Sunk costs, large domestic market, and the re-entry dilemma: export process in SMEs from a developing economy

Abstract

As domestic markets become more competitive, small and mid-sized firms (SMEs) from developing economies search for opportunities in foreign countries. Some of these companies exit and re-enter those markets several times. This study explores the role of export sunk costs, time-out period and domestic market size as variables influencing the decision to return or avoid the once-abandoned foreign market. To achieve these goals, top managers from three export SMEs from Brazil were interviewed using an interpretive approach. The results show that sunk costs involved in the re-entry process, the time-out period, and the domestic market size dissuade managers from re-entering abandoned foreign markets.

Keywords: re-entry, small and mid-sized firms (SME), sunk costs, developing economies

Introduction

The context places severe constraints on domestic manufacturing companies. On that account, small and mid-sized firms (SMEs) search for opportunities in global markets. Some of these export companies are forced to leave foreign markets once they enter (Surdu, Mellahi, & Glaister, 2019). Managers contemplate re-entering those previously abandoned markets. However, costs involved in previous entry experiences and those incurred in the re-entry process, as well as a solid position in their large domestic market, may prevent exporters from re-entering the once-left market.

Recent studies show that the re-entry process is still an area in need of further investigation, as the motivations to undertake the movement of returning to a previously left market are still unknown (Aguzzoli, Lengler, Sousa, & Benito, 2021; Surdu & Narula, 2020). This study answers the call made by recent studies that research in re-entry is still scant (Sousa, He, Lengler, & Tang, 2021). The international business literature has concentrated on studying the exit movement of international companies. However, few studies have focused on the re-internationalization process (Vissak, Francioni, & Freeman, 2020). The re-entry move can prove especially challenging for SMEs that lack financial and managerial resources. The literature on re-entry shows that this process is non-linear, and companies may face sunk costs while repeatedly exiting and re-entering export markets (Máñez, Rochina-Barrachina, & Sanchis, 2008; Roberts & Tybout, 1997; Vissak & Masso, 2015). With that in mind, this study explores the fact that export SMEs from a developing country (Brazil) will incur in relevant sunk costs when they re-enter a market they left before. Those costs hamper the confidence managers have in the re-entry process due to the costs involved and the time lapse since they left the market (Roberts & Tybout, 1997). I also investigate the relevance of the domestic market size on the decision of those SMEs to return to the foreign markets. Finally,

this study explores the influence of time-out on the re-entry decision of export SMEs from Brazil.

This study's contribution to the literature is threefold. First, it explores the re-entry process of three manufacturing SMEs from Brazil and the influence of the domestic market size in their decision to re-enter previously abandoned foreign markets. Since successive economic crises hit the country, Brazilian SMEs have searched for opportunities in foreign markets. However, Brazilian SMEs have had a late internationalisation process, even when compared to their Latin American neighbours (Tanure, Cyrino, & Penido, 2007). For decades, Brazilian SMEs felt safeguarded from external competition due to the strong entry barriers imposed by the governmental policy. The large local market was also an attractive reason for not focusing on exports. With a large domestic market to explore, some of these firms, which have experienced successive exits and re-entries in foreign markets, may decide not to return to those export markets. Secondly, this study shows how sunk costs involved in the re-entry process may dissuade managers from re-entering the same market, especially after many attempts to operate in one specific foreign country. Thirdly, this study shows the interplay of the time-out period, its effects on sunk costs, and the likelihood of export SMEs re-entering abandoned markets.

This paper is structured as follows: The next section presents the literature review and conceptual framework, followed by the methodology. Then, I turn to the results, which are followed by the discussion. The last part discusses the study's limitations and avenues for future research.

Literature on Re-entry

Re-entry has been conceptualised as the process through which companies return to one particular market they have previously left (Javalgi, Deligonul, Dixit, & Cavusgil, 2011;

Surdu et al., 2019). The relevance of this topic is given by the number of companies that have left a market and decided to return to it (Aguzzoli et al., 2021). Export firms have displayed a non-linear internationalisation pattern (Vissak, 2010; Vissak & Francioni, 2013; Vissak & Francioni, 2013). This process is more common among small firms that usually enter and re-enter the same markets based on the opportunities that arise from those markets. Bernini, Du, and Love (2016) claim that small firms are more likely to repeatedly exit and re-enter export markets, describing an intermittent export process.

Companies identify various reasons to return to a market that was once left (Belderbos & Zou, 2009; Sousa et al., 2021). The perception of success they had in previous operations may play a role in influencing managers to re-enter a market once left. Internal aspects, such as characteristics related to the management and the firm, play a significant role in the re-entry decision (Donzé, 2015; Sousa et al., 2021). Networks and contacts abroad are also relevant during the process of returning to an export market, as they influence the effectiveness of re-entry strategies (Ciravegna, Majano, & Zhan, 2014; Figueira-de-Lemos & Hadjikhani, 2014; Shahid & Hallo, 2019).

External factors also influence exporters' intention to re-enter previously abandoned markets. Literature has shown that the host country environment, which includes foreign demand conditions (Vissak et al., 2020; Zhang & Larimo, 2013), competitive conditions (Javalgi et al., 2011), policy regulations (Yayla, Yeniyurt, Uslay, & Cavusgil, 2018), political instability (Figueira-de-Lemos & Hadjikhani, 2014) and domestic demand (Bernini et al., 2016), is one of the variables that influence the decision to re-enter a market.

