Pasar Berkembang atau Negara Tetangga? Studi Kasus Strategi Ekspansi Pasar Aura Light

Emerging Market or Neighbourhood Country? A Case Study of Aura Light’s Market Expansion Strategy

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Abstrak
Aura Light, sebuah perusahaan dari Swedia yang bergerak di bidang produksi lampu dan penerangan, saat ini bertransformasi untuk menjadi perusahaan penyedia jasa solusi penerangan. Hal ini memerlukan perubahan yang signifikan dalam hal investasi yang mengakibatkan siklus operasional perusahaan berjalan lebih lambat, padahal ada dua tujuan yang ingin dicapai oleh manajemen Aura Light dalam kurun waktu lima tahun ini. Pertama, memperliris pasar ke India dan Brazil dengan menjual produk penerangan tradisional yang berpotensi meningkatkan pendapatan Aura Light dua kali lipat dalam lima tahun ini. Ke dua, lebih fokus membenahi transformasi dan memantapkan posisi sebagai penyedia solusi penerangan dan pasar lampu LED di Eropa. Sementara itu, tujuan jangka panjang Aura Light adalah untuk menjadi pemain utama dalam bidang jasa solusi penerangan. Dengan kondisi sumberdaya saat ini, Aura Light hanya dapat memilih satu dari dua opsi tersebut, bukan menjalankannya sekaligus. Penelitian ini ditujukan untuk menjawab dilema yang dialami oleh Aura Light dengan menyediakan rekomendasi manajerial berdasarkan teori bisnis internasional.

Kata kunci: Strategi perluasan pasar, bisnis internasional, pasar berkembang

Abstract
Aura Light, a Swedish lighting company, is currently in a transforming phase from a lighting products company into lighting solution provider. This change requires considerable new investments that resulted in the company’s cash operating cycle longer. However, there are two ambitions to pursue by the management of Aura Light in the next five years. Firstly, expanding market to India and Brazil by selling traditional products that potentially double its revenue in five years. Secondly, focusing on building the transformation and settling up solutions and LED market in Europe. Meanwhile, the long-term goal of Aura Light is to be a leader player of lighting solution and LED in Europe market. With current resources and financial condition, Aura Light can only choose one of those options instead of doing both at the same time. This study is aimed to answer Aura Lights dilemma by providing managerial recommendation based on international business theoretical frameworks.

Keywords: Market expansion strategy, international business, emerging market

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Introduction

Aura Light, a Swedish lighting company has been producing light bulbs since 1930. By 2006, Aura Light expanded its market in Northern European Countries under the ownership of Nordic Fund Capital (Palepu and Corsi, 2015). The long term goal of Aura Light is to be a leader player of lighting solution and LED in Europe market. In 2014, the CEO of Aura Light believed that the firm was on track to achieve its business plan. A lot of hard work has been done to move from a traditional light bulb producer into a solutions selling mode. To date, it has been developing a significant portfolio of LED products, setting up a global supply chain to optimize the cost structure, building a leadership team and creating management processes suitable for the new strategy and establishing Aura Light as a prominent player in European lighting industry. These achievements trigger further ambition of Aura Light management to develop the business beyond European market, place itself on a much higher growth path to gain high yet short term profit (Palepu and Corsi, 2015).

Despite a compelling potential profit outside Europe, Aura Light strategic intent to rapidly internationalise its operations through the emerging markets of India and Brazil is an inherently problematic and high risk proposition. The firm current capabilities are limited for it has spent significant resources to transformation and settling up solutions and LED market in Europe. Aura Light is an established firm that has invested its modest resources in the development of key capabilities such as product development and a solutions lighting offering in the quest for sustained competitive advantage within the mature European lighting solutions market. However, the scale and financial capability required to enter the diverse and comparatively unstructured emerging markets of India and Brazil are questionable.

Therefore, a fundamental question arises in this case is which option would be more favourable to gain Aura Light long term goal. Is the revenue gained from expanding market to India and Brazil significant to finance the long term goal? Or it will even make it worse? Meanwhile, with the second option, if it focuses only in European market, will it significantly help Aura Light settle its position as a lighting solution and LED leading player within the region? This paper is aimed to answer those questions and provide managerial recommendations to the business case. The contribution of this research is the dissemination of knowledge of applied business research as well as managerial contribution for multinational enterprises managers as the tool of benchmarking to expand their business overseas.

Literature Review

In evaluating the strategy applied by international business, particularly in expanding their activities in a foreign market, some frameworks are frequently used by the strategist or business researcher. Popular frameworks used to analyse firm’s global existence including Ownership – Location – Internalisation (OLI) framework, Porter’s Five Frameworks and Framework of Pair Competitor Analysis. Not only the popularity, these frameworks are argued to be effective to describe and evaluate the global existence of business entities (Brouthers, et. al., 1996).

