Large Pure Internet Firms and Theories of International Business: Australia as a Foreign Internet Market

Hamish Nairn, B Ec

SID: 200413455
November, 2007
ABSTRACT: Large pure internet firms challenge key assumptions in international business theories. This paper considers the relevance of the eclectic paradigm and ‘born global’ theories to large purely internet based multinationals. By researching four case studies of firms operating in the Australian market, evidence is found for a need to update the theory. Specifically, there is a need to consider the elevated importance of the consumer as a critical resource. Secondly, these firms operate in a market that is borderless and where market entry is a spectrum. Third, complex networking relationships break down boundaries between internal and external. Theory must be developed to analyse the post-born global firm.
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Chapter One: Introduction

What lesson should be drawn from all this? The most pertinent one is this: if you are engaged in almost any form of commerce, from the humble market stall to the gigantic department store, the Internet is lurking, ready to blow up your business. And if you are not prepared to embrace change, to cannibalise your own sales and to disintermediate your own intermediaries, somebody else surely will. (Economist 2000c)

The effect of the internet on business strategy is viewed by some as the “innovation of the century” (Johnson et al. 2000, p275.) This is because the internet has fueled an information and communications revolution. It has forced businesses to fundamentally alter their value creation model as it constitutes both a threat and opportunity, thereby forcing changes to both offensive and defensive strategies (Calkins et al. 2000; Johnson et al. 2000). The potential effects on theories of the firm are obvious and profound.

Understanding how and why firms expand overseas lies at the crux of the international business discipline. The issue is relevant because national borders create specific challenges for business and ultimately firms must cope, to some extent, with a “liability of foreignness” (Hymer 1976). In the past half century, a large body of literature has come to explain the causes and preconditions of internationalisation of firms. This thesis falls within that literature but in a context that is radically changing business that is the internet. National borders are neither
obvious nor significant on the internet. Some go so far as to claim that the Internet “is destructive of the distinction between domestic and international” (Kobrin 2001 p700). Naturally this poses significant research challenges for international business scholars. Does the internet change merely the pace of internationalisation, or does it also change its method?

Of course, the internet as a tool has the potential to revolutionise virtually every industry, but this research focuses on the most obvious industry where the internet is (literally) crucial: online firms. Purely internet based firms (firms that operate solely through their online presence) have grown out of the internet to become a separate class of firms that become more numerous and valuable each year. Each year, millions more people worldwide use the internet for communication, information and entertainment (Comscore 2007). This creates opportunities for entrepreneurs to create value by capturing the attention of some of those millions of people.

Cyberspace is like no market in history: potentially in e-commerce no physical product exists, no currency is involved and there is no tangible record of the transaction (Dunning and Wymbs 2001). The global nature of the online world, whereby physical geography is not a barrier – it is non-existent – creates a complex set of legal ambiguities (Kobrin 2001) which demand certain new environmental support structures, such as credit card payment systems (Oxley and Yeung 2001). This is fertile ground for the application of old internationalisation theories in a revolutionary new set of constructs.
The challenge of this research is to establish whether internet firms subscribe to traditional internationalisation theory. Naturally, small and medium-sized enterprises (SMEs) represent a unique set of characteristics (Loane 2006) which tend to make it difficult to apply such theories, and as such it is best to pick large, mature firms with operations in a large number of foreign markets. Therefore, this study focuses on large purely internet-based firms.

Debate within international business scholarship is fierce and as such (despite many efforts) there remains no central uniting theory of internationalisation (Lu and Beamish 2004). The closest, however, is Dunning’s eclectic paradigm (Dunning 1977), also known as the Ownership, Location, Internalisation (OLI) approach. It is designed to predict and explain the patterns and methods of firm internationalisation with reference to each of the OLI sub paradigms. Focusing on this particular theory has many benefits. Firstly, it has been widely adopted and is frequently cited by many scholars (Narula and Cantwell 2003). Secondly, as a broad framework it has proven malleable to historical updates caused by changes in the international business climate without losing its basic core meaning. Thirdly and most significantly, it serves as an ‘envelope’ for many other important theories in subcategories such as transactions cost theory, internalisation theory and risk analysis (Dunning 2000). That is, these other theories are not mutually exclusive to the paradigm – rather they give additional explanatory value to it. Extrapolating, where a firm contradicts the eclectic paradigm this would imply that there may be theoretical challenges for all the other theories that fall under it. For these three reasons, I have
chosen the eclectic paradigm as the testing ground to analyse the relationship between international business theory and large purely internet based firms.

My research is a qualitative study of four large purely internet based firms: Google, Yahoo, eBay and Amazon. I have collected a large body of data on these four cases with respect to their international business. I focus on their operations in the Australian market. The purpose of this is to gauge to what extent the operations of these firms in the (foreign) Australian market can be explained using the eclectic paradigm.

This research is important because the online firms which have grown to be large multinationals today represent the forefront of significant changes to international business as a whole. They are leading the information revolution. They also may serve to be a good predictor for the future of international business more generally. Whilst currently a large portion of business occurs offline or with only a minor online role, the ubiquity of the internet has become increasingly apparent over the first decade of the twenty-first century (Economist 2000b, 2001; Eisenmann 2002; Kobrin 2001; Mahadevan 2000). This is likely to have flow-on affects, pushing even more business processes online over the next ten years.

Indeed despite the construction of this study, it is important not to make a clear distinction between online and offline business – though it is tempting from an analytical perspective. In
reality the two are symbiotic, and business strategy for any multinational firm involves the internet to some extent. Even where the internet is not used for sales, it is still an important tool for communications and marketing directed at the offline business (Calkins et al. 2000). Given this, it is possible that once the purely internet-based firms’ ‘first mover’ advantages erode in the next decade, the larger and more established offline businesses will be able to leverage their presence in both the real world and online to steal back market share (Calkins et al. 2000). Evidently, research in this area has ramifications for theories of international business generally in the future.

When faced with fundamental change, scholars must find entirely new means of analysing the phenomena (Bartlett and Ghoshal 1993). Indeed, phenomena of fast internationalising firms that seem to pay little attention to national borders has been studied for over a decade under the title of ‘born global.’ This is an umbrella term that refers to a host of studies about small high-tech firms that have grown quickly with a focus on innovation and entrepreneurship. Sadly, this area is inconsistent in its findings and lacks a strong core theory. I discuss this issue in my literature review.

I use my case studies to assess this burgeoning yet controversial area of international business scholarship. Relating the born global challenge to internet firms is important because it has mounted several significant attacks on traditional internationalisation theories. Large pure Internet firms have grown quickly and irrespective of national boundaries making them eligible
for born global membership. However, following my analysis I argue that the size and influence of these firms is such that they should be considered a completely separate category. It is better to consider the born global concept a development phase rather than a stable category of some multinational firms.

Regarding the Eclectic Paradigm, I find a pressing need to modernise the OLI framework. Efforts to change the OLI framework to account for alliance capitalism and the knowledge economy (Dunning 1995) are a useful starting point, but do not go far enough. Large internet firms rely on the consumer for knowledge, and it is their patronage manifested in website traffic that is of central concern for the firm. The dynamic, fast-paced nature of the internet means that this knowledge asset is dynamic rather than static. The capacity of the internet to personalise space at the control of the user empowers the individual in a manner that undermines cultural barriers. Additionally, a complex array of networking rather than competing undermines the internalisation theoretical logic.
Chapter Two: Literature Review

One of the most important functions of academic research is to serve as a reliable, independent, scientific authority on information to assist people in the real world who need it. It is a roadmap for professionals and members of the public. This is particularly the case for the discipline of international business because normative implications are often obvious. The eclectic paradigm has served that objective with great success for a number of years (Narula and Cantwell 2003). The highly generalisable and well-established virtue of the eclectic paradigm makes it much more robust than the more recent literature that dominates the subsequent ‘Born Global’ section of this review.

This review is the theoretical groundwork for the subsequent study of the international business management strategies of four large internet firms: Google, Amazon.com, Yahoo and eBay. Whilst for the purposes of instruction these firms are occasionally mentioned in passing, this review will not give an insight explicitly into academic studies of these particular companies – though not many exist regardless. Where relevant in contributing to broader literature, some such papers have been included. However, most research devoted exclusively to these companies has been omitted and are mentioned in the analysis section of the thesis. Instead, this paper will paint a picture of the theoretical context in which these four firms will be analysed.
Two key areas of literature are relevant and will be explored accordingly. First, Dunning’s seminal OLI framework is explored to understand the broad conceptual approaches that the literature takes to international business analysis. Second, ‘born global’ theories will be outlined and discussed to place large purely internet based firms in the context that most closely applies to them. It will outline the state of the literature in this emerging area, and also its (significant) limitations.

**The Eclectic Paradigm**

Dunning’s eclectic paradigm (Dunning 1977, 1988) is one of the seminal works in the international business field. The Ownership, Location, Internalisation (OLI) sub-paradigms have been the dominant analytical tools for international business scholars since its creation (Dunning 2000), with a smorgasbord of subsequent internationalisation theories coming under one of these headings. It has stood the test of time remarkably well, adapting and proving its relevance over many environmental changes to global business (Narula and Cantwell 2003). For instance, whilst it was developed for analysing the international behaviour of manufacturing firms, it is now widely established that the framework is applicable to service-based firms also (Cloninger and Oviatt 2007). Whilst it has undergone numerous facelifts (Dunning 1995; Dunning and Wymbs 2001), its structure is still largely the same, and its simplicity makes it useful as a construct to explore other more specific theories of firm behaviour (Dunning 2000). Put simply, the OLI
framework is the closest any academic has come to establishing a universal theory for international business development.

The eclectic paradigm asserts that the extent, geographical location and nature of international business expansion can be explained broadly by three variables: ownership advantages, location advantages and internalisation advantages. It serves both an empirical and a normative function (Brouthers et al. 1999): it can be identified in the realised strategy of many firms and also advocated as the intended strategy of an ideal firm. Whereas the O, L and I components were originally conceived of as independent self-contained units of analysis, inevitably the complexity and diversity of modern business requires a recognition that the sub-paradigms interact with one another in a dynamic environment (Narula and Cantwell 2003). Therefore, it is somewhat misleading in my discussion below to isolate each sub-paradigm as units of analysis, pretending that it is possible to hold two constant whilst varying the third.

Before going into a methodic explanation of each sub-paradigm it is worth mentioning any currently mooted relationship between the OLI framework and the subject matter of this review: internet firms. Dunning and Wymbs (2003) have recognised (in principle) the challenges that electronic commerce pose to the eclectic paradigm. They argue that it is not simply a matter of degree (technological advances have been steadily improving the speed of communication for centuries) but of kind. This is for three broad reasons. Firstly, the pace of change is significantly large and reflects a much steeper trajectory of improvement relative to the average throughout
the post-war period. Secondly, the information and communications revolution is so great that it has undermined the notion of geographical boundaries itself. Thirdly, e-commerce (internet) firms are using the special properties of the internet to redefine business strategy: networking is of central importance, and competitors are also customers and partners in a complex business environment (Dunning and Wymbs 2003). Dunning and Wymbs set out these issues in an exploratory manner. They did not undertake any independent research but merely synthesized the extant literature.

**Ownership**

Ownership advantages are simple: they refer to the specific competitive advantages a firm owns over its rivals. The greater those advantages, the more likely a firm will internationally expand (Dunning 1988). Many of these O advantages are unique so expansion may derive greater performance as native firms may not be able to capture or imitate the advantage. It is useful to divide O into static (the assets themselves, Oₐ) and dynamic (the management or transaction costs of using the assets, Oₜ) components, whereby the interaction between these two creates value. There is a presumption here that the assets are exclusive to the firm, therefore being a barrier to imitation by other firms (Dunning 2000). Each firm holds a unique set of resources that create a value proposition to consumers; in the case of international business, this set is leveraged in areas where it cannot be replicated by other firms.
In modern business, intangible assets trump physical assets in terms of strategic importance for many firms (Lu and Beamish 2004). The ‘new economics of information’ (Evans and Wurster 1997) spawned the emergence of alliance capitalism as firms put a premium on knowledge. Knowledge is an intangible asset capable of replication; therefore, if multiple firms share their knowledge they may all benefit to the detriment of those outside the alliance. This necessarily forces a loosening of the definition of ’ownership’ (Dunning 1995) because an asset may be concurrently owned by multiple firms. As such it may be more appropriate to redefine the ownership advantage as a capabilities advantage. The important issue is whether the firm has access to an asset, rather than exclusivity over it. It can then turn that into a (unique) competitive advantage when combined with the unique abilities and processes of the firm and its structure.

