EXECUTIVE INSIGHTS

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Forging the Right International Expansion Path

The relative dip in the American economy along with projections that a majority of worldwide growth will come internationally has many executives looking abroad for new opportunities. To underscore this point, America's contribution to worldwide gross domestic product (GDP) will shrink from 21.5% to 20% by 2016, according to the International Monetary Fund (IMF).

But successful international expansion is complex. Distinct consumer preferences, competitive and cultural differences, and increased management and operational challenges require companies to make tough choices as they select countries to enter at the expense of other attractive markets. Fundamentally, establishing an international growth strategy requires the answer to two questions: Which markets do you target first, and how do you enter these markets?

While these questions may seem simple, the analysis required to address trade-offs can be significant, especially when plotting expansion amid constrained resources, compressed timelines and impatient investors.

Which Markets Do You Target First?

To help senior executives target the right regions for their business, L.E.K. Consulting employs a funnel process that typically begins with the top-50 markets based on GDP, and then winnows these markets down to a small set of candidates. From there, L.E.K. uses a series of filters to trim the list further to a manageable set of finalists.

The key to this exercise is using your organization's strategic corporate guidelines to identify a short-list of the most attractive markets. Typical organizational priorities include:

- **Near-term Financial Contribution:** What is the expected timeline for a new geography to contribute to the bottom line?
- **Long-term Growth Potential:** What is the growth trajectory of your brands in this target country during the next five-to-20 years? Can your business afford to dedicate resources to a market that may not reap significant benefits for another few years?
- **Risk Profile:** There are a number of factors that can stall market expansion success, including government and regulatory changes, and economic uncertainty.

Because it's rare that one prospective market will receive a high score across all criteria, senior executives typically need to select a new region by evaluating a series of trade-offs among the final list of countries being considered. The four most common trade-offs are:

Trade-Off 1: Market Size vs. Market Growth

Market size must be considered within the context of growth. Larger markets typically have slower GDP growth than some emerging nations. As an example, Western European countries such as France and Italy are among the 10 largest countries based on GDP, but are also among the slowest growing of the

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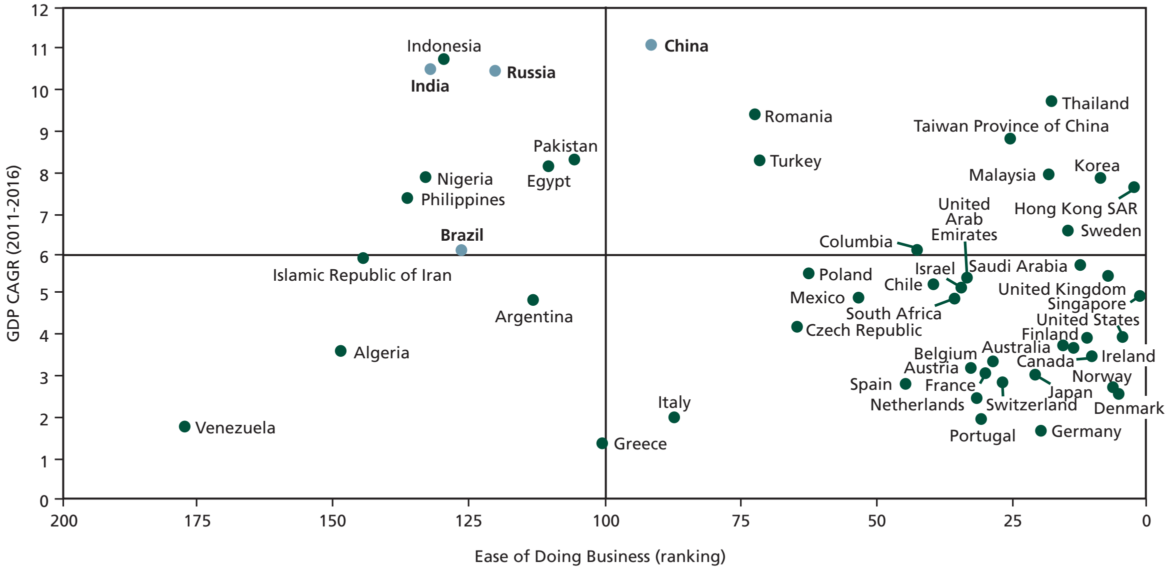
Figure 1

BRIC Markets vs. U.S./EU Markets Shows Trade-off Between Growth and Ease of Doing Business



Source: IMF

IMF's top-50 largest economies. By contrast, Brazil, Russia, India and China (known collectively as the BRIC markets) combine size and significantly strong growth, which makes them extremely alluring prospects.