OLI framework, also referred as Dunning’s Eclectic Framework, is used to get the big picture of the advantages or liabilities of doing multinational production (Ruhl, 2016). In order to be advantaged from the Ownership point of view, a firm must posses some asset that generates value to make it worth the extra costs of their international existence. Without Ownership advantage, firm is unlikely able to produce enough value to exist (Ruhl, 2016). From the Location point of view, the global operation of a firm is favourable if there is some advantage from operating in a certain (chosen) location, such as savings in transportation costs, tariff or tax. Without this advantage, a firm is unlikely favourable to produce outside its home country. Thus, exporting from home country to serve the market is the most viable option. OLI last component, Internalisation, a reason why some activities are carried on within a firm. Internalisation is often defined as cost integration. A firm has an internalisation advantage when enforcing contract with other party is difficult, thus it maybe easier to produce within the firm (Ruhl, 2016; Brouthers et. al., 1999). Otherwise, when contract is easier to uphold, producing within the firm isn’t recommended as it
needs a large initial investment. This framework is able to be used as the evaluation of entry mode choice of the firm, as Brouthers et. al. found empirical support that Dunning’s eclectic framework as both descriptive and normative (Brouthers et. al., 1999).

Using OLI framework alone is not sufficient to capture some detail of new environment of the new foreign market. More specific framework should be used in order to reach business complexity further, thus a comprehensive analysis can be made. Under ‘Location’ in OLI framework, for instance, Porter’s Five Forces framework can be used to see closer on how is the condition of the industry in targeted country. The main point of Porter’s Five Forces is that not all industry has equal potential profitability (Peng, 2013). The strategist is to assess the opportunities and threats of all five forces affecting the industry condition: rivalry among competitors; threat of potential entry; bargaining power of supplier; bargaining power of buyers; threat of substitutes. The result of the analysis should provide management the firm’s industry positioning, that is, a firm position within an industry to minimize the threats in all of those five forces (Peng, 2013). Getting deeper in the analysis, the competitive dynamics among the rivals can be further analysed in pair of most threatening competitor within the industry. The strategist could assess the competitors’ capabilities by looking at their resource similarity and market commonality (Peng, 2013). Resource similarity refer to the strategic endowment own by the firm and its competitor in term of type and amount. Firms with a high degree of resource similarity are likely to have similar competitive actions. Market commonality is defined as the overlap market posses by a firm and its rivals. Firms with a higher market commonality are involved in a significant intensity of rivalry (Peng, 2013). Upon the analysis using these frameworks, strategists should be able to recommend whether the targeted market is viable, or which market among several targeted market is favourable to choose as the expansion destination.

**Method**

This study employs qualitative research method with a case study approach. Case study aims for in-depth understanding of a context or phenomenon (Cavaye, 1996). It is widely regarded as an effective research method for capturing the nature of business condition across a range of firms as well as describing the complexity of business. This approach has a significant strength for applied business research, particularly in identifying and assessing comprehensive attributes in its natural setting. Therefore, researcher can organize data at the micro level (Gregson, 2015; Zaidah, 2007). Case study approach contains the following phases: business context, objectives, case statement, data collection and analysis (Gregson, 2015; Crowe, et. al, 2011).

In the context phase, this paper is defining the dilemma faced by Aura Light to choose a new target of international market. Under current capabilities and challenges, Aura Light is in a cross road to choose whether to expand to an emerging country or a country with less institutional distance. The objective of this study is to describe, evaluate and provide managerial recommendation related to the entry market strategy conducted by a European Lighting producers when entering new foreign market. Special case to explore in this paper is the strategy of Aura Light to decide their new target market. First option is opening market to a neighbourhood country, that is, a European country. Second country option is India, and third country option is Brazil, two among the most interesting emerging market. Data is collected by documenting information yielded from publicly available documents of Aura Lights and other firms within the same industry. The data collected including annual report in qualitative and quantitative form. The qualitative data were analysed systematically using several frameworks, including Dunning’s Eclectic (OLI) Framework, Porter’s Five Forces Framework and Pair Competitor Analysis. Quantitative data were descriptively reported to see Aura Light’s financial capabilities as well as its trend between 2010 - 2014.
Result
Aura Light’s Firm-specific Capabilities and Resources- Suited to International Market Expansion?

Strategic Capabilities Gap: Products versus Solutions
Overwhelmingly, Aura Lighting’s main competitive advantages and firm-specific competencies lay in the provision of differentiated, energy efficient lighting solutions commercialised through long-term contracts entered with a diverse range of clients, both corporate and private in nature such as major retailers, lighting consultants, architects and major manufacturers. With prospective clients invariably seeking to cut energy costs, the core value proposition of Aura’s main lighting solutions business remains concerned with the provision of long-term cost savings derived from enhanced energy efficiencies that, in turn, serve to justify the significant financial investment such solutions represent for the firm’s customers in the short-term. In order for this business model to remain viable, a considerable degree of market and consumer financial sophistication is required in order to properly recognise and sufficiently value the longer term benefits attainable from Aura’s core solutions offering in the first instance. Such sophistication is arguably absent within the emerging economies of Brazil and India which remain far more concerned with issues of shorter-term product costs.

The prospect of pursuing an export strategy in the sale of traditional lighting products within these emerging economies therefore seems manifestly irreconcilable with the sizable investments made by Aura light in restructuring the focus of the business toward the provision of a more service oriented, solutions based lighting offering. The resultant differentiation and competitive advantages secured by the firm within this area would remain largely inapplicable to the sale of traditional lighting products within emerging markets where the factors for success remain largely cost driven based upon high volume and production scale.

