PART EIGHT International expansion

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8.1

Competing and collaborating with China and India

*Do not despair, look at your strategic options in engaging with emerging markets, advise **Frances Trought** and **Irene Brew-Riverson** at London South Bank University*

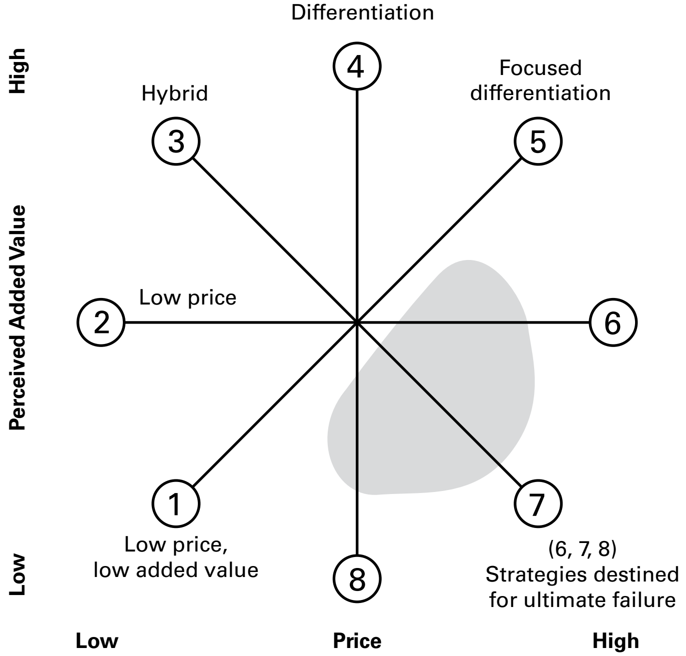
The very mention of these two countries – China and India – appears to send chills down the collective spine of small and medium-sized business enterprises (SMEs) but there could be ways of harnessing a business's strengths to not only compete but collaborate with these countries. As Sheth (2008) so succinctly puts it, while the two countries will, by 2025, contribute 39 per cent of the world's output (GDP) they will need more of every product and service imaginable. Also, it cannot be assumed that products sold by China and India will meet all the needs of target markets. Businesses need therefore to consider how they can positively benefit from this change in the world economy; often, looking for ways to collaborate with companies in these countries and the adaptation necessary (Yu, 2008) may be the best way forward.

To compete or to collaborate – that is the question

For SMEs, the threat posed by cheap imports from India and China is all too real, especially in these times of austerity. Taking a good look at some of the fundamentals is a good place to start. A generic strategy is an organization's basis for competing in a marketplace or its way of achieving competitive advantage. Clive Bowman's 'Strategy Clock' (1995, cited in Johnson *et al*, 2006), a development of the concept originally espoused by Michael Porter (1980), presents a business with eight competitive strategy options as depicted in Figure 8.1.1 on the next page.

With regards to SMEs, options one and two, which are very much based on seeking to be the lowest cost producer in the marketplace, may not be feasible unless the products sold are sourced from low-cost economies also. What may be best for

FIGURE 8.1.1 The Strategy Clock: competitive strategy options (adapted from the work of Cliff Bowman cited in Johnson, Scholes and Whittington, 2006)