Exiting and re-entering a foreign market has costs that represent a heavy burden for exporters, especially SMEs. Previous studies show that firms incur sunk costs when they enter and re-enter export markets (Blanes-Cristóbal, Dovis, Milgram-Baleix, & Moro-Egido, 2008; Máñez et al., 2008; Roberts & Tybout, 1997). Those costs are associated with adaptations that must

be carried out on their products and manufacturing systems, market analysis, and distribution leveraging. Roberts and Tybout (1997) also advocate that the degree of information firms have about the foreign market will vary according to the sunk costs. The sunk costs of exports inhibit those firms from selling their products in foreign countries (Blanes-Cristóbal et al., 2008). As shown by the authors, firms will incur higher costs every time they enter foreign markets due to regulations, hidden barriers, product adaptation and finding distribution networks. The sunk costs also explain why SMEs are more burdened with those costs than large enterprises (Máñez et al., 2008). Studying Spanish exporters, Campa (2004) revealed that the sunk costs SMEs face while entering an export market are larger than those incurred when firms leave a foreign country. Large companies face smaller sunk costs than small firms, as the former enjoy economies of scope and complementarities among their departments. Since small exporters have fewer resources to invest in the internationalization process, the sunk costs involved in the process are expected to represent a heavy burden for them.

The time-out period also plays a role in the re-entry process, as firms may have to re-invest if the lapse time between exit and re-entry is long. The time-out refers to the "time lag between exit and subsequent re-entry" (Sousa et al., 2021, p. 12). The time-out period may vary from company to company. When companies stay out of the market, they may still interact with customers or distributors abroad or remain committed to those markets, even when not operating in the country (Welch & Welch, 2009). In those cases, companies retain resources relevant to the re-entry process, including personnel and contacts in foreign markets (Ciravegna et al., 2014; Welch & Welch, 2009). Longer time-out periods will impose higher sunk costs and loss of contacts abroad. Studies show that companies stay out of the market for between one and five years (Zhang & Larimo, 2013).

The time-out impacts the likelihood of export SMEs returning to previously abandoned markets, as the export experience accumulated during previous experience in the abandoned markets "rapidly depreciates" (Máñez et al., 2008; p. 291). This phenomenon is related to the changing conditions of the export market and the need to obtain information about demand conditions and customers.

Brazilian SMEs face several constraints when entering foreign markets. Those limitations are strengthened when those SMEs decide to re-enter a market they previously left. Financial, managerial, and organisational characteristics, along with the opportunities their large domestic market presents, may work as a barrier for those companies to re-enter once-abandoned foreign markets. This study explores the firms' characteristics, time-out, domestic and foreign market demand conditions, and sunk costs as variables that affect the likelihood of small exporters returning to previously abandoned foreign markets.

Research Methodology

Research Context: The Brazilian Market

All companies which are part of this study are located in Southern Brazil. Despite their relevance to the Latin American market in terms of labour force and innovation, Brazilian SMEs have little participation in the export market (Markwald, 2001). The reason, according to Rocha, Carneiro, and Silva (2007), is that the large size and rapid growth of the Brazilian domestic market have made companies focus on local demand rather than internationalising their operations. This focus on the domestic market is rooted in the Brazilian economic institutional development. Brazil constitutes a hierarchical market economy (HME), just like most of the other countries in Latin America (Schneider, 2009). Hierarchical market economies such as Brazil are characterised by inadequate educational systems and training of their managers, which results in a lack of managerial knowledge (Geary, Aguzzoli, &

Lengler, 2017). Moreover, Brazilian managers' lack of international experience and little involvement with foreign markets have created a "parochial mindset" which contributes to avoiding the risks of operating abroad (Rocha et al., 2007).

Protectionist governmental policies over the years have safeguarded local companies from external competition. Moreover, the successive economic downturns have negatively impacted the investment capacity of Brazilian firms. On account of the economic situation in the "lost decade" of 1980 – 1990 and the protectionism of the Brazilian government established by previous dictatorship governments, local companies have not developed sustainable competitive capabilities to adequately compete in foreign markets (Geary & Aguzzoli, 2016). They had, in turn, focused on their large Brazilian domestic market. The heavily protected domestic market and the unattractive institutional conditions pervaded by institutional weaknesses, lax regulatory system, corruption, and dysfunctional financial and labour markets have kept international firms away from the Brazilian territory (Khanna & Palepu, 1997, 2006).

Those conditions have offered local companies protected circumstances where they could thrive without investing in sustainable competitive capacities.

The Study

This study follows an interpretive approach. This research approach has been adopted due to the shortage of studies in the re-entry area (Vissak et al., 2020). To date, little headway has been made in the area. In those cases where the literature does not provide a consistent bulk of research and theoretical frameworks, an interpretive approach is suggested (Denzin & Lincoln, 2005). Since the gaps in the literature show that a significant effort is still needed, the case study approach was adopted, contributing to understanding atypical cases (Flyvbjerg, 2004). The cases chosen for this study focus on the export behaviour of three export SMEs

from Brazil. The three companies have been selected based on their re-entry experience into export markets. Moreover, the three participating companies represent a large contingent of export companies from Brazil, as they do not have shared ownership with large conglomerates or international investors. Despite the constraints those companies face in entering foreign markets, more than 40% of the Brazilian export companies are micro or small firms (Diário do Comércio, 2019).

Due to the idiosyncrasies of the Brazilian market and export SMEs from the country, the qualitative approach contributes to shedding light on the challenges those firms face when they re-enter a particular market. Piekkari, Welch, and Paavilainen (2009) argue that case studies contribute to understanding unusual phenomena that other methods would not. Primarily, the three companies focus on the domestic market and show similar levels of internationalisation and "mindset" regarding the relevance of foreign markets. In common, they have also had recent exit and re-entry events in export markets. Two of them are now run by the second generation of family founders (Alpha and Beta), and one (Gamma) was acquired in 2010 by the current owners.

In addition, the managerial process, including the international market analysis, is the responsibility of one or two people alone. Adding to this, there is the fact that Brazil is one of the world's most commercially protected economies, one in which Brazilian exporters have had little stimulus to internationalise. Therefore, SMEs have focused on the domestic market, failing to develop the managerial skills and capabilities to compete in foreign countries (Rocha et al., 2007).

Data collection process and analytical procedures

I initially searched for small and mid-sized companies with an exporting profile. Three companies accepted the invitation to participate in the study.

Data were collected through in-depth interviews with top managers of the participating companies. The three top managers interviewed in this study were entrepreneurs, company founders or second generation of family-owned companies. Next, Welch and Piekkari's (2017) approach of the contribution of interviews was followed. Some of the interviews were digitally recorded. Notes were also taken.