Companies need to decide the priority of near-term market opportunity vs. long-term growth potential. Entry into a large market with relatively low growth may require company leaders to evaluate success over the long haul, not the next fiscal year.

Trade-Off 2: Market Growth vs. Market Risk

Figure 1 illustrates the relative ease of doing business in each country. Larger, more mature economies such as Germany and Canada receive high marks for ease of doing business, but have relatively modest annual growth. BRIC markets have significantly faster economic growth, but the business terrain in these countries can be more difficult to navigate. There is also another group of smaller, business-friendly markets with more than 7% GDP compound annual growth rate (CAGR) – including South Korea, Malaysia and Thailand – that each possess their own advantages and challenges for multinational corporations (MNCs).

With the results of these trade-offs mapped against the organization's priorities and weighted appropriately, a brand can establish a short list of candidates for market entry planning, and then select its final targets.

Market Entry Strategies

Proper market entry planning requires a solid foundation of knowledge about the myriad of factors that can affect consumers' perceptions about a new brand and access to your products or stores. Once a company identifies a new country, in-market research is required. Ideally, this includes primary consumer research, market interviews and targeted secondary research. Key issues to address include:

- **Consumer Demand Generation:** What are the most influential marketing vehicles for reaching your key target demographics, and how cost-effective are they?
- **Competitive Positioning:** Define the breadth and depth of current market alternatives.
- **Channel Strategy:** What is the most effective way to deliver goods and services, and how developed is the country's infrastructure?

- **Regulatory Compliance:** Identify potential governmental changes that can impact your strategy – including regional vs. national compliance regulations, product regulations for health and safety, and employment regulations.

- **Supply Chain and Organization Infrastructure:** How readily available are product resources, how established is the manufacturing base, and how expensive is employee labor and associated materials?

Trade-Off 3: Global Brand Consistency vs. Tailoring to Local Appeal

Defining a branding strategy internationally will depend on the strength of the existing brand, local brand awareness and local preferences. To decide, companies should conduct in-market primary consumer research to better understand how the brand will be best received by new consumers.

There is a spectrum of approaches to global branding strategies (see Figure 2). A uniform global brand may be a cost-effective model due to economies of scale for operations and marketing, but it has a limited ability to address local preferences. The hybrid model combines global brands and specific regional products or offerings, and can be effective in reaching multiple consumer segments simultaneously. A confederation of local brands enables companies to finely-tune products and services to address regional preferences. But this comes at the expense of higher production costs required to support multiple products and potentially being overshadowed by the brand equity that other global brands have already established.

The arrows in Figure 2 illustrate some the advantages and trade-offs associated with each approach.

Figure 2

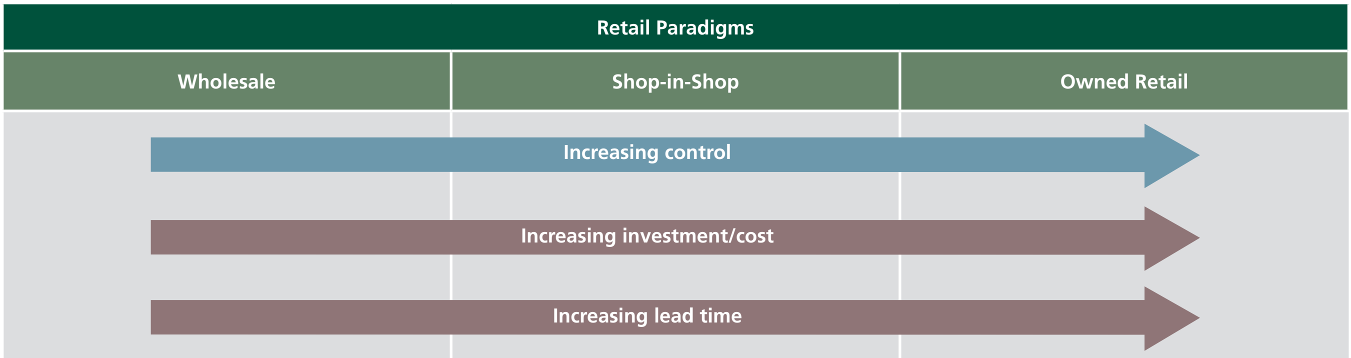
Global Brand Consistency vs. Tailoring to Local Appeal

