

# **De-internationalization of Transactional Platforms:**

## **An Exploratory Case Study**

This study explores why some transactional platforms that have expanded into foreign markets decide to de-internationalize. The empirical part of this study focuses on an anonymized transactional platform called Alpha and its de-internationalization from the host market. Our exploratory case study shows that Alpha's de-internationalization was driven by a combination of external and internal factors. These factors were related and contributed in different ways to create a downward spiral of de-internationalization. In conclusion, we propose that such a negative spiral in foreign markets is related to a firm's inability to recontextualize, something that even globally standardized transactional platforms must be capable of doing. The importance of recontextualization highlights the fact that a platform business consists of elements that are embedded in a particular local context.

**Keywords:** digitalization, platforms, de-internationalization, recontextualization, case study

### **Introduction and purpose**

Platforms are among the world's fastest-growing modes of organizing trade and commerce (Gawer, 2020; Lee et al., 2018; OECD, 2019; Verhoef et al., 2021). Simply put, platforms are two-sided, or multi-sided, business models that serve at least two distinct sets of users by bringing them together and facilitating their interaction (Cennamo and Santalo, 2013; Eisenmann et al., 2006; Eisenmann et al., 2011; Evans and Schmalensee, 2016; Gawer, 2020; Van Alstyne et al., 2016).

In this study, we focus on transactional platforms, where buyers and sellers exchange goods or services without traditional intermediaries, physical locations, or other constraints (Bonchek and Choudary, 2013; Cusumano et al., 2019; Gawer, 2020;2013; Van Alstyne et al., 2016). Today there are many well-known transactional platforms such as eBay, Amazon, Rakuten, and Alibaba. These platforms are moving aggressively into new business areas and accelerating the convergence of industries and service sectors (Gawer, 2020; OECD, 2019; Reinartz et al., 2019a; 2019b; Stallkamp and Schotter, 2021; Verhoef et al., 2021). Many transactional platforms have also internationalized and quickly established a strong global presence (Stallkamp and Schotter, 2021). Many experts say that multinational platforms are now reshaping global trade by offering many third-party sellers and merchants an opportunity to reach new markets and continents with a smaller additional investment and a lower risk (OECD, 2019; Jin & Hurd, 2018; Nambisan et al., 2019).

Although transactional platforms are becoming global “decathletes” that seem capable of anything, expanding the businesses to new areas is not easy (e.g., Verhoef et al., 2021). Entering new geographic markets is challenging even for the largest platforms. In fact, many internationalization attempts have failed. Table 1 lists some of the best-known platforms’ struggles with internationalization.

\*\*\* Insert Table 1 about here \*\*\*

These examples demonstrate that internationalization does not always follow an upward growth trajectory, even for digital platforms; misfortune or even failure can have a significant role in

platforms' international activities (cf. Alexander et al., 2005). One could say that transactional platforms that enter new geographic markets often seem to face some sort of difficulties that can drive them to de-internationalize from the market(s) they have entered. Benito and Welch (1997) coined the term “de-internationalization” to describe any voluntary or forced actions that reduce an organization's engagement in foreign markets.

While internationalization has received significant academic attention, the field of de-internationalization is rather unexplored and the body of literature is limited (Alexander et al., 2005; Burt et al., 2019; Crick et al., 2020; Jackson et al., 2005; Moreira et al., 2019; Palmer, 2004; Turcan, 2013), especially in relation to transactional platforms. Research on de-internationalization is arguably sparse due to its seemingly negative connotation (Turcan, 2013). For example, Mellahi (2003) attributes the lack of research on de-internationalization to the stigma of failure. Furthermore, as Mellahi (2003) and Burt et al. (2003) argue, international firms themselves tend to wipe failed expansion activities from their record books or public memory. In addition, staff in the host country usually move after de-internationalization so neither they nor the artifacts remain to inform researchers (Burt et al., 2003; Mellahi, 2003; Streed and Cliquet, 2013). For these reasons, de-internationalization is a complex and problematic area of study. Despite these challenges, we focus on the de-internationalization of transactional platforms.

This study explores why transactional platforms that have expanded into foreign markets decide to de-internationalize. We aim to examine both external and internal factors behind the de-internationalization of transactional platforms. We pay special attention to the ways in which these factors are related, and how they contribute to de-internationalization over time. To the best of our

knowledge, this is the first academic investigation of the de-internationalization of transactional platforms. In our empirical section, we explore the de-internationalization of one of the world's leading transactional platforms. The case company and host market are anonymized for reasons of confidentiality.