The interviews took place between August 2020 and August 2021. In total, eleven interviews generated a document with more than 150 pages of research material. Table 1 shows the profile of interviewees and companies that were part of this study.

Secondary data sources were used to triangulate the information gathered from the interviews. Secondary data included company reports, websites, and newspaper articles about the companies that were part of the study.

The starting point of the data analysis process was the existing literature on re-entry. Specific aspects involved in the re-entry process were searched, which included: sunk costs of re-entry, the relevance of the domestic and foreign markets, and the time-out period. The existing body of literature helped focus on the relevant topics involved in the re-entry process (Krippendorff, 2019).

Case companies and participants

Case Company Alpha

Alpha was founded in 1986 in Southern Brazil. Despite its size (Alpha is a small-sized company), the company is a leading supplier of replacement parts for industrial machinery in its region. The manager who took part in this study is the second generation of entrepreneurs currently working as a general manager. Alpha has been active in foreign markets, providing parts for clients in Latin America and the USA. Its primary foreign market is the neighbouring countries in Mercosur, including Paraguay and Argentina. They have employed independent

sales reps in those countries. The company's demand depends on the requests from other industrial firms. When Alpha’s clients’ machinery needs service, a technical specification is sent to Alpha, which manufactures the high-precision parts. When clients do not have the technical specifications of the parts they need, they send the faulty part itself. Alpha's engineering team must create a mould to replicate the part. Recently, Alpha acquired an industrial system (3D Scanner) to copy parts, which allows them to assist those clients who do not have the technical project of the part they need. Although the new manufacturing process was initially an investment to target the vast Brazilian domestic market, this gave the company a competitive advantage among highly demanding clients, including in foreign markets. It reduces the turnaround time and enhances precision.

Customarily, Alpha does not keep inventory because all demands are for replacement parts from its clients. This demands Alpha to keep manufacturing buffer capacity to meet clients’ requests. The manager says that:

> Clients who request our services are not looking to secure an inventory of spare parts for their machinery. If they want to create an inventory of spare parts, they supply them from other companies that mass-produce those parts. We produce bespoke parts. Therefore, our parts are more expensive than those from other mass producers.
>
> Usually, our clients are in a hurry to fix their machinery. Some clients come from other parts of the province, deliver the technical specifications of the parts they need, and wait in a hotel nearby while we manufacture the part.

Alpha has all the certifications clients demand. In 2013, Alpha’s exports to the USA represented 80% of its international revenue (Table 1).

Case Company Beta

Beta is a mid-sized family-owned company based in Southern Brazil. Beta manufactures machine keys. The company has had several re-entries in Argentina, Uruguay, Mexico, and Bolivia. According to the CEO – the second generation of the family to run the company – the

main issue is that Beta is a small company where managers perform many managerial tasks simultaneously. Therefore, "there is a backlog of activities because they try to do everything simultaneously to get the most out of it." There is no continuation when the sales team does not engage with clients in export markets. Even when they employ an independent representative in foreign markets, the domestic sales team must constantly monitor customer engagement abroad. This places a significant burden on the internal sales team since they have to accumulate contacts with domestic and foreign clients. Beta does not have an internal export department. A manufacturing partnership with a German company gives Beta a good competitive position in Brazil and Latin America, given that its products are considered high-quality. Beta has consistently been exporting to several countries in Latin America. Beta's internationalisation efforts began in 1990 and have represented more than 23% of the company's annual revenue.

Case Company Gamma

Gamma is a small Brazilian manufacturer of equipment for the automotive industry. The company was created in 1978, and since then, it has been an active exporter to many countries, mostly in Latin America. The company was acquired by the current owner in 2010. The CEO and family members run the company, which employs 14 other workers. Gamma's product line includes ovens and refrigerators for buses and boats. The company is located in one of the most industrialised regions of Brazil and is part of the value chain of large emerging market multinational enterprises (EMNEs) from the country. This demands that the company keep an in-house testing laboratory to certify its products before they go to their main local customers – the automobile industry. The fact that Gamma owns a testing lab makes it a company with a reasonable innovative stance.

Gamma has intensified its export activity in the last decade by entering new foreign markets. The export efforts are part of the company's strategic plan, and all activities are closely monitored by the CEO. Export revenue has doubled in the last few years, indicating the company has dedicated attention to this market. In 2016, direct export sales represented 10% of the annual revenue. This figure reached 22% in 2020. In 2020, Gamma's main export markets were Bolivia, Guatemala, and Uruguay. Since 2018, Gamma has entered three new markets in the Region: Peru, Colombia, and Mexico. This paper will focus on Gamma's export experience in Argentina.

Table 1

Case companies

	Alpha	**Beta**	**Gamma**
Interviewee	Top manager (owner)	CEO (owner)	CEO (owner)
Ownership	Family-owned and run	Family-owned and run	Family-owned and run
Year of establishment	1986	1972	1978, acquired by the current owner in 2010
Home/region Country	Southern Brazil	Southern Brazil	Southern Brazil
Company size	Small-sized company	Mid-sized company	Small-sized company[i]
Revenue	Up to R$ 4,8 million (US$ 1,2 million)	Up to R$ 4,8 million (US$ 1,2 million)	Up to R$ 4,8 million (US$ 1,2 million)
Export intensity	Frequent export events to Latin America and the USA	Frequent export events to several countries in Latin America	Exports are a significant part of its revenue
Export revenue	10%-15% of total revenue. Export market (USA) represented 80% of exports in 2013	23%, including direct and indirect exports	22% (2020), primarily direct export
Export markets	Latin American countries, USA, Europe	Latin America, Germany	Bolivia, Chile, Colombia, Guatemala, Mexico, Paraguay, Peru, and South Africa
Segment	Manufacturing of machine parts	Manufacturing (machine keys)	Manufacturing Thermodynamic products

	(ovens, fridges, cooking griddles)

Findings

In the findings section, I describe the re-entry process of the three participating companies.