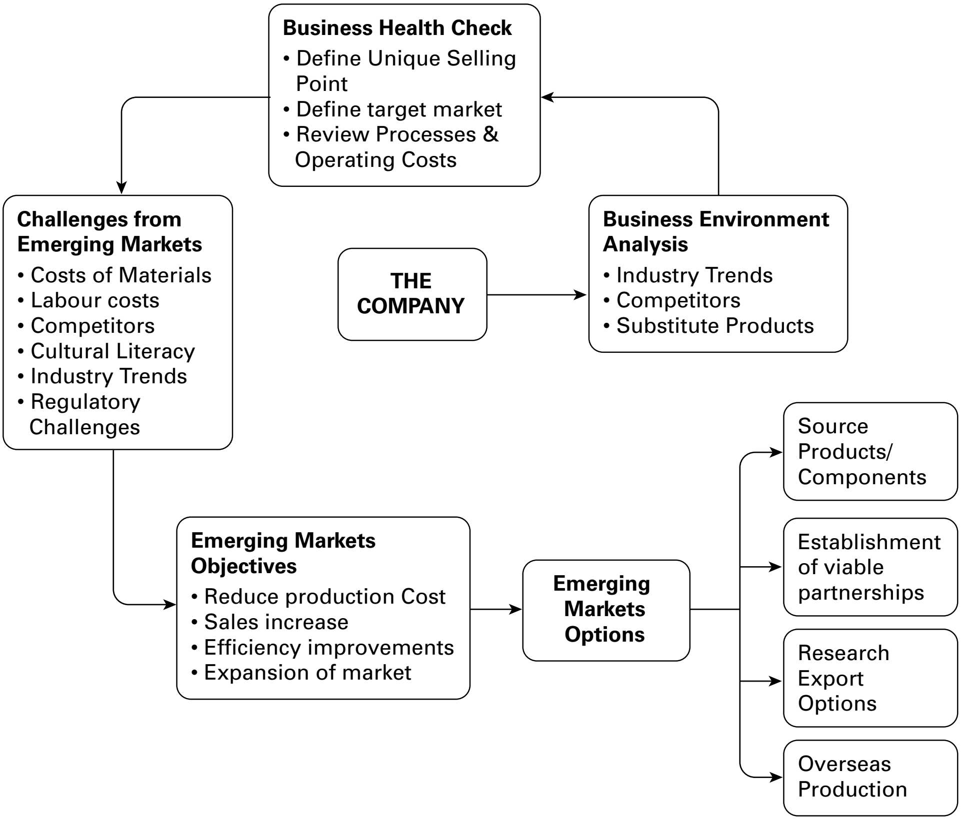
small businesses would be the adoption of option five, the focused differentiation strategy that offers clearly distinguishable added value that customers are willing to pay extra for. Without in-depth research into what customers want, it is unlikely that this generic strategy will be truly adopted. Acquiring knowledge of markets and fostering successful new product development remains crucial. It will be vital to continually ensure that the organization constantly works on the positioning of their products relative to competing products so that the customers' perception of value-for-money is suitably disposed towards the SME.

The hybrid strategy (option 3) is a more effective option when competing with emerging markets. This option clearly indicates the points of differentiation from competing products but it offers a price that is lower than that charged by similar organizations, often because of lower operating costs. The success of large companies such as Tesco and IKEA are based on this premise. A small business that is able to keep its operating costs low is best placed to follow this more competitive strategy.

The Emerging Markets Diagnostic Tool

The Emerging Markets Diagnostic Tool (Figure 8.1.2) was developed by Trought and Brew-Riverson (2010) to provide a means for SMEs to assess how to engage with the increasing challenges presented by emerging markets. The model invites SMEs to review both their current business environment and their business processes. Central to the ability to compete is an understanding of the key components of the business and the environment within which it operates. By conducting this overview the SME will be in a better position to understand which are the most relevant of challenges and set clear objectives. The tool then presents several options for the SME to consider in order to achieve their objectives.

FIGURE 8.1.2 Emerging Markets Diagnostic Tool



Asia inside – an example of collaboration utilizing the Emerging Markets Diagnostic Tool

An example of the model being applied to a business would be in the case of Femi Omowo, the owner of Scorva Watches.

Business environment

After conducting an analysis of his business environment Femi recognized that competition for luxury brands was fierce and was mainly between well-established brands such as Rolex and Tag Heuer. Sociocultural trends pointed to exclusivity being even more sought after.

Business health check

As this was a start-up, post other small ventures, Femi's business health check highlighted the need for capital to start this new venture. It also pointed to the fact that in deciding to go into watches, he could effectively position his product as a luxury brand with custom designs (USP) that expressed individuality for the young 'discerning' male. In considering the proposed manufacturing processes, he realized that this would be extremely costly.

Challenges from emerging markets

The main challenge faced by Femi was the fact that operators using Far Eastern suppliers had the advantage of low-cost materials and labour costs as well as an increase in the size of the market they could serve.

Emerging markets objective

- Identify Far Eastern partner to reduce labour and material costs within three months.
- Aim for high sales growth within the first year of trading (turnover £10,000), with 100 per cent increase by year three.

Emerging market option

As a result Femi not only identified a viable partnership in the Far East, where he could source his product at competitive rates, but also entered an exclusive contract with the supplier securing his USP. Within three years Femi's turnover has increased by 600 per cent; despite the current market trends he has remained competitive.

Seeking an Eastern partner

Schumpeter (2010) and those with a knowledge of doing business in China reiterate the crucial importance of a near reverence for the country's traditions and an unflinching devotion to an organization's core principles and values. Abandonment of either is likely to result in difficulties that may prove near insurmountable, as experienced by Google and RioTinto recently.