Theoretically, our study draws from the business model literature and the literature on platforms and de-internationalization. One specific aspect that we focus on is recontextualization (Brannen, 2004). Peltokorpi and Vaara (2017) state that recontextualization highlights the ways in which the meaning of ideas, resources, and practices change when they are adopted in a new context. In this study, we define recontextualization as the transformation in the meaning of the transactional platforms and their practices when they expand their business operations from one market to another and engage in transactions with new local audiences (Brannen et al., 1999; Brannen, 2004). We assume that the potential difficulties in recontextualization can act as a significant driver to de-internationalize. To be more specific, we argue that a platform business is not entirely standardized and has tacit, locally-embedded elements (Granovetter, 1985), while platform technology *per se* can be more standardizable. Therefore, we propose that by taking a recontextualization perspective we can bring a new understanding as to why some transactional platforms that have expanded into foreign markets decide to de-internationalize.

## **Theoretical background**

### *Key fundamentals of transactional platforms*

According to Teece (2010), whenever a firm is formed, it either explicitly or implicitly applies a particular business model that describes its architecture of value creation, value delivery, and value capture mechanisms. Nowadays, there is a growing body of academic literature on business models; Budler, Zupi, and Trkman (2021) have identified 10,828 such articles.

The dominant business model nearly in every industry has been the pipeline model (e.g., Van Alstyne et al., 2016). The pipeline model is a linear value chain where inputs, such as materials, go in one end, and come out the other as valuable outputs, such as finished products (Mody et al., 2020; Van Alstyne et al., 2016). Transactional platforms differ significantly from linear pipelines (Eisenmann et al., 2011; Van Alstyne et al., 2016). In platform-based business models, creating the value is multidimensional (e.g., Van Alstyne et al., 2016). Rather than pushing the goods through a tightly controlled supply chain, the value in transactional platforms comes from bringing producers and consumers together and enabling them to interact (Ondrus et al., 2015; Reinartz et al., 2019a, 2019b; Van Alstyne et al., 2016). As transactional platforms are largely digitally built, they can take full advantage of the new technologies, digital innovations, and the power of ubiquitous internet connectivity (e.g., Verhoef et al., 2021; Yablonsky, 2018).

For producers or merchants, these digitally built transactional platforms provide access to a massive customer base while end-consumers are attracted by a colossal offering and the ease of one-stop shopping (e.g., Broekhuizen et al., 2021). Reinartz et al. (2019b, 361) stated that “owing to their superior assortment depth and width, platforms provide better matches between supply and demand than either vertically integrated manufacturers or institutional retailers can offer.” In this

sense, transactional platforms are like enormous virtual department stores that bring buyers and sellers together in a convenient way.

Typically, platform owners' revenue models are based on commissions or similar transaction-based fees (Hagiu, 2009; Lee et al., 2018; Rochet and Tirole, 2003). Therefore, a key success factor for the owners is the ability to attract producers (sellers) and end-users (buyers) to engage in their platforms (Lee et al., 2018; Van Alstyne et al., 2016). For example, Bonchek and Choudary (2013) specified that the success of a platform strategy is determined by the following three factors: (i) connection i.e., how easily buyers and sellers can plug into the platform to interact and transact, (ii) gravity i.e., how well the platform attracts buyers and sellers, and (iii) flow i.e., how well the platform fosters the exchange and co-creation of value.

Broekhuizen et al. (2021), in turn, argue that one critical factor is related to the platforms' decisions regarding their openness (see also Parker and Van Alstyne, 2018; Van Alstyne et al., 2016). For transactional platforms, there is some pressure to increase their openness to boost the network effects. In short, the network effect means that the value of transactional platforms increases with the number of participants on the platform (Edelman, 2015; Gawer, 2020; Cennamo and Santalo, 2013; Zhu and Iansiti, 2012). However, excessive openness can have value-destroying effects such as opportunism, low quality, or destructive competition (Broekhuizen et al., 2021; Van Alstyne et al., 2016). Typically, transactional platforms such as Amazon or eBay are more open than closed. This means that they aim to serve a wide range of various customer segments using as many producers (merchants) as possible and a great variety of product categories (Broekhuizen et al., 2019).

During the last years many transactional platforms have internationalized and quickly achieved a strong global presence (OECD, 2019). In fact, when it comes to the modern transactional platforms one could ask are they not international “by default” (Stallkamp and Schotter, 2019)? Although platforms seem to be “born globals” by nature, for most platforms, particularly for transactional platforms that facilitate the exchange of physical goods between buyers and sellers, there is a need to make deliberate foreign market entry decisions (e.g., Stallkamp and Schotter, 2019). Furthermore, a platform’s foreign market entry can take various forms from joint ventures to acquisitions.