Management literature has increasingly turned to the question of how to best adapt and prioritise their various assets with limited resources in a dynamic and rapidly changing environment. At the risk of doing discredit to a large and complex body of literature, we may broadly simplify this question into market orientation versus learning orientation. These research areas are complimentary but they remain empirically and conceptually distinct (Baker and Sinkula 1999). Market orientation, as the name implies, advocates a focus on the market. It is popularly defined as the prioritisation of customer orientation, competitor orientation and inter-functional coordination (Narver and Slater 1990). Learning orientation, on the other hand is characterised by a commitment to learning, shared vision and open mindedness (Sinkula et al. 1997).
Whilst not mutually exclusive, these are contrasting approaches to the same issue of how to manage a firm’s strategic assets in a dynamic environment (Celuch et al. 2002). Whereas a market orientation sees development as arising from the customer or competitor, a learning orientation envisages a broader, more flexible development path.

**Location**

All countries are different and – *ceteris paribus* – characteristics of a location will affect market entry. Some locations have immobile benefits that a firm can only exploit by entering that market. These may be as simple as having a large consumer market and low government taxation (Dunning 1977). The question is whether a particular location has factor endowments that complement the firm’s strategy (manifested as O and I advantages.) These advantages inherently add value to the firm, but importantly they often act in concert with other locations and assets to combine as a value-adding activity (Dunning 2001). The synergy of combining multiple value structures across national borders has greater value than the sum of its parts.

Just as physical resources are being replaced by intangibles in the case of O advantages, a similar pattern is evident in modern firms relating to location choice. A country or region’s comparative advantage, which was once based on possession of a unique set of immobile *natural* resources and capabilities, is now more related to its ability to offer “a distinctive and non-imitatible set of
location bound *created* assets” (Dunning 2000, p178.) Examples include the capacity to create alliances with local firms or MNEs based in that location and whether the location is a hub for knowledge-development.

Culture is also important, in a relative and absolute sense (Rothaermel et al. 2006) because it provides both a challenge based on difference and an opportunity based on unique characteristics. Culture has long been recognised as an important variable for international strategy that varies significantly across national borders (Hofstede 1980, 2001). As the internet is at once accessible everywhere, it has the potential for mass standardisation of services, but equally the inherently interactive and high-tech nature of the internet makes it capable of “mass customisation” (Singh et. al 2005, p72.) The question then becomes: does culture matter online? The short answer – at least for Business to Consumer (B2C) electronic commerce – is yes (Chau et al. 2002; Singh et al. 2005; Zahir et al. 2002), with some important caveats.

Most notably, the relevant studies have focused on online culture without directly analysing financial ramifications, if any. The mere fact that different websites from different countries have different cultural content (Zahir et al. 2002) and that that content correlates remarkably well with Hofstede’s indicators (Singh et al. 2005) and that online behaviour is culturally sensitive (Chau et al. 2002) is all evidence to prove that culture has some undefined impact online. We then can only extemporise on circumstantial evidence that this has financial implications.
One particular disadvantage of this approach is that it is unclear whether cultural difference online is conscious or subconscious for international managers. Do firms intentionally differentiate content across borders, or does it merely happen accidentally due to the nationals of different subsidiaries tweaking their national sites? In the context of my research, this issue is of particular importance but hard to judge because the competitive advantage that large internet firms hold undermines a scholar’s capacity to isolate cultural adaptation: “rapid growth hides a lot of sins,” (Yoffie and Cusumano 1999 p11). The closest the literature has come to this goal is a study of consumers in twenty countries which found that consumers differ in willingness to purchase products online according to their national background (Lynch and Beck 2001). This does not explicitly relate cultural content on websites to the discussion, but it is nevertheless evidence that internet firms should carefully consider what their target markets should be, and how they will target them.

**Internalisation**

Internalisation refers to the decision to internalise a process within a firm, rather than to outsource. It is concerned with the extent to which a firm controls its operations internally as opposed to engaging the market. This variable assumes that O and L advantages to foreign entry exist and asks: is it financially efficient to perform this task within the firm? In cases where the costs of coordination are lower by internalising, firms will choose to enter markets wholesale
rather than pursuing licensing or other lower-equity based entries (Dunning and Wymbs 2003). Managers decide whether the firm is better off doing it themselves.

Importantly this costs-based approach encompasses costs to a firm in a holistic sense – not merely financial transactions costs (Dunning 2000). Such additional factors include risk management – both arising from agency problems and the potential for other firms to steal value creation assets – and learning potential. That is, whilst the costs of coordination may be high in the short term, in the long run the firm may benefit strategically by learning how to efficiently internalise processes (ibid.). Thirdly, firms may choose to operate in a foreign location despite high internalisation costs as a defensive strategy to reduce the potential for hostile takeover and as an investment in future value creation in that location.

Similarly for I as for O and L, technological developments have created structural complexities that blur the definition of ‘internal.’ Networking and alliances in both horizontal and vertical directions serve as a halfway house between internalising and externalising operations. Modern businesses are capable of extreme specialisation into core value-creating activities (Dunning and Wymbs 2001). For large multinationals, this means the potential to engage a number of intermediaries that assist the firm’s operations without entirely removing the firm’s international exposure.
Strategy and the Eclectic Paradigm

When taken together, the OLI framework is intended as an exhaustive checklist of the criteria for international expansion. The absolute degree of each advantage and the relative degree between each other have important ramifications for the size and nature of international expansion (Dunning 1977, 1988, 1995, 2001). The challenge for managers is to create ownership advantages, identify location advantages and exploit them as profitably as possible through only engaging efficient internalisation. Perhaps one weakness of this theory is that it tends to be static: if a firm has advantages now, it may not continue to do so in the future.

Further, this is a largely self-centered construction of firm strategy. Whilst it is not invalid to incorporate an analysis of competitors in an industry into the decision matrix (because advantages are relative rather than absolute), most of the theory focuses on how managers assesses their own businesses, rather than how to react to the actions of all other businesses. Regardless, the fact remains that the eclectic paradigm is a powerful tool for providing a background into market entry decision-making.
Born Global

In the early 1990s scholars were noting an increasing number of small, young firms expanding their operations overseas (Rennie 1993). They did so in violation of conventional international business theory that firms grow organically and only (hesitantly) enter foreign markets once they have established a solid business model in the home market – the stages or incrementalist approach (Rasmussen et al. 2001). Given the eclectic paradigm’s emphasis on value creation and cost, there was an assumption that firms which internationalised whilst still young and small were doomed to failure or miracle status. Many of these firms were also seemingly unconcerned with the ‘psychic distance’ of states; often entering markets that were geographically and culturally distant with the same enthusiasm as markets in neighbouring countries, unlike the ‘rings in the water’ model that dominated post-War multinational strategy (Knight and Cavusgil 1996). Given their youth and expansionism, they were termed ‘born global.’

The born global literature is remarkably diverse and suffers from a lack of coherent or unified analytical frameworks (Rasmussen and Madsen 2002). This is somewhat ironic as the original researchers intended to undertake collaborative efforts. Indeed, the literature has failed to even settle on consistent terminology, with the same phenomena invariably labeled Born Global (Rennie 1993), International New Ventures (Oviatt and McDougall 1994) or Early Internationalizing Firms (Rialp et al. 2005a). Though there are some notable differences across these studies, ultimately they cover a very similar topic and will be collectively referred to as
‘born global’ for the purposes of this review. The best working definition (in terms of clarity and popularity for scholars) comes from Knight and Cavusgil (1996):

…[A] born global is a firm that has reached a share of foreign sales of at least 25% after having started export activities within three years after its birth (Knight and Cavusgil 1996, p133.)

1

The result of the academic dispute is that only limited conclusions can be safely drawn from this area of research, which will be outlined first below. There are several areas of study that are as yet neglected and this will be discussed second. Further, the cause of this dearth of reliable literature is not simply that ‘born global’ is a new concept – the term was first coined fourteen years ago (Rennie 1993) after all. It is also insufficient to argue that it is due to a lack of interest in the area – in fact, it is of significant interest to a large and growing number of researchers (Kuivalainen et al. 2006). Therefore, I will thirdly look at some of the material factors obstructing a better understanding of born global firms.

1 The additional criterion that it be ‘born’ after 1977 should be noted but is not relevant to this review.
What do we know?

To consider the positives first, there are several concrete conclusions that can be drawn. Most obviously, there is overwhelming empirical evidence pointing to the physical existence and growing number of born global firms as defined above (Knight and Cavusgil 1996; Oviatt and McDougall 1994; Rasmussen and Madsen 2002; Rennie 1993; Rialp et al. 2005a). A large number of small, young firms are venturing into foreign markets with unprecedented pace and brevity. Whilst a typical manufacturing firm averages over 20 years before exporting, born globals do so in less than three years (Evangelista 2005). They display a high degree of innovation and are “entrepreneurial firms whose management seems to perceive the entire world as its marketplace from the outset” (Rialp et al. 2005b, p138).

Born globals generally market sophisticated technology (high-tech electronics, machinery or intellectual property), often combined with a high service content (Cloninger and Oviatt 2007). It is this asset (arising directly from the entrepreneurial/venture capital relationship) that they hold uniquely over large competitors (Loane 2006; Zahra et al. 2000). The criteria of sophisticated technology is not necessarily crucial to all scholars however as some firms in more traditional, low-tech manufacturing-based industries may still exhibit born global qualities by virtue of their structure and accelerated growth pattern (Shrader et al. 2000). This remains a matter of controversy for those wishing to clearly define born globals and to narrow the scope of the term.
One important universal characteristic is that they create a niche market for their product. Through a unique blending of technology and services, they significantly differentiate their product from more established rivals. This is part of a business model that avoids direct competition against large established firms, preferring a defensive strategy that corners specific parts of the market (Knight and Cavusgil 2004).

Born globals’ foreign expansion trajectories and patterns are markedly different to the gradualism that defined post-war multinational firms (Evangelista 2005; Rasmussen et al. 2001). They attempt to overcome the inherent risks in such a strategy by a heavy reliance on the knowledge and experience of the founder/entrepreneur (Rialp et al. 2005b) and by networking and forming alliances with larger partners (Gabrielsson 2005). Not shackled by any path dependency that grips older, more traditional firms, their business models are often aggressively expansive (Knight and Cavusgil 2004).

The final issue that has been (relatively) settled in the literature is how. Born globals’ capacity to execute an aggressive strategy compared to the traditional approach is derived from recent developments in communications, production and transportation (Kuivalainen et al. 2006; Loane 2006). They generally have only small amounts of capital and labour resources and rely heavily on the vision, experience and innovativeness of their founder (Rasmussen et al. 2001). In this manner, they only internalise their core functions and heavily rely on networking in their operations (Oviatt and McDougall 2005).
The ‘global’ nature of the firm is not the central pursuit of the founder: rather it is the innovative, unique differentiated value proposition which is the focus of the born global, whilst global expansion is merely a logical result of the firm’s model (Rasmussen et al. 2001). As Rasmussen et al. note, internationalisation is not a strategic objective though it is a necessary result of the founder’s vision. In this respect, the founders do not aim to produce service that the whole world will use: rather, they focus on creating world’s best standards, with the logical flow-on result that they rapidly internationalise. It is for this reason that some prefer the term ‘international new ventures’ as this removes the implication that the firms exist primarily with the intention to globalise (Oviatt and McDougall 2005).

