoko has studied each business for itself and knows what suits what business and when. It's a customized service that will enhance the customer's experience of doing business in that particular retail, restaurant/bar, hotel or what other business that requires music to be played in the background. GogoYoko is not to be confused with internet radio.

As mentioned before, our main global competition is Mood Media. They create a whole sensation, music, visualization and scent. This creates a whole ambiance and overall enjoyment and experience for the customers. GogoYoko wants to start visualization also and

eventually move into providing scent solutions such as Mood Media has available at the moment. Mood Media also have one of their headquarters in London and therefore they are also very present in Europe.

Haukur: The world leader when it comes to selling customized music and overall experience for the customer is Mood Media. There are some smaller players out there too, like Real Networks and Clear Channel, but they are much more segmented on smaller markets than Mood Media. There are also some local players and technology companies that serve communities abroad, probably some we still haven't heard of. It's a competitive landscape out there and Gogoyoko has put a lot of work into documenting and researching each market. There is possibly alternative competition out there, but Gogoyoko is positive that they can compete in these new markets that they have set their focus on. There are quick changes in the retail development, and the smart technology is evolving at the speed of light. Gogoyoko plans to be ready for these changes and are on their toes and are not afraid of competition.

Gudni: The big bush in a small forest is Mood Media; Mood Media is the only giant corporation in a field that's still small and has a lot of growth potential. Mood Media are huge in America but there are also opportunities that lie within, them being so big. Every market needs competition and they have shown that they are very aggressive in acquiring the competition. Basically their growth model is via acquisition. Mood Media have two offices in Latin America, in Brazil and Argentina. These are satellite offices that indicate to us how strong they are, but since it's only satellite offices it's also an indicator that they are not very focused on this part of the world. So Latin America has a lot of potential still, but the demographics in Latin America are quite different from the USA and Europe.

When we enter Latin America, first of all we would focus on clients that we already have relationships with, large corporations that we have connections with. It hasn't been tested how strong Mood Media is in these two markets; I believe it's not a strong focus of theirs [Latin American markets]. Brazil is the largest market in Latin America so we would definitely put our focus there.

## **6.6 The company**

Adalsteinn: The company started in late 2007 as a business to customer (B2C) model with

the slogan 'Fair play in music', where it sold music via their web page directly from the artists themselves. By doing this the company cut out the middle men so there was almost no intermediary. GogoYoko charged a modest fee for this service and their webpage soon became very popular. Now GogoYoko has shifted its focus to a business to business model (B2B) by providing music online to businesses in an effort to enhance the customers' experience while doing business. Gogoyoko is also changing its name to ATMO along with this new focus.

When I was living in Miami, I did some research to see how music was sold to companies (cafes, shops, retails etc.). It was obvious that staff at these places were simply choosing the music themselves, but when asked they showed great interest in outsourcing this service. Because it can be quite time-consuming finding the perfect playlist and there needs to be some consistency between franchises when it comes to playing music in order to enhance the customers' experience. It can be quite damaging if there is a teenager playing his favorite heavy-metal music in one store, but in the next there is someone playing classical music. It is much better that the music follows the same trend if we are talking about franchises for example.

Irreconcilable differences between the owners and the staff led to this huge public dispute. So in May 2013 we end up with almost no staff. After that, the decision was taken to change all the staff and start afresh.

Haukur: I am one of the original starters of GogoYoko in late 2007. Gogoyoko was a brand that specialized in selling music via web portal. This was a breakthrough technology at the time and the first of its kind in Iceland. Artists could promote and sell their music without intermediary and the hassle of dealing with middlemen and labels. This made music more accessible for the public and easier for the artists to get their music out there. Although most of the musicians were from Iceland, this service was also open to use for every artist out there, domestic and international. The name itself doesn't hold any significant meaning and is more of gibberish than anything else. Its intention was only to bring attention to a unique internet space phenomenon.

Haukur: Gogoyoko is close to being self-sufficient at the moment and break even. At first Gogoyoko [now ATMO] needed to raise money through the shareholders to get started.

Gogoyoko seeks investors and the shareholders invest in the company for shares in Gogoyoko. Now the consumers make up most of ATMO's revenue by subscribing to our service and there are also commercial revenues coming in from targeted advertising.

As this is a small new company built on venture capital in highly changeable market there is always the risk of losing money, not succeeding or even going under. This does not scare us since, however you look at it, this is a good experience that cannot be taught in school. This is a huge learning process that surely benefits everyone that is a part of Gogoyoko/ATMO. This is a joint venture, people that are passionate about this product and its success. Why not give it a try, what have we got to lose!

## **6.7 Participants**

Haukur: I founded Gogoyoko among a few others in 2007 and have been an integrated part of Gogoyoko ever since. I did, however, step down in 2010 and enter the board of directors. In 2013 following quite a public turbulence between the owners and the staff, I took over the company. This meant the company is heading in a new direction now, new techniques and new solutions that will from now on target companies instead of customers. The old Gogoyoko is therefore rebranding itself as a music solution entity for companies rather than specializing in selling music via web portal to individuals as before. Rebranding the company also means a new name, from now on Gogoyoko will be known as ATMO.

As of first of June 2014, I will step down as the CEO of ATMO and become the head of project/business development. The new CEO [Ívar Kristjánsson] has vast experience in the fields of technology and video games and has served as chairman of the board up until this point. Ívar was one of the founders of the video game company CCP, a very successful Icelandic company that is mostly known for its online video game called Eve Online.

As this is a small company, I am not only CEO; I wear many different hats. On a typical day I might have to take on the role of a salesman communicating with new or existing clients. Train the staff, all kind of tracks that need maintenance. It is a never ending story, it can be really everything. He continuously needs to be in contact with people on a daily basis.

Gudni: I'm in the business of selling hardware, mostly cellphones to retailers. My focus on business is not Miami itself, it's not that big a market in itself, we focus on some retailers

here. But my focus is mostly on South American and the Caribbean markets. Miami is just one city and the retail market in the USA is controlled domestically. We focus on large retailers and carriers, most of them based elsewhere in the USA. For example AT&T is based in Atlanta and Toys 'r' us is based out of New Jersey. I'm also an investor and adviser as well. The role of investors can be passive, but I've been part of the company since the beginning so I'm an active investor and an adviser to ATMO

I also oversee matters for another investor in the Dominican Republic for ATMO. The Dominican Republic market is 40x the size of Iceland, but that can be said about most other countries as well, so we definitely have large customers there also. We're not focused on that market specifically as we have our eyes more set on markets that are located in Central America and South America, such as Colombia, Ecuador, Guatemala and more.

Adalsteinn: When I got back from Miami, I met up with my cousin that has been a big part of this company since 2007. There were lots of changes going on at that time. And in May 2013 new staff and board took over and I with my background and prior experience in banking and corporate finance became CFO of Gogoyoko.

I go to work at 9 am, answering emails for 2-3 hours concerning finance. Then I take meeting (1-3 per day) after lunch. After that I engage in normal management so things can run smoothly. Then the day usually ends at 6 pm or later. But each day differs from the next so it's hard to describe a typical day.

The service that we provide usually requires CEOs, owners or other personals at the top of the firm's hierarchy to take the decisions if they want to use our service or not. These are the groups of people we target. There is a lot of analytical work and it's important who shows up for the meetings. After the meetings I create a summary and send it via email to all participants.

## **6.8 Miami/Latin America project**

Adalsteinn: Miami is the city that has the biggest connection to Latin America of all cities in the USA, in terms of shipping, tourism, business and cultural similarities. Miami is an intertwined part of Latin America, this is information we have from Gudni with his ten years of experience both in Miami and in Latin America. It's quite common that companies from



Latin America and elsewhere have their headquarters in Miami. There is a lot of transportation to and from Latin America to Miami and vice versa. Being located in Miami is convenient and cheap when it comes to transporting people, goods and services down to Miami. It also looks good for the company's profile to have one of its headquarters located in the USA. Haukur: The strategy of entering Miami is mostly because of its connection to Latin America. Gudni is affiliate/partner of ATMO, he's overseeing this project in its entirety. Gudni is located in Miami and has been dealing with hardware sales in this area for years (Miami and Latin America). He's a trusted person that will now soon be moving into software when he takes a more hands-on approach of the Miami/Latin America project for ATMO. Gudni has a free card when it comes to decision making regarding ATMO's future in this part of the world. Gudni will be carrying out this project from Miami and if he feels more staff, capital or support is needed, he will notify the rest of the board here in Iceland.