When taking a broader look at transactional platforms and their internationalization strategies, one can argue that platforms tend to base their internationalization primarily on a standardized global approach (Swoboda et al., 2014). We argue that this is largely due to fact that transactional platforms are first and foremost technology platforms, and technology requires standardization wherever possible. Hence, it is the underlying technology of the platforms that drives a standardized global approach, while the physical delivery of the transaction may require adaption. Stallkamp and Schotter (2019) pointed out that platforms with strong cross-country network externalities tend to adopt global strategies with centralized strategic decision-making and highly standardized practices across countries. A global strategy helps platforms to be consistent across countries, and this ensures that platforms’ users can conduct transactions with each other across national borders (Stallkamp and Schotter, 2019).

*De-internationalization and its potential triggers*

Instead of focusing on transactional platforms' internationalization, we explore de-internationalization and its causes. De-internationalization can be seen as the opposite of internationalization. Whereas the purpose of internationalization is to enhance a platform's engagement in foreign markets, de-internationalization reduces a platform's engagement in foreign markets (cf., Benito & Welch, 1997; Turcan, 2013). In the extreme case, de-internationalization can be a total withdrawal from a host market (Benito and Welch, 1997; Burt et al., 2003). However, de-internationalization can also occur only in a partial way. For example, there might emerge some kind of organizational restructuring, which entails e.g., changes in the control of resources of the firm or organizational form (Benito and Welch, 1997; Burt et al., 2003). In this study, we use the term "de-internationalization" to encompass all ways of reducing a platform's engagement abroad.

According to Benito and Welch (1997), de-internationalization can be either voluntary or forced. In both cases, it is important to understand the reasons for the decision. Jackson et al. (2005) state that de-internationalization is often explained by rational economic reasons (see also Benito and Welch, 1997; Burt et al., 2003; Turcan, 2013). For example, de-internationalization can be seen as a consequence of low profits or high costs in a host market. However, as Jackson et al. (2005) emphasize, there can be many possible reasons for de-internationalization, and therefore there is also a need to take account of various contextual factors that might explain the de-internationalization. These contextual factors can be classified in many ways. Typically, contextual factors behind de-internationalization are divided into external factors and internal factors (see e.g., Mellahi et al., 2002; Mellahi and Wilkinson, 2004; Burt et al., 2003; Etgar and Rachman-Moore, 2007; Jackson and Sparks, 2005; Pal et al., 2006).



External factors refer to the causes or “triggers” that are located outside the company such as changes in the competitive landscape, changes in consumer demand, and technological uncertainty. Internal factors, in turn, refer to the causes that are located inside the company. For example, management or leadership problems, or corporate portfolio decisions, can be seen as internal causes of de-internationalization. Burt et al. (2003) and Mellahi et al. (2002) have pointed out that if de-internationalization is explained by external factors, one makes an (implicit) assumption that the management is “the victim of external circumstances” whereas referring to internal factors usually emphasizes managers’ active roles or even their own “faults” (e.g., over-confidence, arrogance, lack of skills) behind the de-internationalization.

It is argued that studies that focus on external factors are typically theoretically based on the Industrial Organization (deterministic) perspective whereas studies that focus on internal factors are often based on Organizational Studies (voluntaristic) perspective (Mellahi et al., 2002; Burt et al., 2003; Pal et al., 2006; Mellahi and Wilkinson, 2004). In accordance with Mellahi and Wilkinson (2004), it can be stated that the Industrial Organization explains de-internationalization by pressures and constraints that the external environment imposes. The Organizational Studies perspective, in turn, emphasizes that more important than the external context are the decision-makers and their perceptions of the external environment and their capacity to act (Mellahi and Wilkinson, 2004). Without entering into a complex debate between these two perspectives, we assume that both external and internal factors can be taken into account in the one and same study (Mellahi et al., 2002; Mellahi and Wilkinson, 2004; Burt et al., 2003).

Burt et al. (2003; see also Mellahi et al., 2002; Burt et al. 2019) investigated external and internal factors behind de-internationalization and came to the conclusion that external and internal factors are not mutually exclusive; rather they are interlinked. Based on external and internal factors, Burt et al., (2003) identified four potential triggers of de-internationalization in the field of retailing: (i) Market Failure, (ii) Competitive Failure, (iii) Operational Failure, and (iv) Business Failure. Burt et al. (2003) state that Market Failure and Competitive Failure are based on the Industrial Organization (external) perspective, whereas Operational Failure and Business Failure are examples of the Organizational Studies (internal) perspective.