Alpha's export process

With most of its customers located in its geographic region (Brazil and Mercosur) and North America, Alpha has not recently searched for clients in foreign markets, but new demand is still coming. Alpha's manager claims that "word-of-mouth is their business's most effective promotional strategy". Satisfied customers tell other clients that Alpha delivers a good solution. Usually, satisfied clients multiply Alpha's demand by three times: "When you do a good job and have a good product (service), you don't need to chase clients. They come because of the quality of our work."

With a lean managerial structure, Alpha focuses on their current clients and on mastering their technical skills. The manager does not see the need to invest in a foreign sales rep with technical skills the way they had before. Alpha currently has a sales rep in the USA. However, it was not always like that.

Despite the high-performance solutions Alpha provides, they have been forced to halt their operations in the USA once. The manager indicated that it is difficult to find and certify reps with engineering skills to provide technical assistance to their clients. This poses challenges and limitations to Alpha in keeping their clients abroad:

> One limitation is the after-sales or technical assistance. Our quality control is very rigorous. 100% of our outputs are inspected. Now we have a freelancer representative in a neighbouring country (Paraguay) and the USA who sends us demands. They are commissioned for this work. Since 2018, the demand from abroad has grown significantly. That has reached 10-15% of our demand. And now, more demand is coming from the US, Germany, and Switzerland, which had stopped years ago.

Alpha's first attempt to operate in the USA took place in 2010. On that occasion, Alpha certified a local rep with the technical skills. That was a request to assist local clients. "Our clients are large industrial firms that demand highly skilled local support. Satisfying those criteria is not for everyone." The first time Alpha entered the North American market, it thrived. Appointing a local rep with those skills was time-consuming and expensive: "I felt sometimes that it [finding and keeping reps] was an inglorious work." The American operation was profitable and indicated that Alpha would have a good perspective in the market. "Our turnaround time, price, and local skilled rep attracted our clients the first time we entered the market". Alpha supports its competitive advantage by producing bespoke parts.

> Our manufacturing process is based on our clients' urgency…usually, they come to us when their machines break and need spare parts. So, our production is made-to-measure to meet our clients' needs. They send us the technical specifications, and we manufacture the parts. It's like a craftsmanship production. No two parts are alike.

Therefore, Alpha invested in local reps in the USA, training them on the main design skills necessary to understand what clients needed. According to the manager, those skills are very specific and very difficult to find in a market (representatives) that is generic and "usually unskilled". The operation consisted of the local rep shipping the part to Brazil or recreating the technical project, which was then sent to Brazil to be manufactured in the case of those clients who did not have the project of the parts needed. Exports to the USA represented 80% of Alpha's foreign revenue in 2013.

In 2013, Alpha started having problems with its North American rep, and local clients were not happy with the service they were receiving. The local rep would either take too long to recreate the project of the parts needed or ship simple parts to Brazil, which was also slowing down the manufacturing process and turnaround time. Alpha concluded that the local rep was dedicating time to other projects or partners.

To solve the situation, Alpha decided to commission another rep. After looking for a new rep who could provide technical assistance and also solve project issues, Alpha was not able to find anyone: "This meant that we couldn't assist our clients with the same quality and time they wanted. We didn't want to fail our clients." The tardiness in receiving the requested parts made clients halt buying from Alpha. At that time, the operation was profitable, and the missing link for the company in the market was a rep with technical skills.

Consequently, Alpha decided to leave the North American market, as the initial efforts in finding, training, and certifying a rep were time and resource-consuming. The large Brazilian market was also a variable considered by the company: "We already had lots of local clients. In fact, when they need to replace a part, they [physically] bring them to us".

Between 2013 and 2016, Alpha received new requests from North American clients, but the lack of a local rep with technical skills was a limitation: "Our first time in the USA was bittersweet. It was profitable and joyful while our partner [rep] was committed to us. It's not that it was not profitable when our rep neglected us."

Alpha remained out of the American market for three years while it mastered an engineering team in Brazil that could assist clients with their technical demands. A new software license and industrial system to copy physical parts were acquired, which included scanners to transform physical parts requested by clients into computer projects. This helped them reduce their dependency on reps in the USA, as it was not necessary for clients to have the projects of the parts they needed. "Before, they had to either send us the project, which most of them did not have, ship us the part, or provide the part to our rep. In that case, our rep needed technical skills to create the project". Now, they only have to send us the part when clients do not have the project.

Re-entering the USA

In 2019, with the new industrial system and 3D scanner in place, Alpha decided to re-enter the North American market once again. The expectation was that the new manufacturing system would reduce Alpha's dependency on reps with high technical skills. They commissioned a new rep. However, at this time, the rep was a sales representative and did not perform any technical or engineering support. The rep was in charge of contacting clients and shipping parts to Brazil. Upon arrival at Alpha's manufacturing facility, the part would be quickly scanned, and the project would be sent to production. This reduced the turnaround and dependency on reps. Alpha was dedicated to the domestic and Latin American markets, expecting to recover its position in North America.

> Our sales rep slowly started to send us some demand, but after we stopped selling in 2016, and with the new industrial system [scanner] in place, we could assist more people in Latin America and Brazil. Every time we go back to the market, we have to dedicate time, money and effort to set up the operation again [rep]. Sales reps and contacts with clients are time-consuming. And I have all regional [Brazilian] clients to assist. We had to leave the USA before, not because our clients were unhappy with us, but because our local partner was not performing.

The new industrial system acquired by Alpha allowed the company to provide timely solutions, creating momentum and fixed clientele in the USA. "The rep we have now in the USA chases clients. We wouldn't go back [to the USA] if we had to invest time in finding a new technical [engineering] rep. We can now assist our clients wherever they are without relying on a technical rep."

Staying out of the market for a long time represented losing contact with clients, especially when your domestic market is booming:

> It was difficult for me to approach clients once again when we decided to leave the market. They all had other suppliers, and I had to find other clients. My mind was in Brazil, and the local rep had to do his part to recover the market. The longer you stay out, the less you want to go back.