Gudni: Miami is officially or unofficially the capital of Latin America and the Caribbean to do business. Most companies here are in that spectrum; there used to be US firms that had headquarters in Miami to cater into Latin America and now with the growth of that market, successful Latin American companies have moved to Miami and have decided to open up their US headquarters in Miami. Most banks in Latin America have had their headquarters in Miami and other finance and service industries before that. Most international companies in Miami are focused on catering into Latin America and the Caribbean... Miami is bilingual, most people speaking both English and Spanish... Portuguese speaking people are also growing in numbers so most of the business here is focused on catering to Latin America in one way or the other. Miami and Florida in general has an easy business environment; easy to start a corporation, the tax environment is good and all the support that companies need to get started is available. Florida is ranked as one the best states to do business in the USA. Compared to Europe it is extremely easy to set up business. In the UK for example it can take months ... But here in Florida you can pretty much get a company up and running overnight.... Miami is the most important city when it comes to Latin America business by a long shot. ... all businesses in Latin America like to do business from within Miami. Miami is a huge hub for transport of goods. Both through the airport and the harbor and it's only increasing now with the expansion of the Panama Canal and the enlargement of Miami harbor. They are increasing the size of Panama Canal to fit super freight ships heading to the

eastern coast coming in from Asia. Miami is going to be a major hub for that, and freight ships, and the city of Miami are preparing for that. Miami is transforming their harbor now and also enlarging their harbor and building more infrastructures to deal with this change such as roads, warehouses and so on to accommodate all the increased traffic to include the city in and out. This is fantastic news for Miami since the overwhelming majority of goods come from Asia.

Miami is all about Latin America, all business is geared towards that part of the world and vice versa. The rest of America is more geared towards US business and their concept of doing business. Also the shipping routes; America airlines, this is their biggest hub for Latin America, making it very easy to ship in and out of Miami to all of Latin America. Miami International Airport is now the largest hub in the world to all of Latin America.

Our plan is to open an office here. But before we get to that stage we will have to see how things will fare in Scandinavia and Europe where the markets are more similar to Iceland. ATMO will continue to improve its business model and its products even further before entering the US and Latin America market. It will be too hard to start it here first because the US market is so different. If we were going to start with the US market we would have to change completely the way we do business and our product. This [entering European markets first] will also give us a chance to improve the product even further prior to taking it to this big market over here [America]. So we are going to start with Europe and see how it goes over there, and if it's a success over there we can move over to America and start focusing on Latin America via Miami. It's more similar markets in Europe to Iceland, so it's going to be harder to enter the USA.

There are very large corporations in Latin America and huge opportunities to do business. At the moment this part of the world is experiencing some of the biggest growth in the world; that is the reason why many international companies are focused on this market right now. Brazil has been experiencing explosive growth over the last decade even though it has slowed down somewhat just recently. Colombia and Chile are experiencing huge growth as well and also countries such as Ecuador and Venezuela have huge markets, despite some political unrest

## **6.9 Business and politics**

Haukur: it is impossible for me to speculate on Iceland's future EU membership, if it would benefit companies in Iceland or not, since there is no agreement on the table. So thinking or contemplating about what future membership might mean for businesses in Iceland is futile and would only be speculations. We need to know the details and the scale of the agreement before I can take an educated decision on this matter.

Haukur: There is more uncertainty doing business in America and Latin America than in Europe, there is more distance in terms of culture and time. It's more expensive to do business in America. There are more 'x-factors' over there, definitely more risk to enter markets in America and Latin America. We have more connections in Europe and we are more familiar with that market than America.

Adalsteinn: We have noticed that the hassle of setting up business is harder and more expensive in the USA. Lawyers, accountants and other professionals are simply more expensive in the USA than in Europe. The European markets are closer to us both in time and culture. It's easier to service our staff in Europe, the technique is here in Iceland; therefore it's cheaper to connect to Europe than USA. There is a difference between establishing a subsidiary and a branch. It's easier to set up a branch than a subsidiary. Subsidiaries require much more work because of all the laws and rules that go with that process. We probably need to set up a subsidiary in the USA.

## **6.10 The Icelandic business environment**

Adalsteinn: Iceland is a good test market, start-ups begin in Iceland and if it's a success here they can try to make it abroad. Networking is usually quite easy and smooth in Iceland and has been absolutely vital for GogoYoko's success in the past. The profit here is limited because the market is so small. Icelandic companies struggle with making a big profit and raising big capital unless the product is really expensive or a necessity that can be bought over and over (e.g., food).

Iceland has its limits when it comes to creating revenues; this has to do with the fact that Iceland is an extremely small market. If the product works it will sell itself here without too much money being poured into marketing. Word-of-mouth works wonder in such a small market, if cousin Jon or aunt Sara vouch for the product that's all the proof you need. If you

succeed here that's a good indicator how things will go when you go abroad. If there is no real value in the product people simply don't buy it. Icelandic companies and retailers are passive at the moment and they don't spend any money on anything extravagant or extras like music or other such accessories. So things have been good for Gogoyoko so far if you take into account all the success here despite harsh times and recession.

Haukur: It helps to have a clear vision when setting up a business here in Iceland. People are usually well connected in Iceland and have a huge network in such a small market as Iceland is. This helps when it comes to try out a new product like the one that Gogoyoko has to offer. It's a good test market before we head overseas; if it works in Iceland it can work everywhere.

Apart from the currency restrictions, the krona and the Special Economic Committee, other obstacles that need to be tackled include raising capital, testing the product and service, as well as setting up networks and finding experienced staff. There are also cultural and time-differences and distances that need to be taken into consideration.

Networks are important when it comes to making a big decision and testing the water to see if the product fulfils all the requirements. In this spectrum it's vital to have connections on the outside that know the market and how it functions. This is a crucial factor in lowering the risk while doing business both here at home and abroad.

### **6.11 Current and future plans**

Adalsteinn: We have plans to go abroad, and we have already started to enter markets in Norway, Benelux [Belgium, Netherlands and Luxembourg], Germany and in the USA [Miami with a focus on catering down to Latin America]. Our service is international and is not widespread at the moment and therefore has a lot of growth potential. There's a huge market out there. We have already proven ourselves here in Iceland, but Iceland is tiny. In order for the business to grow we have to go abroad. We plan to have a few sales representatives in each country to handle each territory that will go through a certain process first. The process is that we put together a group of two to five people in each country to set up our service. We have to travel abroad and "reprogram" these people. So far we have mostly been scanning these markets and testing the waters.

By “reprogramming” we mean that this is a new service, it’s not that long ago it became possible to stream music and videos through the internet. It’s important to show these groups how this process works and how to manage the sales processes and what customers to target. We will rely on affiliates or sales representatives that need to know everything about this business and how the customer service works. It takes at least a few days to teach this process. We have groups of people in Germany, Norway, USA and Benelux now and these people are already set to start. These groups have gone through the “reprogramming” process. These people will come to Iceland in order to finalize this process.

Gudni: one of the owners and investors in GogoYoko is based in Miami and has ten years of experience running his own company there. He has good connections to Latin America through his own company. He will be leading the project over there. We also have another owner based in the Dominican Republic, that person has connections to Latin America as well. The reason why we chose Miami as an entry point to Latin America is because The States are so ahead of everybody else in the business of customizing music experience [like ATMO is currently doing in Iceland], that it’s hard to get a foothold there. But as far as we know, this service has not been introduced in Latin America.

Adalsteinn: We are working on setting up branches in 4-6 countries very soon, and the three to five year plan is to open up branches in 3 countries by 2014 and three others in 2015. We want to have operations in ten countries in the next three years. We still haven’t proven ourselves abroad just as we did in Iceland. Hopefully we can grow into a big successful international company in the next coming years.

Our dream is that after five years, if everything goes according to plans, we will be in the eyesight of Mood Media (they have been buying out the competition so far) and that could be our exit strategy if they make us an offer. If not we will continue to grow and develop our R&D and do further work on visualization (advertising screens) and scent solution. These things (music, visualization and scent) will enhance the customer’s experience even more than is the case now. After 7-10 years we can enter the business into the stock exchange as an international company with hefty capital, bringing money into the economy.

Haukur: The company has plans to go abroad and has its focus set on a few new markets in Europe and in Miami. Miami was chosen more as a location than actually a targeted

market or more as an entry mode into Latin America. We are further ahead with our plans when it comes to Europe. If Europe turns out to be a success we will get more involved in the Miami/Latin America project than we are now.

In the future I see ATMO develop into a servicing company with different products focused on advancing the customer experience or creating the perfect atmosphere for the client. These products could involve value sensors that provide real information. Not just music and visual effects, but everything from temperature, sounds, light, oxygen level, scent and environmental space.

Gudni: When ATMO moves to Miami we would have to start a corporation here; it would probably be a subsidiary or franchisee. This will all depend on how things turn out in Europe first.

## **7 Reduction**

At this point the researcher categorizes all the information from stage one (the descriptive) even further with the research question in mind. The data was broken into 20 themes: *Culture, language, grey area, distance, nearby future, Latin America, Miami, currency, politics, special economic committee, currency restrictions, finance and capital, competition, market, experience, the company, obstacles and risks, typical day, technology and entry mode*. During the reduction the data is interpreted by the researcher.

### **7.1 Culture**

Cultural difference is what all the interviewees mentioned when talking about moving to the US. Haukur said that it is easier to do business in Europe than America because of the cultural distances. Europe is a lot closer to Iceland in culture than America. Gudni mentioned that doing business in Latin America is somewhat similar to Iceland. In that context he referred to the importance of knowing the correct people. This is somewhat similar to the Icelandic model where relationships are so important when doing business here. On the other hand, there are more grey areas in Latin America and in Miami than in Iceland and in Europe in general. Gudni said that in Scandinavia things are usually done more by the book than in Latin America. "As for Scandinavia and Holland the markets are very similar to Iceland, making it quite easy to replicate the Icelandic business model over there," Gudni said.