Table 2 summarizes the studies that have explored de-internationalization and other unsuccessful outcomes in the field of international retailing. These examples show that the triggers for de-internationalization are multifaceted and difficult to generalize. This point was reiterated by Palmer and Quinn (2007) who stated that de-internationalization may occur for a variety of reasons. Burt et al. (2002; 2003) have argued that a common feature in all explanations of de-internationalization is a combination of external and internal factors. Although triggers for de-internationalization are likely to vary, there seems to be one common issue: the inability to understand local markets and cultures or even the total ignorance of the importance of local adaptation. For example, Gandolfi and Strach (2009) found that the inability to understand local consumers' preferences caused failure. Son et al. (2018) showed that inability to develop the localized merchandising strategy was related to difficulties in local markets. Many other studies have arrived at similar findings (see e.g., Gao, 2013; Haddock-Fraser et al., 2009; Pioch et al., 2009).

We argue that these difficulties in local markets are signs of difficulties in recontextualization. In short, recontextualization means “taking something from its usual context and resituating it in an unfamiliar context” (Oxford Reference, 2021). Brannen (2004) specified recontextualization as “the process by which firm assets take on new meanings in distinct cultural environments”. Peltokorpi and Vaara (2017), in turn, stated that recontextualization refers to the ways in which the meaning of ideas, resources, and practices transform when they are adopted in a new environment. Practically, any asset (or even an entire business model) can become something different when it is taken into another context. Furthermore, meanings created in new (foreign) markets can be very different from home markets. For example, Brannen (2004; from the source of Peltokorpi and Vaara, 2012) studied the internationalization of American Disney’s theme park to France and Japan as a recontextualization process in which the meanings of particular assets of the park were transformed while they were adapted from one cultural environment to the other. The meanings created in local environments differed significantly, causing a semantic (mis)fit, and ultimately to drastically different outcomes in France and Japan (Brannen, 2004; see also Peltokorpi and Vaara, 2012). Based on the above, we argue that recontextualization may also significantly affect the expansion efforts of transactional platforms. In our study, recontextualization refers to the transformation in the meaning of the transactional platforms and their practices when they expand their business operations from one market to another and engage in transactions with new local audiences (Brannen et al., 1999; Brannen, 2004). Particularly, for those platforms that are highly dependent on local markets and the acceptance of local audiences, difficulties in recontextualization might become a significant barrier to move on. And such difficulties are likely to lead to a firm to de-internationalize from a location.

\*\*\* Insert Table 2 about here \*\*\*

In this study, we explore the potential causes of de-internationalization by focusing on both external circumstances and internal factors, as well as investigating whether or not the difficulties in recontextualization are the drivers of de-internationalization. We also explore the dynamic nature of de-internationalization. In particular, we want to examine how the factors behind de-internationalization are related, and how they contribute to de-internationalization over time (cf. e.g., Jackson et al., 2005). In our case analysis, we use Burt et al.'s (2003) four triggers to pinpoint the location of causes.

## **Methodology**

We conducted an exploratory qualitative case study on one of the leading transactional platforms in the world, and its attempt to internationalize in the country called “Delta”. The case company in this study is anonymized as “Alpha”.

Eriksson et al. (2014) state that the purpose of an exploratory case study is to tell a good story, not to test hypotheses (see also Dyer and Wilkins, 1991). It is argued that an exploratory research strategy is beneficial in less-studied topics because it reveals emergent themes and thus increases the understanding of the phenomenon under investigation (Eisenhardt, 1989; Mintzberg, 1979). De-internationalization is a less-studied phenomenon in the literature on transactional platforms. To the best of our knowledge, this is the first study that investigates why transactional platforms that have expanded into foreign markets decide to de-internationalize.

Following the recommendations of Yin (1994; 2003), Eisenhardt (1989) and Bickman and Rog (2008), the empirical data for this study was collected from a variety of sources, including semi-structured interviews and secondary sources. We conducted seven semi-structured, in-depth interviews with executives who had worked for Alpha in the home country and abroad (see Table 3). Each interview lasted 60–90 minutes. In the interviews, interviewees were asked to talk about their backgrounds, Alpha’s internationalization, and how Alpha arrived at the decision to withdraw from Delta. We chose interviewees from several locations to get as holistic and thorough a picture of Alpha’s international expansion as practicable. Most of the interviews were conducted in 2018, two years after Alpha de-internationalized from Delta. One interview was conducted in 2020.

\*\*\* Insert Table 3 about here \*\*\*

The interviews provided rich information on Alpha’s business model and international expansion and allowed us to explore Alpha’s de-internationalization from Delta from a range of perspectives. We also systematically searched for public information on Alpha. We were able to include all annual reports and other financial reports (mostly from 2006 to 2018) that were published on the company’s websites. Alpha’s official IR news and press releases enabled us to determine the timeline of events and phases in Alpha’s international expansion. We also collected more than 50 articles from newspapers and industrial magazines describing Alpha’s international business (e.g., *Financial Times*) in our data. For reasons of confidentiality, we cannot cite them.