There appears therefore to be a glaring disparity between the strategic direction taken by Aura Light over recent years to fundamentally restructure the business toward solutions, and the sudden desire to regress toward the sale of base traditional lighting products to achieve what seems to be executive management’s impulsive overseas ambitions for rapid short-term growth within emerging economies.

Product Offering Gap
The proposed strategy to sell traditional lighting products within the emerging markets of India and Brazil remains problematic since laws actively phasing out certain lighting technologies will render several sectors of this offering obsolete in the very near future. Furthermore, existing competitors within both the Brazilian and Indian markets are able to produce such traditional lighting products at far lower prices than Aura could ever hope to achieve due to their regionalised economies of scale, superior relational capabilities, reduced or non-existent liabilities of foreignness resulting in superior cost advantages.

Furthermore, as global trends rapidly gravitate toward the uptake of energy efficient technologies and as more firms and construction projects seek to further enhance their environmental sustainability credentials and lower operating costs, emergent and increasingly affordable LED technologies produced by large-scale low cost localised manufacturers will rapidly supersede traditional lighting technologies in years to come. As such, the strategy to bear the significant costs of entering these challenging, unfamiliar markets for the sale of traditional products remains nonviable in all but the short-term. Given the significant temporal costs associated with establishing a business within both India and Brazil and the challenges of overcoming the inevitable liability of foreignness, any entry into these markets by Aura is seen as protracted and high risk. A key factor of this risk is the financial capacity to sustain this growth strategy which is projected would take years and not months, by which time the mass LED technology uptake will likely have eclipsed any potential benefit of Aura’s impulsive international ambitions.
Human Resource Capability Gap

Within the emerging markets of India and Brazil, Aura fundamentally lacks local explicit and tacit knowledge as well as the necessary networks and relational capabilities to successfully enact an export market entry mode. In India the employment and retention of local management may prove to be significant challenges as successful managers have become increasingly upwardly mobile seeking to optimise pay and prospects by moving to the rapidly expanding technology sector. Within Brazil, significant deficiencies in the amount of skilled and technically specialised labour may create substantial challenges in the procurement of local human resources to effectively manage and control higher equity or relationally intensive market entry modes such as joint ventures, strategic alliances or the establishment of wholly owned subsidiaries.

Manufacturing Capability Gap

Aura’s decision to retain a sizable portion of its manufacturing base within Europe represents a further disadvantage for the firm in its quest to rapidly expand into emerging economies. The splitting of its manufacturing scale will increase fixed costs and lessen its competitive cost base. In addition, the higher wages within Europe in the manufacturing sector will invariably result in greater operating costs for the firm which will ultimately serve to reduce the price competitiveness of its export products. Given the presence of large scale vertically integrated, localised competitors actively capitalising upon OLI advantages as well as significantly cheaper manufacturing cost bases, it appears that Aura simply cannot compete in the sale of traditional, undifferentiated products in these overseas markets with its current resources and capabilities.

Aura’s Financial Capacity for Overseas Expansion

From a brief analysis of the Aura Light 2014 Annual Report it is concluded that the company has no borrowings capacity to fund any future material overseas expansion. The declining earnings position, low levels of profitability and an apparent lack of delivery upon their current Europe expansion strategy would make it highly unlikely that a share issue would be possible to recapitalise the company balance sheet. The weak financial position of the company is emphasised by the breaching of its bank covenants in 2014 (Aura Light 2014, p.72).

This financial position precludes any investment in an overseas manufacturing base in Brazil, which it is stated in the case study, remains critical to successfully entering this market due to the high import tariffs.

Given the level of working capital already used to fund the existing export strategy growth in Europe, it is highly unlikely that the company will be able to fund the significant growth in working capital needed to enter emerging markets such as India or Brazil. In these markets working capital needs will be far higher as payment terms are less favourable and credit risks greater than in established, mature European markets.

Profitability 2010 - 2014

Sales revenues in 2014 have grown by 39% to 604m SEK in the five years from 2010, although profit before tax has fallen to 23m SEK from 38m SEK.

Table 1. Aura Light 2014 annual report (2014, p 42)

| Million SEK         | 2014 | 2013 | 2012 | 2011 | 2010 |
|---------------------|------|------|------|------|------|
| Net Sales           | 604  | 567  | 504  | 505  | 436  |
| Profit before tax   | 23   | 56   | 4    | 63   | 38   |
| Operating Margin %  | 6.2  | 13.0 | 6.1  | 12.4 | 8.7  |
Operating margins have varied considerably but have declined from 8.7% to 6.2% over this period implying the lower margins of the growth strategy outside of their core Scandinavian markets.

Total assets have grown by 22% to 784m SEK in 2014, the decline in profits causing a significant reduction in return on assets employed which further challenges the current success of their existing expansion strategy. The employee base has grown by 50 personnel (31%) to 241 in 2014 implying a higher cost of sales and marketing as well as other overhead costs. Expansion has come at the expense of increased overheads as indicated by employee growth above.