### **7.2 Language**

According to the interviewees Europe is not only closer to Iceland in terms of culture but also in language. When doing business in Scandinavia we normally use Scandinavian languages that are usually not a problem for our staff said Haukur. When doing business in Miami English is usually the preferred language, but this can vary as there are so many Spanish and now Portuguese speaking people there. When doing business in Latin America, it is absolutely crucial to know Spanish and also Portuguese when doing business in Brazil. Gudni, who has lived in Miami for over ten years, said it was very easy to find native Spanish or Portuguese speakers in Miami when doing business where you need a good command of those languages.

### **7.3 Grey area**

According to Gudni it can be quite risky to do business in Latin America; these are third world countries and business is usually not done by the book like in Western Europe.

“You can lose a lot of money quickly in Latin America if you are not careful. It is much riskier to do business in Latin America than Scandinavia, because a lot of the business in Latin America is done in a ‘grey area,” said Gudni. Doing business in Miami is quite straightforward and the business environment is easy and comfortable. Florida is ranked as one of the best states in the US to do business. There is, however, corruption at the political level that can be harder to detect and deal with in Miami.

### **7.4 Distance**

Europe is closer to Iceland in time and culture, as mentioned before. America is more difficult and there are more x-factors there according to Haukur. As for European markets, the interviewees claim it is easier to enter those markets than the American one. “Things are more expensive in America and we don’t know so much about that market,” explains Haukur. Gudni, however, has vast experience in America and doing business in Latin America and knows the markets there inside out. “When a company wants to cater to Latin America, Miami is the perfect place to be,” said Gudni. The distance to Latin America from Miami is not great, neither in terms of actual distance nor cultural distance.

### **7.5 Near future**

ATMO has high hopes for the future. Since the company has already proven itself successful in Iceland they want to start targeting foreign markets now. Adalsteinn said ATMO is already starting to set up business in Norway and in the next few months ATMO plans to be present in three other countries. The plan for the next three years is to operate in ten different countries. ATMO still need to prove themselves overseas and if they can do that they could easily grow into a large company and hopefully enter the stock exchange in about ten years from now according to Adalsteinn’s vision. Haukur said that ATMO will continue working on their R&D. Haukur said:

We want to continue developing scent and visualization and develop into a servicing company with different products focused on enhancing the customer experience and create the perfect ambiance for the clients when doing business.



Gudni wants to see how the company will fare in Europe before going full throttle into the Americas. If the company does well in Europe it is time to open up a subsidiary or franchise in Miami and start targeting Latin America, especially Brazil which is the biggest market, but also markets that have been growing in recent years such as Chile, Ecuador, Venezuela and Colombia. There is immense potential in these markets, despite some political unrest in some of these countries.

## **7.6 Latin America**

Latin America is a huge market, roughly twice the size of America in terms of population. These are, however, developing countries with much lower GDP than America or the EU/European countries. The demographics are also very different from the US and Europe. This is something that ATMO needs to take into account according to Gudni before entering this new market. There are large corporations in Latin America and many new opportunities opening up as this market continues to grow. This part of the world is experiencing exponential growth and many international companies have their eyes set on this market. Colombia, Chile, Ecuador, Venezuela and of course Brazil are experiencing or have been experiencing economic boom.

## **7.7 Miami**

According to Gudni, Miami is the official and unofficial capital of Latin America. American companies that cater down to Latin America usually have their headquarters in Miami. In recent years with growing economies in Latin America, more and more Latin American companies are moving their headquarters up to Miami, both to cater to the US market but also with a focus on the rest of Latin America. Miami is a hub for different cultures with special emphasis on Latin America. Spanish and Portuguese is widely spoken in this area and the culture is also geared towards Latin America. As Gudni puts it:

If Colombians only want to do business with other Colombians they can do so. Miami is a hotspot of different cultures, especially Latin cultures. It is very easy to do business if you are coming from Latin America compared to the rest of the USA [which is more geared towards USA].

The rest of America is more geared towards American business. You go to Miami to do business with Latin America. Shipping routes, American Airlines via MIA (Miami International Airport) have more flights down to Latin America than all other American aviation

companies and airports combined. This makes it quite easy to fly back and forth from Miami to Latin America and vice versa when doing business or pleasure. This all makes Miami the world's largest hub to all of Latin America. In addition, Florida is very business friendly. You can pretty much set up business there overnight. Florida has been ranked as one of the best states to do business. This also makes Miami a very appealing option when it comes to setting up headquarters and businesses according to Gudni.

## **7.8 Currency**

When the interviewees were asked about the Icelandic currency, they all agreed it is a problem. But two of them said it can sometimes be beneficial to have an Icelandic currency if you have your revenues in foreign currency (e.g. Euros) but pay your staff salaries in Icelandic krona for example. This is because the krona is valued quite low at the moment so employers with revenues in foreign currencies can make money out of that. All interviewees agreed, however, that it is quite difficult to plan ahead with the Icelandic krona because of all the uncertainty involved. Gudni said:

The Krona and the currency restrictions are very damaging for business. The fluctuation when it comes to the Krona is way too much, it makes it very hard to plan ahead when it comes to doing business... It might be beneficial to a handful of people but in terms of the greater good it's very damaging.

One interviewee mentioned Panama's solution. They adopted the US dollar unilaterally a few years back and business has been booming ever since.

## **7.9 Politics**

The interviewees did not have strong political views when it came to future EU membership or other political issues that could perhaps improve the Icelandic business environment. None of them took a stand against or in favor of EU membership claiming they simply did not have the facts in front of them to take an enlightened decision on the matter.

## **7.10 Special Economic Committee**

The interviewees all claimed that the current situation in relation to dealing with the currency restrictions creates unhealthy economic aspects that dampen the flow of cash and keep businesses in shackles. Since the economic meltdown, many decisions have to go through the Special Economic Committee controlled by the Central Bank of Iceland.

According to the interviewees this process is quite expensive and time-consuming. Applications also need to be filled out and they need professional people (accountants and lawyers) for this task. If they get the exemption from the currency restrictions they still need to turn in all their profit at a later stage to the Central Bank.

Haukur: All business done overseas needs to be approved ahead of time by the Special Economic Committee of the Central Bank. It's a must to get a license [from them] to operate and deal with foreign capital.... This makes business so much harder than before.

### **7.11 Currency restrictions**

The Special Economic Committee is the result of the currency restrictions, and these restrictions are very damaging according to the interviewees. According to Gudni, the currency restrictions are especially damaging for the business environment in Iceland. Iceland is already a very small market and if you add currency restrictions to the mix the encouragement to do business or set up business for foreigners in Iceland is very limited, he claims.

Adalsteinn said that the uncertainty is the hardest part. You fill out all the paper work and present it to the Central Bank. Then you just have to wait and see what the final verdict will be, this can take months and you are never really sure of the outcome.

### **7.12 Finance and capital**

ATMO is close to being financially self-sufficient at the moment. They have revenues coming in from Icelandic retails and other service industries that have bought subscriptions to ATMO's service and there are also shared advertising revenues coming in from targeted advertising. In addition, investors play a big part in financing the company and so do loans from banks. Since the Icelandic market is so small, ATMO will be looking at countries abroad to start making more profit soon.

### **7.13 Competition**

Although the interviewees explained that competition is very limited domestically there is a lot of global competition. ATMO's largest and most obvious competitor is Mood Media which sells customized music to businesses just like ATMO does, but Mood Media also provide visualization and scent solutions. Mood Media are quite big in North America; they

also have one of their headquarters in London and a few satellite offices in Latin America and elsewhere. Mood Media's main focus is on North America. They have not hit Latin America with full force yet and that is where ATMO sees opportunities. Haukur mentioned a few other smaller global players such as Real Network and Clear Channel. These companies are much more segmented on smaller markets, however, than Mood Media. Mood Media is more aggressive and uses acquisitions as their tool to buy up the competition. Gudni describes Mood Media in the following terms:

The big bush in a small forest is Mood Media. Mood Media is the only giant corporation in a field that's still small and has a lot of growth potential. Mood Media are huge in America but there are also opportunities that lie within them being so big. Every market needs competition and they have shown that they are very aggressive in acquiring the competition. Basically their growth model is via acquisition.

#### **7.14 The domestic market**

ATMO is the only company that sells music solutions to retailers and service companies in Iceland. There is no direct competition to ATMO in Iceland, although some indirect competition exists. The indirect competitors are internet radios and DJs that create playlists for retailers. However, the service that DJs and internet radio provide is fundamentally different from ATMO's. Internet radio is not a customized service, and when DJs set up playlists for retailers and other businesses the playlists are fixed and do not change on a regular basis (unless the DJs are paid to make new ones) as the service that ATMO provides. ATMO has been very successful convincing clients to buy and use their service and in just a few months they have covered much of the domestic market. This has made ATMO financially self-sufficient. But as this market is very small, growth potential is limited. This has forced ATMO to think more globally. Adalsteinn said:

Iceland is a good test market, start-ups begin in Iceland and if they are successful here they can go abroad and try to make it there. Networking is usually quite easy and smooth in Iceland and has been absolutely vital for Gogoyoko's success in the past.