The data gathered was analyzed by applying an explanation-building approach. In this approach, the final explanation may not have been fully stipulated at the beginning of a study and therefore differs from pattern-matching approaches. Rather, the case study evidence is examined, theoretical positions are revised, and the evidence is examined iteratively from a new perspective. The building of an explanation is similar to the process of refining a set of ideas (Yin, 1994). We began by writing down the details of the case company's entry into and exit from Delta. These write-ups are often purely descriptive, but they are central to the generation of insights (Gersick, 1988; Pettigrew, 1990), because they help researchers to cope with the data early in the research process. We explore overall impressions, tentative themes, and concepts from the write-ups. In the second stage, we conducted line-by-line coding of interview data and extracted concepts related to Alpha's exit from Delta. In the third stage, we categorized some of these codes and concepts into four triggers that were suggested by Burt et al. (2003). In the fourth stage, we analyzed these triggers with detailed write-ups. Then, we analyzed interlinkages among these triggers and showed it as a spiral model. In the final stage, we discussed our findings with existing literature.

### **Description of Alpha's business model and internationalization to Delta**

Alpha is one of the largest platform companies in the world, with a global annual gross transaction value of almost 200 billion USD. Furthermore, Alpha has more than one billion members globally.

Alpha relies on a business model that allows various users to interact and make transactions on its digital platform without traditional intermediaries or constraints. Alpha's platform is basically open to everyone and is easy to join or leave. Even small merchants can set up their businesses on

Alpha's platform to access an established customer base with little investment. Merchants are also relatively autonomous on Alpha's platform; for example, they can design and brand their own exclusive storefronts. In fact, Alpha is often described as a bazaar where the owners of numerous small stores curate their offerings and interact personally with customers.

Alpha's revenue logic is based largely on commission-based fees that it collects from the merchants who run their shops on its platform. Alpha also collects additional fees for display ads and promotional campaigns, and other significant profit sources, particularly in fintech.

While online services were still on the path of rapid growth in Alpha's home country, Alpha sought new business opportunities in foreign markets. Alpha had a clear vision to become a truly global company that connected users from all around the world. Between 2007 and 2013, the company entered many countries around the world, including in North America, Asia, and Europe. Internationalization was accomplished by acquiring local companies in the target markets. In each market, Alpha leveraged its e-commerce model from its home market as best practice, where it had successfully grown. In 2012, Alpha also established regional headquarters in Europe, Asia, and North America to accelerate its international expansion.

In 2011, Alpha entered the country Delta (anonymized name), through the acquisition of a local online retailer, Beta (anonymized name), that was one of Delta's largest online retailers with more than 10 million registered users. The acquired local online retailer had become a popular DVD and CD e-commerce store in Delta.

Before Alpha acquired Beta, Beta was a traditional online retailer engaged primarily in its own direct retail sales. After Alpha bought Beta, Alpha embarked on an ambitious fundamental renewal process through which Beta would no longer have its own retail offering but would become a platform for third-party merchants selling their products on the site. It is said that this renewal process was difficult, and in 2013, Alpha announced a massive financial loss from the e-commerce businesses in Delta. It is argued that the loss was caused by Alpha's renewal process.

In 2014, Alpha made a significant move by closing the original Beta and replacing it with Alpha's marketplace that offered local customers products across multiple categories. In addition, consumers had access to digital services offered by Alpha. The Regional CEO of Alpha commented on the launch of the marketplace in Delta (a quote from a public source): "With the launch of Alpha marketplace [in Delta], we are making it easier for shoppers to discover what they want and empowering merchants to provide it. Over the next 12 months we will pioneer a new era of borderless retail and entertainment by integrating our e-commerce offering with our global ecosystem of Internet services, to make shopping more fun." One could argue that establishing a marketplace in Delta was Alpha's first step in the region to accelerate Alpha's globalization and the move towards a single, global shopping platform. The representative of Alpha's Delta operation revealed this intention in 2014 by saying (a quote from a public source): "Ultimately all the [Alpha] marketplaces around the world will be connected on one platform, which enables retailers from Delta to start selling to consumers in all those places."



However, in 2016, Alpha posted an announcement on its corporate website describing that the company planned to restructure its businesses in the region. Alpha announced that it had decided to close its e-commerce operations in Delta.

### **An exploratory analysis on Alpha's de-internationalization from Delta**

#### *Triggers of Alpha's de-internationalization*

Why did Alpha make this radical decision to de-internationalize from Delta only two years after opening its marketplace there? In a press release explaining the decision, Alpha blamed the cost of growth relative to the size of the business. One could say that Alpha offered a clear rational economic explanation for its de-internationalization. Although this explanation is certainly true, we argue that it is only the tip of the iceberg. Based on our study, the reasons for Alpha's exit are more profound and are related to Burt et al.'s (2003) four triggers.