According to the consolidated income statement within the firm’s 2014 annual report, selling general and administrative expenses, including research and development increased by 49m SEK (24.5%) to $249m SEK in 2014, this being the principal cause of the 58.9% decline in 2014 profit before tax to 22.8m SEK versus 55.5m SEK in 2013 (Aura Light 2014, p 47).

Overall, the existing growth strategy into non-Scandinavian markets has successfully delivered real sales growth but a decline in profit before tax and return on assets. As such, this cannot yet be judged a successful strategy since it has effectively weakened the company’s overall balance sheet position.

### Balance Sheet Position 2014

Several notable areas of weakness within Aura Light’s balance sheet may further exacerbate resource based challenges associated with international expansion. Whilst the company has 784m total assets, a significant 417m SEK stake relates entirely to goodwill, implying an immense excess of value paid for prior acquisitions and possible patent and brand acquisitions (Aural Light 2014, pp. 48-49). The company also possesses a stated $117m SEK in negative net tangible assets, a key measure usually utilised by banks within the formation of core explicit terms and conditions attached to loan covenants. Where a positive figure might usually be expected, Aura Light’s negative net tangible assets further reflect the firm’s overall balance sheet weakness. It is also noted that working capital (current assets less current liabilities) has grown by 30m SEK (32%) since 2013 reflecting the higher levels of inventories and accounts receivable required to sustain their Europe market growth strategy (Aura Light 2014, pp.48-49).

As set out in note 21 to the firm’s accounts the company has 340m SEK in banks loans and has become highly reliant on its overdraft facility which has risen from 20m SEK in 2013 to 79m SEK in 2014 (Aura Light 2014, p.72). This overdraft will have a higher interest rate and comprises an unhealthy 26% of its overall borrowings.

Finally, in note 21 to the firm’s accounts, it is stated that ‘the company failed to comply with covenants and it notified the bank of this breach of contract. As of Dec 31st 2014 the bank had decided not to terminate the loan prematurely’. The continued survival of the company therefore appears to be at the discretion of the bank and as such it is highly unlikely that they would support a high risk, high growth overseas expansion strategy such as that considered within the case at hand.

### Level of Geographic Diversification

The associated costs of greater geographic diversification provide a further theoretical justification for abandoning the proposed international market seeking growth strategy presented in the Aura Light case. As the previous financial analysis has shown, despite the current growth strategy encompassing southern European markets yielding a greater number of sales, it is clear that the bureaucratic and overhead costs attributable to such expansion have eroded overall profitability as evidenced in the falling operating margins. As such, utilising the geographic
diversification ‘S’ curve (Peng 2013, p.264), it is proposed that Aura Light may already find themselves at point A where performance is beginning to drop off as a result of extensive geographic expansion relative to their firm specific resources and capabilities.

![Graph showing the diversification 'S' curve](image1)

Figure 1. Geographic diversification and firm performance: An S curve (Peng 2013, p. 264).

To further iterate upon this point, it is clear that the present regional expansion strategy pursued by Aura Light has significantly increased the number of employees hired by the firm as well as significantly enlarging both selling and administrative expenses and the amount invested in research and development activities (Aura Light 2014, p.47). As such, it is proposed that the marginal benefits garnered from increased geographic expansion have already been eclipsed by the marginal bureaucratic costs even at the firm’s current comparatively limited operational scope. Such a position is depicted in figure 3 below.

![Graph showing marginal bureaucratic costs and marginal economic benefits](image2)

Figure 2. Marginal bureaucratic costs and marginal economic benefits of diversification (Peng 2013, p.274).

At location ‘B’ then it is clear that costs already outweigh benefits and as a result, it is asserted that any attempt by Aura Light to further expand the scope of the firm through greater geographic
expansion will only widen such a disparity thereby increasingly eroding operating margins and overall profitability.

Aura Light and Institutional Challenges

The prevailing formal and informal institutional environments within both India and Brazil may create further challenges for Aura light’s rapid expansionist ambitions through their ability to define both the ‘rules of the game’ (Peng 2013, p.94) and to actively structure the nature of human interactions (North 1990, p.3). Comprised of the regulatory, normative and cognitive pillars (Scott 1995), institutions serve to define key incentives that shape the behaviour of economic actors (Williamson 1996) as well as remaining central to the reduction of both perceived and real levels of uncertainty and risk (Li & Zahra, p.95) it is argued that the distinguished abundance of both within the cases of India and Brazil points to the presence of several prohibitive institutional voids that may harbour significant transaction costs for Aura Light.

Institutional Challenges- India

Though emerging relatively unscathed from the challenges of the global financial crisis, sluggish economic growth figures in 2013-14 coupled with significant levels of CPI inflation and high interest rates (FCO 2015) generate significant uncertainty surrounding long term financial planning for prospective market entrants such as Aura. Despite significantly improved education and healthcare outcomes, life expectancies and a rapidly expanding middle class (UNDP 2014), chronic political decentralisation, regulatory and legislative inefficiencies as well as a recent history of uneven and industry-specific foreign direct investment policies (USDOS 2015c, p.3) have contributed to a World Bank ease of doing business rating of just 142 out of 189 economies (World Bank Group 2015).