Gamma's export process

Gamma started to export to Argentina in 2010, shortly after the current CEO acquired the company. He initially analysed the Argentinian market and decided it would be an interesting target for its products. With a large industrial segment, Argentina seemed attractive as the neighbouring country shares cultural characteristics similar to Brazil and is geographically closer than most of Gamma's domestic clients. Moreover, the Argentinian market would offer another benefit: reduce Gamma's dependency on its local clients in Brazil (Gamma supplies to a few large EMNEs in its region). Since this segment is affected by economic cycles, the CEO decided to focus on foreign markets to reduce the dependency.

The first years of exports to Argentina were worth the efforts of analysing the market and contacting clients. In 2010 alone, the first year of operation in the country, the Argentinian market represented 5% of Gamma's total exports. The company already had exports to other Latin American markets and South Africa.

For three years, Gamma had a consistent flow of exports to Argentina. However, things in Argentina proved challenging for the company as successive economic and political crises affected clients and other agents in the value chain. Argentina's economic crisis affected Gamma's main client - a large coach manufacturer – which went bankrupt due to the end of the Kirchnerism[1] Era. Sales declined severely when other small clients stopped buying from Gamma because they could not convert pesos to dollars to pay their foreign suppliers in foreign markets: "This was like a non-tariff barrier imposed by the Argentinian government to our customers to buy our products, even with no similar suppliers in the local market". At that time, the government intervened in the economy, limiting the import capacity of local companies. In 2013, the company had to completely halt its exports to the neighbouring country.

> Things were going pretty well in Argentina until the economic crisis struck. Our main client stopped buying from us. Although we didn't have the same commercial flow as

[1] Kirchnerism refers to a political order that arose with Argentinian Presidents Kirchner and Fernandez de Kirchener's administrations between 2003 and 2015 (Cantamutto, 2016).

> before, the information and contacts always continued in the same way, since we saw Argentina as a great prospect market.

In consequence, Gamma left the Argentinian market for the first time. However, Gamma's CEO remained in contact with its distributors in Argentina because the South American market was seen as attractive.

Re-entering Argentina and stopping again

In 2016, after staying out of the market for about three years, and when Argentina had recovered from the economic situation, the CEO felt it was a good moment for Gamma to re-enter the market: "The stars aligned again, and we returned to the [Argentinian] market. It became once again the most important export market for us."

The manager saw the re-entry process as a natural process:

> They were like a natural process [the exit and re-entry]. You keep contact with your commercial partner in the country, and they know you're always there if they need you, and they also know that you didn't leave the country because you wanted to but because of reasons that are out of your control [foreign country economic reasons].

Economic instability in Argentina and the focus on few clients hit Gamma in 2019 during its second attempt in the neighbouring country:

> The sales to Argentina were concentrated once again on a few small clients and one large automobile manufacturer. They bought a lot from us between 2016 and 2018. Then, the country faced another economic crisis, and in 2019, it stopped again for reasons we don't have control of. It's literally a start-and-stop export country. It's strange and unstable. It was my second economic crisis in Argentina in less than ten years. It's miserable!

Gamma's second entry to Argentina lasted about three years. Having found new clients in the country, the company was again recovering from the first exit and had achieved the same export revenue it had before the first exit. At that time, the exports to Argentina alone represented 10% of Gamma's annual revenue. At the end of 2018, exports to Argentina

stopped again due to the severe economic crisis faced by the local companies. Its local rep, who provided technical support for clients, had left the market. Consequently, Gamma lost momentum in the country, and at the same time, it faced new costs every time it entered the market. Gamma was forced to leave the country once again. Argentina is Brazil's main foreign partner. Most Brazilian companies rely on exports to the neighbouring country as a source of foreign revenue. However, the ups and downs of the local economy, reflected by the shrinking of local demand, high inflation and unemployment rates, and government intervention, have made the market a hostile environment for Brazilian exporters, especially SMEs.

After two time-out periods from the Argentinian market, the CEO feels that appointing a new local partner and analysing the market were the most critical parts of the re-entry. Every time Gamma left the Argentinian market, a new local partner and representative had to be appointed, which involved finding a new representative, negotiating a new agreement, and training them.

> When we left the market, our main loss was the local representative and partner. We've always tried to keep someone we can count on in the country, someone with technical knowledge to provide spare parts, warranty, and technical assistance, because our clients, despite being large companies, don't keep an inventory of spare parts and then our representatives must do that for us. This is the hugest loss [the local partner]. We must redo all contacts with our rep. We have to approach the market once again, create this sales support structure, technical support, provide spare parts, maintenance, so when we leave the market, we lose everything, and we have to start from the beginning.

Leaving the market and re-entering with a new rep also impacts potential clients in the foreign market. According to the CEO, when potential clients are aware of the previous passage of Gamma in the market, they get sceptical of the company's longevity in the country: "We have to rebuild the relationship once again. When you leave the country, people may think that you have left for other reasons, when in reality, it's because you no longer have someone who represents you there". Therefore, potential customers, who depend on a constant flow of

products, spare parts, and services, get reluctant to buy from Gamma when they know they have left the market before. Thus, having left the market before, even for reasons that are not inherent to the company, makes the re-entry process more difficult for Gamma.

The re-entry meant that Gamma's CEO had to make an effort to contact potential clients and reassure them that there would be someone in the country to represent them with technical assistance and after-sales:

> It's not the first call that will convince them [your clients]. So, the second time, I had to go there in person to tell them the story and convince them that we're still here, and it's not just a phone call; I said, 'I had been in the market in the past, and we're back with a new representative. We know who's going to be the technical assistant, the representative. If you want any training, we're at your disposal.' After I visited potential clients in Argentina, things started to flow again.

Re-entering the country also involved training the representative and providing inventory and tools. Being currently out of the Argentinian market after two entries, this cost is perceived by the CEO as a significant burden every time the company re-enters a market, especially to an SME:

> For a smaller company, this weighs. If they told me today that Argentina was opening the automotive market, I would tell you that it wouldn't be among my top five priorities. I'm investing more in other product lines than in automotive, which are giving me more financial results. And what about that business saying: once bitten, twice shy. It's more difficult to decide to enter a second time, a third time because you have already consumed all your time and financial efforts, and that has gone wrong.