**What don’t we know?**

The born global literature is a descriptive inquiry and one that has struggled to progress beyond the existential query of whether it is a subject at all. Having answered in affirmation to this question from the analysis above, the subsequent question is: what’s next? So far the focus has been to derive reasons why born globals exist and how. This leaves large sections of inquiry insufficiently or inadequately considered and “research is still far from any conclusion on many aspects as to their behaviour” (Gabrielson 2005, p218.) We don’t know a lot.
The basic question of performance for instance is untouched (Shrader et al. 2000): there is “a scarcity of empirical research to determine whether the rapid, accelerated internationalisation actually is profitable” (Kuivalanien et al. 2006, p2.) Additionally, there have been no studies on the relative merits of different market entry strategies (export, FDI, alliance) or discussion of the nature and scope of networking activities that these firms engage in, despite their obvious importance. Also, all of the empirical studies have chosen to focus on one particular country or region [such as Australia (Rennie 1993), Finland (Kuivalainen et al. 2006), the United States (Rothaermel et al. 2006) or Spain (Rialp et al. 2005b)] but none has conducted a cross-country analysis to compare the relative strategies/successes of born globals. This would be very useful in identifying whether there are any country/region specific advantages to born global operations.

Following on from the issue of performance, there is a dearth of normative implications for future born globals. Given that a large portion of these firms fail (Kotha et al. 2001) it would be useful in identifying what particular types of innovation and strategy has proved successful for founders and where that has proved successful: from an industry and country perspective. There has been some suggestion that the loose definition of born global in the literature combined with insufficient research on performance has meant that many firms which are not truly born global are being included in that category (Kuivalainen et al. 2006; Oviatt and McDougall 2005) merely because they have expanded overseas at a young age. This could be overcome by an analysis of the specific, explicit modeling of successful born global strategies.
The greatest shortfall, however, is the absence of any longitudinal perspective on born globals. No studies have followed born globals over a substantial length of time and there is insufficient theory about how these firms grow from very small firms to medium or large sized businesses. It is unclear at what point a firm stops being ‘born global’ and whether that entails any ramifications for strategy. For firms such as Yahoo, eBay, Amazon and Google whose development *prima facie* fit the born global definition, there has been no research into what these firms become after being born global. Do they simply devolve to a more traditional, less entrepreneurial, more bureaucratic organisation? It is entirely unclear from the literature, but given that the premise is that born globals follow a different trajectory and strategy in growth, then surely large firms that were (and therefore still are) born global must follow a different strategy at maturity.

**Why don't we know more?**

Finally, it is worth considering the reasons for these shortfalls. To some extent, it is the fault of the relative youth (fourteen years) of this field of inquiry, but given the large interest in the field (Kuivalainen et al. 2006; Rialp et al. 2005a), this seems a weak excuse. The reality is more complex. It is more difficult to study small firms because they are hard to find and often disappear as quickly as they appear. As they are usually unlisted, it is hard to get financial data which makes performance assessment extremely difficult (Kotha et al. 2001). A complete picture
can only be created with an analysis of the large number of failed international expansions by small firms, but the data required for such analysis is rarely available. It is unclear as to why there is not much research on the transition from small born global to large multinational (as in Yahoo or eBay), but perhaps this is simply a matter of time.

There are some empirical studies that have attempted to differentiate types of born globals according to environmental variables but their work has yielded only limited results. Kuivalainen et al. (2006) found that the level of turbulence in the consumer market and competitors tended to decrease the intensity of a born global’s expansion, whereas technological turbulence (that is, fast-paced change) tended to have the opposite affect (ibid., p17). Future research needs to move beyond a process of mere categorisation and focus instead on causation and strategy for born globals.
Chapter Three: Methodology

When new phenomena exists (or may exist), the most important first step is to observe. Without observation, it is difficult to identify or quantify the phenomena in a meaningful sense. Therefore, as large online firms represent a significant departure from traditional business models, I choose the case study approach. Case studies are best suited to gaining large amounts of information on a subject that is difficult to understand. Case studies are empirical studies that focus closely on specific matters, drawing data from a wide range of sources to enhance understanding. According to Eisenhardt and Graebner (2007), they are relevant in situations where there is an important phenomenon and a lack of plausible existing theory. These two preconditions exist in the case of pure internet firms and international business theory, as already outlined in previous sections.

In the early 1990s, “the globalisation of competition, markets and technology and the related economic and social consequences” was driving “changes in strategy, structure and management” (Bartlett and Ghoshal 1993 p24). Managers were ditching the traditional M-form of multidivisional firms. Bartlett and Ghoshal undertook a study of firms they identified as being at the forefront of this trend and presented their results by juxtaposing them with more traditional modes of analysis (Chandler, Bower, and Cyert and March) highlighting how these firms did not conform. My study of internet firms draws heavily on this approach. The internet revolution of the early twenty-first century has dramatically accelerated the process of globalisation with
further economic and social consequences. This change is most evident on the internet itself, which is a radical invention. Bartlett and Ghoshal (1993) had access to the managers and corporate files of seventeen multinational firms over a five year period. My research was limited by time and access constraints from such golden opportunities, but nevertheless the intention to understand new firms and new strategies is similar.

**Research Design**

This study uses a multiple case approach to “clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by several cases” (Eisenhardt and Graebner 2007 p27). The purpose is not to identify an optimal online business strategy. Indeed, given that online business is still new and strategies are changing over time it is quite possible that these firms have yet to establish the ‘best’ online strategy. Rather it is to empirically assess the nature of these strategies alongside a theoretical framework.

Procedurally, I borrow heavily from Mellahi and Johnson’s (2000) study of first mover advantage online. In broadly similar terms to this research, Mellahi and Johnson argue that key assumptions giving rise to first mover advantage (such as the cost and startup difficulties associated with entering an industry as a new competitor) are undermined by the low-cost, fast-
paced nature of the internet. To analyse the problem they focused on whether Amazon benefited from first mover advantage in online retailing.

Imitating that research, I collected data on each of the four firms since 2001 from a large range of sources. This period is the post-dotcom crash era characterised by a rationalisation of the information technology industry. Before 2001, all four firms were growing at extremely fast rates. The internet was still very new (particularly as a platform for business) and the market was so immature that it would be largely inappropriate to attempt to apply business theory to this period of high volatility and extremely strong growth. I searched major news databases and accessed previous academic studies of the firms. I compiled over 100 articles from 10 different specialised periodicals (see Appendix A). Many more newspaper articles were accessed for corroboration. Each periodical was chosen based on three criteria: reliability, impartiality and quality. The diverse range of information allowed for cross-checking and balancing of information, thus reducing potential for information bias (Mellahi and Johnson 2000; Weick 2007). Secondly, I collected data by observing the websites of each of the firms including all publicly available data such as annual reports and press releases. Clearly this section of the data is biased but it provides useful information documenting the breadth and management of each firm’s organisation over time.

Thirdly, in a technique not used by Mellahi and Johnson I incorporated time series internet traffic and revenue data. These widely published figures serve to demonstrate the popularity of different
websites in absolute and relative terms. Revenue is established from financial and annual reports, whereas internet traffic data is researched and released by several large reputable consultancies and media research firms such as ACNielsen (2006) and Comscore (2007). They provide an indication of the size of the communities that each firms build, which is an important concept in this study. Revenue reports that distinguish between domestic and international revenue show the growing importance of international business to each of the firms. Interviews were sought with managers at the Australian offices of the firms but they declined to take part in this study.

The international business strategy of each case study was analysed with relation to one particular national subsidiary: Australia. By focusing on one subsidiary, it is possible to make comparisons of each of the firms operating in the same market. This makes it easier to observe patterns and make reliable conclusions. Conversely, if the strategies of each firm were compared across different countries the analysis of strategic differences or similarities could have more to do with the characteristics of the national market rather than the firm. This would defeat the purpose of this study. Additionally, by narrowing the focus to one country the data is of a more manageable size.²

² Obviously this will limit the generalisability of my research, which is discussed in the limitations section.
Australia as a national subsidiary is a useful choice for several reasons. It is a medium-sized developed nation with a population of 21 million in a geographically distant location for an American firm (SBS 2007). Having a large wealthy middle class and over 15 million internet users (SBS 2007), it represents a market that many multinationals may choose to enter but not with the inevitability of very large nations such as China or India. In those countries, the explanatory power of strategic decisions in market entry is largely overwhelmed by one factor: market size. Australia is also similar enough to the United States that a firm could choose to operate largely without significant changes to the service (such as language) meaning that what adaptation exists to the local market is more voluntary than forced.

**Philosophy of Research**

Significant division remains in the discipline of international business over the best nature and method of academic research (Coviello and Jones 2004). It is too simple to merely characterise this as a quantitative/qualitative dichotomy, rather it reflects fundamental debates over epistemology and philosophies of research (Morgan and Smircich 1980). Therefore, I will use this section to briefly outline the philosophical background to my work. My study seeks to closely observe and analyse a relatively unknown phenomenon so perhaps it is obvious that my broad philosophy of research could be attributed to phenomenology. More specifically, I am undertaking a qualitative study, and as such “the general emphasis is on pattern
identification/matching and explanation building” (Coviello and Jones 2004 p495). Naturally, this tends to result in an interpretivist method of research.

My subjective approach reflects a desire to capture complex processes. When focusing closely on individual cases as my unit of analysis and explaining them on an individual level, such processes can be illuminated more easily – as opposed to aggregated or macro-level combined data (Coviello and Jones 2004). Ultimately, in observing each case study I must make many judgements about the behaviour of each firm and its relevance to my research question. Therefore, my personal judgements of the key theoretical constructs in my study (the eclectic paradigm and ‘born global’ frameworks) and how they relate to my data directly affect my findings. A different researcher may find the merits of different factors to be relatively stronger or weaker, depending on their own interpretation of each firm and the relevant theory. This problem is largely unavoidable. Ultimately, theories present a range of assumptions about the world. In my study, I aim to match those assumptions with a new phenomenon and as such I must make some assumptions about the theory and the phenomenon to assess their relationship.

Essentially, my research focuses on a “disjointed, discontinuous, non-linear (and usually unique) event that cannot be studied successfully with methods developed for examining smooth, continuous, linear (and often repeatable) processes” (Bygrave 1989 p7-8). Bygrave argues that where focusing on unique events and in areas that aren’t well understood, sophisticated statistical analysis is much less important than observation and explanation. My methodological
philosophy thus puts a premium on knowledge for knowledge sake above the concern for reliability or verifiability of each ‘fact’ arising from my data.\(^3\)

Following Langley (1999), my research may best be described as following the ‘Alternate Templates Strategy’. In this approach, data is filtered by considering events through specific theoretical spectacles and assessed for relevance. This has two effects. Firstly, it gives improved perspective on the events themselves by retelling them through a different perspective. Secondly, it has the feedback effect of assessing the theory itself. As Langley notes, this is useful where confronted with complex and unusual events as is the case in this research.

I am conscious of the difficulties involved in making confident, accurate and indisputable findings when data is assessed in such a subjective manner. However, for the reasons discussed in this section it is both reasonable and unavoidable that my research incorporates a degree of personal assessment. The complexity of the data and uniqueness of the events makes this study not conducive to mathematical or other more objective analytical processes.

\(^3\) That is not to say I am flippant with the truth: as discussed previously my methodology incorporates quality control processes to increase the reliability of my data and data observation.
Definition of Key Terms

For this study, four large multinational purely internet based firms were selected as case studies. I define purely internet based as a firm that generates revenue exclusively online, rather than merely as one of multiple sources or as part of a dual online/offline strategy. I define large as having annual revenues over $US 5 billion. This is somewhat arbitrary as the term ‘large’ implies more factors than finance. Note however that this qualifies a firm as a Fortune 500 company and such large revenues must necessarily imply a high level of complexity within the organisation.

My definition of multinational is a firm that has at least 40% of website traffic and revenues derived internationally. Rugman (2005; Rugman and Verbeke 2004) defines firms as not having a domestic focus (and therefore qualifying as multinational) when they have greater than 50% foreign revenues. I argue for greater leniency here for several reasons. Firstly forty per cent is large enough that it must regardless have a significant impact on strategy and daily operations of a company. Further, in the case of internet firms the American market is more mature and established than others. As such the major growth opportunities are overseas for American firms. Indeed, the four firms in this study are all experiencing much higher growth (in absolute terms) through their foreign subsidies than the domestic market. This means, in reality, that the firms...
are forced into a greater international focus than firms in more traditional industries from Rugman’s research. Also, in reality no large firm currently derives over half of revenues internationally, so this study would have no cases. It is worth noting that all four firms are projected to pass the 50% threshold within the next four years.

