

Growing beyond borders

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Since the financial crisis, economic recovery across much of the developed world has been muted with emerging markets leading the way, though even many of these are slowing. Global growth and trade forecasts remain subdued 3.8% pa GDP growth over next five years forecast by IMF, and well below pre-crisis levels. Growing internationally beyond borders will be key for many businesses seeking to overcome domestic growth constraints.

The opportunity for mid-market businesses

Mid-market businesses ('MMBs'), defined as those with USD50-500 million annual revenues, account for nearly 30% of the global economy and are, more often than not, the engine of growth and innovation.

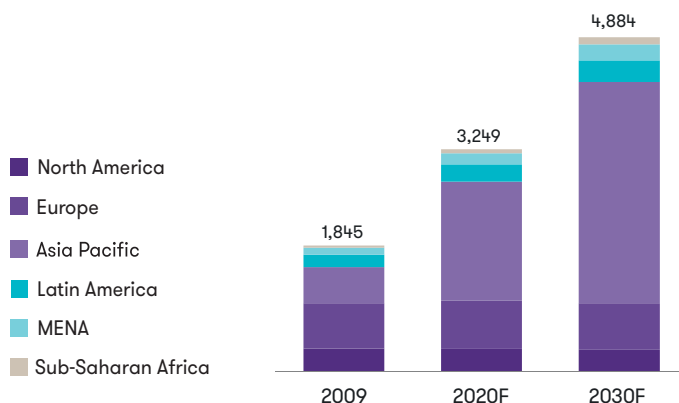
MMBs understandably focus much of their effort on growing in domestic markets. However, with relatively low growth outlooks in most major economies, and facing increasing global competition in many industries, MMBs will need to be more proactive in developing international markets. Expanding overseas will not only be driven by the desire to grow, but also to protect longer-term competitive advantage and stakeholder value.

The rapid growth of the middle class around the world (see Figure 1) and the associated potential market, creates a significant opportunity. First movers who build competitive economies of scale are more likely to realise the opportunity, taking share from those slower to move.

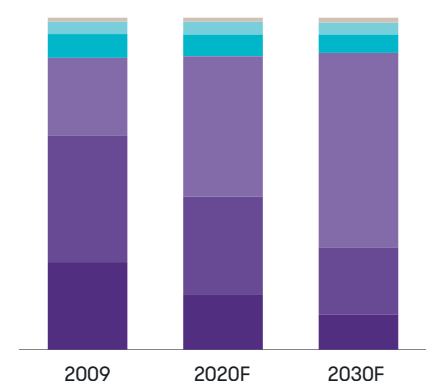
Expanding overseas can also deliver significant operating margin benefits from wage differentials, lower distribution costs and tax advantages.

Figure 1

Middle class population growth (000s)



Relative spend by the middle class (proportion of spend)



Starting from the top

There are many issues and options that MMBs need to evaluate when developing a geographic expansion or new market entry strategy.

At the macro level, given the increasing globalisation of business and rapidly growing wealth in emerging markets, there are some simple macroeconomic trade-offs that need to be considered related to relative wealth, population size and growth prospects (see Figure 2).

Businesses will also need to consider the stability of the political system, language issues, corruption levels, infrastructure, tax and regulatory regime, intellectual property protection, skills and wage differentials, and currency controls.

There are also business-specific factors to assess such as whether a product or service offering needs to be customised to meet with local requirements, the market opportunity and market segments, competitive intensity, and the confidence and experience of the management team in that market. Many of these issues are encapsulated in Figure 3 and there will be inevitable inter-dependencies between them.



It's never too late to develop a market entry plan

While ideally you would follow a structured process we recognise that businesses may sometimes start at different points and a review is still useful.