There exists significant variability in markets across India’s 29 different states (UKTI 2015) with persisting inconsistencies in the legislation and enforcement of land acquisition, a marked prevalence of uneven investment-inhibiting taxation regimes, unreliable contractual enforcement processes and prohibitive entry barriers to the inception of new businesses (CII-KPMG 2014, p.3). Contract sanctity in particular may be of immense concern to a small prospective market entrant such as Aura Light, as with an average commercial dispute resolution rate of four years (USDOS 2015c, p.10), India’s judicial systems remains deeply understaffed, overburdened and backlogged (IRB 2013). Given the increased potential for disputes resulting from legislative naivety, opportunism or basic cultural misunderstandings, the amount of extra financial burden resulting from such a protracted legal process could severely damage the firm’s already precarious financial position.

Such challenges associated with the enforcement of legal disputes are further reflected in the sizable dissemination risks present due to weak intellectual property (IP) enforcement (USDOS 2015c, pp.14-15). While several steps have been taken to improve IP legislation, the effectiveness of enforcement remains the responsibility of individual states resulting in a lack of associated data transparency (WTO 2011). Considering that Aura light seeks to enter the Indian market primarily through the export of its traditional lighting products, the resultant dissemination risks may be somewhat reduced however such institutional risks may serve to limit the firm were it to consider expanding its market offering to include its patented lighting solutions systems in the future.

With a corruption perception ranking of 85 out of 175 nations (Transparency International 2014), costs associated with opportunism present an immense business risk to Aura Light’s proposed export strategy. An endemic system of unofficial facilitation payments and operational bribes (Austrade 2013, p.2) underscores the pervasiveness of corruption within both the public and private spheres (Global Integrity 2011) as robust legal frameworks suffer from widely differential degrees of successful practical enforcement (FCO 2015).

India also possesses a woefully inadequate infrastructure network that has served to constrain the nation’s economic development and emerged as a key targeted area for improvement by the government (WTO 2011). Inefficient shipping ports, ever increasing freight demands upon
an ageing and perennially overstretched rail network as well as the unreliable provision of water and electricity (PWC 2013, p.1) would all serve to increase the costs of doing business within India for a small firm like Aura Light. Transportation costs both to and within India are therefore likely to be high enough to either fatally reduce Aura’s overall margins or to force the engagement of a local distribution partner thereby exposing the firm to all of the aforementioned risks surrounding opportunism and weak contract enforcement.

For a firm such as Aura light possessing limited financial resources, terminally insufficient localised market knowledge and appropriate relational capabilities, the potential for increased transaction costs within such a high uncertainty environment is prohibitively high. Since the weakness or failure of formal institutions may notably increase the role of informal, relational based modes of transacting (Peng 2013, p. 102, Aura’s equally sizable deficiencies in cultural proficiency as well as the negative implications of the liability of foreignness will likely result in a situation where neither formal or informal constraints can be leveraged to facilitate their market entry.

Institutional Challenges- Brazil

Similar to the investment climate within India, the Brazilian market presents several significant institutional challenges to Aura’s expansionist ambitions that may irreconcilably undercut the substantial profit margins sought by the firm in the short term. With an economy having benefitted greatly from a period of significant growth largely resulting from strong commodity exports, the nation’s current rising debt, high interest and inflation rates (McKinsey & Company 2014, p.2) coupled with slowing GDP growth generate increased uncertainty surrounding sustained economic stability especially for smaller firms such as Aura seeking to enter the market with limited resources.

Deficiencies in access to healthcare and education reflect significant economic and social inequalities (World Economic Forum 2013) resulting in labour market failures (Schneider & Karcher 2010), high unemployment among the nation’s poor as well as a soaring crime rate (FCO 2015). With a perceived corruption ranking of 69 out of 175 (Transparency International 2014), recent money laundering scandals involving the nation’s congressional and executive branches, as well as the implication of 6,600 government officials in irregular or illegal activity in June 2015 (USDOS 2015b p.17), serve to highlight the extent to which corrupt activities have penetrated Brazil’s political institutional framework.

Though relatively open to foreign direct investment, Brazil nevertheless maintains sizable import tariffs of up to 18% (Duty Calculator 2015) upon a range lighting products which may completely eliminate Aura’s hopes of achieving cost advantages. Furthermore, any practical desire to establish a manufacturing base within Brazil remains fraught with a range of difficulties associated with starting up a business. Brazil ranked only 174 out of 189 economies on the ease of starting a business scale and an overall rank of 116 regarding the ease of doing business overall (World Bank Group 2015).

Such a comparatively poor ranking stands reflective of severe persisting deficiencies affecting the ease of securing construction permits, costs associated with weak contract enforcement, as well as the administrative and financial burden of Brazil’s cumbersome domestic taxation system (World Bank Group 2015).