My definition subsequently qualifies Google, Yahoo, eBay and Amazon.com as the exhaustive list of large multinational purely internet based firms. They were all first incorporated since 1994. After then they have all been floated and are public companies. Each of the four are primarily business-to-consumer (B2C) firms. They all have significant business-to-business (B2B) components as well, however. This is particularly the case for Yahoo and Google who operate as a B2C firm but derive their revenue from advertising which incorporates B2B elements.

Unfortunately, all four of these firms are American. It would be useful to have at least one large internet firm that is based in another country for this study, but this such a firm does not seem likely to appear in the near future. There is some debate about the reasons for this, but suffice to

4 Note also Knight and Cavusgil’s (2004) definition of a born ‘global’ firm being merely 25% within the first three years. Given the youth of all internet firms, 40% is a significant achievement implying aggressive international activity.

5 One other firm, InterActiveCorp (IAC) is close to qualifying. IAC is an American media conglomerate that owns over 60 brands. However, it has significant offline properties and derives a substantial portion of revenue from the United States alone.
note here that American business may be more conducive to risk taking and entrepreneurial financing and that historically the United States had high internet penetration from a relatively early stage meaning more businesses were experimenting online from an earlier period.

As will be outlined below, these firms are highly influential for most small and medium sized online businesses. This further justifies their definition as large – that is, because they play a different role and exercise significantly greater leverage over internet activity than other online firms. This is a natural result of their day to day dominance of online financial activities but it is significantly enhanced by a plethora of strategic acquisitions and partnerships. They have entrenched themselves as market leaders and most small online firms avoid direct competition with them.

I now consider each of the four case studies in turn. I outline the basic business model of each firm, a short history and major discussion points. I then focus on their operations in the Australian market.
Chapter Four: The Cases: Large Internet Firms

<table>
<thead>
<tr>
<th>Firm</th>
<th>Primary Value Creation Tool</th>
<th>Number of Employees</th>
<th>Revenues, $US millions</th>
<th>Profits, $US millions</th>
<th>Initial Public Offering</th>
<th>Foreign Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google</td>
<td>Internet Search; Online Advertising</td>
<td>15 916</td>
<td>10 604</td>
<td>3 077</td>
<td>2004</td>
<td>43%*</td>
</tr>
<tr>
<td>Yahoo</td>
<td>Online</td>
<td>13 600</td>
<td>6 425</td>
<td>751</td>
<td>1996</td>
<td>41%*</td>
</tr>
<tr>
<td>eBay</td>
<td>Online Auctions</td>
<td>13 200</td>
<td>5 970</td>
<td>1 125</td>
<td>1998</td>
<td>48%*</td>
</tr>
<tr>
<td>Amazon</td>
<td>Online Retailing</td>
<td>13 900*</td>
<td>10 711</td>
<td>190</td>
<td>1997</td>
<td>45%*</td>
</tr>
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</table>

*2006 figure, all others are 2007. Financial data are annual figures.
Sources: (Amazon 2006; eBay 2006; Fortune 2007; Google 2006b; Yahoo 2006)

Google

Google is the single most important company online in terms of its ability to affect wide swaths of consumer behavior and online media and marketing, and to drive new technology adoption (Card 2006 p1).

Google is a global technology firm that is the market leader in internet search. Approximately 750 million different people conduct internet searches each month worldwide, which represents 95% of the population who have access to the internet (Comscore 2007). Google’s fast growth since conception in 1998 can largely be attributed to superior technology rather than marketing. Google’s search algorithm incorporates a system that ranks all websites in popularity and according to its links with other sites, which was revolutionary in its conception (Brin and Page 1998). Revenue is derived from sponsored links to sites that appear on the side of search results,
which are sold through competitive auction and linked by relevance to a search query. It also serves businesses directly by placing advertisements on their websites that relate directly to the text on the page. These two sources of income utilise Google’s patented Adwords and Adsense programs.

Google has also expanded aggressively into other technological fields through both innovation and acquisition. It developed a free email service, gmail, which (like its search technology) has gained popularity due to its user friendliness and technological innovation. In 2006 it acquired video sharing website Youtube for $US1.95billion (Google 2006a). Both of these sites generate revenue almost exclusively through advertising. Google has a large and growing smorgasbord of other projects many of which are highly popular but are not currently profitable. These include Google Earth where users can view satellite images of places across the world; Google Maps which functions as an online street directory superimposed with business and place listings; Google Finance which collates and delivers free financial data; and Google Desktop which assists computer users in organising and searching information on their hard drives. Ultimately, Google’s corporate philosophy is of perpetual innovation. All employees are given 20% of their work time to devote to developing whatever new ideas they can imagine, unrelated to their normal work role (Economist 2007a).

Google by most measures is the largest and most successful pure internet firm in the world. It dominates the internet search market, controlling over half of all worldwide search requests and
62% in North America (Burns 2007; McIntyre 2007). Annual revenues of over $US10billion in the year to the 2007 second quarter continue to grow at over 50% year on year (Google 2007b). Likewise, the firm is genuinely international. In the two financial years 2005-2007, international (non-USA) revenue grew from 39% to 48%. It is currently the number one search engine in sixteen nations. International expansion occurred organically by picking up internet traffic rather than via acquisitions of local search groups. Google is currently struggling for market share in only two important countries: South Korea and China.

Functionally, Google operates a very similar business model across all international markets (with the important exception of China, see discussion below). It uses 112 international domain names to localise the service for specific nations (Google 2007a) but in practice the service is almost identical. According to a consultancy firm, in 2007 Google’s brand became the most valuable brand in the world replacing Microsoft and valued at $US66,434 million (Millward-Brown 2007, see Appendix A).

Google’s China strategy represented a major departure from global firm strategy. In early 2006, acknowledging that China is simultaneously a very large opportunity but presents unique challenges, Google entered into an agreement with the Chinese Government for its google.cn

6 Argentina, Australia, Belgium, Brazil, Canada, Denmark, France, Germany, India, Italy, Mexico, Spain, Sweden, Switzerland, United Kingdom and the United States.
website. The site censors certain results from appearing when politically sensitive terms such as “Tibet” or “Tiananmen Square” are searched (O’Rourke et al. 2007b; Strategic Direction 2007). The policy provoked a significant public backlash in the most damaging assault on Google’s relatively untarnished reputation. Subsequently, “the image of Google in the media and among investors has been severely damaged” (O’Rourke et al. 2007b p19).

The size of the negative backlash against Google was disproportionate relative to other firms that were already operating in China. In Google’s defence, censorship was occurring regardless: the Chinese Government were simply performing this task themselves. The agreement merely formalised an arrangement allowing Google to exercise self-censorship whilst strongly increased web access speed for Chinese Google users. Further, the agreement allowed for Google to add a disclaimer notifying users of the censorship [“filtered due to government regulation” (O’Rourke et al. 2007b p19)]. It is consistent with agreements that the Chinese Government has made with other US firms such as Yahoo and Cisco. In short, the special status of Google and its now-ironic corporate motto (“Don’t Be Evil”) made it particularly vulnerable to public outcry.
Google and Australia

Google created a distinct Australian presence in 2003 by establishing the google.com.au domain name. Many thousands of Australians were regular users of the United States site before this time. At this stage it did not have an office or employees in Australia. In 2004, Google established an office in Sydney, Australia with two permanent staff. This has grown to over 40 in
2007 supporting the Australia/New Zealand market. A majority of staff are employed in technical, legal and support roles to fit the local market. Some also supply specific services to local businesses to enhance the use of Google’s Adwords and Adsense projects. Google comprehensively dominates internet search in Australia, responding to 89% of all internet search requests (McIntyre 2007). Of this, 81% are conducted on google.com.au with 19% using the American google.com version (ibid).

Google Australia does not take leadership on innovation or product development. It follows and inputs changes instituted by its American parent. This point was made clear from Australian Federal Court proceedings instituted by the Australian Competition and Consumer Commission (ACCC) alleging breaches of the Trade Practices Act 1974 (Cth) by Google Australia relating to sponsored search results (Moses 2007c). Google Australia was accused of deceptive conduct. Ultimately the ACCC revoked its claim against Google Australia and instead pursued the American parent firm Google, Inc as they are the responsible party for all search functions on the Australian site.

Online searching in Australia on google.com.au may ostensibly operate via Australia but in practice, search terms are sent to and results are received from computer complexes in the United States. Google Australia has minimal input for the average user and primarily acts as a conduit for ad hoc management of technical problems and public relations. Google’s technology-first focus is intentionally devoid of a sophisticated marketing strategy – hence the simplicity of the
website which has only the firm’s name and a search box on a white background (Vise and Malseed 2006). Thus, Google Australia spends minimal effort on advertising and/or branding.

**Yahoo**

Yahoo is a global internet firm that offers a large web of online services to its users. Like Google it offers an internet search tool but this is by no means the centre of its operations which include email, online sales, social networking communities and news facilities. Yahoo’s strategy is to build a *media* firm, rather than a *technology* firm. In a former chief executive’s own words, there are five “fundamentals of Yahoo”:

- Open, comprehensive, agnostic and independent
- A media business, not a technology business
- Deep branding
- Global from the beginning
- Profit as well as cash-flow orientated (Koogle 2000 p16)

Yahoo’s strategy – in part as a response to the dominance of Google – is to form relationships with other firms most of which are offline firms. The basis of these relationships involves leveraging Yahoo’s well-established internet community with a firm’s lead in their specific offline industry. For example, Yahoo runs a networking support program for small and medium
businesses as a joint project with Cisco (Yahoo 2006) and it has a long-term relationship with television franchise *Entertainment Tonight*.

The firm has also grown through acquisitions of many small and medium-sized internet firms. Some have been for the purposes of market entry such as European shopping site Kelkoo (Yahoo 2005) whilst many have been to purchase valuable technology and duplicate it across the Yahoo network as in the case of the online photo-sharing service Flickr which was acquired in 2005 and online advertising exchange firm Right Media which was acquired in 2007.

Yahoo, like Google, was founded as a side-project of two Stanford University engineering students. They exploited first mover advantage and grew rapidly on the popularity of their internet search and directory facilities. It epitomised the dotcom firms that fuelled a stock market bubble. In early 2000, Yahoo’s share price was $US118 and shares in Yahoo Japan became the first to pass ¥100,000,000. By September 2001, Yahoo’s share price had fallen to $US4.06. Recognising the inferiority of their search technology, Yahoo signed an agreement in 2000 to use Google’s search engine on the Yahoo website by a licence. However, in March 2004 the firm ceased this arrangement and decided to write its own search technology which it currently uses. The main difference between the Google and Yahoo on search technology reflects the broader strategic difference: Yahoo’s facility is focused on entertainment, making it easier to organise search results for images and video.
Yahoo and Australia

Yahoo entered the Australian market in September 1997 as ‘Yahoo Australia and New Zealand’. It was largely an imitation of the United States site with a ‘.au’ domain name and the option to search Australian/NZ sites exclusively. The mission of Yahoo’s international domains is to offer a carbon copy service with some (but no substantial) local adaptation (Yahoo 2006). They also became the first to offer free email on an Australian server in March 1998 (Yahoo 1998). A regional office was established in Sydney in the same year.

Yahoo has chosen to actively seek out consumers in the Australian market through television advertising and offline publicity, which distinguishes it from Google’s strategy. This was met with initial success and Yahoo was the dominant search facility and web portal until 2000. Ultimately, however, Google’s superior technology was reflected in an increasing number turning away from Yahoo. Yahoo’s Australian business from 2000-2005 reflected a slowing growth trend across the global firm generally whereby it failed to meet shareholder expectations.

In January 2006, recognising its declining market position combined with its emphasis on media rather than technology, Yahoo entered into a joint venture with Network Seven (a large Australian television network). The agreement formed a new company, “Yahoo7” which is 50%
owned by Yahoo and 50% owned by Network Seven. This company acquired all of Yahoo Australia/NZ and cost Yahoo $US35 million (Yahoo 2006). The Yahoo7 website doubles as a site for Yahoo users and the home of the television network’s programs and publicity materials. Businesses looking to advertise are offered dual online/offline packages, enhancing value for customers and so therefore Yahoo7.