Branding Paradigms		
Single Global Brand	**Hybrid (Localized Global Brand)**	**Collection of Local Brands**
Increasing local appropriateness (cultural preferences) →		
Increasing cost/decreasing ability to leverage existing brand equity →		
Company & Approach		
Nike	**Unilever**	**Nestlé**
The world's largest seller of athletic footwear and apparel has used its trademarked Nike "swoosh" to promote its products successfully across the globe for decades. This branding strategy has also helped the company move into new clothing and apparel markets, and sports (such as Nike Golf) with relative ease, partially because many consumers already have a positive affinity toward the company brand.	Unilever features a number of global flagship brands including Dove, Lipton, Ben & Jerry's and Hellmann's. Market-specific products include Lifebuoy, an affordable soap that is sold in Asia, Africa and Latin America. As part of its Lifebuoy marketing efforts, Unilever has launched a public health awareness campaign to help improve hygiene behavior, which illustrates how regional brands can address specific market dynamics. More than half of Unilever's sales come from developing and emerging markets.	Nestlé Waters, a division of Nestlé S.A., promotes 64 water beverage brands throughout Africa, Asia, Europe, Latin America and the Middle East. Part of this strategy is to stress a regional presence across its water beverages.

Source: L.E.K. Consulting

Figure 3

Speed-to-Market and Cost Efficiency vs. Control



Company & Approach		
3M	**Christian Dior**	**IKEA**
The company provides its diverse product portfolio through distributors and retailers in the United States. Internationally, 3M primarily serves customers through a network of distributors who then serve retail and other sales channels.	The clothing and apparel provider distributes its products through licensed distributors, manufacturers and exclusive boutiques. The company distributes and markets its products internationally in Asia, Europe and the United States.	The furniture manufacturer sells its products in more than 300 company-owned stores in 35 countries. Additionally, the company is also using the franchising model to establish retail operations in new regions.

Source: L.E.K. Consulting

Trade-Off 4: Speed-to-Market and Cost Efficiency vs. Control

The most effective distribution strategy depends on the product/retail experience required, market opportunity size and the local retail landscape. To deliver a mass-oriented consumer packaged goods (CPG) product, wholesale distribution may be perfectly appropriate. But delivering products with a more complex brand story may require greater retail control. Often the channel strategy for premium products (e.g., apparel) is the most complex, and the best solution often varies by market.

Traditional decisions and trade-offs associated with a distribution strategy follow (see Figure 3). The arrows in this figure flow from left to right to illustrate the increasing levels of control, cost and lead-time required across the wholesale, shop-in-shop and owned retail distribution models.

The Steep Cost of Failure and Inertia

Assumptions that a successful blueprint in one country can replicate growth in another can be costly. And not even the world's largest retailer is immune to missteps. In 2006, Wal-Mart Stores Inc, exited Germany and sold its 85 stores there at a loss of approximately $1 billion, and also pulled out of South Korea the same year.

While the Wal-Mart example illustrates the cost of misjudging new markets, "standing pat" can also incur opportunity costs that can leave companies at a significant disadvantage. A hesitation in market entry can give cede first-mover advantages to global competitors and make it much harder to enter regions later that already have entrenched competitors.

Building Bridges to New Markets

Pursuing new markets requires a detailed understanding of the opportunities and pitfalls in a new territory. As part of this process, it's critically important to look beyond optimistic economic forecasts and understand how your brand can resonate positively with a society's cultural norms and address unmet needs in ways that will clearly define your brand. Further, your existing supply chain and current online presence can be important expansion planks that are not often used effectively.

Unfortunately, we've seen many companies build a market expansion framework using faulty assumptions that would later collapse under the weight of inadequately understood market dynamics. To stress test any expansion plan effectively, senior executives should have access to significant in-country insight to complement a critical analysis of a company's go-to-market strategy. This would include the resources to study multiple international market opportunities simultaneously.

As international market opportunities continue to grow in importance, companies that have the ability to analyze and enter new markets quickly can have a significant advantage over those who hesitate. Equally important, successful global organizations will embrace a new level of flexibility and agility to adapt to new market opportunities, and evolve as these countries mature and grow.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded nearly 30 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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