Virtual Office as an E- based Mode of Entry to Foreign Markets Suitable for Small and Medium-sized companies from Central Europe

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Introduction

This paper is based on my previous research that I conducted in my dissertation and that analyzed the possible usage of modern forms of marketing communications and their influence on the competitiveness of small and medium companies. In my dissertation I identified that virtual office could be one of the tools of marketing communication that can contribute to the international competitiveness of small and medium companies. Simultaneously this paper is based on previous research conducted by my colleagues from the University of Economics, Prague[1] that showed specific competitive disadvantages of small and medium Czech companies (such as lack of own capital resources and lack of marketing knowledge and experience) that make it difficult for those companies to enter successfully foreign markets. Virtual offices could help the companies to overcome those disadvantages.

Virtual offices represent a relatively young marketing tool not only in Central Europe, but worldwide. Their successful use in business is connected with the development of modern communication technologies (especially the development of Internet-based technologies) and with the freedom of establishment on the Single European market. This marketing tool can quite easily be used by small and medium-sized companies which usually do not have sufficient capital resources for a direct entry into foreign markets. Usage of this marketing tool therefore opens new possibilities for SMEs in Central Europe to enter foreign markets.

Despite its evident advantages for small and medium-sized companies, this marketing tool attracted little interest from marketing researchers. For this reason, this paper and analysis will be based partly on the review of Czech and international literature. The analysis will therefore be based on Internet sources, practical knowledge of the author and empirical field research conducted in business centers in the Czech Republic and Germany as well as on interviews with managers of companies that used this marketing tool in their businesses.

The purpose of this paper is to summarize at least basic information about the possible usage of virtual offices in international marketing, and to show concrete examples of

[1] Hronová, S., Hindls, R.: Vstup do EU pohledem manažerů malých a středních podniků, In: Připravenost českých podnikatelských subjektů na členství v Evropské Unii, Praha: VŠE Praha 2004, ISBN: 80-245-0724-2

small and medium-sized companies from the Czech Republic and Slovakia that used this tool in their business activities. The paper includes two short case studies of one Czech and one Slovak company that used virtual office as marketing tool supporting their entry into the German market. One of these companies entered the German market successfully while the other one did not succeed. But both case studies will primarily show the possible benefits that virtual offices could bring to the company (both companies had different reasons and goal of market entry) and will summarize the total costs of entering the market.

Virtual office as a marketing tool

Virtual office, from the point of view of the international marketing, represents a specific form of direct capital-intensive mode of market entry and a specific way of representation of the company abroad. Foreign representation of the company is usually used to build distribution channels on the foreign market, to observe the foreign market or to conduct a marketing research there.

However, a direct presence of the company on the foreign market brings to the mother company also benefits in terms of marketing communication, such as easier and faster communication with foreign customers, improved image and goodwill of the company, as well as the possibility of using the “domestic passport” for the company, its products or services. The virtual office can therefore also be considered as a tool of marketing communication.

The mere existence of the foreign representation helps to fulfill one of the most important objectives of marketing communication: better perception of the company from its target group.

Another important aspect of the foreign representation’s existence is an easier communication with foreign market, as it is no longer necessary to use different intermediaries in communication. Foreign representation therefore offers an important public relations tool on the foreign market, as well as a tool of personal selling.

Virtual office is a specific form of foreign representation of a company that can be operated, thanks to the use of modern IT-technologies, without actual presence of the company’s managers and employees on the foreign market and without having any offices there. This significantly lowers the costs of such foreign representation, as opposed to those of a standard representation, while the main advantages for the company remain the same. That is why this marketing tool is suitable for small and medium-sized companies which would not otherwise be able to finance and run a standard foreign representation.

Virtual offices are operated mostly by so called business centers that possess necessary technical equipment and educated personnel. The main principle of business centers´ operation is that they run foreign representations for dozens of companies simultaneously, so that the companies share their costs, from the cost of technical equipment (furniture, reception, telephone and Internet access etc.) and personal costs (secretary service and call- center) to the costs of common marketing communications. The following example of Business Center Regensburg, Germany, will demonstrate the principles of business center operation. This business center will be used as an example because both companies that will be analyzed later used its services upon entering the German market.