The CEO points out that the main costs of re-entry are time and financial investment. The company needs to update market data with a new market study. Access to databases to obtain data about the country also implies a high cost for an SME. Moreover, the manager has to validate this market study locally with trips to the country.

> These are the main costs, and to evaluate the distributors, the provision of spare parts. It's one thing to do it for the first time, but when it's gone wrong, you go again, and it's more complicated [...] you have to give something to the people there (distributors). I'll buy your share so you can work for me again. I'll give X products and X amount of money to start the partnership again, and you won't have to spend anything. Only, in this case, would the person represent me again.

The increasing costs incurred by Gamma every time they re-enter the same market hamper their competitiveness. The CEO stated this as a barrier to re-entry. Though an SME with strong international experience, Gamma considers not returning to the same market for the third time.

> Will I insist again? Will it be worth it this time? I might actually give it another try, but not as hard as the first two times. It's a wasted effort. If you analyse it, the investment that has been made, that has to be paid in two or three years, will not be paid back. So, the bottom line is: how much must I spend to re-enter the market? It's not worth doing it in our case (for an SME).

The re-entry costs mentioned by the CEO are high, especially for an SME. Having tried twice, the costs involved in re-entry take a toll. The CEO also ponders that the domestic and foreign markets might also be attractive: "The Brazilian market is large, after all. And there is Paraguay, too".

Gamma's time-out period

In the case of Gamma, which has a direct involvement in the export market, the re-entry costs tend to be more prominent with the time-out length because the distributors and support services (technical support) may have changed segments or are out of the business. Market analysis is also more costly as time passes. Markets change in time, and a deep *in locus* analysis has to be carried out, which increases the costs. Considering the challenges involved in a lengthy time-out, shorter periods of time-out will place fewer challenges to the re-entry. According to Gamma's CEO, if the time-out is too long, it is like the company has never been present in the market. The CEO says that up to one year out of the market is a relatively short period of time during which the market does not change too much:

> In our case, it was a year out of the market, and it was OK. We came back, and the conditions were pretty much the same. But it would've been more difficult if it had

been more than two years out. If you've been out of the market for five years, you have to start from scratch because reality changes completely.

Beta's Re-entry process

When Beta's CEO joined his family's company in 2010, the company was already operating in several foreign markets in Latin America. Export markets represented 23% of its revenue. Beta supplied its clients in foreign markets with direct exports negotiated directly by the CEO. However, Beta's main Mexican client decided to stop buying from them and supply machine keys from a domestic supplier. As a result, the efforts to keep smaller clients in the country proved a burden. The main Mexican client stopped buying for about two years, and after this time, they resumed purchasing from Beta to check whether the costs of importing Beta's products would be worthwhile. However, the Mexican client stopped buying from Beta permanently because the domestic supplier's price was more attractive. "It was more advantageous for them to buy it locally from a Mexican company. It was a financial motivation."

Beta had foreign operations in other Latin American markets that have also been halted. The exports to Uruguay involved a similar motivation – the cost. The client from Uruguay started buying from Beta in 2016. Despite offering a competitive product, Beta's clients in Uruguay are price-sensitive. The geographic distance was also a barrier. Although the Uruguayan Capital and the city where Beta is located are less than 1,000 km apart, the Uruguayan client buys from Beta when he travels to Brazil and collects products directly from Beta's warehouse: "When he comes to Brazil, he stops by and picks up the product."

Beta's CEO highlights how important it is for a small company to make its presence known: "As we don't focus on the commercial operation and don't approach them anymore, it's difficult to sell. The problem is that our commercial department isn't constantly going after our customers. It happened in Argentina, too." Since it is a family-owned SME with multi-

functional departments, the sales team accumulates various tasks. Therefore, the sales team does not keep in close contact with their clients in foreign markets.

The company exports three or four times a year to its main clients, including Argentina and Uruguay, the geographically closest foreign markets to the Brazilian region where Beta is located. Initially, the CEO was in charge of the contact with foreign clients. When he delegated the contact to the commercial team, the exports stopped.

> Then, we spent a year without exporting because we had no sales effort to approach customers. More or less, a period of 9 months to 12 months without contacting the customer. Then I resumed contact, and then we made one or two more sales and then he started to quote us and then he had the question of price, which was lower at the local supplier. So, our problem was a lack of presence and commercial effort.

The CEO frequently participates in commercial missions organised by business authorities in Brazil. After the first contact made during the commercial missions and business trips to countries in Latin America, the CEO stays in touch with customers. After the initial direct negotiations with customers, the CEO hands the process over to the sales team.

The CEO indicated that the main issue is that the sales team has to be in close contact with their foreign clients. Once the contact is discontinued, the customer has to be approached again, which is a significant time and financial cost for an SME such as Beta. Customers must be visited again, and samples have to be sent out.

Being out of the market results in costs for the company. In Beta's case, in addition to the loss of export revenue, the CEO revealed that due to the company profile, he had started looking elsewhere instead of the two foreign markets: Argentina and Mexico. The financial loss for re-entering each of those two countries was about $10,000. He also mentioned that he did not have to change anything to re-enter the market. "We only resumed commercial contact. The presence of the supplier near the customer 'is very important - and determinant to feed these relationships". Since leaving and re-entering Latin American markets, Beta decided not to have local representatives anymore, as this represented a significant cost for them.

Beta also experienced entry-re-entry movements to another South American market: Bolivia. After travelling to that country to approach clients there, Beta's exports became less frequent. The Bolivian clients purchased Beta's products for some time. The operation was profitable in that it involved no local independent representatives. The CEO was in charge of the negotiations and contacts with the Bolivian clients he met during a commercial fair and visited frequently. However, Beta's product portfolio is limited to one product (machine keys), making the sales contacts infrequent: "Those are relatively cheap products that companies buy in batches". The fact that Beta manufactures only one item places a procurement burden on clients. This did not meet their Bolivian main customer's needs:

> It was a very profitable direct export, but we had a problem - we only produced one item, and this customer from there wanted to buy other items, too. He wanted to buy more [a basket of items, not just one product].