First of all, our interviews revealed that Delta was a more complex market than Alpha had expected. One of the interviewees mentioned that this complexity was related to the data policy in the market. Interviews also confirmed that Alpha faced cultural challenges in Delta. One of our interviewees [No. 7] described these cultural and language related challenges by saying, "To aim to be No. 1 in a market when people can't even pronounce the [brand] name, that might not be the best route." We argue that market complexity and cultural challenges are a sign of Market Failure.

Second, it emerged from our interviews that Alpha's situation in Delta was largely affected by Competitive Failure under Burt et al.'s (2003) classification, which was related to aggressive local competition. In particular, the U.S.-based platform, Amazon, was perceived as a very strong competitor in Delta and interviewees openly admitted that Amazon was difficult to beat. Amazon's superiority in Delta was probably related to the fact that Amazon had established its business in Delta years before, and thus had time to earn brand acceptance and a strong position in the Delta market. Amazon was also continuing to invest in price and speed of service.

Third, internal Operational Failures, meaning that Alpha was simply not good at doing business in Delta, became apparent through four tightly interrelated operational difficulties: Alpha's inability to replace the acquired local business model with its own global business model; its inability to create brand awareness in the marketplace; its inability to attract local users; and, ultimately, its inability to achieve the expected speed of growth in the local market. These operational difficulties and the outcome of them were summarized by one of the interviewees [No. 2] who stated: "Alpha was nothing [in the market]." Based on our interviews, it seems that the local audience in Delta never became familiar with Alpha and they were actually more confused than excited about Alpha. When looking at Alpha's operational difficulties in Delta more broadly, these difficulties appear to be a clear sign of Alpha's difficulties in "recontextualizing" (Brannen, 2004) its business model in Delta. Although Alpha's business model worked well in its home country, it was difficult to fit into Delta market. Perhaps Alpha was ignoring the importance of local adaptation in Delta by insisting on its idea of a global uniformed platform.

Fourth, triggers that were indicative of general Business Failures were the timing of market entry into Delta, Alpha's rush to global expansion, and Alpha's need to prioritize other markets over the Delta market. One interviewee [No. 3] noted that Alpha was moving too fast and was not actually ready for global expansion: "Maybe we rushed to the integration too quickly. Maybe the business itself was not ready." In fact, by looking at Alpha's speed of expansion in 2007-2013, one could ask whether Alpha had tried to do too many things at once before ensuring that it had the resources to make heavy investments in all markets at the same time. Again, Alpha's idea to create a global platform drove it to expand its markets in a way that was not realistic given the investment required and the management challenges of adapting to so many local markets at once.

Our study clearly showed that Alpha's de-internationalization was driven by both external and internal factors. On the one hand, one can argue that Alpha was "the victim of external circumstances" (e.g., market complexity and aggressive local competition) but on the other hand, Alpha's de-internationalization can be seen as a result of internal failures such as the lack of ability to "re-contextualize" Alpha's business model in Delta (cf. e.g., Mellahi et al., 2002; Burt et al., 2003; Brannen, 2004). Furthermore, we found that these factors were related, increasing the likelihood of Alpha making an exit decision. The next section discusses this issue in more detail.

#### *A negative spiral of de-internationalization*

Based on our interview data, we pieced together a chain of events that describe how de-internationalization started and progressed. We call this chain of events the De-Internationalization Negative Spiral (or DINS) because it led to Alpha's exit from Delta. This acronym is chosen

because the firm got lost in the din (the noise) created by numerous sources: the foreign market, aggressive competition, complex operations, and the strain on the business. The DINS for Alpha are shown in Figure 1 by integrating the findings of our research with those of Burt et al. (2003).

\*\*\* Insert Figure 1 about here \*\*\*

Based on our analysis, this negative spiral was started by Alpha's inability to replace the local B2C model with Alpha's own global B2B2C marketplace model [Fig 1., Operational Failure]. According to the interviews, the entire renewal process was much more difficult than Alpha had expected, and Alpha was not able to replace the model as planned. As one of the interviewees [No. 1] stated, the renewal process only reached half-way before exiting: "We tried to change Beta's business model to B2B2C. But we stopped in in a halfway. [...] It was more difficult to change the model." This difficulty of replacing the model was largely because Beta was a traditional B2C online retailer that had a different business logic from Alpha's B2B2C platform-based model. We also argue that Alpha's inability to replace the model was worsened by the timing of the entry into Delta [Fig 1., Business Failure]. As one of the interviewees indicated, Alpha started its global expansion too early and rushed into new markets. It certainly appears that Alpha was not ready to launch globally when it bought Beta. Furthermore, difficulties replacing the business model were partly affected by market complexity and cultural challenges [Fig 1. Market Failure].