Although a partnership may sound an exotic solution, it should be approached with caution as naivety is not seen as a defence. You must always have something to put on the table and the patience of an elephant to ensure you do not leave a frustrated divorcee. Joint ventures have decreased in popularity; in 2001 for example, 34 per cent of new business entries were achieved via joint ventures – in 2005, this had fallen to 24 per cent (*China Business Review*, 2006 cited in Peng *et al,* 2008).

Phil Gonzalez and Supin Tapaneyasas (international business academics) reiterate the need to focus on the value proposition being made to customers and advocate the need for SMEs to foster 'cultural literacy' – an appreciation of cultural differences and quirks – if they are to succeed; the use of websites as key channels to markets, personal contact when possible and the need to take advantage of exclusivity options that present themselves (as with the case of Scorva Watches documented above). Interpersonal networks, although not as vital as in the 1990s are likely to still play a part in the success of SMEs (Peng *et al*, 2008) in both China and India.

Chindia – or still China and India?

The two countries, while often referred to in the same sentence, still differ in a variety of ways. As Todd Guild (cited in Barton, 2009) highlighted for example, China has a growing pool of affluent customers who have an affinity for foreign brands but the products developed for Western customers may not suit their taste and will need to be altered in line with preferences unique to particular target markets. The one-child policy also makes China an ageing population.

India on the other hand, enjoys the power of youth as one of the three core competences highlighted by Seshasayee (2007): the power of youth promotes risk-taking and the daring to turn the status quo on its head; the power of knowledge facilitates creativity; and thirdly, the power of enterprise that promotes the growth of a nation.

Doing business in either country will permit so much more by way of risk and possible reward – nothing ventured, nothing gained.

Conclusion – China and India, friend or foe?

The Emerging Markets Diagnostic Tool presents SMEs with the opportunity to assess their business and clearly define the challenges they face in the current market place. All too often, companies fear the unknown, but the model allows businesses to review their options in the light of the rise of the emerging markets. China and India present great opportunities for SMEs if they take the time to assess and modify their business models accordingly.

Summary of key points

- Apply the Emerging Markets Diagnostic Tool to your business in order to develop an appropriate response to the rising emerging markets.
- Do not assume Western models of ownership and control are applicable.
- Pay close attention to traditions and norms.
- A joint venture, although attractive, must be undertaken with caution.
- Resist the temptation to compromise your values – it will only enhance the suspicion with which you will be regarded.

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Advice from industry

Sabe Tibbitts – International Trade Adviser, South Asia Specialist, UK Trade and Investment
Huge markets but local competition is strong and the key to gaining the big opportunity is to look for small gains multiplied by enormous numbers. Success is in 'more for less for more' (simplifying and improving the offer to reduce cost for supply to more customers).

Annabel Fogden – Head of World Trade, London Chamber of Commerce
Make contact with organizations in the UK that can help you – Chambers of Commerce offer much practical advice and assistance. Also organizations such as UK India Business Council, China-Britain Business Council, UKTI.

Ittira Davis – Managing Director, Corporate and Institutional Banking, Europe, Arab Bank (UK)
Globalization need not be a 'win–lose' situation. It can be made into a 'win–win' situation for SME companies in Britain if they can integrate lower production costs from the emerging markets with British product design, marketing, delivery and after sales services.

Ekua Mensah – Vice President (Technology Manager), Bank of America
Clamp down on operating costs ensuring a focus on pricing and servicing.

Kwame Sarpong – Head of Retail Banking, Ghana International Bank (UK)
Companies need to consider complementing rather than competing – they may be best placed to provide innovative and highly complex inputs into products in some industries. UK companies have the advantage of access to finance, excellent technological standards, information infrastructure and better patent protection (among others).

Frances Trought, senior lecturer and consultant in enterprise at London South Bank University, has 15 years' experience, working directly with SMEs to manage, design, develop and implement marketing and strategy solutions to complex business environments. Frances provides both training and consultancy to SMEs. If you would like a business health check or to apply the Emerging Markets Diagnostic Tool to your business, contact Frances Trought at: e-mail: **troughfa@lsbu.ac.uk**; tel: 020 7815 7854. Irene Brew-Riverson, lecturer and consultant in strategy at London South Bank University, has 16 years' experience in lecturing in strategy and marketing. She currently lectures at the London South Bank University. Her primary interest is in strategic analysis and strategic choices that facilitate competitive advantage for SMEs. Irene offers training to small businesses wishing to harness the opportunities presented by emerging markets, contact Irene Brew-Riverson at: e-mail: **brewrivi@lsbu.ac.uk**.