ATMO has mostly used word-of-mouth as their marketing tool, in such a small market that's really the best way to get your product out there. If the product works it will sell itself here.

### 7.15 Experience

Haukur has been a part of Gogoyoko/ATMO since the beginning. Haukur along with few others founded Gogoyoko in late 2007. Haukur has been a CEO of ATMO for a few months now but he will be stepping down when the new CEO takes over later this year. Haukur explains: *As this is a small company, I'm not only the CEO but I wear many different hats. On a typical day I might have to take on the role of a salesman communicating with new or existing clients, train the staff, all kinds of tasks that need maintenance. It is a never ending story, it can be really everything.*

Adalsteinn has worked in a bank and lived in Miami. He made some research into this market (customized music market) in Miami and when he got back he became CFO of Gogoyoko. A typical day for Adalsteinn is usually answering emails for two to three hours concerning finance. Meetings are quite frequent, as these are often sales meetings with the CEOs or other persons at the top of the hierarchy in the companies.

Gudni is an investor and advisor in ATMO. He will be overseeing the Miami/Latin America project when the company enters Latin America via Miami. Gudni has worked and lived in Miami for over ten years mostly selling hardware but will be moving into software if plans go accordingly.

### 7.16 The company

ATMO was called Gogoyoko until very recently when they changed their name to ATMO. It started in late 2007 and was first and foremost a music company. They became an alternative to all the record labels, managers and other such middlemen. At Gogoyoko artists could easily sign up at the company's webpage to obtain easy coverage of their music. Gogoyoko took a modest admission fee for their service and the company soon became an internet success that helped (among other factors) put Icelandic music on the world map, explained Haukur.

Adalsteinn described how ATMO is moving away from this business to customer model (B2C) and into serving other companies or a business to business model (B2B). The company provides customized music to retailers and other companies to enhance the customers' experience when doing business at these places. ATMO is also working on moving into visualization and scent solutions to further enrich customers' experience when doing

business in retails, gyms, hotels/bars etc. ATMO plans to take this business concept further, continue with their R&D and venture abroad in the very near future.

### **7.17 Obstacles and risks**

Many of the obstacles the company faces today have already been mentioned such as the Krona and the currency restrictions. Also the market here in Iceland is really small and it is hard to make large profit in such an environment. It can also be difficult to raise capital and find experienced staff said Adalsteinn. Then there is always the risk of the company simply going under, there is a lot of uncertainty involving both this business and the economy at home and abroad explains Haukur. Haukur said:

*We are not afraid to take risks, since this is a great experience and huge learning process that surely will benefit everyone that is part of Gogoyoko.... Why not give it a try, what have we to lose!*

This is also a fast evolving market so new technology could change everything, the competition might change. There are a lot of x-factors associated with this business that ATMO needs to be aware of, this market changes fast and the staff need to be on their toes.

### **7.18 Typical day**

Gudni is an active investor for ATMO and adviser as well. Gudni keeps the staff in Iceland informed about any new developments in his region of the world; that is, Miami and Latin America. He also oversees an investor located in the Dominican Republic and keeps that investor informed.

Adalsteinn usually works between 9am until 6pm. His tasks are everything from answering emails to preparing or attending meetings. Then it is time to handle day to day management tasks so things can run smoothly. Each day is very different from the next so he never really knows what he will be doing until he is at the office. Adalsteinn said:

The service that we provide usually requires CEOs, owners or other persons at the top of the firm's hierarchy to take the decisions if they want to use our service or not. These are the groups of people we target.

Haukur who is the CEO of ATMO explains that he wears many different hats as this is a small company. He takes care of sales, talking to new and existing clients. He also needs to

train new employees and oversee different tracks and day-to-day running of this business. Mostly he needs to be in contact with people and constantly available if needed. Haukur will be stepping down as CEO soon.

### **7.19 Technology**

Adalsteinn said that streaming music or videos via the internet is a quite recent phenomenon. So this is a relatively new market and has been growing extremely fast in the past few years. That is because a few years ago the technology to stream music and video via the internet did not exist. ATMO provides a USB box that you simply connect to the internet and a sound system and then they can control the music from their headquarters. “The customer tells us what kind of genre he wants to hear and we provide that listening experience (Adalsteinn)”. From time to time ATMO changes the playlist or the customers ask them to change the genre/theme altogether. When going abroad, Gogoyoko has to make sure that all the staff are on board with this concept, therefore they need to ‘school’ or ‘re-program’ their staff.

Adalsteinn explains that by ‘reprogramming’ the staff Gogoyoko will show these people how the process works and how to manage the sale processes/tracks and what customers to target as well. This process takes place here in Iceland and usually takes a few days. ATMO has also been working on visualization in the form of screens with commercials and the company hopes to move into scent solutions soon.

### **7.20 Future prospects**

According to Adalsteinn the plan is to have branches in four to six countries in the next few months. ATMO will enter three countries by 2014 and three others in 2015. Adalsteinn feels optimistic about the growth potential of this business and said:

We want to have an operation in ten countries in the next three years. We still need to prove ourselves abroad as we did in Iceland.... After five years we should be in the eyesight of Mood Media and that could be our exit strategy if they [Mood Media] make us an offer.

ATMO also wants to continue developing screen and scent solutions and if the company is not taken over by Mood Media or via another form of acquisition, ATMO will continue to grow and perhaps they can enter the stock exchange in the next 7 to 10 years if things go well, according to Adalsteinn.

Haukur sees ATMO developing into a servicing company with different products for the purpose of enhancing customers' experience of doing business. These could be products from music to environmental spaces, anything really that could influence and improve customers' experience while doing their commerce.

When ATMO enters the Miami market it will probably be a subsidiary or franchisee according to Gudni. This will only happen after the company has proved itself successful in Europe as America is a completely different ball-park according to Gudni.



## 8 Interpretation

Interpretation is the last stage of the phenomenology method. All the 20 themes above will now be compartmentalized into 9 themes. These themes consist of: *culture, language, Latin America, and Europe*. The remainder of the themes: *Miami, obstacles, competition and experience* all have sub categories or sub themes.

### 8.1 Culture

All interviewees had strong opinion on how culture affects business. All of them mentioned how different it is to do business coming from Iceland in Europe or America. There is a lot of difference between Europe and America as well when it comes to doing business. All the interviewees mentioned that Europe is culturally closer to Iceland than America. In America things are more difficult and costly. Haukur explained:

Europe is closer to us in time and culture, [and] it is easier to set up business in Europe than in America because we know how things work in Europe. America has more x-factors and we need to be more careful there.

Gudni, on the other hand, claims that it is a lot easier to set up businesses in Florida than in Europe. He says that Florida is one of the best states to do business in America and it is more or less possible to get a company up and running overnight. This is not the case in Europe; in the UK, for example, this process can take months, he explained.

Gudni also talks about how different it is to do business in Latin America compared to Iceland, Europe and America. Doing business in Latin America is somewhat similar to Iceland when it comes to connections. Just like in Iceland when doing business in Latin America it is very important to know the right people, business is done through relationships in Latin America. This is the same model as in Iceland, business is usually done between friends and acquaintances; you know someone who knows someone. If you do not know the right people it is going to be very hard for you to do business in Iceland and the same applies to Latin America. Corruption is also a problem in Latin America; you sometimes have to be familiar with the system, who to pay off and be careful not to step on any toes.

Adalsteinn said there is a lot of cultural difference between America and Europe. America

is ahead of Europe when it comes to inventing and adapting to new technology such as customized music for businesses and retailers.

There is also a huge difference between Europe, America and Latin America with regard to culture. Europe seems to be closer to Iceland culturally than America, especially Latin America. Although there are some similarities between Iceland and Latin America when it comes to connecting with the right people, demographics and ways of life are very different. Things seem to be more expensive in America than in both Iceland and Europe, but setting up business there is easier than in Europe, according to the interviewees. There is usually a difference between the home country and the host country, and this can lead to information asymmetry. Information asymmetry is when one party has superior information over the other party. This can cause hazards emanating from misinformation and other problems while doing business (Erramilli & Rao, 1993) .

It is obvious that culture plays a huge part when it comes to entering new markets. Iceland is a small country with a small-scale market and it is not too tough to penetrate this market. Having good connections with the right people is a crucial factor. Who you know and what people you do business with is the Icelandic model in a nutshell, according to the interviewees. Because Iceland is so small, friendship and kinship plays a significant role when doing business in Iceland. When starting a business here, this friendship and kinship can go a long way, people are ready to try out your product, not so much because the product is essential for them or their businesses; often it is a favor to the seller. After that, if the customers like the product, they will continue to buy it. When doing business abroad this contact is usually not there and this makes initial introduction to your company or your product much harder. This is because when you enter the big world friendship or kinship is not as strong in these markets since they are so much larger than in Iceland. People are not ready to try out your product unless it is absolutely essential for their business. So if ATMO is going to make it abroad they will probably have to put more money and emphasis on marketing than they have done so far. They cannot rely on connections and word-of-mouth only. They already have some connections abroad but more are needed to be a successful company.