Although Alpha was eventually able to replace Beta with a new unified marketplace, Alpha struggled to create brand awareness around its marketplace in Delta [Fig. 1., Operational Failure]. One of the interviewees [No. 4] openly admitted: "[...] the problem was brand awareness [...]"

Because people did not know Alpha, it was very difficult [...] to use Alpha brand [in the market].” Another interviewee [No. 2] stated: “[...] we did not take aggressive approach to enhance our Alpha brand [in the market].” All in all, it seems that neither local consumers nor merchants familiarized themselves with the marketplace after it was launched. One of the interviewees commented that replacing Beta with the new marketplace just confused local consumers and merchants, who did not know what Alpha was all about. This is a clear sign of difficulties regarding the recontextualization. Furthermore, Alpha’s inability to build brand awareness was affected by the speed at which Alpha was moving [Fig. 1., Business Failure] and the aforementioned complexity and cultural challenges [Fig. 1. Market Failure]. According to the interviewees, Alpha’s haste in changing the brand and domain name confused the local audience. As one of the interviewees [No. 4] stated: “Alpha rapidly changed the brand and domain names and everything. [...] That was very, very challenging and too difficult. In my opinion, this is what we made it very difficult and fail.”

Furthermore, when Alpha failed to create brand awareness around its marketplace, it was unable to attract users to its platform [Fig. 1., Operational Failure]. These findings are consistent with Bonchek and Choudary (2013) who argue that ability to create “gravity” is a key success factor for platforms. One could say that Alpha failed to create this necessary gravity in Delta. One of the interviewees [No. 5] admitted that “[...] In Delta, even [though] we acquired an existing company, we could not have enough customer base.” Alpha’s situation was also made worse by aggressive local competition [Fig. 1., Competitive Failure]. In particular, other global marketplaces were perceived as very strong competitors and interviewees admitted that Alpha had trouble beating

them. As one of the interviewees [No. 2] commented: “Of course, there was the existence of Amazon, and eBay. It was kind of difficult to beat them.”

Alpha’s inability to create the necessary gravity in the Delta led ultimately to a situation where the growth rate was below expectations and Alpha had to admit that it was difficult to continue its businesses in Delta [Fig. 1., Operational Failure]. This was pointed out by one of the interviewees [No. 2] who stated: “In my understanding, basically, you know, growth speed, and also profit size of each business unit. [...] The situation is like under expectation. So, there was a kind of difficulty to continue the business.” At the same time, Alpha had to prioritize other markets [Fig. 1., Market Failure]. One of the interviewees stated that when Alpha was operating in Delta, it had to concentrate on its home country much more than on foreign markets. We argue that the combination of the above (external and internal) failures (i.e. the DINS presented in Figure 1) drove Alpha ultimately to exit Delta. A key part of this DINS was caused by the significant difficulties in recontextualization.

## **Discussion and conclusions**

During the last decade we have witnessed how transactional platform business models have become dominant models in many industries and have moved aggressively into new business areas and new markets. Although platforms have gained an exceptionally strong position in many markets, they have also faced great difficulties in their attempts to internationalize. In several cases, platforms have decided to de-internationalize.

In this study, we have shed light on the question of why transactional platforms that have expanded into foreign markets decide to de-internationalize. In our empirical section, we focused on the anonymized case company called Alpha that is one of the world's leading platform companies. The company entered several new markets and regions between 2007 and 2013. Our case study has explored Alpha's entry into Delta in 2011 and its exit in 2016. Our explorative case study has particularly focused on the question of why Alpha decided to exit from Delta.

In its official press release Alpha offered a very rational economic explanation for its de-internationalization; the cost of growth relative to the size of the business. This "economic reasoning" is a very typical way to explain de-internationalization (see e.g., Jackson et al., 2005; Benito and Welch, 1997; Burt et al., 2003; Turcan, 2013). However, our study showed that there were actually a broad range of external and internal factors behind the de-internationalization. In other words, Alpha's de-internationalization was caused by both external circumstances (e.g., aggressive local competition) and internal failures (e.g., the inability to replace the acquired business model). These findings are in line with previous studies of more traditional retail firms (see e.g., Bianchi and Ostale, 2006; Burt et al., 2002; Mellahi et al., 2002).