Stepping into a new market can be challenging. Nonetheless, the Netherlands is a business location that really adds up. The close proximity to a large European market whilst remaining conveniently close to the UK, make doing business in the Netherlands straightforward and easy. Our like-minded international business culture and our multilingual workforce make your next step into Continental Europe as easy as doing the most basic sum.

The Netherlands Foreign Investment Agency facilitates foreign companies' direct investments in the Netherlands. Our services are confidential, free of charge and without obligation.

Holland.
Pioneers in international business

International expansion made easy

8.2

***Liesbeth Staps**, Executive Director of the Netherlands Foreign Investment Agency in London, gives an insight into how to make the move into a new market work*

Now that the world is slowly recovering from the large economic crisis that affected us all, business may slowly start to think about the future. With domestic markets only hesitantly picking up, you might want to put your eggs in more than one basket to support your need for growth. Having survived the economic turmoil, and with a solid basis but perhaps a bit shaken, now might be the time to strengthen this baseline with a wider geographic coverage. So when the economy really picks up, you are ready for the future.

Expanding your business across the UK border represents many challenges, as it is new ground and companies have to take a lot into account before setting out. Dealing with different cultures and legal frameworks can be challenging. Knowing your way in the maze will ease decisions and implementation.

Opportunities in Europe

Europe is the world's largest consumer and industrial market. Continental Europe offers a large market and limited risk, within relatively easy reach. Due to distance and culture, expanding your business across the channel is easier than, for example, in the US or Asia. And with the single market in the European Union there are no more duties and legal issues related to trading. Once in the eurozone, the single currency facilitates international trade between euro-countries and limits costs and risks due to currency conversion. Although the euro might offer some uncertainties, the north-western European economies are doing well and customers are looking forward to better futures. So, British companies need a stepping-stone into Europe.

Making up the equation for location

A company has to make a calculated decision on how and where to make that next step into Europe. Make a clear business plan with feasible objectives, matched by a realistic but long-term strategy. In times of austerity, be prepared to take one step at a time and have a backup plan if the scenario as envisioned does not work out that way. One has to compare all the criteria, and solid market research prepares for the foreign venture – wherever in Europe that is.

Envisaging a long-term presence makes the calculation more difficult. However, there are a few elements that you should gather the pluses and minuses of to determine the best location for your business in the long run. Obviously, these depend heavily on the nature of your business and the type of operation you aim to set up. Here are the five key considerations for choosing a location, and why; as easily lined up as counting the fingers on one hand:

1. Proximity to market.
2. Accessibility.
3. Quality of staff and labour market.
4. Business environment.
5. Tax climate.

1. Proximity to market – naturally, the location of your new venture is driven by current customers and experience; take advantage of the already established relationships and their network. They are the low-hanging fruit for company growth. Besides them needing local services and support, they can help you with jumpstarting your presence abroad. But do look ahead as well; although the currently most successful market looks the best location at first, this location might not be enough to support your growing business in a few years to come. As the geographic scope of your business expands, factors critical to your success can change considerably. One should take this into account now, so as to avoid the cost and disruption of having to move later. Do create a good flying start on the continent, but an even better stepping-stone for further European expansion.

2. Accessibility – the geographical location and infrastructure largely determines the cost and delivery times for your products. Accessibility is also important when visiting your foreign establishment from the UK or hosting clients from across Europe. Furthermore, it is indispensable for your people to serve your customers and develop your European footprint. So evaluate the following for considered locations:

- Airport connections to major European cities and your own UK office provides time-efficient and convenient sales travel.
- Transport on the ground. High-speed passenger rail services provide convenient links between European cities, including the UK's main cities and easy access to road networks provides flexibility in reaching your customers.
- An excellent IT infrastructure with access to high-speed internet is essential to guarantee effective communication within your international organization and with your customers.

3. Quality of staff and labour market – the availability and quality of your staff are crucial for succeeding in your European growth strategy. In developing the market across Europe, with many languages and cultures, local knowledge combined with international experience and preferably multilingual skills is pivotal. The latter enables serving customers throughout the continent from one base. With respect to the labour market, one should consider the labour regulations as well. Although the European Union has harmonized many regulatory frameworks, labour regulations are different in each country. The possibility of flexible contracts, like in the Netherlands, permits you to manage workloads more easily and respond faster to peak situations. Also, temporary contracts or open dismissal laws enable you to minimize risk in case of poor results.

4. Business environment – a location with an international outlook will both facilitate you as a foreign company there and also benefit your drive to get access to markets and customers beyond. For example, in the Netherlands, with its centuries-old trading history, a solid international outlook and openness to foreign investment is firmly ingrained in the Dutch culture. An international business location also hosts an extensive network of experienced world-class business partners who know how to deal with global business challenges for your company. A pro-business environment eases the successful operation of your international business. By choosing a location with relative political and economic stability, a sound banking system and consistent regulations, your company is less likely to be disrupted by factors beyond your control.