The Bolivian client wanted to buy other items and then centralised all purchases - including the products Beta sold - at another supplier that sold other items as well: "They wanted to continue buying from us but didn't want to buy only this product. They wanted our quality but not to make a purchase alone."

The Bolivian client stopped buying from Beta and found another Brazilian supplier that provided the desired product mix, including machine keys. However, the Bolivian customer was happy with Beta's product quality and price. It was a matter of convenience and procurement process, not price or quality. After the Bolivian client stopped buying Beta's products for some months, they requested their new Brazilian provider to supply Beta's machine keys. For that reason, Beta re-entered the Bolivian market, selling its products through this other company, which became a supplier to Beta's former client. The Brazilian provider has acted as an intermediary between Beta and the Bolivian client:

> Despite being in close contact with the Bolivians, I don't do direct sales anymore. It has become an indirect sale. However, I've learnt that constant contact with the client

> is key. Things get more difficult if I stay out of the market too long. It's like cultivating a long-term relationship.

Within one year of the moment they stopped selling directly to the Bolivian customer, Beta was back in the country. Now, through a Brazilian distributor. The operation remains very profitable, as Beta does not need to keep a sales rep in Bolivia and the whole export process is handled by a local Brazilian distributor. Despite not selling directly to the Bolivian client any longer, Beta's CEO is in contact with the Bolivians, but that is thanks to the previously close relationship they had: "I contact them every so often to check if they're happy with our quality, even if we don't sell directly anymore." The re-entry was then an indirect process intermediated by a third company, and this saved Beta from the costs they would incur in re-entering the market solo, including trips and appointing a local distributor. Although Beta's products are industrial goods, they do not need to be fitted or installed by their technical team. Machine keys are simple parts that do not require sophisticated maintenance. When needed, those parts are simply replaced. Beta has found a way to re-enter a market with fewer costs, little local presence, and profits: "They remain a very profitable customer. I don't have to invest in a local team or distributor. I wouldn't have returned to the Bolivian market if that was not the case".

Discussion

This study answers the call for more research on re-entry in foreign markets (Aguzzoli et al., 2021; Sousa et al., 2021; Surdu & Narula, 2020; Vissak & Francioni, 2013; Vissak et al., 2020). To achieve the goals of the study, three export SMEs from Brazil and their exit and re-entry moves to foreign markets were analysed. The analysis of the three company cases has shed light on the reasons why export SMEs from Brazil leave an attractive foreign market, the factors that make them re-enter or avoid the previously left market and the role of time-out in

the re-entry decision. At the same time, it uncovers the dilemma CEOs face while re-entering the same market a number of times.

The results obtained from the interviews with the CEOs of three SMEs from Brazil indicate that companies left the export markets for various reasons (e.g., when clients go bankrupt, distributors and local partners change segments or neglect them, or foreign customers simply stop buying from them). The results also indicate that the large domestic market (Brazil) also plays a role in not re-entering a previously left market. Two participating companies (Alpha and Gamma) entered the same market twice (the USA and Argentina, respectively), while Beta decided not to invest directly in Bolivia with a solo operation when its main client stopped buying from them. Gamma's CEO stated that they would not re-enter the same market a third time due to the long time and big financial investments involved in the operation. Alpha's CEO mentioned that they re-entered the North American market just because they acquired new technology and did not depend on local reps with technical skills as before.

Despite being attractive, foreign markets demand a high involvement from the company. SMEs, notably family-run ones, lack the resources and capabilities to remain physically present in the market permanently. Re-entering a previously left market may prove challenging, especially for SMEs that depend on local reps with very specific technical skills. Finding those reps may prove very challenging. This is the case even when the company leaves the market for reasons that are not directly related to them (local partner changing business or rep not performing as expected). Beta's CEO also mentioned that re-entering the same market (Bolivia) through a third company was more profitable while keeping close contact with Bolivian clients. In all cases analysed in this study, there was a consensus among CEOs that SMEs must invest time and financial resources to re-enter those markets, which is not always cost-effective. This is a burden for SMEs when it happens successively. Attracted

by the benefits of foreign markets, CEOs make an effort to set up their operations abroad for the first time. If those operations are unsuccessful, it becomes more difficult for managers to go back again, at least with the same structure and effort as in previous attempts. The re-entry seems less likely when the domestic market is large.

Another finding of this study is that the time-out period affects the likelihood of re-entering a market and the effectiveness of that process. This is due to different reasons. In Gamma's case, the second re-entry (third time) in one of their main export markets – Argentina – was seen by the CEO as improbable, as the company had to abandon the market twice before. In both cases, the exit was due to clients going bankrupt, distributors changing business, and macroeconomic constraints (trade barriers). According to the CEO, Argentina was still an attractive country. However, the successive impediments to operating in the foreign market and subsequent re-entries associated with the time-out period demanded more time and financial investments from the SME. The time-out period was considered by two participant SMEs (Beta and Gamma) as a major variable in the re-entry process. In the case of Alpha, the time-out period associated with the large size of the domestic market would dissuade re-entries. Short time-out periods (1 to 3 years) would represent no significant obstacles to the understanding of the market and its competitive conditions. However, longer time-out periods - more than three years – would represent entering a never-explored market, as the conditions would completely differ from previous operations in the country. The three companies involved in this study returned to the abandoned market within the one- to three-year period defined by the literature (Vissak & Francioni, 2013; Zhang & Larimo, 2013).

The changes involved in the re-entry process included preparation and training of a new representative and distribution support, market analysis, re-gaining confidence from clients, and, in the case of one company, having a new manufacturing system in place. Lengthy time-out periods reinforce the need of market research, which makes the re-entry more expensive.

The time-out period directly affects companies' investments in re-entering the market successfully and their future profitability in the country. Longer time-out periods represent larger investments. Managers must consider this when making their re-entry decisions.