**eBay**

eBay is an internet service firm that is currently the global leader in online auctions with 72 million active users worldwide and over 100 million items available for sale at any one time in 2006 (eBay 2006). Its value is derived from offering a place for buyers and sellers to meet and exchange goods (and increasingly services) either by an auction or fixed price sale. eBay’s success is derived from its user-friendly format and from various mechanisms designed to establish the reliability and trustworthiness of otherwise unknown commercial parties. It effectively opens a new window for trading between anonymous individuals without the need for sales firms or physical marketplaces to act as intermediaries.

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7 Yahoo7 subsequently applied the same strategy in New Zealand by forming a 51/49 joint venture with Telecom New Zealand called Yahoo!Xtra. This strategy is unusual, with Yahoo operating 100% subsidiaries in 20 nations. The only other joint ventures are in China and Japan.
In reality whilst eBay’s business is purely internet-based, the majority of its competitors are offline. The two major alternatives to using eBay are traditional shopping centres or non-digital classifieds such as those found in newspapers. A fear or distrust of technology means some users prefer purchasing products they can see rather than ordering online. Further, there are higher risks associated with engaging in a sale with an anonymous seller as opposed to a reputable commercial outlet. As a result, in the case of a product that is sold both offline and online, sellers generally have to offer a significant price discount to the offline price as an incentive to buyers. This has two significant effects on the product range of eBay’s items.

Firstly, the result is that the predominant use of eBay is for the sale of unique, eclectic or rare items that would not be found in a standard retail store. Unpopular or unusual products would take up valuable storage space in a standard retail store which ultimately incurs a high rental cost. For online sales, however, it is extremely cheap to put a product on eBay where it can be viewed by millions. This makes the sale of products in niche areas financially viable. eBay is the platform because of its high level of web traffic: casual users may simply stumble across an item they wish to purchase, which is much less likely where a seller sets up an independent website. As such, eBay functions to link together a community of buyers and sellers who are looking to trade collectable, unusual or vintage items. It is the home of “used, returned, renovated, overstocked and discontinued items” (Javalgi et al. 2004 p467)
The second (and less appealing) result is that eBay attracts items that are not sold in offline retail stores for legal or ethical reasons. Stolen goods, unlicensed firearms and products that are banned in one country but not another (such as rare animal parts) are regularly put up for sale (Koerner 2003). Whilst eBay attempts to manually remove these items, the sheer number of online listings each day makes it almost impossible to monitor. Additionally, some sellers have adopted code words and language that interested sellers understand whilst evading detection from sales monitors (Policy 2005). Equally, in some areas the firm simply ignores illegal sales of legal products, such as reselling of tickets to concerts and sports events by scalpers who often capture very high returns (Moses 2007a). This has perpetually damaged the image of the firm. Politicians have attacked eBay for selling guns, Nazi memorabilia and counterfeit products (Koerner 2003).

Revenues are derived primarily from two sources: seller’s fees and advertising. The fee structure is complex depending on the item, its level of advertising (e.g. text-only or image-inclusive item descriptions) and sale price. Sellers pay a mixture of fixed-price and percentage-based (commission) fees. In 1998, eBay had 30 employees and sales on its site grossed $US200 million, largely in the United States. By 2001 eBay had 2,500 employees and it was the vehicle for a total of over $US9 billion in sales (eBay 2001). In 2006, eBay had 13,200 employees almost half of whom worked outside the United States (eBay 2006). By 2009, over half of all revenues will be derived from outside the United States.
The firm’s business has grown not only in scale but also in scope. Like Google and Yahoo, eBay has used its large cash reserves to make strategic acquisitions. This includes horizontal expansions into new countries such as the purchase of Dutch online market store Marktplaats.nl in 2004 and Sweden’s leading online marketplace, Tradera in 2006 (eBay 2006). The more interesting acquisitions, however, have been part of vertical expansions. In July 2002 eBay purchased Paypal, an online-purchasing service for $US1.5 billion and integrated it into eBay as the preferred secure method of financial transaction for all sales. Paypal additionally operates a secure payment vehicle for non-Ebay related online sales.

More controversially, in October 2005 eBay spent $US2.6 billion purchasing Skype (eBay 2006). Skype offers a service that uses the internet to make free domestic and international phone calls between users. Whilst this technology grew rapidly in popularity and has the potential to significantly undermine the traditional dominance of the telecommunications industry it is unclear how this service relates to eBay. Also, given that the value of the firm is based on offering a very cheap service it is unclear how it could be utilised as a revenue-raising technology. This has led to strong criticism of the acquisition as a wasteful purchase that lacked foresight (Economist 2007c).
**eBay and Australia**

The legal and financial complexities of cross-border commerce are such that eBay could not have a significant presence in Australia without a local operational centre. This was established with an Australia/New Zealand website and offices founded in October 2000. Whilst before this date users could theoretically use eBay’s other worldwide sites, the reality is that this would only be a very small number of users. The firm does leverage its international presence on the Australian site, however, by giving international results in cases where buyers are searching for an item.

The offices of eBay Australia/New Zealand have created a unique fee structure and revenue collection system that is modeled on the United States system but is independent of it. They also have a local PayPal presence which operates all Australian financial transactions run through that service. As retailing is much more legally regulated and controlled than internet search, there are greater demands for a local presence to respond to national legal challenges as accorded by legislation such as the *Trade Practices Act 1974* (Cth) and the GST. Recent case law has made it clear that a sale made on eBay (or similar sites) is a binding contract with the same rights and obligations as if it were done in person, meaning that a person who wins an auction online has the right and the obligation to pay the winning price regardless of whether the seller wishes to renege (Moses 2007a).
Amazon.com

Amazon.com is an online retailing business that primarily focuses on book sales but also sells a wide range of general retail products. It was the first to offer book retailing online and is still the most popular (Amazon 2006). Customers search the online store for products and make online purchases. These are delivered directly to the customer’s home. Amazon now hosts a range of sellers who effectively compete for prices in both new and used products. Buyers can purchase from Amazon itself or from competitors that it lists on its site.

Amazon’s successes are derived from two competitive advantages. First, it offers low prices by virtue of it being an online business. Online retailing means economies of scale. Each storage warehouse can service a very large retail audience compared with a standard bookstore, as the customer need only have a postal address to receive the product, rather than having to reach the store. Amazon also achieves significant cost cutting relative to offline stores due to the lack of expensive retail shop space. The ratio of staff to sales is better because most of the transaction (browsing, sales and ordering) is performed by automated systems online without the need for physical labour.

Secondly, Amazon offers a valuable consumer experience. The website is responsive, changing according to the popularity and discussions regarding each product. It creates a space for
feedback from general members of the public as well as published reviews of the product on offer (such as a book) which gives users a chance to make an informed assessment of any product before purchase. The ‘independence’ of such advice (often products receive negative or lukewarm reviews) tends to enhance the credibility of feedback overall – as opposed to a sales assistant who naturally has a vested interest in selling a given product. Additionally, Amazon offers many books that are no longer in publication and therefore difficult to access. This competitive advantage is similar to that of eBay discussed above: the availability of rare and/or valuable stock attracts consumers online. Expensive retail space constrains most bookstores in cities but Amazon can cheaply stock a wide range of books in their warehouses. Further, by licensing out space to other firms to sell on their site, Amazon claims that if a book exists it is available on Amazon.com (Amazon 2006).

To some extent, the analysis above demonstrates the success of an online bookstore relative to the bricks-and-mortar variety but not specifically Amazon.com. Why is Amazon the leader in the field, rather than an established firm that moved online (or another online firm)? One compelling reason is first-mover advantage (Mellahi and Johnson 2000). For an online firm like Amazon, this advantage manifests in two forms. First, brand awareness: being the first firm to sell books online meant that Amazon and online retailing are synonymous terms. In the “world of ‘unreal estate’ … Amazon got there first and set up the lead brand” (Machlis 1998 p17). Secondly, Amazon creates a reinforcing cycle for consumers whereby their previous experience with the website makes them more willing to return. The sales history of all consumers is recorded and
cross-checked such that Amazon can predict a person’s tastes based on their previous browsing and purchasing patterns.

The second reason for Amazon’s success over similar online firms is innovation combined with patenting. Amazon focus on customer convenience, as this is what draws many people online in the first instance. They “have the best reputation in the business for fulfillment and delivery” and they “make shopping delightfully simple” (Economist 2000a). They developed and patented the “one-click” technology which streamlines sales into a quick and easy process. Customers only need to input their personal and credit card information for their first sale as it is saved for future convenience. This once again is a disincentive for people to switch brands to other sites.

**Amazon and Australia**

Amazon does not have a physical presence in Australia, nor does it have an Australian domain name. Ultimately, the firm has not chosen to enter the Australian market. However, it does have engage in significant business operations here. Official data is scarce on this issue as the Australian market is not mentioned in any official Amazon reports or documents. However, there

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8 Today this technique is common place across most online retailers, and Amazon’s “one-click” patent has not stopped similar functions being used by its competitors. The larger point is that Amazon was the first to build a database of consumers and then use that data to enrich future sales experiences for their customers.
is strong evidence that Amazon has a reasonably sized customer base in Australia despite their lack of attention to the Australian market.

According to one survey, almost one in six Australian online shoppers (16%) have purchased a book from Amazon in the past twelve months (ACNielsen 2006). This puts them sixth out of all Australian online retailers (see table). The major disadvantage for Amazon is that all sales to the Australian market are exports. This adds to costs and it means that sales are subject to changes in international financial conditions, particularly exchange rate volatility (Icon 2002).
Chapter Five: Analysis of Cases

My research found evidence that the contemporary theoretical framework insufficiently accounts for key facets of online business strategy in the large multinational context. The internet has created a unique platform for business where national borders are unidentifiable. The concept of ‘market entry’ is an anachronism where consumers can regularly and easily access a business from a foreign market without the firm’s knowledge or consent. Indeed, it is more useful to define market entry as a spectrum rather than a dichotomy: for internet firms the issue is not whether a nation is or is not operating in a foreign market – rather it is how much. As historical internet traffic data demonstrates, for a small foreign market like Australia these firms have chased their own tail. They formally entered the Australian market (by setting up a local subsidiary, domain name and support staff) according to the preexisting popularity of the business. In this respect, firms have little control over decision-making – the consumer is king.

Similar phenomena can be identified across all four firms. This suggests that there are systemic problems with current theory. These four firms collectively share an experience so similar that it cannot be dismissed as merely idiosyncratic or miraculous outliers. Current theory also takes insufficient account for the power and importance of the consumer. Consumers generate value for firms because they form communities and leave data for the firm.
Ownership

The Ownership sub-paradigm reflects a firm’s exclusive tangible and intangible assets that give it a competitive advantage relative to its competitors (Dunning 1977, 1988, 2000), as discussed above. It is the theoretical cousin of assorted resource-based view (RBV) theories of the firm. As globalisation put a premium on intangible public goods (the knowledge economy), it has already been conceded that ‘Ownership’ now refers to non-exclusive assets in a context of alliance-based capitalism (Dunning 1995). I argue here, however, that this semi-exclusive asset where knowledge is shared is an intermediary between traditional firms and internet firms who are more appropriately labeled as part of the consumer economy. In this context, the consumer is a strategic resource.

All business-to-customer firms value their consumers. Even if not achieved in practice it is the intention of every business to cultivate and maintain a healthy relationship with customers in the hope that this may lead to more business in the future. This is an obvious management strategy. From a broader perspective however, strategy tends to be directed at – rather than about – the consumer. It does not consider the consumer as an Ownership advantage. Yet this is the central most important asset for Google, Yahoo, eBay and Amazon. The network of users who regularly use their services develop a highly valuable long-term trust relationship with the firm (Kotha et al. 2001). This asset is possibly the single reason why so many internet firms have
disproportionately large market capitalisation relative to revenues: a large community of users indicates significant growth opportunities when coupled with future innovation (Davis 2002).

The first reason for this comes from the capacity of large online firms to collect a significant magnitude of data about their customers. The theory that the internet is anonymous is a myth in the context of online business (Calkins et al. 2000). Unlike in a bricks-and-mortar retail store, every online consumer leaves a digital footprint with hordes of useful information. Data on website traffic, search terms, advertising appeal, website click-through data and so on is collected in the millions – clearly representing a statistically significant body of data. Google tracks how users navigate across a page, how they got to that page and where they go from that page. This gives a wealth of data that is very attractive to advertisers, who ultimately are the source of revenue. It facilitates the capacity to pinpoint strategic advertising targets and avoids wasted advertising on less useful demographics. Users form online ‘communities’ that further add to the interactive components of websites (Kotha 1998) through forums, customer feedback and even acting as merchants themselves in the cases of eBay and Amazon. Regular website traffic increases revenue directly through sales and/or advertising and indirectly by increasing potential for customers to follow the firm across different horizontal and vertical expansions.