## **8.2 Language**

Some of the interviewees mention that Europe is closer to Iceland also when it comes to languages. Haukur mentioned Scandinavia, and how many Icelanders speak Scandinavian languages when doing business and that it is usually not that difficult to find Icelanders that speak Norwegian or other Scandinavian languages. People in Iceland also usually speak good English so that should not be a problem when doing business in the part of the world that uses English as their language or as their business language, claims Haukur.

As for Miami, the demographics are very different from the rest of the USA. Gudni mentioned that more than half the population of Miami has a different mother tongue than English, Spanish being the most widespread but there are also many Portuguese speakers from Brazil and French/Creole speakers from the Caribbean in this area of the world. Gudni said that with the past economic boom that took place in Brazil the importance of the Portuguese language is increasing fast as many Brazilians are buying real-estate and doing business in South Florida or moving to Miami. Gudni also said that finding Spanish or Portuguese speakers in Miami is very simple so if ATMO was to set up a subsidiary or franchise in Miami, finding Spanish speakers or Portuguese speakers for doing business down to Latin America should be easy, as Gudni explains:

It is really easy to get Spanish and Portuguese speaking people to deal with [our] business outside and within America. Brazilians now make up more than 300,000 in South Florida alone. This also makes it easy for people from Latin America to come to America [South Florida] to do business.

ATMO would probably need some affiliate, preferably a local person in Miami or Latin America who speaks English and Spanish/Portuguese when it comes to doing business in this area. They could also find an Icelandic person that they trust that would be an active investor or partner that speaks Spanish or Portuguese to handle business in this region, as the business grows.

## **8.3 Miami**

According to Adalsteinn and Haukur, the company has plans to go to Miami in the near future. After entering new markets in Europe the plan is to head for Miami with Latin America in sight as a potential new market. As mentioned before Spanish and Portuguese are widely spoken in this area so finding people that can speak and do business in Portuguese and Spanish located in Miami should not be a problem. Haukur said that Miami is very important for ATMO as:

The strategy of entering Miami is mostly because of its connection to Latin America... Gudni is located in Miami and has been dealing with hardware sales in this area for years... Gudni will be carrying out this project [ATMO moving into Latin America via Miami].

It makes sense to move slowly and gradually into Miami, testing the waters in Europe first before making any hasty moves into unknown territories. It will be interesting to see whether ATMO will have to partner up with a local firm in Miami. TCT can be helpful for ATMO here since it explores the cost that derives from finding and negotiating a deal with a partner from the host country. Companies should also be aware of behavioral uncertainty; that is, the cost that comes from trusting the host company and monitoring its performance (Hennart, 1988).

### **8.3.1 Demographics**

Gudni said that the demographics in Miami are quite different from the rest of Europe. Miami is one of the most international cities in the world. Almost half of its population is born outside of the US and speak a different language; most of them originate from Spanish speaking countries. Portuguese speakers are also on the rise which is something the company needs to pay attention to if they want to enter Brazil. Brazil is the biggest market in all of Latin America and has been and continues to grow at an exponential speed. Even though there are some signs that the Brazilian market is 'cooling down' now, it still remains an enormous and important global market. Due to Miami's location it is quite easy to cater into Latin America from South Florida. Miami is also culturally directed towards Latin America, while the rest of the US is more geared towards USA. You can find Latin influence everywhere in Miami everywhere, from old Cuban refugees playing dominos in Little Havana (one of Miami's neighborhoods) to trendy and expensive Peruvian high class restaurants on South Beach (Miami's biggest commercial area). These connections and more make Miami the official and unofficial capital of Latin America; it is really easy for people from Latin America to come to Miami and do business there.

Miami makes the perfect location to set up a business model to enter into Latin America. If ATMO wants to cater into Latin America they will need to set up a subsidiary or franchise in Miami. Miami is the perfect place to focus on Latin America since the transport to and from Miami is also highly developed as Gudni explained:

Compared to Europe it is extremely easy to set up business [in Florida]... here in Florida you can pretty much get a company up and running overnight... Miami is the most important city when it comes to Latin America business by a long shot... all businesses in Latin America like to do business from within Miami. Miami is a huge hub for transports of goods. Both through the airport and the harbor and it's only increasing now with the expansion of the Panama Canal and the enlargement of Miami harbor.... [Miami is] enlarging their harbor and building more infrastructures to deal with the change. More roads, warehouses etc. are also being built to accommodate all the increased traffic to include the city in and out.

As the examples above show, Miami is the most important city in the USA and in the world when it comes to doing business with Latin American countries. It is obvious why this city is dubbed the official capital of Latin America. The city has all the ingredients needed when it comes to doing business with this part of the world, culture, languages and location. If ATMO is really serious about trying to enter Latin America with their business model, Miami is definitely the place to set up a franchise or subsidiary. That way they could focus on Latin America from Miami and also build more credibility around their business by having an operation in the US. But since their competitors have not focused on this part of the world there is a window of opportunity now. ATMO will need to move fast though. If a company can perform tasks at a lower cost than the rival companies internalization will be ideal; otherwise the company will seek other businesses that have a comparative advantage (Erramilli & Rao, 1993). If ATMO can internalize their service at a lower cost than the competitors they have an internalization advantage.

#### **8.4 Latin America**

The interviewees mention that large Latin American companies usually have their headquarters in Miami since it is convenient and the city is geared towards Latin America. Miami is a bridge between Latin America and America in terms of culture, people, location and languages.

Entering Latin America is a highly important move for ATMO because of all the opportunities that lie in this territory. The population of Latin America is roughly twice the size of that of America but that does not tell the whole story. The demographics are very different from the US as these are developing countries with relatively low GDP compared to America and Europe.

When talking about the opportunities that are present in the Latin American markets

Gudni explains:

There are very large corporations in Latin America and huge opportunities to do business. At the moment this part of the world is experiencing one of the biggest growth [rates] in the world, and that is the reason why many international companies are focused on this market right now. Brazil has been experiencing explosive growth over the last decade or so. Colombia and Chile are experiencing huge growth as well. Also countries such as Ecuador and Venezuela have huge markets despite some political unrest.

The interviewees also mention that entering America is hard because ATMO's main competitor, Mood Media, has a strong foothold in America. Mood Media, however, is not as focused on Latin America. Mood Media does have two satellite offices in both Argentina and Brazil, though but their primary targets are the US and Europe.

It makes perfect sense for ATMO to focus on this market since it is almost an untapped territory. America is hard to enter because the Canadian giant, Mood Media, is simply too strong there. They hold the first mover advantage which means they were the first to enter this market and therefore customers and businesses are loyal to Mood Media (moodmedia.com, 2014). According to the interviewees Latin America does not seem to be of any big concern for Mood Media. This is probably because Latin America is a very different market than the those in America and Europe. The Latin American market has been experiencing growth and continues to do so. As their GDP rises, new niche markets will open up. This creates a good opportunity for ATMO to focus on and try to gain a foothold in Latin America ahead of the competition. ATMO already has a connection in Miami through Gudni and Adalsteinn also used to live there. Thus both of them have knowledge of how things work in this part of the world. They should be well aware of the difference of doing business in Latin America, compared to rest of Europe and America. Gudni explains:

It is quite different doing business in Latin America versus Scandinavia, you need to be a lot more careful when doing business in Latin America. Take good care when it comes to whom you do business with and trusting people with payments and such. You can lose a lot of money quickly in Latin America if you are not careful. It is much riskier to do business in Latin America than [for example] Scandinavia, because a lot of business is done in a 'grey area'.

Although Gudni explained that there are some similarities between the way business is done in Latin America and Iceland; for example the importance of knowing the right people and having the right connections, those two business environments are basically very

different. It is definitely risky doing business in this part of the world, according to Gudni, and people can lose a lot of money quickly. The reason why it is so risky to do business in Latin America probably has a lot to do with lack of property rights; a situation that dates back to the 19<sup>th</sup> and 20<sup>th</sup> century when European immigrants started to flock to Latin America (Tickner & Blaney, 2012). This is of course something that ATMO needs to be aware of when doing business in this part of the world. Murray and Kotabe claim that Transaction Cost Theory is in favor of full-control modes of entry for example a wholly owned subsidiary when markets are volatile and prone to high risk potentials as is the case with Latin American markets (Murray & Kotabe, 1999). ATMO intends to take this path and go for a franchise or subsidiary.

## **8.5 Europe**

There is of course a contrast between Europe and America just as there are many differences between Latin America and America. Europe is closer to Iceland in terms of physical distance as well as cultural distance. Iceland is a close partner of the EU through the EEA agreement and is partner to the four freedoms. This means free movement of capital, goods, services and people within European borders (Einarsson, 2003). Such an environment of course makes it a lot easier for Iceland to both set up and conduct business in Europe than in America or Latin America.

Haukur explains:

Europe is closer to us in time and culture; it is easier to set up business in Europe than in America because we know how things work in Europe. America has more x-factors and we need to be more careful there.