Furthermore, we were able to demonstrate that over time these factors related and contributed to de-internationalization in different ways as indicated in Figure 1. We have named this chain of events the De-Internationalization Negative Spiral (DINS). The DINS highlights the dynamic nature of de-internationalization and underlines that a platform company's de-internationalization is caused by a range of interlinked failures (Burt et al., 2003). We hope that our findings, and the demonstrated DINS in particular, help further studies to go beyond merely identifying the

determinants of de-internationalization and shedding light on its dynamic and complex nature. In conclusion, our study gives strong support to Benito and Welch (1997) who have stated that de-internationalization is an outcome of a set of forces that are linked to the past but also current developments inside and outside of the company. Our findings are also in line with results presented by Mellahi et al. (2002) who found that it is a combination of internal and external factors that is responsible for organizational failure. Furthermore, our study supports findings by Bianchi and Ostale (2006) who stated that although firms may be successful in their home markets, they must consider differences and potential barriers when transferring their practices and formats to new foreign markets.

Our study indicates that internal failures (or, to be more specific, internal operational failures) are the most critical from the viewpoint of de-internationalization (cf. e.g., Burt et al., 2002; 2003; Mellahi et al., 2002). In other words, we argue that the failures that ultimately drive de-internationalization are located inside the company. It also became evident that internal failures are tightly linked to each other meaning that one internal failure leads easily to another internal failure. Our case highlights the fact that if serious internal (operational) difficulties emerge in the early phase of internationalization, there is a great danger that the platform will fall into a DINS that can ultimately lead to exit. Problems with the business model are very critical in this respect. As our study showed, Alpha found itself in trouble (or in DINS) when it failed to replace the acquired model with its own model and brand in a way that was suitable to Delta's unfamiliar context. It seemed that Alpha's undertakings in Delta caused more confusion than enthusiasm among local users. This is something that we have referred as difficulties in recontextualization (Brannen 2004). All in all, we believe that (in)ability to recontextualize is a critical factor for



transactional platforms when it comes to their internationalization. While the platform technology itself may be highly standardized, the platform business consists of elements that are embedded in particular local contexts. We argue that such locally-embedded elements (Granovetter, 1985) are often tacit and are likely to be overlooked (Doz, Santos and Williamson, 2001). It is clear that transactional platforms that are expanding into foreign markets should own the ability to facilitate recontextualization.

Lastly, how does de-internationalization in a digital context differ from de-internationalization in a physical one? As our study has demonstrated that the de-internationalization of a digital platform can be linked to all four failure types proposed by Burt et al. (2003). This implies that digital platforms face the same challenges as any other internationalizing firm, so the digitalization or digital context *per se* should not be seen as a silver bullet that makes internationalization much easier or more successful than internationalization in a physical context. De-internationalization can have the same causes in digital as in physical contexts.

At the same time, we suggest that the interlinkages between these failure types may be stronger for a transactional platform business than a traditional pipeline business. In the transactional platform business, the strong network effects and high switching costs shelter incumbents from the entry of new platform owners (Eisenmann et al., 2011). With this entry barrier, existing platforms tend to build a “winner-take-all” position (Eisenmann et al., 2006). In such a difficult situation, it is not easy for foreign firms to compete with existing platforms by attracting both sides of buyers and sellers. If they cannot create local gravity, their failure becomes obvious and accelerated by a chain of multiple failure types, toward de-internationalization.

Furthermore, our study highlights the critical role of the local user base for a global transactional platform. Our results complement the theory presented by Stallkamp and Schotter (2021) and advance our understanding of the role of the local user base. In their study, Stallkamp and Schotter (2021) assumed that for global platforms characterized by cross-country network externalities, it is not that critical to achieve an early leading position within any one country because the competitiveness of the platform depends on the total global user base. Our case study demonstrated that this was not the case for Alpha in Delta. Instead, Alpha decided to withdraw from Delta despite its enormous global user base and although it had expanded its businesses to several countries around the world. This highlights the fact that it is the local audience that keeps global platforms alive and that generates the required flow that fuels growth (cf. Bonchek and Choudary, 2013). This is again a sign of the importance of recontextualization.

### **Limitations and further research**

There are some limitations that suggest caution in assessing our findings. First, although our work builds on previous research, it is based on only one very detailed case study. Therefore, the findings certainly can and should be challenged through comparative case studies focusing on similar and different types of transactional platforms and their entries into and exits from foreign markets. Furthermore, de-internationalization is difficult to explore due to the stigma associated with it. For example, it is argued that companies might expunge evidence of their failed expansion activities from their record books or institutional memory (e.g., Burt et al., 2003; Mellahi, 2003). In this study we have tried to compensate for these difficulties by collecting empirical material

from a variety of sources, including semi-structured interviews from various locations and numerous secondary sources. However, it is still worth bearing in mind that other researchers could reach different conclusions when studying the causes for Alpha's de-internationalization. Therefore, we welcome future research that extends and deepens our understanding of the de-internationalization. We especially hope to start a conversation on why and how de-internationalization may happen in an era that is driven by digitalization and new models of doing business.

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