Amazon maps the browsing rates of users relative to purchase rates (Weiss et al. 2004). This serves to gauge customer interest versus actual sales. Google collates the popularity of various news sites and uses mathematical formulas to predict front page stories for its news website. The
site performs its own evolution according to the desires of customers, prioritising successful websites over others.

On an individual level, where consumers have created a personal profile, large online firms effectively tailor the entire website to their interests. This is a paradigm shift from business strategy that aims to tailor firms to a national culture – it directly targets the values and interests of individuals within a national culture. eBay and Amazon direct customers to products that similar people have also purchased (Bodily and Venkataraman 2004; Singh et al. 2005; Weiss et al. 2004). Google and Yahoo offer their websites as a blank canvass that users can fill with an array of information, programs and digital toys (sometimes known as widgets) at the individuals’ personal discretion. The internet functions as an open-source platform where individuals can design their own widgets which are incorporated in turn as options on the Google/Yahoo platforms.

Having established the centrality of the consumer in online business, it is worth discussing what distinguishes this from the most recent incarnation of the Ownership sub-paradigm – that of alliance capitalism. Now, the value of the consumer as a resource may be classified as a knowledge asset and therefore it could be classed as an example of the importance of knowledge in modern business. There are important differences, however. Alliance capitalism describes a process whereby firms create the knowledge which is then shared for communal exploitation by members of the alliance. In this case, knowledge is created by the consumer and the firm merely
captures it. Therefore, whilst the firm controls the dynamic capture process \((O_c)\), they do not own the asset itself \((O_a)\).

Essentially, the Ownership asset held by the firms is the ability to capture such a large amount of information, rather than the information itself. This is created through offering a particularly valuable service which in turn leads to high website traffic. The asset is intertemporal: consumer patterns and behaviour change rapidly, therefore the knowledge is only ever held fleetingly. Whereas in alliance capitalism a piece of knowledge (say, new technology) might be shared for a reasonable length of time within the alliance, the internet firms operate differently. Amazon constantly and automatically updates suggestions to consumers about the most popular products relevant to their interests. Google must perpetually trawl the internet to continually map everything on the internet, then immediately input that data for its search and advertising technology.

Ultimately, the Ownership sub paradigm is built on a firm-centric view where the multinational is the main protagonist in strategy. It assumes exclusivity (or now semi-exclusivity) of knowledge. According to the strategy and history of the four main internet firms, however, consumers are the most basic strategic resource. Knowledge is not a static created asset – it is intertemporal, dynamic and consumer created.
This has interesting ramifications for the market orientation / learning orientation divide. At first inspection, it would appear that these firms adopt a market orientation by focusing closely on the consumer. However the reality is more complex. The internet firms do not respond to demands from consumers: they create new value and let the consumer choose to adapt it to their environment. As dynamic high technology firms, they cannot ask the consumer what services they want in the future, but rather they must develop them and then allow for consumers to adopt them. Thus Google won significant market share with gmail as it brought new ideas and higher standards of service to the free email market. Equally eBay acquired Skype, a free online telecommunications firm, in anticipation of future markets, rather than responding to current market dynamics. In summary, my analysis demonstrates a climate where learning orientation and market orientation have a synergistic relationship (as suggested in Baker and Sinkula 1999). The importance of the consumer as a resource combined with the pressing need to continuously improve firm-wide information creates a perpetual cycle where both orientations are useful.

**Location**

“(T)he Internet is destructive of the distinction between domestic and international” (Kobrin 2001 p700).

A series of technological breakthroughs since 1945 have made the world a much smaller place for business. Additionally, artificial (government) barriers have largely been dismantled. People
can communicate and travel across national borders in a low-cost, quick and easy fashion. It is not a revelation to note therefore, that businesses today find it much easier to operate internationally. The international business discipline has certainly documented this development. However, in the case of large internet firms national borders are not merely insurmountable – they are irrelevant.\footnote{This statement clearly has some exceptions. Most notably, it does not apply in cases where countries exhibit significant control over internet usage, such as China.}

Within six months of incorporation, all four firms in this study had a large international consumer base without investing any capital in those markets. Consumers were happy to use their products and services. Whilst Google and Yahoo have made a series of strategic acquisitions to enter new markets (particularly in parts of Western Europe) this is the exception to the rule. Generally, they have successfully marketed their brand through technological superiority which trumps domestic loyalty.

The internet is blind to national boundaries. Users can switch between websites that are hosted across the four corners of the world within seconds. Importantly, users seem largely oblivious to the ‘foreign’ nature of these websites. This is for two reasons. First, the internet is impersonal. When visiting a website, consumers are confronted with text and images which generally do little to suggest foreignness, as opposed to a personal experience which would necessarily
involve communication with people and therefore real social constructs. Secondly, the internet empowers the user. People control their experience on a website because they choose what to do with it. Users of eBay who find niche items such as collectables or broken and out-of-date products effectively find what they want by their choice. Equally, Google searchers may be using an American domain name but this does not stop them using an Australian search term. This is substantially different to a traditional business-to-consumer firm which necessarily has a finite product line which then functions to typecast the firm in one particular fashion. With Google and Yahoo the opportunities are close to infinite, whereas the sheer size of items on eBay and Amazon make the firms’ products seem equally limitless in scope.

The meaninglessness of brand marketing or foreignness is most clearly demonstrated in the Australian context with the case of Amazon. Amazon has no market presence in Australia in a typical sense: that is, it has a market but no traditional presence. Australians can (and do) set up an account, browse and purchase on Amazon.com with one click. They do so primarily to access books that are unavailable in Australia. This may be because the book is out of date or rare. In a small commercial market such as Australia some international publishers may simply choose not to sell in the market for lack of potential customers. Australians use Amazon to solve this problem.\(^\text{10}\)

\(^\text{10}\) Note that whilst generally Australians use the American Amazon site, sales are also occur off the British and other European Amazon domains.
Almost one in six Australian online shoppers (that is, 16%) have to used Amazon in the past twelve months (ACNielsen 2006). This is in spite of no marketing, offices or apparent concern for the Australian market by the firm. Australian online spending has grown at an exponential rate to $AUD11 billion for 2006, yet Amazon still rates in the top ten retailers. All sales are exports. This phenomenal performance suggests that the internet diminishes the ‘liability of foreignness’ to virtual insignificance:

These firms *enter foreign markets instantaneously* when their services are posted on the Internet. Of course, each firm can … culturally adapt its site to a particular region; however, in almost all cases *the cost of serving foreign markets is dramatically lower* than those associated with the traditional product expansions of the 1990s (Dunning and Wymbs 2003, p219, my emphasis.)

Google, Yahoo and eBay all set up local Australian subsidiaries *after* strong indigenous support grew by Australian consumers. Contrast this with South Korea, where Google was not popular before it entered the market and has since invested in a marketing campaign there (which is unprecedented for Google) but has failed to gain market share from a local competitor (Vise 2006). Large internet firms *follow* consumers into foreign markets rather than choosing them.
Relatively low regulation or other governmental barriers on the internet make foreign market entry simple. Whilst traditionally firms were unwilling to risk the large commitment of resources required to expand internationally, the entry and exit costs are low and managers can learn as they interact via relatively cheap and simple modifications to their website (Johnson et al. 2000). Firms maintain all key strategy at the headquarters level. Google and Yahoo both leave only legal, technical and support roles to staff at the Australian level, of which there are relatively few employed. The technology and service is operated by American computers designed by engineers in the American headquarters. For legal purposes, Google, Inc rather than Google Australia is liable for searches made on the Australian site (Moses 2007c). Whilst eBay gives greater control to the Australian subsidiary (by allowing for differentiation on price structures and some degree of discretion regarding marketing in the country) the firm likewise controls the service at the headquarters level. The American eBay site is almost identical in design, usage and technology as the Australian eBay site.

Therefore, for these large internet firms market entry has been reactive (rather than proactive) plus that costs of entry are so low and that it may take a relatively benign form such as technical support. Given all these, we may classify market entry as a fluid spectrum where firms may choose to be more or less attentive to the market, with only marginal affect on consumer popularity and experience. The Location sub paradigm traditionally explains a firm’s “choice” to enter a particular market. However, my research in this case shows evidence that national
boundaries are neither particularly important nor a barrier to commerce, regardless of the firm’s choice.

**Internalisation**

Internalisation relies on the assumption of a standard market where firms hold a certain exclusive product that they wish to sell in a market. That is, it relies on an assumption of competition above all else. An industry is the term for the collection of these competitors. Whilst some researchers refer to an internet ‘industry’ (Javagi et al. 2004; Leamer and Storper 2001; Mellahi and Johnson 2000; Zook 2005), this term is misleading and should be abandoned. The big four internet firms (Google, Yahoo, eBay, Amazon) are not an ‘industry’ at all. They each offer multiple and vastly different goods and services. Their value is not based in an industry, it is based on a process such as search technology (Google, Yahoo), auctioning (eBay) or sales (Amazon.com). Once defined as a process firm, Google’s seemingly inconsistent package of products (Google search, Google mail, Google maps, etc) seems much less unlikely: they all facilitate access to information. Such firms create a market space where the constant is a ‘value web’ (Cartwright and Oliver 2000). Value creation is more complex than a linear process. This construct serves to suggest that value is not always created in the same order: “the order of activities may vary or be simultaneous” (*ibid.*, p25.)
By externalising key intangible assets with competitors, large internet firms are engaging a proxy international expansion. Their technology – such as Amazon.com’s product database, their single most valuable item – is freely distributed to small internet firms, who then tailor the content to local markets (Roush 2005). This is an innovative form of glocalisation, where the large internet firm entrenches itself by having the standardised platform and the small internet firm (operating in a certain socio-cultural environment) gains access to valuable information, adapting it to a particular niche. Google provides its Adsense technology for advertisements that it does not own. In this instance the small firm gains the advantage of the technology and Google entrenches itself as the global technological benchmark for online advertising.

Horizontal and vertical alliances have grown in popularity across all forms of international business in the past decade (Dunning 2001) but for internet firms they are more significant in degree and kind. Many of their competitors are also customers and partners in a complex strategic web (Bodily and Venkataraman 2004; Filson 2004; Roush 2005). As different processes overlap (such as search technology and online news provision), both firms win from an alliance. Amazon sees no threat in using Google’s search technology to run its website and advertising. As a risk management strategy, alliances may hedge against market shocks in the face of the “digital erosion of size and scope defenses” (Bodily and Venkataraman 2004, p17) because it improves access to different technologies. For example, eBay’s purchase of PayPal was strategically useful not only because PayPal was rapidly becoming the most popular means of purchasing on eBay but also because it can be relied on as a revenue raiser through other
independent e-commerce websites regardless of the performance of eBay’s core auction business in the future.

One reason small firms are content for this arrangement is the ‘critical mass’ factor. Once a website is so popular that it has a substantial portion of daily website traffic, other firms stop trying to compete for that traffic and instead look to be a part of it. This further re-entrenches their position. An extremely high rate of networking and non-competitive activity combined with intent to externalise key value creating activities to establish standards has confused traditional concepts of the Internalisation sub paradigm. By creating sophisticated alliances and offering their technology to other firms free for the purposes of standardisation, the internal/external division is difficult to identify.
Born Global

Ironically, in the ultimate democracy that is the internet, Google reigns as virtual dictator... *(I)t has the power to effortlessly shape the digital economy* and manipulate the incomes of millions of web businesses around the world (Moses 2007b my emphasis).

The relationship between large pure internet forms and the born global concept are paradoxical. In an empirical sense, each of the case studies fit comfortably within the born global definition which I will discuss below. However, the substantial size and importance of each of the four firms entails special characteristics that completely undermine the extant born global literature. Large internet firms effectively divorce the definition of born globals from their behavioural predictions.