Example: Business Center Regensburg- Operator of Virtual Offices in Germany

Business Center Regensburg operates business center in Regensburg, Germany, Bavaria. It has been offering its services since 1995. The company is situated in a modern business district with attractive location providing a good accessibility from the city center, and thanks to motorway its is easily accessible also from other parts of Germany as well as from neighboring countries, the Czech Republic and Austria.

Currently the service of Business Center Regensburg is used by more than 130 companies from different countries, including Switzerland, Austria, USA, the Czech Republic and Slovakia. Customers can use 22 fully equipped offices and a meeting room for 20 persons, equipped with all presentation technique and an entrance hall with reception. Back office services are handled for all of the companies by only four secretaries whose working time is organized in such a way that the full service is provided every working day from 8 till 18 o'clock. The back office possesses all necessary equipment, such as a central call exchange able to answer multiple phone calls, a copier, a fax machine and Internet access. It is also able to receive their clients' mail and to answer their phone calls using greetings that the member companies defined. Thanks to the IT technologies the caller cannot realize that he/she is calling to a virtual office, instead he/she has the feeling that he/she speaks with real back- office of the company. Phone calls are either forwarded to external phone numbers or a message is taken and forwarded per e-mail, SMS or fax to the recipient. Hence, the entrepreneur is able to operate his business or travel while remaining reachable for his customers and business partners. The costs for using the rooms in the business center are calculated on hourly basis, so that the company pays just for the real time for which the rooms were used.

The services of the business center can basically be used in two different ways: either an equipped office with the shared back- office services can be rented by a company, or the company places only a "virtual office" to the business center, and uses the shared back- office services and lease offices or meeting rooms just for the period of time when they are actually needed.

The monthly costs of such services amount to only 98 Euro, the additional services, such as phone calls, lease of rooms, fax messages, copies etc., are charged according to their real use. That is why the services of Business Center Regensburg are mostly used by small and medium-sized entrepreneurs and companies, which need to stay in contact with their customers, once in a while need rooms for personal meetings, but the costs of equipped self- run office would be too high for them.

Source: http://www.bc-regensburg.de and personal interviews of the author with the owner of Business Center Regensburg GmbH Mr. Wolf Dieter Schießl

This example proved the high potential savings of a company which decides to use the virtual office. Altogether only four secretaries, one copier and 22 offices are used by more than 130 companies. Thanks to the developed IT technologies the member companies have in every moment the same level of control over the activities of their representations as if those would be run directly by the employees of the company.

The following short case studies show concrete examples of usage of virtual offices in foreign market entry strategy.

Case study 1: Czech Producer of Wiring Systems

This case study deals with a Czech producer of wiring systems for B2B customers. The company has a long tradition which dates back to the beginning of the 20th century. Since the nineties the company has exported its products to many mainly eastern European markets. On some eastern European markets fully owned subsidiaries were established, while the German market was served indirectly through wholesalers.

The company's managers were not satisfied with this model of operating on the German market and were considering possible ways of operating more intensively and effectively on this key market. A good opportunity to change the strategy appeared when one of the company's key distributors announced financial problems. All of a sudden the company had a chance to overtake this distributor, his existing brand and distribution channels, and also to close the existing distribution channels to competitors, and thus strengthen its own position on the market.

For the abovementioned reasons the company had an eminent interest to overtake the distributor, however at the same time the members of the board feared that an immediate takeover of the distributor could bring unexpected problems in the relatively unknown German market and would put the company under pressure in takeover negotiations.

That is why the board decided to establish a subsidiary company in Germany in order to negotiate the takeover on behalf of the mother company, and simultaneously build its own distribution channels and compete with the current distributor to lower the distributor's price and position in the negotiations. Another objective of the newly established German subsidiary was to learn the complicated administrative conditions on the German market, so that the subsidiary would be able to operate independently on the German market even if the takeover negotiations would not have been successful.

The company established a new subsidiary in Regensburg, obtained all necessary registrations and the subsidiary started the takeover negotiations with the current distributor. During the negotiations the subsidiary learned a lot about the German market, remained independent from the current distributor, built partly its own distribution channels and learn the specifics of administrative conditions (mainly in law and taxation). All decisions and negotiations were done directly by the Czech managers as one of the members of the board was at the same time the only director of the German subsidiary. A virtual office was established in Regensburg to answer phone calls, receive mail and to provide necessary back- office services.