The re-entry process would be facilitated by the presence of a local distributor, though, since this would facilitate the local connections (Ciravegna et al., 2014; Vissak et al., 2020) and reduce the new investments that companies would have to make to operate in the country. Similarly, longer periods outside the market would represent more engagement in finding new network connections and potentially more international trips.

The three participating companies have shown that the sunk costs involved in the initial entries in one market play a major role in the decision to return to the country. All companies mentioned that the investment in finding and commissioning a local rep, analysing the market, and prospecting clients is a significant burden for any SME. This investment is lost when the company leaves the market. This is in line with previous studies (Máñez et al., 2008), which show that SMEs face higher costs than large firms when exporting. In another study, Vissak and Francioni (2013) state that the re-entry costs for small exporters are relatively low for unsolicited export orders, and if this mode is preferred for entering small markets with a few potential customers, exits are normal. This is not the case with the companies that are part of this study, in that all export firms had an active involvement in searching for clients and establishing distribution systems and technical support networks in foreign markets. Consequently, in the case of the proactive involvement of exporters, the costs are higher than in unsolicited exports. This research shows that the cost of re-entering a previously abandoned market is considered high for an SME, which may prevent them from re-entering the same market. One of the participating companies (Alpha) decided to re-enter the same export market but reduced the dependency on local reps. This was only possible with a new manufacturing process in place that was used to target the domestic market. The

costs of re(entering) the foreign market and the large size of their domestic market seem interwoven and influence the decision to return to the abandoned market. The findings of this study support Vissak and Francioni's (2013, p. 960) results that "even if the exit is unplanned, a firm can learn and use its knowledge/contacts for future re-entries." Two firms (Beta and Gamma) that participated in the present study indicated that keeping in contact with clients from export markets was beneficial, although expensive, as it helped them regain confidence in their re-entry. In its turn, Alpha mentioned that losing contact with clients was a major negative consequence of leaving the market. In the case of the SME that ceased exporting directly to the foreign market (Beta, in Bolivia), the company kept in contact with its clients, even selling its products through a representative located in its domestic market. However, the close and frequent contacts with the main client in the foreign market allow Beta to check its product and price alignment.

The final contribution of this study to the existing body of knowledge is that the re-entry process to previously abandoned markets might not always be attractive for SMEs. This study shows mixed behaviours in the companies analysed. This might be the case even when the company has not left the market for performance reasons (Soule, Swaminathan, & Tihanyi, 2014). The domestic market, in those cases, plays a role in preventing SMEs from re-entering previously abandoned markets. Re-entering a market is considered a burden for SMEs from large developing markets. The reason for this is that their large domestic markets – in the case of Brazil – associated with the sunk costs involved in the re-entry, hamper the attractiveness of the foreign markets (Blanes-Cristóbal et al., 2008). Although the size of the domestic market and investment are not exclusive to re-entry moves, they affect SMEs more severely when those firms decide to enter markets they had abandoned before.

Conclusion

By analysing the case of three export SMEs from a developing country, namely Brazil, this study contributes to the re-entry literature by proposing that (1) companies may avoid re-entering markets previously entered many times even when the market is attractive. The dilemma of re-entering a market previously abandoned repeated times is present in the discourse of the three CEOs interviewed in this study. The reason is that the costs involved in the re-entry process prove a burden for SMEs; (2) the time-out is a variable that is considered by export SMEs in the re-entry process. When the time lapse between the exit and re-entry is long (over three years), companies consider that their connections with clients and distributors have faded and the costs of regaining those relationships and understanding the competitive conditions might be too high; (3) the size of the domestic market has also played a relevant role in preventing firms from re-entering the abandoned foreign markets. Despite the successive economic downturns Brazil has gone through in the last decades, the country is large enough to satisfy the growth needs of the SMEs involved in this study. Moreover, the size of the domestic market (Brazil) and the costs involved in returning to the previously abandoned market seem to be intertwined. This study also shows that companies that have exited a previously explored market may never directly export to the same market but would do it via a representative or local partner. This would help them avoid the high costs of solo re-entries. The nature of the local rep (technical or sales) also played a role in returning to the abandoned market.

The three companies described in this study are highly successful in their domestic markets. Both have invested in their export operations and maintain regular exports. The companies are highly competitive for the quality of their products and the technology they have developed. This allowed them to compete comfortably in the domestic market, and so they did not have to seek demand abroad. The repeated episodes of exiting export markets, seldom motivated

by the lack of competitiveness of the product – in the case of Gamma –, indicate that re-entry into export markets is a difficult task, especially for a family-owned SME.

Avenues for Future Research and Limitations

Future research should include the analysis of companies from other developing countries (e.g., China, Mexico, Russia) and surveys to verify the results obtained by this study. Also noteworthy in this study is the domestic market dimension perspective that seems to permeate the reasons companies advocated not to return to a foreign market once left. Yet unstable, the vast size of the Brazilian market may be large enough to satisfy the growth needs of small companies. For this reason, it is suggested that future studies focus on smaller developing markets (e.g., Uruguay, Colombia, and Mozambique) to assess the influence of the size of the domestic market as drivers of the re-internationalisation of export SMEs.

As in any research, this study has limitations. Focusing on a developing country, this study fails to capture the reality of SMEs from developed markets, which enjoy a better competitive perspective and managerial skills when compared with their counterparts from less advanced economies. Yet, providing a thorough analysis of the situation of the three participating companies, a qualitative study such as this fails to generalise its results to other contexts and companies.

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[i] The National Development Bank of Brazil (Banco Nacional do Desenvolvimento) defines that micro firms have annual revenue of up to R$ 360,000 (US$ 90,000); small-sized companies present annual revenue of up to R$ 4,8 million (US$ 1,2 million). For medium-sized companies, the annual revenue varies from R$ 4,8 million (US$ 1,2 million) up to R$ 300 million (US$ 75 million). Annual revenue of large firms are higher than R$ 300 million (US$ 75 million).

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