Definitions

My four case studies fell comfortably under Knight and Cavusgil’s (1996) basic born global definition in a historical sense as they all comfortably reached over 25% foreign revenues within three years of foundation. Yet the similarities do not end there. They all market sophisticated technology, noting in their annual reports that their intellectual property is of fundamental importance to value creation (Amazon 2006; eBay 2006; Google 2006b; Yahoo 2006) and these
technologies have a high level of service content which is in line with Cloninger and Oviatt’s (2007) analysis.

Born globals’ capacity to expand globally is often cited as being the result of recent developments in communications, production and transportation (Kuivalainen et al. 2006; Loane 2006). Clearly in the case of internet firms, the information revolution combined with high levels of internet penetration in developed countries has been crucial to their growth and success. So here in this respect also large internet firms qualify as born globals.

As predicted in the literature, the ‘global’ nature of the internet firms was not the central pursuit of the founder (Vise 2006; Vise and Malseed 2006): rather it was the innovative, unique service, whilst global expansion was merely a logical result of the firm’s model (Rasmussen et al. 2001). The intention to globalise is of secondary concern (Oviatt and McDougall 2005). The evidence for this is in the lag effect on internationalisation. Australians used Google, Yahoo and eBay for a significant period before they formally entered the Australian market. The superiority of Google’s internet search technology over Yahoo’s was the single preeminent reason for Yahoo’s decline in Australia, rather than a marketing or management issue on the national level. Indeed, Yahoo had more employees and spent greater amounts on marketing in Australia yet this global strategy proved less crucial than the inferiority of their core technology.
Innovation is still the key factor for all four case studies. Google in particular is possibly currently the world’s most innovative firm (Economist 2007a). In the past three years it has revolutionised the online scholarship, maps, desktop applications, online news, online videos and finance tracking industries.

**Analysis**

I have established now that the case studies fit within the definition and characteristics of a born global firm. Now I identify a seeming paradox that whilst fitting this definition they fail to conform to predictions about firms that fit this framework. This section will outline how the large internet firms in this study operate so differently to born global firms that the term should no longer apply. ‘Born global’ should be considered an initial phase rather than a permanent label.

The fact that innovation continues is problematic. Researchers argue that the reason born globals (or international new ventures) are highly innovative is due to their flexibility by virtue of being small (Oviatt and McDougall 1994; Shrader et al. 2000). With low organisational complexity and the ability to easily adopt new strategies in line with technological change, smallness is crucial to fast-paced innovation. Small firms that rely on funds from a venture capitalist (rather than shareholders) can take risks more easily. Large firms suffer from path dependency as firm
standard practice become routine and organised. Further, large firms tend (by definition) to be successful in their respective value creation models. Successful firms tend to be unlikely to wish to change strategy whilst they are still successful.

Why, therefore, are large internet firms highly innovative – and how do they achieve it? Arguably, organic innovation has slowed down in these firms as they have grown, leaving them to innovate by acquisition. The long list of acquisitions and their strategic significance has been discussed previously in this study so will not be repeated here (see Appendix B). Of course, an acquisition does not represent genuine innovation by a firm: it is simply a process of using excess capital to spot small firms with potential to add value. Yet this is not the whole story: many technological innovations come organically from within these firms. I find two reasons for their capacity to be highly innovative whilst simultaneously large.

Firstly, the firms are structured towards innovation. They compete to hire the world’s best engineers (Ferguson 2005). They use the abundance of data on consumer patterns of online behaviour to predict trends. As if to emphasise the point, all Google employees are given 20% of their work time to devote to developing whatever new ideas they can imagine, unrelated to their normal work role (Economist 2007a).
Secondly, the internet enables low cost innovation. The cost of altering a value creation model online is very low because it is largely an intellectual process involving changes to computer codes rather than a physical change to capital and infrastructure. Yahoo and Google regularly change the code for responding to search requests and advertising targeting (Moses 2007b), which only involves using their digital equipment in another manner rather than having to reinvest in new capital equipment.

Thirdly, these firms avoid the structural complexity of large global firms. Their national subsidiaries play an unimportant role in the strategic development of the firm. There are relatively few employees working in national offices and their roles are largely technical rather than substantial. This has the effect of reducing the path dependency and organisational complexity effects on innovation. Whilst theoretically the fact that they are now public companies makes it more difficult to engage in risk-taking, in practice the firms’ founders have significant managerial control and the faith of shareholders. This is due to the perpetual growth of these firms in recent years fueling confidence plus the founders hold a majority of class A shares in each firm, ensuring that they cannot fall subject to shareholder demands.

Largeness also constructs certain unique qualities that small born globals do not share. Firstly, all four pure internet firms in this study have and use significant leverage online. As mentioned previously, they all frequently purchase innovation and market share by playing the “acquisition game” (Economist 2007b). All four have large amounts of cash fueled by high stock prices and
strong profits which makes purchasing activity fervent. Whereas once they were born global, now these firms consume other born globals.

Secondly, these firms are large enough to affect the environment they operate in, rather than accepting it as given. This relates to the discussion previously regarding externalising to create standards. As the service platform for other firms, they effectively dictate the terms of business in various markets. The strategic decisions made by large internet firms affect the revenues of thousands of small firms. A slight change to the search algorithm of Google or Yahoo can dramatically alter online advertising revenue for a small firm (Moses 2007b). Likewise, eBay and Amazon are the platforms for a large number of entrepreneurial firms that offer their own online products and services.

Thirdly, these firms violate the assumption that born globals avoid direct competition with large established competitors. This point is obvious. Despite the youth and inexperience of the firms, their biggest competition is with large offline firms. Google’s rivalry with Microsoft is well documented and Google actively pursues this by choosing to entering markets already dominated by Microsoft, such as spreadsheet and word processing software via GoogleApps (Jones 2007). Amazon faces daily price competition with the world’s largest retailers across a large range of products (Calkins et al. 2000; Cone 2007).
Clearly therefore, the term ‘born global’ is redundant to large internet firms. It more appropriately considered a development phase rather than a class or category. Note, however, that this leaves a problematic academic black hole. These large post-born-global firms are no longer born global but they are not traditional international businesses either. They maintain key residual characteristics and behavioural qualities of born globals. That is, they are highly innovative, technologically focused (rather than marketing- or revenue-focused), young, flexible and perceive the world globally rather than internationally.

Therefore, a new category of the ‘post-born global’ is required. Key characteristics are the residual qualities of innovation, technological focus and global outlook as identified above. It also includes a highly centralised business model where foreign subsidiaries only perform technical and minor roles, hence emphasising the importance of the innovative centre of the firm. Additionally, using financial size and dominance to shape the way the market operates is another key descriptor.

The four pure large multinational internet firms are certainly not born global. Indeed, the term has little explanatory power and should be considered a phase rather than a permanent state. Equally, there are firms developing such as these four which were once born global and now exemplify a unique business model. International business theory needs to catch up with these developments.
Chapter Six: Conclusions

The internet has dramatically improved the capacity of firms to internationalise and redefined competitive strategy at the same time (Johnson et al. 2000). According to Johnson, in the late 1990s the internet spurred the growth of a ‘new economy’ whereby the rules of market entry changed so much that the old analysis is now redundant (ibid., p276.) The world is a smaller place for business.  

This paper produced a contribution to critical theories of the multinational firm. It argued that the unique characteristics of internet firms violate assumptions of international business theories as manifest in the eclectic paradigm. These differences are not merely cosmetic: they suggest a wholly new approach to international business. As the internet and e-commerce grow to dominate business (particularly international business) this is an important area of concern.  

At the core of these findings was a heightened role for the consumer as a resource. The internet gives unique capabilities to a firm to directly personalise their service to each individual. Large internet firms use large swathes of data to tailor websites and predict patterns of use by their customers.

\footnote{With one notable caveat: countries must pass a threshold of reasonably high internet penetration and stable financial systems to be a part of this community: Oxley and Yeung (2001).}
consumers. This is the largest Ownership advantage for these firms and requires a reconceptualisation of the concept of ‘Ownership’ to include intertemporal consumer-created assets, where the firm’s role is to *capture* knowledge rather than create it.

Location is not nearly as important for large pure internet firms as the OLI framework suggests. The ability to personalise the web experience makes individual tastes rather than national culture the predominant issue. Market entry generally occurs before firms are even conscious of it, and all three firms that entered the Australian market did so *after* they had been gaining revenues there. Amazon has successfully developed a market in Australia despite making no specific effort to target the country in any way. Market entry should therefore, be seen as a spectrum of commitment by the firm rather than a dichotomous state. A focus on technology and the lack of visible national boundaries on the internet has meant that firms are largely centralised and their foreign subsidiaries only perform technical support roles, rather than adding significant substantial value. Indeed, the actual service performance itself for Google and Yahoo are actually performed in the United States for those two firms.

Internalisation is a difficult concept for internet firms. A high prevalence of formal and informal networking between the four firms (as well as other firms) makes them non-traditional competitors. Indeed, in some cases the firms have externalised their services free of charge in an attempt to become the standardised platform for a particular service on the internet. The boundaries between internal (asset) and external (market) are blurred.
I also considered the important but unfortunately under-developed born global literature in my research. ‘Born global’ is an increasingly popular term given to firms that have defied conventional theories about the pace and direction of growth of a firm. Whilst all four of the firms were once born global, the term no longer holds sufficient meaning for them. As such, this term should be considered a development phase rather than a category of firm. The internet now has two distinct types of firms operating under substantially different conditions: large internet firms who have the capacity to shape the internet and small internet firms who merely react to the changing environment. For many small firms success may be defined as being acquired by one of the large firms – which occurs regularly. The large post-born globals also defy traditional international business analysis because they continue to be highly innovative and centralised despite operating with a large workforce and in many countries.

**Limitations**

As with all research projects, this study was subject to certain limitations on results. The study of new phenomena in a new environment is inherently difficult and necessitates a degree of generalisation. Whilst none of these limitations are critical to the basic conclusions it is nevertheless useful to discuss them in this section. My research was conducted over a limited period of time. It would have been beneficial to observe the case studies over a substantial period
of time to monitor how they developed and responded to change in the external environment. To counter this I observed and documented how those firms have developed in the recent past. This reduces any negative effect of this particular issue.

Four case studies may be large enough to draw general conclusions about large internet firms but with certain caveats. One goal of this study is to set out key differences regarding internet firms compared with traditional firms such that we may have a better theoretical framework for understanding internet firms in the future. However, the internet is changing rapidly and unpredictably such that the analysis presented here may be irrelevant for future internet firms. When discussing a platform that is still undergoing so much change, it is difficult to make reliable predictions about the future. Further, the analysis of the cases should not be taken as advice for managers. For example, even though my research finds that the consumer is the most important strategic resource that does not mean that all online firms should structure their businesses that way – rather it is an empirical observation of how they currently operate.

The scope of the study was limited to general strategy of each of the firms and a focus on only one subsidiary (Australia). This is dangerous because Australia may be an unusual or unique case for the firms.\(^\text{12}\) The research would have benefited from a cross-sectional approach

\(^{12}\) Although this is unlikely: see discussion of the choice of Australia in the Methodology section.
analysing several subsidiaries, which was beyond the capacity of the author in the given research period. Specifically, the focus on Australia makes it inappropriate to generalise my conclusions to large important markets such as China and India. Both of these nations are so large that there is a much stronger incentive for internet firms to directly target and manage that market. Indeed, internet firms have altered their general strategy to fit the Chinese market (Bodily and Venkataraman 2004; Economist 2001; Lei - Da and Tan 2004; Sheldon and Strader 2002). In China many of standard assumptions about internet-related business do not hold because the internet is highly regulated and there remain significant barriers to entry.

Failure to gain access to managers of any of the four case studies for interviews was disappointing. Ultimately however, this omission was not critical in the investigation. It did mean that the research could not add a subjective element of what the firms intend or perceive the role of the local subsidiary to be. This is not to undermine my conclusions which are of a more objective nature: that is, the actual role of those subsidiaries regardless of intention. A second separate detriment here was to reduce the amount of data uniquely about the Australian market relative to other subsidiaries, rather than about the firm’s international strategy generally.
Future Research

My research identified several challenges for future research which flow directly from my conclusions. Scholars need to focus on purely internet based firms as a special type of multinational. They need to create new frameworks that account for the increased role of the consumer in a dynamic environment, where the consumer has the power to affect value creation and the firm has the capacity to capture that knowledge. The eclectic paradigm has developed to account for alliance capitalism and now needs to do the same for consumer capitalism.