Prevailing local content requirements may also prove problematic for Aura light especially in the case of higher equity market entry strategies pursued in the hope of circumventing prohibitive import tariffs. The requirement for two-thirds of workforces to be comprised of Brazilian nationals (USDOS 2015a) coupled with a significant shortage of technical and skilled personnel (PWC 2013, p.30), may create substantial difficulties for Aura in hiring appropriately experienced and technically competent human resources to successfully manage the sizable risks and demands associated with higher equity entries such as a joint ventures or wholly owned subsidiaries. The labour market itself therefore remains a key institutional challenge for firms looking to establish subsidiaries within Brazil (World Economic Forum 2015, p.134).
Also similar to the case of India are persisting concerns surrounding the ability of Brazil’s current infrastructure network to meet the pressures of current and future economic demand. With less than 15 percent of the nation’s roads paved and significant bottlenecks present within ageing rail, port and air transport networks, Brazil has found itself ranked 120 out of 144 nations by the World Economic Forum in 2014 on overall infrastructure quality (IMF 2015, pp.7-13). Such infrastructure deficiencies may create extra costs for Aura Light in transporting its goods into Brazil as well as generating uncertainty surrounding potential unexpected delays to product deliveries.

With business success in Brazil largely contingent upon a firm’s ability to leverage relational capabilities in the establishment of strong personal relationships (TIC 2015), the inherent liability of foreignness potentially facing Aura within a nation so institutionally and culturally distant from their country of origin (Berry, Guillen & Zhou 2010) may create insurmountable difficulties in fostering functioning relationships with both public and private actors thereby resulting in unforeseen transaction costs.

Ultimately the examination of the institutional climates of both India and Brazil highlights something of an intractable obstacle for Aura Light’s short-term expansionist ambitions. Terminally lacking both the requisite experiential knowledge and firm-specific relational capabilities needed to adapt and operate effectively within such challenging and institutional environments, it is argued that Aura Light would be infinitely better served by developing its existing business within its domestic and close regional markets.

**Aura Light and Industry Dynamics**

**Competitive Dynamics**

Existing competitors within the Indian market possess manufacturing bases within the country in close proximity to their market providing them geographically advantageous economies of scale that drastically reduce both operating and transportation costs. Such inherent barriers to entry (in addition to results of Porter’s five forces analysis) depict a hostile industry that Aura should not attempt to enter. As such, low equity market entry options would fail to compete with existing competitors’ products on a cost/price basis while higher equity options would take on unacceptable financial risks given the high saturation of the lighting market in India.

| Porter’s Five Forces Framework | Indicators | F/UF (Favourable or Unfavourable) |
|-------------------------------|------------|----------------------------------|
| Rivalry Among Competitors     | Market Commonality (Geographic) and Resource Similarity (Product Portfolio and Total Assets) | UF |
| Threat of Potential Entry     | Economies of Scale and Export Tariff | UF |
| Bargaining Power of Suppliers | Non-Equity entry mode | UF |
| Bargaining Power of Buyers    | Buying Preference & Brand Loyalty (Consumer Behaviour) | UF |
| Threat of Substitutes         | Increasing Supply and Demand of LED Lamps | UF |
Peng (2013) suggest a framework of competitiveness based on Market Commonality and Resource Similarity. One of the indicators to measure market commonality is geographical expansion where the companies operate. While resource similarity could be measured by the product portfolio, different types of products need different resources to produce, therefore, the number of products reflects the depth of resources and capabilities owned by the company overall.

In both the Indian and Brazilian markets, Aura Light will compete with several subsidiaries of multinational conglomerates such as Phillips, GE and Panasonic (PR Newswire 2015). Comparing Aura Light with each of those conglomerates yields a result of relatively low market commonality. Phillips has a large international expansion with its presence in many countries in Asia & Pacific, EMEA, Latin America and North America while GE retains a strong presence in the US, Europe, Asia, Latin America, Middle East and African markets. Similarly, Panasonic has a wide global reach in Asia Pacific, Europe, Latin America, North America, and Middle Eastern countries (Panasonic 2015). Aside from these large multi national entities, Aural Light would have to contend with several large domestic Indian competitors such as Surya Roshni, Havells, Crompton Greaves and Asian Electronic (PR Newswire 2015) who possess notable country of origin advantages especially with regard to their ability to operate effectively within prevailing institutional and relational environments. Surya Roshni operates locally in India, Havells has subsidiaries in several countries in Latin America and Europe, China, South East Asia and a few of Middle East Country. Crompton Greaves has a presence in Asia Pacific, EMEA and America including Brazil, while Asian Electronic has a presence in Asia countries and Israel (Surya Roshni 2014; Havells 2014; Crompton Greaves 2014; Asian Electronic 2014). Compared with Aura Light, Surya Roshni has a low market commonality in term of geographical diversification since it only operates locally within India, while Aura Light has a wider market scope in northern and southern Europe. In the Brazilian market, Aura light has another prominent competitor, Cree (PR Newswire 2013). Cree operates not only in Brazil but also in China and USA (Cree 2014). Comparing Aura Light and Cree, they also have a low market commonality.
Regarding resource similarity, Aura Light mostly has a low degree of resource similarity with its rivals. Philips has a major presence in three different industries: lighting, healthcare industry, and consumer lifestyle with a total asset of EUR 28,352 million or USD 30,257 million. General Electric is not only a player in lighting industry but also power and water, aviation, healthcare, oil and gas, transportation and energy management with a total asset of USD 647.1 billion (GE 2014). Panasonic has several business lines, that are, lighting, appliances, AVC networks, automotive and industrial systems with total asset JPY 5,212,994 million or USD 42,253 million (Panasonic 2014).

