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Global Expansion

GET IT RIGHT THE FIRST TIME

Need an antidote for shrinking domestic markets? Consider international expansion. It offers unparalleled opportunity for growth, increased sales, diversified markets and increased profit for successful businesses. Unfortunately, U.S. manufacturers gaze with trepidation at the process and surrender to fear before making an earnest effort. The main problem is simply a mindset, which contributes to a lack of experience, talent and confidence on behalf of U.S. manufacturers to navigate emerging global markets. Other, smaller countries around the world, however, have operated globally with success for generations.

As international leaders in innovation, it is important for businesses in the United States to look at the world from a fresh angle, as well as with a different perspective.

"A global mindset is the opposite of economic isolationism. We are part of the globe, and should stop looking inward, but look out," former Secretary of Commerce Carlos Gutierrez once commented.

It's time for U.S. businesses to take the next step internationally, through the development of a winning expansion strategy – a rational approach that eliminates surprises and gets it right the first time.

After all, there is no challenge too great for a country that has proven itself over and over again. So, let's start the journey.

Research First

Unlike smaller countries that think globally from the beginning of a product's life cycle, and don't separate domestic strategy from a cross-border sales and marketing strategy, U.S. manufacturers typically consider global expansion only after achieving a high level of domestic success. In this scenario, a well marketed product or service already exists, but new markets are needed to continue upward profitability.

Before starting the search for new markets, however, businesses must administer an honest self assessment with close examination of organizational commitment, budgetary constraints, human capital, international expertise and global objectives. Given the assessment results, the precise time may not be right; but, being aware of the risks as well as the opportunities is important. In any case, businesses need to continually circle back to consider global sales outlets and opportunities, and look for the right conditions. In today's economic climate, no rock can be left unturned in search for new opportunities.

Whether the goal for expansion includes manufacturing or selling abroad, the million-dollar question is: "What markets will generate the greatest success for my company?" There is no one-size-fits-all solution. Only in-depth research and expert advice can attempt to answer this question. Too often, the lack of adequate market knowledge leads to failure for initial foreign ventures.

There are two types of mandatory market research – secondary and primary. Secondary market research consists of information collected from published sources such as books, newspapers, market reports, studies and the Internet. Primary research fills in any gaps through direct personal contact with local industry experts, customers, trade commissioners and others with the knowledge to assist. It's also important for businesses to tap into resources such as local trade associations, lawyers, experts in the field of global expansion, accountants and potential partners.

While in-depth research may seem tedious, it ultimately saves time, money and other valued resources. In addition, the research process condenses the learning curve and infuses the expertise necessary to interpret information obtained. Without solid research, businesses will be unable to anticipate issues and answer difficult questions such as:

> What is the best direction for my firm?
> What paths lead to sustainable growth?
> How can ROI be fully realized?

Effective research allows these difficult decisions to be driven by evidence-based data.

ONLY WITH A THOROUGH UNDERSTANDING OF THE TARGET MARKET CAN A BUSINESS MAKE WISE AND SUSTAINABLE ECONOMIC DECISIONS ABOUT PRODUCT ADAPTATION AND, ULTIMATELY, BE EXTREMELY CERTAIN AND CONFIDENT THAT SUCCESS IS FINANCIALLY OBTAINABLE.

Select a Market

Choosing a target market starts with knowing your product/service and what range of functionality it can offer the global community. Scan the markets that are suitable for that product. Another excellent starting point in evaluating potential countries/regions is gauging the U.S. government's attitude toward them. For example, does the U.S. government maintain a line of credit with the country? Are there export controls? How is the country ranked internationally? These broad questions will narrow the list of potential countries to consider before focusing on the following issues:

> Existing competition – Do similar products exist in the market and is the market large enough for new entrants and sustainable growth?
> Standard of living – Is there a viable market for the product or service? Does the target country have the skills and facilities necessary to use and maintain your product?
> Infrastructure – Verify that the available physical, technological, financial and communication infrastructure are adequate for conducting the necessary business whether it's manufacturing, distributing or selling product.

The next step of research involves a more detailed analysis of risks and opportunities for the markets that emerged as potentially good targets, given the product/service under consideration. Look at these key issues:

> Legal environment – Not all countries follow a common law based system. Understand how each country's legal system handles contracts, employment laws, product liability, intellectual property rights as well as fair import/export trade practices.
> Ethics – Understand the ethical climate of each country, and weigh the risks carefully as to a scale/ranking of corruption. For example, while the definition of corruption varies between countries; a bribe is always illegal.
> Attitude toward foreign investment and R&D – Does the country offer incentives or barriers for foreign direct investment? Brazil is one of the highest ranking countries in R&D incentives, while the United States is one of the lowest.
> Economic and political stability – Be aware of the country's risk ratings and understand both their economic and political environment.

After a country/region is selected, it's important to further identify their strengths and weaknesses, relative to your product and business. This process will prepare a business to anticipate potential surprises and be equipped with a carefully planned response instead of a hasty reaction when – not if – they occur.

Know the Target Audience

Various international audiences have different needs, unique preferences and diverse ways/nuances of conducting business. Consequently, a company needs the appropriate management expertise and human capital to plan and invest the time and resources necessary to familiarize itself with the target market. This includes, but is not limited to, learning the culture, traditions, practices, philosophy, preferences and their way of conducting both life and business.