Figure 2

GDP vs GDP growth per capita

(bubble size = population)

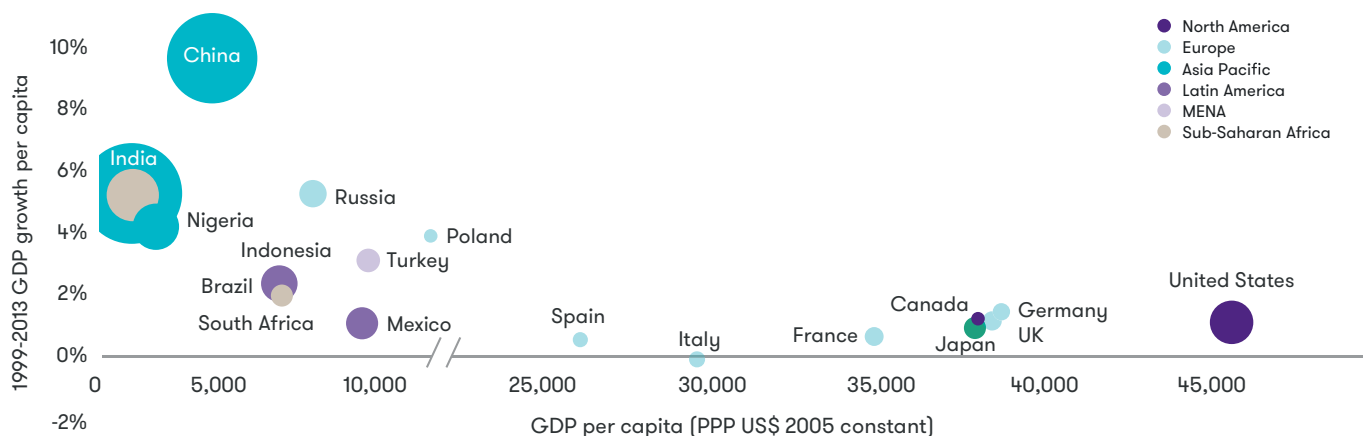


Figure 3

Factors for consideration during selection

There are a wide range of factors that need to be considered in selecting and entering the most appropriate growth markets. From macro economic factors through to business specific considerations, your planning must be broad in scope and detailed in terms of action.



Effective new market entry

A systematic approach to expansion

Many MMBs initiate their overseas development through educated hunches and unsolicited approaches from customers and distributors. This can often involve relatively low cost, low risk exploratory entry options. At some point in this development, management teams and boards will inevitably ask themselves what their criteria are for new market entry, which markets offer the best potential and what is the optimal entry route.

The benefits of adopting a more systematic approach earlier rather than later include:

- ensuring strategic consistency and alignment with business' strengths and objectives
- enabling rapid decision-making as opportunities arise, and reduces 'gut feel' bias
- making more effective uses of limited resources
- providing a framework against which to measure execution success, and facilitates continuous learning.

Strategic planning

Ideally the development of your overseas expansion strategy would include the following steps:

1. Define key decision criteria for your investment decision, based on the strategic focus of the business – such as incremental revenue/EBITDA targets, timeframe, investment/risk appetite, regional focus
2. Prepare a structured scan and shortlisting of markets that fit macro considerations, such as GDP size and growth, political/sovereign risk scores, geographic, cultural and language proximity, etc
3. Conduct a deep dive on short-listed markets to research and assess market size, growth prospects, competitive intensity, operational and regulatory considerations, etc
4. Explore market entry options, identify and diligence potential partners and develop target operating model together with business and financial case for entry.

While all of these steps may not be necessary, the final step would at a minimum be necessary for even opportunistic expansion into a single country.