The born global literature faces many challenges. Currently, the research agenda is clouded by a series of empirical studies that merely point to the existence of such firms. Some work has been successful in identifying the preconditions for their existence. Now further research needs to define when they stop being born global – that is, the boundaries of the term as these firms grow. Having demonstrated that such firms exist in the internet context, research could further investigate whether successful born globals have outgrown that category in other markets also.

The born global research agenda is closely related to that of the emerging field of ‘International Entrepreneurship’. This field can be conceptualised as the intersection of two disciplines. Firstly, 
entrepreneurship which traditionally focuses on small and medium enterprises (SMEs) and secondly international business which traditionally focuses on large multinationals in an
international context (McDougall and Oviatt 2000). International entrepreneurship reflects the rejection of the assumption that ‘SME’ and ‘international’ are mutually exclusive terms. Consider this proposition in reverse however and the question becomes: can entrepreneurialism and largeness co-exist in a firm? In the same manner that the international business discipline has come to accept that they must study small firms, so too the entrepreneurship discipline must be open to applying their research agenda to large firms.

Google, Yahoo, eBay and Amazon are four of the most influential and fastest-growing multinationals in the world. They are shaping the internet revolution and ultimately they are important international businesses. It is undeniable that there will be several more of these large internet firms in the future. They operate on a very unique platform where national boundaries are not clear and barriers to entry are extremely low. Above all, they have qualities that are unique and separate them from any other multinational. The international business discipline needs to respond by developing new and relevant theory – sooner rather than later.
APPENDIX A

This is the list of ten specialised periodicals used to collect data on each case study. Periodicals were selected based on three criteria: reliability, impartiality and quality.

- The Economist
- The Wall Street Journal
- The McKinsey Quarterly
- The Australian Financial Review
- Fortune Magazine
- Strategic Direction
- Financial Times
- Harvard Business Review
- Forbes Magazine
- Technology Review
## APPENDIX B

### Global Brand Values in $US million

<table>
<thead>
<tr>
<th>#</th>
<th>Brand</th>
<th>Brand Value ($m)</th>
<th>% change in Brand Value</th>
<th>#</th>
<th>Brand</th>
<th>Brand Value ($m)</th>
<th>% change in Brand Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Google</td>
<td>66,436</td>
<td>-77%</td>
<td>51</td>
<td>UBS</td>
<td>11,591</td>
<td>21%</td>
</tr>
<tr>
<td>2</td>
<td>GE (General Electric)</td>
<td>61,980</td>
<td>11%</td>
<td>52</td>
<td>Target</td>
<td>11,550</td>
<td>85%</td>
</tr>
<tr>
<td>3</td>
<td>Microsoft</td>
<td>54,931</td>
<td>-11%</td>
<td>53</td>
<td>ING</td>
<td>11,539</td>
<td>N.A.</td>
</tr>
<tr>
<td>4</td>
<td>Coca-Cola (** )</td>
<td>44,134</td>
<td>7%</td>
<td>54</td>
<td>Canon</td>
<td>11,413</td>
<td>15%</td>
</tr>
<tr>
<td>5</td>
<td>China Mobile</td>
<td>41,214</td>
<td>5%</td>
<td>55</td>
<td>Sony</td>
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<td>Morgan Stanley</td>
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<td>7</td>
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<td>57</td>
<td>Chevrolet</td>
<td>11,202</td>
<td>-10%</td>
</tr>
<tr>
<td>8</td>
<td>Cit</td>
<td>33,726</td>
<td>9%</td>
<td>58</td>
<td>Nestle</td>
<td>11,189</td>
<td>3%</td>
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<tr>
<td>9</td>
<td>IBM</td>
<td>33,572</td>
<td>-7%</td>
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<td>Chase</td>
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<td>Wachovia</td>
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<tr>
<td>16</td>
<td>Axa</td>
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<td>66</td>
<td>Budweiser (** )</td>
<td>9,977</td>
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<tr>
<td>17</td>
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<td>Orange</td>
<td>9,922</td>
<td>5%</td>
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<td>73</td>
<td>H&amp;M</td>
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<tr>
<td>24</td>
<td>Cisco</td>
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<td>TIM</td>
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<td>Colgate</td>
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<tr>
<td>29</td>
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<td>0%</td>
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<td>7,459</td>
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<tr>
<td>33</td>
<td>ICBC</td>
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<td>Verizon Wireless</td>
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<td>7,021</td>
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<td>Starbucks</td>
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<td>Hermes</td>
<td>6,939</td>
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<td>36</td>
<td>Honda</td>
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<td>7%</td>
<td>86</td>
<td>Best Buy</td>
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<td>37</td>
<td>Dell</td>
<td>13,903</td>
<td>-24%</td>
<td>87</td>
<td>Barclays</td>
<td>6,612</td>
<td>30%</td>
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<td>38</td>
<td>Bank of China</td>
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<td>N.A.</td>
<td>88</td>
<td>Avon</td>
<td>6,558</td>
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<td>Royal Bank of Canada</td>
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<td>89</td>
<td>Gucci</td>
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<td>Porsche</td>
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<td>11%</td>
<td>90</td>
<td>Zara</td>
<td>6,469</td>
<td>2%</td>
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<td>Deutsche Bank</td>
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<td>1%</td>
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<td>Wal-mart</td>
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<td>42</td>
<td>Yahoo</td>
<td>13,060</td>
<td>-6%</td>
<td>92</td>
<td>Amazon</td>
<td>5,969</td>
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<td>43</td>
<td>eBay</td>
<td>12,633</td>
<td>-2%</td>
<td>93</td>
<td>BP</td>
<td>5,913</td>
<td>8%</td>
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<tr>
<td>44</td>
<td>Samsung</td>
<td>12,742</td>
<td>6%</td>
<td>94</td>
<td>ASG</td>
<td>5,880</td>
<td>4%</td>
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<tr>
<td>45</td>
<td>Ford</td>
<td>12,627</td>
<td>-9%</td>
<td>95</td>
<td>ABN AMRO</td>
<td>5,617</td>
<td>72%</td>
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<td>L’Oréal</td>
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<td>15%</td>
<td>96</td>
<td>Anchor</td>
<td>5,570</td>
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<tr>
<td>47</td>
<td>Banco Santander</td>
<td>12,094</td>
<td>-4%</td>
<td>97</td>
<td>Asda</td>
<td>5,540</td>
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<tr>
<td>48</td>
<td>Pepsi (**)</td>
<td>11,756</td>
<td>2%</td>
<td>98</td>
<td>Lexus</td>
<td>5,421</td>
<td>7%</td>
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<td>49</td>
<td>Carrefour</td>
<td>11,710</td>
<td>8%</td>
<td>99</td>
<td>Esprit</td>
<td>5,411</td>
<td>25%</td>
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<tr>
<td>50</td>
<td>Merrill Lynch</td>
<td>11,655</td>
<td>16%</td>
<td>100</td>
<td>Rolex</td>
<td>5,387</td>
<td>9%</td>
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</table>

Source: Millward-Brown 2007
## APPENDIX C

**Selected List of Major Acquisitions by Case Studies**

### Google

<table>
<thead>
<tr>
<th>Date</th>
<th>Firm Acquired</th>
<th>Service</th>
<th>Price (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2003</td>
<td>Applied Semantics</td>
<td>Advertising</td>
<td>$201 million</td>
</tr>
<tr>
<td>September 2003</td>
<td>Kaltix</td>
<td>Search Engine</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>July 2004</td>
<td>Picasa</td>
<td>Online photo-sharing</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>October 2004</td>
<td>Keyhole, Inc</td>
<td>Maps</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>May 2005</td>
<td>Dodgeball</td>
<td>Social Networking</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>February 2006</td>
<td>Measure Map</td>
<td>Blog Analysis</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>November 2006</td>
<td>Youtube</td>
<td>Video sharing</td>
<td>$1.65 billion</td>
</tr>
<tr>
<td>April 2007</td>
<td>DoubleClick</td>
<td>Advertising</td>
<td>$3.1 billion</td>
</tr>
<tr>
<td>May 2007</td>
<td>Greenborder Technologies</td>
<td>Desktop Applications</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>June 2007</td>
<td>Panoramio</td>
<td>Maps and Photo Sharing</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>June 2007</td>
<td>Feedburner</td>
<td>RSS Feeds</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>July 2007</td>
<td>Postini</td>
<td>Online communications security</td>
<td>$625 million</td>
</tr>
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</table>

### Yahoo

<table>
<thead>
<tr>
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<th>Firm Acquired</th>
<th>Service</th>
<th>Price (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1999</td>
<td>Geocities</td>
<td>Personal Website Creation</td>
<td>$3.6 billion</td>
</tr>
<tr>
<td>July 1999</td>
<td>Broadcast.com</td>
<td>Online Radio Broadcasting</td>
<td>$5.7 billion</td>
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<tr>
<td>January 2002</td>
<td>Hotjobs</td>
<td>Job Market</td>
<td>$436 million</td>
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<tr>
<td>October 2003</td>
<td>Overture</td>
<td>Advertising</td>
<td>$1.63 billion</td>
</tr>
<tr>
<td>April 2004</td>
<td>Kelkoo</td>
<td>Price Comparison</td>
<td>$579 million</td>
</tr>
<tr>
<td>March 2005</td>
<td>Ludicorp Research</td>
<td>Photo Sharing</td>
<td>$40 million</td>
</tr>
<tr>
<td>September 2006</td>
<td>Jumpcut</td>
<td>Video Editing</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>April 2007</td>
<td>Right Media (80%)</td>
<td>Advertising Market Exchange</td>
<td>$680 million</td>
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<tr>
<td>September 2007</td>
<td>Zimbra Collection Suite</td>
<td>Open Source Software</td>
<td>$350 million</td>
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</table>
### eBay

<table>
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</tr>
</thead>
<tbody>
<tr>
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<td>Up4Sale.com</td>
<td>Online Auctions</td>
<td>Undisclosed</td>
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<tr>
<td>June 2000</td>
<td>Half.com</td>
<td>Fixed-price retailing</td>
<td>$318 million</td>
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<tr>
<td>August 2001</td>
<td>Mercado Libre</td>
<td>Online Auctions</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>July 2002</td>
<td>PayPal</td>
<td>Online Secure Payments</td>
<td>$1.5 billion</td>
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<td>Eachnet</td>
<td>Chinese retailing</td>
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<tr>
<td>November 2004</td>
<td>Marktplaas.nl</td>
<td>Dutch Online Auctions</td>
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<tr>
<td>December 2004</td>
<td>Rent.com</td>
<td>Apartment listing</td>
<td>$415 million</td>
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<td>June 2005</td>
<td>Shopping.com</td>
<td>Online Price Comparisons</td>
<td>$635 million</td>
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<tr>
<td>September 2005</td>
<td>Skype</td>
<td>Voice Communications Over Internet</td>
<td>$2.6 billion</td>
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<td>Tickethub</td>
<td>Ticket Marketplace</td>
<td>$307 million</td>
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### Amazon

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<th>Price (USD)</th>
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<td>UK Online Bookstore</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>April 1998</td>
<td>IMDB</td>
<td>Entertainment Database</td>
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<tr>
<td>August 1998</td>
<td>Junglee</td>
<td>Stock Inventory Search</td>
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<td>October 1999</td>
<td>Convergence</td>
<td>Wireless Technology</td>
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<tr>
<td>December 2001</td>
<td>Egghead.com</td>
<td>Online Retailer</td>
<td>$6.1 million</td>
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<td>Joyo.com</td>
<td>Chinese Online Retailer</td>
<td>$75 million</td>
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<td>Print on Demand books</td>
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<td>June 2005</td>
<td>Customflix</td>
<td>DVD On-Demand Downloads</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>February 2006</td>
<td>Shopbop.com</td>
<td>Online Women’s Fashion</td>
<td>Undisclosed</td>
</tr>
<tr>
<td>May 2007</td>
<td>DP Review</td>
<td>Digital Camera Reviews</td>
<td>Undisclosed</td>
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</table>

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