Only with a thorough understanding of the target market can a business make wise and sustainable economic decisions about product adaptation and, ultimately, be very certain that success is financially obtainable.

Each product, in every respect, needs to be tailored to suit the local tastes, customs and preferences. This includes packaging, branding, pricing and after-sale servicing. For example, consider color: In Asia, white is associated with death and funerals while in the western world it symbolizes weddings.

Consider climate and terrain: A bike tire for rural China will look different than one used on European roads. Consider home sizes: An appliance for a U.S. kitchen must be redesigned for smaller home sizes in Japan. Consider practices: While Japan and the United States both use automatic laundry detergent, Japan only uses cold temperatures. Become thoroughly familiar with the local people; it may avert an expensive – or embarrassing – mistake.

Marketing – Five More P's to Consider

A successful domestic marketing plan requires exceptional focus on the four P's of marketing – product, price, promotion and place. While these are still important in the international marketplace, they must be fine tuned for the target market. Plus, there are five more P's to consider with an international strategic marketing plan:

> Payment – Exchange rates, terms, customs valuations, transfer pricing, taxes
> Practices – Unique cultural, social and business styles
> Paperwork – Permits, licenses and other documentation requirements
> Partnerships – Alliances to strengthen your market presence
> Protection – Regulatory compliance, intellectual property issues, travel, etc.

Understanding all these facets of international business will help transform the expansion plan into measurable action and assist in the formulation of a well-crafted market entry strategy. However, a marketing plan cannot stand alone; its just one component of an overall strategic expansion plan that identifies the market, the customer, a distribution channel, timing and goals for success.

Market Entry: A Dynamic, Actionable Plan

While there are many important decisions to make when launching into a new international market, two are particularly critical. First, decide whether to enter the market alone or seek alliances with existing local businesses. Secondly, choose an appropriate distribution channel. In both of these critical decisions, there are tradeoffs in terms of financial commitment and control over the product as it reaches the end customer as well as general cultural and other integration issues. To find the right partner, check their reputation. Due diligence is important as the perception of any foreign organization is filtered through whom they partner with locally: team up with the wrong partner and failure can strike before any business is conducted.

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Strategic partnerships with other local companies or individuals with complementary skills and capabilities can shorten time to market and ultimately increase profitability. A local partner can

also provide insight, contacts and expertise. A strategic alliance also provides more effective market access, resulting in higher foreign sales in less time. Not surprisingly, as the pressure to rapidly exploit new technology and products has increased, so have the options for businesses interested in franchising, joint ventures, mergers and acquisitions or other strategic alliances. While the flipside is less control, it forces cooperation with local business, which can be a recipe for success.

Trying to secure log home sales to Japan, for example, required assembling a consortium of seven suppliers, a Japanese developer/builder, a liaison office in Japan, construction training and on-site erection services. While the U.S. business sacrificed maximum control, this was a winning strategy and success prevailed. There is no one "right-way"; it's dependent on each venture's goals and unique circumstances.

Secondly, distribution is one of the most crucial decisions in a global expansion strategy. It represents a significant overhead cost and lies at the heart of the connection between what the market wants and what the market gets. Plus, it can offer a vital source of feedback from the customer, which is especially important in the early phases of expansion.

For these reasons, many businesses prefer to own the distribution process and maximize control and influence over how the product is presented to the end consumer. However, few businesses are able to afford this option initially and opt for an independent agent or multiple distributors until they become established and are able to gain better control over the process.

Ultimately, both decisions will be guided by the international business community, the type of market for the product (mass market or limited), available capital, sales volume and access to information technology. Overall, the mode of market entry is a dynamic process designed to flex with changing market conditions and emerging tends.

Access to Talent

One emerging trend to watch is a shrinking pool of talent – skilled labor, management, executives and board members. This promises to be a major obstacle for organizations looking to expand globally. In fact, several companies report "the only thing limiting growth abroad is that we can not find enough people – engineers, sales staff and marketing – who are bilingual, globally orientated and willing to live abroad."

The United States, more than ever before, lacks professionals with the global experience necessary to bridge cross-border operations. With emerging markets around the world, the United States is now forced to compete for the talent it once took for granted.

India, for example, expects to recruit in one year the number of skilled/management level workers it traditionally hired in a 10-year period. In 2003, China had only eight companies on the *Fortune* Global 500; today they have 29. Combine the increasing competition abroad with the advancing average age of senior executives, and the result may be an unprecedented talent and skills shortage.

Going forward, business must think proactively where skilled talent is a factor. Some global companies are reaping the rewards of developing in-house training programs to develop the specific talent they need.

At the board level, international expertise contributes greatly to a global expansion plan. But identifying the right people and attracting their service is much more complicated than making a local appointment. International appointments generally require the assistance of a trusted local advisor who is respected in the local business community and has the judgment necessary to identify those individuals with the right experience, personality, relationships and values to make a positive addition to the existing board.

Focus on Opportunities, Not Obstacles

Ultimately, a successful global expansion is dependent on an organization's ability to view the world in a new way. In this increasingly complex and competitive global environment exceptional skill is then needed to evaluate the options, manage the risks and execute a winning expansion strategy. Should an organization fail, it may not get a second chance. Yet, when approached with careful deliberation, cross-border expansion can be a rewarding growth strategy for any business. Instead of gazing with fear at the process, focus with excitement and starry eyes at the opportunities and, most importantly, plan for success. **mt**

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