This agrees with what has been said before about cultural and physical distance when it comes to Europe. Europe is simply a more attainable goal for someone wanting to start a new business abroad compared to America or Latin America. As Gudni pointed out it is riskier to do business in Latin America and America (political corruption) than in Europe. He explains that when doing business in Scandinavia things are done by the book. You can pretty much guarantee that all payments and obligations will be met when doing business in these countries. This is a guarantee that firms cannot take for granted when doing business in this part of the world, especially in Latin America. But conducting business in the US can sometime be easier than for example in the UK where it can take months to set up business,

a process that takes much less time in the US, according to Gudni. According to Institutional Theory the business environment is the most important factor when entering foreign countries for commercial purposes. If taxes and corruption are low firms will favor that particular market. (K. D. Brouthers & Hennart, 2007).

It seems considerably easier and less hazardous to do business in Europe from Iceland than in the Americas. What probably plays the biggest part is that Europe is closer to Iceland in terms of both cultural and physical distance. It also helps to be part of the EU's inner market and Schengen area which makes it easy for Icelanders to move freely between countries or set up business there. Iceland enjoys more connections with Europe culturally, politically and in terms of distance and time than with America.

## **8.6 Iceland**

ATMO is an Icelandic company which at the moment has only experienced doing business here in Iceland. But if the company wants to grow, they have to try their luck abroad because the market here is so small that growth potential is limited. Adalsteinn, for example, said that when planning to conduct business abroad Iceland can be a good place to test the water. Gogoyoko has business experience and has established a large network of connections which has helped the company to be successful here in Iceland. Adalsteinn explains:

Iceland is a good test market for start-ups. The start-ups begin in Iceland and if it is a success here they can try to make it abroad. Networking is usually quite easy and smooth in Iceland and has been absolutely vital for Gogoyoko's success in the past. The profit here is limited because the market is so small. Icelandic companies struggle making big profit and raising big capital [since the Icelandic market is smaller].

Just as Adalsteinn points out Iceland can be a good test market; you can introduce the product with less cost and fewer complications than is the case with bigger markets abroad. It is quite smart to initiate a company here in Iceland with relatively small cost and see how it turns out. If it works here, it probably feels reasonably safe and about time to try your luck elsewhere. This is what ATMO's strategy is at the moment. They have already proven themselves successful in Iceland and now it is time to go abroad with the same concept that has turned out to be quite successful here in Iceland.



Haukur said that when setting up business in Iceland it is very important to have a clear vision. You need to know where you are right now and where you are heading. Haukur has the experience of setting up business and seeing it through, so now it is time to go overseas and see whether the company will succeed there. ATMO needs to be careful, however, not to overestimate their success rate in Iceland. It is not merely a matter of simple mathematics. Although the company has enjoyed success in Iceland, there is no guarantee that it will be successful abroad. The company cannot expect the same accomplishments abroad by simply applying the same methods as in Iceland. ATMO's ownership advantage is perhaps not a hindrance when going abroad. Ownership advantage relates to the company's intangible assets e.g., patents, licenses and experience that is hard to move across borders (Erramilli, Agarwal, & Kim, 1997).

## **8.7 Obstacles**

The interviewees all referred to the currency restrictions as the biggest obstacle that the company faces, especially when doing business abroad. The hard work and time that goes into applying for exemptions from the strict rules imposed by the central bank to uphold the currency restrictions can be quite debilitating for a small company in the midst of entering foreign markets. Haukur explains how the currency restrictions work for a company like ATMO that wants to do business abroad:

All business done overseas needs to be approved ahead of time by the special economic committee of the Central Bank. It is a must to get a green light [from the Central Bank] and therefore license to operate and manage foreign capital... [These] unhealthy economic factors dampen the flow of business... decisions have to go through the Special Economic Committee headed by the Icelandic Central Bank. This is both a costly and time-consuming process. Everything that has to do with capital and the product itself has to be managed in consultation with the Special Economic Committee. This makes business so much harder than before.

Judging from what Haukur said about the capital/currency restrictions it is quite obvious that the present situation is a big problem with regard to conducting business abroad. The currency restrictions have been in place since 2008 and now there is some talk about lifting them. The finance minister has appointed foreign advisers and held talks with the IMF for the purpose of abolishing the restrictions, but at the moment there is no obvious solution in sight. The question also remains what consequences lifting the currency restrictions will

have on the economy. It is a heavy burden to have this problem looming over start-ups (and everyone else for that matter) when it comes to foreign investment to and from Iceland (Duxbury, 2014).

Adalsteinn and Gudni both agree with Haukur on the subject of currency restrictions. Haukur claims these are among the biggest obstacles to business startups, as the process of asking for exemptions from current laws is both expensive and time-consuming. Gudni explained how first of all the Icelandic market is very small and when you add a weak fluctuating currency and currency restrictions to the mix the encouragement for big corporations to initiate business in Iceland is very limited. Adalsteinn said it is not only expensive to hire professional people (lawyers and accountants) to take care of the process of filling in the paperwork, but it is also difficult to deal with the uncertainty of waiting for a go-ahead from the Central Bank that usually takes months.

It will be interesting to see what the present government will do when it comes to dealing with the currency restrictions. They have plans to abolish these restrictions soon, but it is hard to see what consequences this move will have – it could easily threaten economic stability in the country. (Duxbury, 2014).

### **8.7.1 The Krona**

The interviewees do not agree whether the Icelandic krona is an obstacle or whether it can be beneficial. Gudni, for example, does not see many positive aspects about the Icelandic krona:

The fluctuation when it comes to the krona is way too much; it makes it very hard to plan ahead when it comes to doing business... nobody wants to do business in Icelandic Kronas... it [the Krona] might be beneficial to a few individuals, but in terms of the great good it is very damaging when it comes to doing business.

Gudni, who lives abroad and has done so for more than ten years, sees the krona as a bad thing when it comes to business. The uncertainty with respect to planning ahead and constantly having to change the currency for a bigger one makes business more difficult in an already small and fragile economy.

Both Adalsteinn and Haukur see the krona as a problem but they can see some benefits to it as well. Adalsteinn, for example, explains that having the krona can be both a good thing and a bad thing. The bad thing is of course that it is quite difficult to plan ahead because of the fluctuations and the uncertainty that looms over the krona. As for the good things he mentioned that since the value of the krona is quite low it can be beneficial to have revenues in euros and pay salaries in Icelandic kronas. Haukur agrees with these arguments as well. He mentions that they have to beware of all kinds of errors when dealing with two different currencies. It can be a handful to constantly be doing calculations when working with two different currencies especially one that can fluctuate quite rapidly. This is all quite subjective; that is, the krona can be a good thing and a bad thing it all depends on how you look at it.

Judging from what the interviewees say about the Icelandic krona there are some benefits and disadvantages about having a small independent currency. The most obvious disadvantages are that you have to be constantly comparing currency rates and when you buy or sell something abroad the value can change from the date of the transactions to the actual delivery day, depending on the fluctuations of the currency. Although there are some benefits to this, as the interviewees mentioned, such as having revenues in euros and paying salaries in kronas (strong euro vs. weak krona) this is mostly a source of annoyance, making it hard to plan ahead because of all the uncertainty involving this situation. Stability is a crucial factor for businesses when planning ahead and receiving payments. This stability is not to be found when using the Icelandic krona. I think most people would agree that a more permanent solution to the country's currency problem needs to be found. High transaction cost is one of the downsides that arise with operating in an environment characterized by high institutional uncertainty (Ahsan & Musteen, 2011)

## 8.8 Competition

When questioning the interviewees about the competition it seems that ATMO is the only company of its kind in Iceland. ATMO is the only company in Iceland that provides customized music to businesses and changes the playlist from time to time when companies have monthly subscription. No other business in Iceland provides this kind of service. That does not indicate absence of competition, however. The competition that ATMO faces in Iceland is mostly of the indirect kind such as freelance work by DJs that create playlists for retails and other such businesses. Other indirect sources of competition to ATMO worth mentioning are radio stations and internet radios such as Spotify, YouTube, groovespark and other such applications. As for the service provided by DJs, they do create a customized service but they usually do not update the playlist they create unless they are paid again. The applications mentioned above are not customized service either, and the owners of the retail and businesses will have to create their own playlists. Spotify for example is only meant for private use and not for public listening (spotify.com, 2014). When retails and businesses subscribe to ATMO the company will update their playlist on a regular basis and the customers can also ask for a different genre from time to time. Or as Adalsteinn explains:

ATMO takes care of the hustle and bustle of constantly worrying about what music is being played at the stores. ATMO has studied each business for itself and knows what suits what business and when. It is a customized service that will enhance the customer's experience of doing business in whatever retail, restaurant/bar, hotel or business that requires music being played in the background.

This not only outsources the problem of what music to play for retailers but also streamlines the music and genre being played when it comes to franchises. For example, if a popular supermarket in Iceland has many locations it can reflect badly on their reputation if there is a different kind of genre being played from one store to another. It can also be quite embarrassing for this same store to simply use a radio station as their source of music choice or as one store owner put it "I do not want my customers to hear commercials from my rivals on the radio when they are shopping at my store". This is perhaps a more important service than many retail owners realize. Creating a comfortable atmosphere for the customers could increase sales and enhance the reputation of that particular business in return for a relatively inexpensive monthly subscription.