The takeover negotiations were completed successfully 11 month after the subsidiary company in Regensburg had been established. The local subsidiary contributed significantly to the success of the negotiations because it clearly demonstrated that the Czech company was ready to enter the German market even if the takeover negotiations would not have succeeded. The costs of running the virtual office during the negotiations, including administrative costs and the costs of accounting and legal service were just around 7.000 Euro. Virtual office was in this case used as a mode of entry and as a tool of marketing communication.

Case study 2: Slovak Service Provider

This case study deals with a small Slovak company which decided to offer its services to the German market. The company plans and designs industrial networks, such as electricity networks and water lines, for its customers, who are mainly large construction companies and designing offices. This industry is defined by a low number of workers in developed countries and the relatively low profit rates on the Slovak market. The company offers outsourcing solutions to its customers: employees work on a certain project in the customer’s company and after finishing the project they return to their own. Customers therefore do not have any additional work costs when they are not fully using the working capacity of the employees.

In the past the company worked on several contracts for German customers but mostly as a subcontractor for its German competitors that needed additional employees for a limited time. Mostly the contracts were won “accidentally” through previously existing contacts on the Slovak market. The prices on the German market were significantly higher than those on the Slovak market but on the other hand the contracts were closed for a limited period of time and were not prolonged. According to the company’s managers, one possible reason for this development was the fact that German companies preferred German subcontractors and they hired foreign subcontractor only when it was impossible to find a suitable domestic subcontractor.

For that reason the board decided to enter the German market directly and to use the “domestic passport” strategy when offering services to customers in Germany. They decided to establish a representation in Regensburg as a virtual office. All business negotiations would be coordinated by the Slovak management and all contracts would be fulfilled with employees of the Slovak company. Although there was no language barrier, as English is commonly used in this industry worldwide, the board decided that German would be used during the first contact with potential customers, which would enable the company to establish relations based on trust with potential customers.

Potential customers were sought by the Slovak company according to certain set of criteria and were forwarded to representation in Regensburg to establish the contact. The Slovak company trained the employees of Business Center Regensburg (BCR) to successfully establish the first contact with potential customers and to answer the most frequent questions. Then they passed the new contacts to the managers of the Slovak company who continued with negotiations. The cultural knowledge and competencies of German employees in BCR were combined with the expertise of the Slovak managers.

This strategy turned out to be very successful. During 11 months, five new German customers were acquired, sales prices rose significantly when compared to the previous period and total revenues reached almost 200.000 Euro.

However, in the meantime, the situation on the domestic Slovak market changed rapidly. Salaries of qualified employees rose significantly as did additional costs (such as travel costs to Germany and social and health insurance costs). Another important problem that arose was a lack of qualified employees who would be able to communicate in a foreign language. The board decided to end all activities on the German market despite the higher sales prices.

Market entry into Germany was not successful in this case, but the key factors lied on the domestic market. Still, the management was satisfied. A lot of knowledge and experience from a developed and demanding foreign market was gained, as well as useful references for their domestic market. The total costs of establishing, operating and canceling the virtual office were only 6.000 Euro. In fact, the company conducted market research and discovered that it could offer its services and solutions even on demanding markets. On the other hand, the company discovered that it was unable to achieve prices for financing their market entry. In the end, the unsuccessful market entry had relatively low costs and the company still operates successfully on the domestic market.

Conclusion

Virtual offices prove to be a useful marketing tool for entering a foreign market. Thanks to relatively low costs, this tool can be used even by small and medium Central European companies that usually do not have sufficient financial resources and marketing experience to enter the foreign markets directly. On the other hand virtual office as a marketing tool builds on specific competitive advantages of small and medium companies, (such as individualized services for key customers).

The case studies showed possible concrete use of this marketing tool not only for market entry, but also as a tool of marketing communication and market research. They showed simultaneously how virtual offices can contribute to cost- savings and to higher prices on the foreign market. The first case study dealt with the Czech company that used this marketing tool successfully to enter the German market. Virtual office was used as a mode of entry for the start- up phase of business activities in Germany to minimize the costs of market entry and to strengthen the position of the company on the market.

The second case study dealt with the Slovak company that entered the German market but did not succeed. Virtual office was used not only as mode of market entry but also to conduct a market research. Even though the market entry was not successful the company gained a lot of specific information and market knowledge for relatively low costs. Therefore the unsuccessful market entry was not appraised negatively by the company's managers.

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