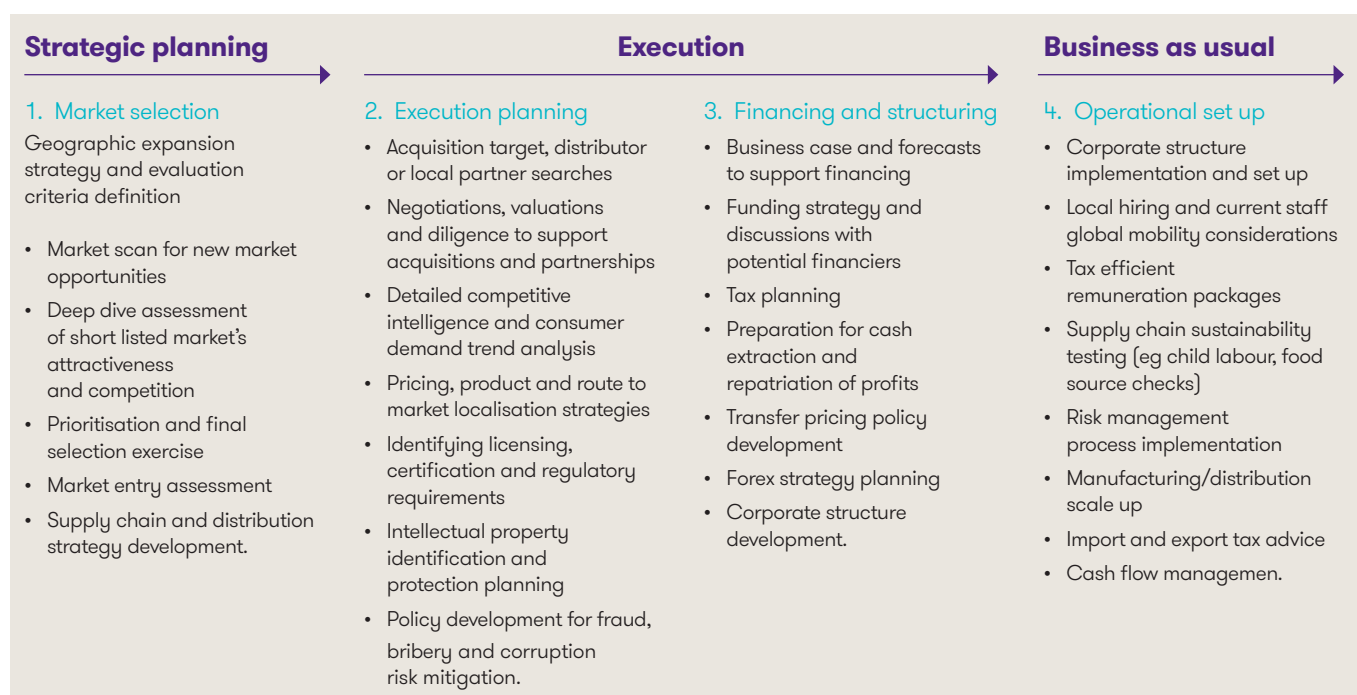
Identifying the best options

In addition to the multitude of countries and variety of decision criteria that management teams could use to shortlist priority countries, there are a number of market entry routes to evaluate:

- exporting (directly, through ecommerce, or by establishing key distributor or agent relationships)
- joint ventures, partnerships or acquisition – necessitating assessment of the most appropriate partners/ targets
- organic development of an overseas base.

The strategic choice between these will be driven by a variety of factors, including investment and risk appetite, management team's experience, the strength of local contacts and finding the route to getting the best possible people representing your product or service locally.

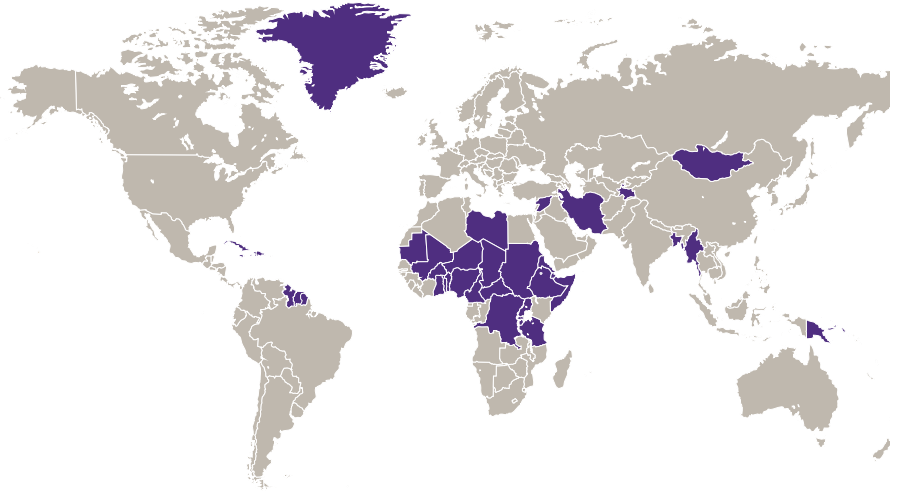
Recommended activities during the expansion process



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