### **8.8.1 Global competition**

Although there is no direct competition to ATMO in Iceland, significant competition exists abroad. It is apparent that the interviewees have put a lot of work into mapping out their competition abroad. There is indirect competition such as internet radios and DJs abroad to be found similar to the indirect completion here in Iceland. But abroad there is also direct competition which provides a similar service to ATMO. Such companies include Clear Channel and Real Networks. But there is one name that constantly comes up again and again when interviewing the interviewees at ATMO and that is Mood Media. Or as Gudni describes it:

The big bush in a small forest is [the Canadian company] Mood Media. Mood Media is the only giant corporation in a field that is still small and has a lot of growth potential. Mood Media is huge in America but there are also opportunities that lie within them being so big... Basically their growth model is via acquisition... Mood Media have two offices in Latin America... these are satellite offices that indicate to us how strong they are, but since it is only satellite offices it is also an indicator that they are not very focused on that part of the world.

Mood Media not only provide audio solutions to their customers as ATMO does, but they also provide visual, multimedia and scent solutions to a diverse range of clients (including specialty retailers, department stores, supermarkets, financial institutions, and fitness clubs). Thus it is obvious that Mood Media are far ahead of ATMO at the moment, while ATMO only currently provides the audio solution, Mood Media provides the whole package. Mood Media can create the whole ambience in the store they are working with, not merely audio and visual but even the scents. It will be hard for ATMO to compete with this company at the moment. Thus, they might be better off focusing on smaller clients that are not concerned with the whole ambience but only the musical aspect.

## **8.9 Experience**

The three interviewees all have vast experience when it comes to doing business. Haukur is one of the founders of Gogoyoko back in 2007 and has been part of the company ever since, both as a key figure and also simply as a member of the board of directors and is now CEO for the time being until a new CEO who has extensive experience in the field of video games takes over as of June 2014.

Gudni is an active investor and also an adviser. He has been part of the company since the

beginning when the it started to rebrand itself. Gudni's experience is mostly in hardware where he has been doing business from Miami, mainly with Latin American countries. Gudni has been based in Miami for over ten years now so he will be overseeing ATMO's entry mode to this part of the world. As mentioned above, he has mostly worked with hardware, but will be moving into software as well from now on. This kind of international experience, which requires knowledge about the geographical regions, also has to be backed up by network relationships. This scenario offers a good opportunity for equity control; that is to say, moving from non-equity to equity investments (Anderson & Gatignon, 1986) (Pinho, 2007).

Adalsteinn worked in a bank upon finishing his bachelor's degree in business and also lived in Miami for a short period where he studied corporate finance at Florida International University. He has been working as CFO for Gogoyoko for over a year now. He also has been keen to start entering different markets abroad and knows the business environment in Miami and its potential.

All these individuals are thoroughly familiar with business; they have been working in Iceland with considerable success most of their lives and know the market inside out. Gudni has spent most of his adult life living abroad in Miami and doing business in Latin America. He is, therefore, a vital source of information for ATMO when the company starts its entry mode into Latin America via Miami. This is a startup and even though these men know the Icelandic market quite well there is no guarantee how things will turn out once they try their luck abroad. They have already put in countless hours estimating the risks and the success potential of starting this business abroad, so they should be well prepared to meet most of the challenges that face them.

### **8.9.1 The company**

The company started in 2007 as a business to customer model (B2C) and is now rebranding itself as business to business model (B2B). In the process Gogoyoko has changed its name to ATMO and is now focused on a business to business model (B2B). They no longer work as an online label company for artists that want to distribute their music in a cheap and simple way. Now the company's focus is on other businesses which they provide with playlists suited to please most of their clientele or play the genre a particular retailer or business is

looking for. ATMO is the only company focused on this niche market in Iceland and the only competition is indirect competition. Indirect competition could be everything from internet radios to the store owners making their own playlist. The company is convinced that their product is vital to ensure customer satisfaction and could easily stimulate growth rates for retailers, since a happy customer is likely to spend more time and money at the place of business where he/she feels comfortable.

The company has been successful demonstrating the importance of having music in the background suited to the retail or businesses that serve people in one way or the other. This makes perfect sense, for example when people go to a tranquil café they usually want soothing music, not heavy metal, and when people go to the gym they want the music to motivate them not to calm them down. There is definitely a market for this here in Iceland as they have already proven, but since this is a small market it is now time to try their luck abroad if they want to grow and make more capital. Barney explained the Research-Based View that in order to maintain sustainability, a company must exist of competitive advantages that are valuable, unique and rare (Barney, 1991). ATMO has these competitive advantages at the moment, but they will need to move quickly.

### **8.9.2 The Future**

The company is now in the process of starting to sell their products abroad. They are going to start with Europe and if that is a success they will move to America and target Latin America via Miami. Or as Adalsteinn explains:

ATMO will have branches in 4-6 countries to begin with. The 3-5 year plan is to open branches in three countries by 2014 and three others in 2015. We [ATMO] want to have operations in ten countries in the next three years. We still need to prove ourselves abroad like we did in Iceland. Hopefully we can grow into a big company.

This is an ambitious plan that ATMO is in the midst of preparing. If this three to five year plan is a success they can build on that and expand even further or start thinking of an exit strategy and cash in on their earnings. As Adalsteinn and Gudni explained ATMO's biggest global competition is Mood Media, a company known for highly aggressive acquisition methods, where they buy up all the competition that they feel is a threat to their success. This could easily be the destiny of ATMO if they turn out to be successful abroad.

Gudni wants to see ATMO focus on Europe and build success there before moving to America, Europe is closer to Iceland in similarities so it is probably easier to enter this market than the American one. If successful in Europe, there is nothing stopping ATMO from entering Miami with Latin America as their focus point. At this point ATMO would probably open up a franchise or subsidiary. Brouther explains that companies that want to enter foreign markets usually favor joint ventures when the transaction cost is great and full control like franchising or subsidiaries when the transaction cost is low (K. D. Brouthers, 2002). According to research, MNEs prefer joint ventures when the cost of transaction is low and full control when the transaction cost is high

Haukur wants to see ATMO transferred into a servicing company with different products not just music. Everything from music to scent and environmental space and more. This is an ambitious plan and there is definitely a market out there for exactly this kind of service. In addition, this is a new market idea so they could be on to something here.



## 9 Results

Now that we have gone through the three stages of methodology: description, reduction and interpretation it is time to present the key summary of the results.

When the interviewees were asked how the company had fared so far in the Icelandic market they all agreed that the company had been successful. It has gone through a lot of changes since it was first founded back in 2007 and has developed from being a business to customer service (B2C) to a business to business service (B2B). The interviewees all see the Icelandic market more as a test market rather than final stage, and they agree that to increase the company's revenue ATMO needs to go overseas. Since the company has succeeded at home it should be possible to replicate that success model abroad, but there is absolutely no guarantee this will happen. Here is where TCT can be of considerable help since it explains how firms can use governance structure to minimize the cost that follows the inefficiencies associated with entering foreign markets (Canabal & White, 2008).

When asked about the Icelandic krona, the interviewees all agreed it was a big gamble to have the krona and it created uncertainty that is usually bad for business and makes all future calculations more difficult. This uncertainty obviously makes it very hard to run a business, especially if that business is dependent on foreign investment. Some of the interviewees could see an upside to this situation though, for example if the company has its revenue in euros and the Icelandic currency is weak it can be beneficial to pay the staff in krona. Gudni, on the other hand, saw nothing good about the krona and said it only made the Icelandic market less attractive, especially to foreign companies.

All the interviewees agreed that the currency restrictions were their biggest problem when doing business abroad. They said that the lengthy and costly process of presenting their business model to the central bank in order to get exemptions from the currency restrictions took a toll on the business. All the interviewees claimed that this process, with all its uncertainties, that sometime took months, was a great strain on the company. This is bad news in a business environment where things often need to happen quickly in order to stay ahead of the game. Constantly bringing in outside help such as lawyers and accountants

to fill in applications for the exemptions is a costly process, especially for a small company like ATMO. This is line with what TCT says about uncertainty. The greater the uncertainties (environmental, behavioral and asset specificity), the higher the transaction cost will be (Williamson, 1985).

All the interviewees had long experience in the job market and some had worked and sold goods abroad. Gudni was the only one with experience of living and doing business abroad. Although Adalsteinn had lived and studied abroad, he did not have the experience of actually working in a foreign country. All the interviewees had vast experience when it came to doing business; Gudni in America and Haukur and Adalsteinn mostly domestically. Haukur, however, was one of the founders of Gogoyoko and has long experience of running a company and making deals abroad. All the interviewees agreed that going abroad was vital for further success of the company, since the Icelandic market is so small it is almost fully exploited already. International experience alone is not enough, however. It needs to be backed up with an understanding of the geographic region concerned and network relations (Pincho, 2007).