Meanwhile, Aura Light only operates within the lighting industry with a total assets SEK 783,567 thousand or USD 90,033,608.91 (Aura Light 2014). Therefore, in terms of product portfolio, they have a low resource similarity with such competitors. For the local competitors, Surya Roshni enters several industries in India market which are lighting, home appliance and piping with a total asset of USD 313,146,449.60 (Surya Roshni 2014). Havells has a total assets of INR 3,398.10 crore or 513,452,910.00 USD with two product lines: lighting and home appliances (Havells 2014 p. 68). Crompton Greaves has a total asset of INR 5586.45 crore or USD 844,112,595.00 involving in two industries: lighting and home appliances (CG 2014). While another prominent competitor for Aura Light in Brazil is Cree, a corporation originated from USA (PR Newswire 2013). It plays only in lighting industry with a total assets of USD 3,344,369,000 (Cree 2014). What quickly becomes clear therefore is Aura Light remains a far smaller competitor in terms of asset value especially given the relative weakness of their overall financial position. This reduced level of financial resources may therefore result in the firm being less able to adapt and respond to predatory pricing maneuvers enacted by competitors in order to block their market entry.

Overall then, compared in the case of both multinational conglomerates and local competitors, according to the framework for competitive analysis (Peng 2013, p.233), the intensity of rivalry is likely the second highest with low market commonality and low resource similarity. In this degree of rivalry, it is unfavourable for Aura Light to expand its market to India and Brazil. In this position, Aura Light does not have a strong capability to tackle established rivals of such scale within their prospective international markets. The strong and established companies have a full power to aggressively respond to Aura Light were it to enter their markets.

Barriers to Market Entry

The threat of potential entry in both India and Brazil are not favourable for Aura Light. The entry barriers in the lighting industry are categorized as high due to the requirement for substantial initial capital investment. In expanding to India and Brazil, Aura Light is not in a position of incumbent but as an entirely new entrant. Being a new market entrant within an industry characterised by intense rivalry, it will invariably be harder for Aura Light to successfully enter the market.

According to the case, it remains the principal goal of Aura Light to expand to the Indian or Brazilian market to gain short term revenues over the next 5 years (Palepu and Corsi 2015). This revenue presumably could then presumably be used to fund further investment to their primary business in the development and provision of lighting solutions. In order to be consistent with this intention therefore, the most feasible entry mode is likely that of export. Higher equity entry modes such as establishing a joint venture or a wholly owned subsidiary will not be appropriate not only because of the temporal cost, but also due to the larger resource commitments and higher initial investment required.

While exporting could potentially bring competitive advantages in term of economies of scale, export tariffs for those countries are extremely high, reaching 18% in Brazil (Arab Brazilian Chamber of Commerce 2015) and 10 % in India (Ministry of Finance India 2015). This barrier could severely hamper Aura Light ability to competitively price its products compared to domestic low cost rivals.
It there becomes another challenge for Aura Light since the other potential rivals are also coming to global lighting market from a low cost country such as China and Taiwan (Chu 2015). In Brazil, the lighting industry has a large number of small local firms, about 670 companies (Lighting World 2013). With the fact of formal institution that highly protect the local firms, as a new entrant, it is not favourable for Aura Light to expand its market to India and Brazil.

**Bargaining Power of Suppliers**

Thirdly, bargaining power of suppliers. This is not a new issue for Aura Light if the choice of market entry is exporting, because the suppliers remain the same (in Europe and Asia). However, as mentioned in previous section, the export tariff to India and Brazil are high. Besides, one of the drawbacks of export is lack of control, particularly in distribution and selling to the end users. The fact that Aura Light rely 67% of purchases only with several strategic suppliers make the power of suppliers are moderate while the current problems of upstream value chain is unresolved (Palepu & Corsi 2015 p. 9). It still faces the dilemma to balance sourcing from Europe and Asia with each advantages and disadvantages. In this matter, the bargaining power of suppliers from Asia which can offer a lower production cost will increase because entering Indian and Brazilian market requires a high pressure in cost reduction.

**Bargaining Power of Buyers**

Fourthly, bargaining power of buyers. Empirical studies conducted in India (Mishra and Prasad 2014; AIMIA 2014) suggested that for lighting and electronic durable sector, Indian customers have a quite high loyalty toward certain brands while Deepika (2012) asserts that price, location of retail shops and brand are also significant factors to drive buying decision for Indian consumer. Worse, in a short term, Aura Light cannot settle its position in seizing consumers’ attention to move from popular brands in Italy (Palepu & Corsi 2015). If in a country with adjacent culture like Italy it cannot make it, it will be harder to win in countries with large cultural difference such as India and Brazil. Pandey (2015) explains that consumers of lighting products in India nowadays prefer to buy from popular brands such as Philips and Osram. It makes the competition become harder that makes Havells India Ltd which has smaller market share prefer to move from industrial brands to consumer brands. Meanwhile in Brazil, the awareness of converting to energy efficient lamps is increasing. Based on Energy Efficiency Indicator Survey in Brazil (IBE 2012) 73% respondents believe that lighting improvement is the top energy efficiency that is adopted in 12 months. Among the respondents, 29% of Brazilian executives believe that the change into efficient lighting technologies is inevitable. It depicts the buying decision pattern of lighting industrial sector in Brazil. If it is hard for the incumbent firm to maintain its existence, then it is even harder for the new entrant to build a strong brand.

**Threat of Substitutes**

Finally, there is a high threat of substitutes of traditional lamps. The lighting industry is being fundamentally and rapidly changed by the growth of the LED product sector which will likely render Aura’s traditional HID, LF and CFL product range largely obsolete within the next decade. LED product development by the global majors such as Philips and Osram over the last decade has seen LED product performance match that of traditional lighting products. While over optimistic growth projections of this emerging product sector have occurred in the past, the sheer scale and growth of government subsidised Asian manufacturers in the last three years (IHS 2015, p.3) has led to significant market competition which has more recently resulted in rapid price declines and increased product range, diversification and integration into the lighting solutions sector.

**Trends in the Global Lighting Industry**

Cost-competitive LED manufacturers implementing new semiconductor technologies have caused an immense paradigm shift within a global lighting industry increasingly characterised by rapidly shortening product lifecycles, substantial investment within both R&D and economies of
scale, in turn reflecting the need for both continuous innovation and efficient cost bases as emergent market success factors (Winter-Green Research 2013).

What now exists within the lighting industry more broadly is something of a perfect storm in which LED lighting products can now meet most mature market segment needs and are priced at a level which, whilst still at a premium, delivers a simple payback over the lower cost traditional products (McKinsey & Company 2012, p.7). This sustainable advantage will deliver continued rapid growth of this energy efficient LED product sector which will in turn further reduce its cost base allowing low cost entry into emerging markets such as India and Brazil thus exacerbating the inevitable demise of traditional lighting products.

With the governments of emerging markets becoming increasingly cognisant of leveraging energy efficiencies in their future economic growth strategies, Aura Light’s retail of traditional products stands in stark contradiction to future market trends within the industry. Within India in particular, conscious efforts have been taken to reduce national reliance upon LED imports through substantial governmental subsidisation of domestic manufacturing ventures and semiconductor research and development (Lin 2014) which will deliver localised cost advantages and economies of scale in the provision of superior products that Aura will likely be unable to effectively compete with utilising its current manufacturing and cost regime.

**Conclusion**

Building upon the findings of the preceding descriptive analysis concerning Aura Light’s present business situation, it has been established that the cited strategic proposal to aggressively pursue overseas market opportunities remains one manifestly ill-suited to the firm’s current resources and capabilities. Prevailing institutional distances identified within the target markets of both Brazil and India along with associated unfavourable industry dynamics coalesce to generate a scenario where the likelihood of short and long-term profitability is low to utterly non-existent. Substantial weaknesses present within Aura’s balance sheet stand to terminally restrict the firm’s future access to requisite capital resources thereby precluding any opportunity to pursue overseas expansion.

As such, it is strongly suggested that Aura Light reneges upon its overseas expansionist ambitions in favour of an alternate business strategy altogether better suited to its current resources and capabilities in the pursuit of markets possessing smaller institutional distances and comparatively favourable industry characteristics. Since the firm’s current strategic direction has remained centred upon the development of a lighting solutions based market offering, it is clear that the competencies and strategic advantage built up within this sector remain somewhat better suited to the more mature domestic markets of the firm within both Scandinavia and Europe generally. It is proposed firstly then that Aura endeavours to concentrate its efforts and overall strategic direction toward further developing these existing markets and to expand both its brand recognition and consumer bases therein.

With a highest score among other existing markets of Aura Light in Europe (36 out of 50), it is recommended for the firm to improve the existing business to Germany instead of starting new market in emerging countries. Based on several indicators: cost to start a business, ease of doing business index, cost to enforce a contract, extent of conflict of interest regulation index Worldbank (2015) and considering Compound Annual Growth Ratio (CAGR) for nine countries (Palepu and Corsi 2015), it comes to a conclusion that Germany is the most potential to expand further in European market. The calculation of this score can be found in the appendix 1. Having a high score for those indicators make Germany be able to potentially give Aura Light OLI advantages.

What cannot be ignored however are the future global trends of the lighting industry overall and their likely impact upon Aura’s broadly deficient organisational resources particularly in regard to its current weak financial position. As emergent increasingly efficient LED lighting technologies are brought to markets at ever lower prices by larger, more vertically integrated global firms capitalising upon economies of scale in manufacturing, distribution and research and
development, it becomes increasingly challenging to substantiate Aura Light’s continued operational success within the industry into the future.

Considering such potentially bleak long term industry prospects, it is further suggested that a harvest or exit strategy might provide the best alternative solution for the firm’s executive management going forward. While the cessation of business is not a decision to be taken lightly, as a small and comparatively inefficient player within an industry set to become increasingly defined by economies of scale in the manufacture of flagship efficient LED products, Aura Light may find itself faced with no other choice.

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