It seems that doing business in Europe is easier for Icelandic companies because Europe is closer to Iceland, not only in terms of time difference and actual distance but also because of less cultural differences compared to America. Iceland enjoys a close relationship with the EU as a member of the EEA and Schengen, making it easier to travel across borders and set up businesses in Europe than it is in America. On the other hand, it is quite easy to set up business for example in Florida because of its business-friendly environment, low taxes and relaxed regulations, while it can take months, for example, in the UK. When doing business in Scandinavia people usually speak Norwegian or another Scandinavian language which usually not a problem for Icelanders. As for America, most people that do business abroad from Iceland speak English but when it comes to entering South America it can be harder to find someone that speaks Spanish or Portuguese in Iceland. Institutional theory claims that firms choose countries based on their environment; if a country, for example, has low taxes and low corruption the firm will be likely to choose that country when setting up business overseas. (Brouthers & Hennart, 2007). According to Institutional theory it makes perfect sense for ATMO to open up a branch or a franchise in Florida because of low taxes and low corruption.

There is no direct competition to Gogoyoko in Iceland, but a lot of indirect competition, for example, DJs creating playlists for shops and other retailers or store owners compiling their own playlists often with the help of internet radios. As for global competition, it is well worth mentioning Mood Media even though there are a few other smaller players out there. This company is head and shoulders above any other competition in this brand of business. The interviewees mentioned that there are opportunities to be found in the fact that Mood Media is so large. ATMO can set up a different business model or target markets where Mood Media is not as strong, especially in Latin America.

The company has changed to a significant extent since late 2007 when it was founded. It is in the process of rebranding itself and is now focusing on business to business away from business to customer as it used to stand for as mentioned before. The music market has changed very rapidly since 2007 with expanding resources to play music online. This has made the market very competitive and it has been hard to compete with all the internet radios and other sources that have sprung up in recent months and years. These developments have forced ATMO to rethink its strategy and rebrand and reinvent itself as a different company than before. ATMO is now a service company focused on enhancing the customers' experience while they are conducting business in shops, bars, restaurants, gyms or any other retail that might require ATMO's service.

Their search of finding new and untapped markets has forced the staff at ATMO to think outside the box. This has led ATMO to focus on Miami and Latin America in general as a potential source of new revenues. As Mood Media, their biggest competitor, is strong in America and is also gaining a stronger foothold in Europe, ATMO sees opportunities in entering Latin America via Miami. Miami is the official/unofficial capital of Latin America and having an active investor and adviser operating there is a huge asset for the company. Since Gudni is located in Miami and has extensive experience of doing business with Latin America this could be exactly what the company needs. As Mood Media is not particularly focused on this area there are opportunities to be found in Latin America and setting up a subsidiary in Miami could be the answer that ATMO is looking for in their quest of entering different unexplored markets (Puck et al., 2009).

Europe is closer to Iceland in time, distance and cultural distance than America and Latin

America. Gogoyoko have already started to enter European markets through Germany, Norway, Belgium, Luxembourg and the Netherlands. They already have people located there who are about to start the process of selling their products in the next few months. It is easier to enter Europe than the Americas, not only because Iceland is already part of the EU's inner market, but also because the ties between Europe and Iceland are stronger than Iceland's links with the Americas. Thus, replicating the successful Icelandic business model in Europe should be less of a risk, according to the interviewees, and less costly as well than entering American markets or Latin American markets. Also, European demographics are quite different from those in the Americas, a fact that ATMO is fully aware of. According to Agarwal et al., there are always potential threats such as an unstable legal, economic and political system that create uncertainty and firms need to bear this in mind when entering foreign markets (Agarwal and Ramaswani, 1992).

All employees based abroad need to go through the same process when preparing to sell the product in a third country. To begin with the company will have a few sales representatives based in each target country. The process is that a group of 2-5 people will set up the ATMO service in the territory that they are located in. Then the owners of ATMO will have to oversee the process of 'reprogramming' these people. 'Re-programming' in this sense means to explain the tracks and how the product works so they can sell and introduce it to future buyers.

The company's short term goal is to set up branches in the next few months in 4 to 6 countries in Europe. ATMO's plan to have operations in at least 10 countries in the next three years also includes running an operation in Miami to cater into Latin America. If this plan turns out to be successful ATMO sees it as being in the eyesight of Mood Media and if they make an offer via acquisition that could be ATMO's exit strategy. If not, the company will continue to grow and hopefully eventually enter the stock market in the future. During this period the company will continue to develop their product and extend their business. To do this the company not only needs international experience but a network of relationships (Pinho, 2007).

## 10 Discussion

Phenomenological method was used in this research. The researcher felt by using this method he could gain an in-depth look at both the company and its strategy to enter foreign markets, especially Latin America via Miami. The researcher felt he managed to establish trust and understanding among his interviewees who were willing to answer all the questions and provide further data if needed.

By applying qualitative research method it is possible to gain a deeper understanding of the subject. The researcher felt that he was able to put himself in the shoes of the interviewees and catch a glimpse of how it felt to initiate a startup company in Iceland under the present circumstances. It was also a highly rewarding way to explore a company that is about to enter foreign markets in their quest to increase their revenues and hopefully grow into strong company with much of its operations overseas. This would not have been possible without using phenomenological method.

When exploring possible entry mode options the researcher studied some of the famous paradigms of entry mode theory. Transaction cost theory played the main role as it does a good job explaining how firms need a governance structure to minimize the cost that follows when entering and operating in a foreign country. Other major paradigms include the resource-based view, institutional theory and OLI-theory.

It is the researcher's belief that this thesis contributes to entry mode research. When entering a new territory Miami can easily work as a hub when companies are thinking about catering down to Latin America. This research is also a significant document about ATMO which it will be interesting study in a few years to see how the company fared. It is the hope of this researcher that this thesis can be helpful to others who are thinking about entering foreign markets.

## **11 Limitations**

What can be considered a limitation is that the researcher only interviewed three people that all worked at the same company. But it is important to keep in mind that this is a somewhat narrow subject, so finding a company that is about to attempt entering Latin America via Miami is not easy, especially in Iceland. The researcher could have looked further into prior research about this topic and used such sources to a greater extent as a reference point than has been done here.

Among other limitations worth mentioning it should be mentioned that the company under research was still in the process of entering foreign markets. So it is an unsettled matter whether this will turn out to be successful or not. It is also a possibility that they will simply abandon their plan all together.

It was quite hard to find other companies to research that were undergoing the same process as ATMO. It is, however, the belief of this researcher that this company served this research quite well as they are in the process of entering foreign markets and eventually plan to reach Latin America via Miami.

## 12 Conclusion

After researching different entry modes and taking a closer look at Florida and Miami with the connection to Latin America in mind, it is safe to say that Miami can easily work as a link to Latin America when conducting business there. Miami enjoys close ties with Latin America on so many levels that it is probably the one of the best locations - if not the best - to focus on when looking for a place to set up headquarters to cater into Latin America. What also makes Florida an attractive place to set up business is the fact that the business environment there is very favorable. Florida not only enjoys low taxes and low corruption; it is also relatively easy to set up business there compared to the rest of the world. According to Institutional theory Florida has the perfect environment to set up a business abroad.

It is impossible to say whether ATMO will succeed in their quest of growing into a large international company. ATMO does possess a unique product that has a competitive advantage and is also rare. This gives them a good headstart over their competition. Nevertheless, there is considerable uncertainty in this business and technology changes happen at the speed of light. This company has proven itself to be a success in Iceland. However, the market in Iceland is so small that in order for them to really succeed they need to go abroad. ATMO needs to keep in mind all the competition out there; for example a huge player called Mood Media that already has a stronghold on this market. They dominate the market in America and they are also moving into Europe and Latin America. This does not have to be threat to ATMO since every business needs competition. ATMO could sell their product cheaper or gain advantage in other fields. The staff has experience of doing business both domestically and internationally; they have knowledge of the region they are about to enter and also good networks there. These factors will help when it comes to seeing this transition through. It will be interesting to see whether Miami will be the perfect hub to cater down to Latin America or whether the company will take a different course.

When considering the cost and benefits of entering a foreign market, Transaction Cost Theory can really be of importance. TCT can be used to weigh in the benefit and the cost of entering a foreign country. It can be helpful when it comes to making decisions as to what entry mode to choose. Should it be FDI, licensing, export mode, joint venture or owned

subsidiary? TCT can make a practical contribution when it comes to these decisions. The Research-based view, Institutional theory and Dunning's eclectic can also be of significant help with regard to decision-making decisions before going abroad.



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# **Appendix**

## **Interview framework**

1. What does Gokoyoko stand for? (business model, description, thoughts, feelings, sensations and facts)
2. Briefly describe your experience at Gokoyoko? (Thoughts, feelings, memory, ups and downs etc)
3. Does the company plan to enter other markets? (thoughts, experience, feelings, plans)
4. Tell me about the Miami/Latin American project? Feelings, plans, expectations, affiliates etc)
5. What are the biggest obstacles when it comes to enter foreign markets? (thoughts, feelings, experience etc)
6. Is there a difference between entering European Markets (i.e. Norway) or American one? (thoughts, feelings, experience)
7. Do you see the Icelandic krona and the currency restriction as a big problem for your company when it comes to entering foreign markets? (how so, feelings, thoughts, experience)
8. How would you describe the Icelandic business environment in terms of starting a business in Iceland (politics, laws, taxes etc)? (thoughts, feelings, experience)
9. Tell me about the competition (both in Iceland and abroad)? (experience, thoughts, feelings, facts etc)
10. Where do you see Gokoyoko in the future? (5-10 years from now)