5. Tax climate – in the end, all that counts is the bottom line. Besides direct operating costs such as office rent and labour costs, the tax climate in a chosen location provides the basis for your results below the line, both for your current trade and future expansion. The corporate tax rate is only the tip of the iceberg. Look at the competitiveness of fiscal regimes for internationally operating companies, tax deductions, VAT and labour taxes; differences are well worth exploring. Furthermore, different regulations and accounting rules can make your fiscal operation quite difficult. Countries have implemented measures to ease this for foreign companies. For example, you are allowed to have a different financial year, for instance its British parent's 5 April tax year, and annual reports may also be filed in British pounds instead of the local currency. Concluding a fiscal climate offering cost effectiveness equals a healthy business case.

A helping hand

Setting up in a new country can be tough, costly and time-consuming and your company's success is at stake. It pays to have high-quality service and support. There are many advisors out there, and often even at low costs.

Inward investment agencies, such as the Netherlands Foreign Investment Agency, provide you with information, advice and practical assistance. From the early stages of considering a foreign establishment, through the decision on a country and a specific location, they can provide you with the data for your business plan, introduce you to their network and find available property. They often employ skilled business professionals who have assisted many companies before yours and leverage that experience to your benefit facilitating your international expansion strategy. They know how to do business and to address the right people to facilitate your smooth landing.

And for all the necessary internal arrangements, do not forget your own lawyer and accountant; they know the consequences for your company of an international operation and might have already established relationships with their counterparts abroad to facilitate the set-up. Likewise your bank can advise you on international banking and the financial resources.

Just across the Channel is one of the most important trade and investment partners of the UK: the Netherlands. With its long history of international trade, the Dutch business environment and workforce have adapted perfectly to host foreign businesses. The country offers an ideal base for British and foreign companies who want to grow internationally across continental Europe. Despite being a relatively small country, the Netherlands is an important player for the world's economy. The Netherlands provides a gateway to Europe, helping foreign companies succeed throughout the continent. The location in the midst of the important north-western European market, superb accessibility through main ports and hinterland connections by road and rail, a highly skilled multilingual and flexible workforce, an international pro-business environment, and a competitive tax climate sums up the equation for the Netherlands.

For further details, contact: Liesbeth Staps, Executive Director UK & Ireland, Netherlands Foreign Investment Agency, 38 Hyde Park Gate, London SW7 5DP; e-mail: **liesbeth@nfia.co.uk**; tel: +44 20 7225 1074; website: **www.nfia.co.uk**.

The export challenge

8.3

As a growth enterprise, you will want to start winning work away from home, but you have to be ready for the complications of making and fulfilling international sales, says ***Jim Sherlock***

A British Prime Minister, Harold MacMillan, once said 'exporting is fun', which proves he had never actually done any. There are many words beginning with 'F' that might describe exporting but 'fun' would not be the most obvious. 'Frustrating' would certainly be in there somewhere, so would 'frightening'. But talk to experienced exporters and you will also hear words like 'fascinating' and 'fulfilling'. Yes, it's 'complicated', 'confusing', 'unpredictable' even 'infuriating', but also 'absorbing', 'exciting', and most importantly, 'rewarding'.

The fact is that exporting provides a huge diversity of functions and environments, which balances the good with the bad and makes it an incredibly worthwhile experience for all those involved.

Also, in the last two years the pound value has consistently fallen against the dollar and euro, which means UK exporters are increasingly cost competitive in world markets. However, the unfortunate fact is that many companies entering into export trade are not properly prepared and will only ever experience the bad side.

If we are to get to the rewarding parts, both in a personal as well as a commercial sense, then we have to accept that there is an enormous range of pitfalls for the unwary and our job is to prepare ourselves and our companies so that we enter overseas markets in full knowledge of what to expect – and ready to handle it.

First, we have to accept that overseas markets will inevitably be different from our home market, and it is not just that they speak a foreign language. Good research can reveal a myriad of political, legal, economic, technological, social and cultural differences. These have to be considered when we are deciding what we are going to sell and how we will sell it.

Then, when we are successful in getting the enquiries, we are faced with the complex and detailed procedures concerned with converting them into firm orders, getting the goods or services delivered and, most importantly, getting paid.

So what sort of questions would an exporter have to answer before entering an overseas market?

- Do I have the commitment of the whole company to a long-term development of overseas markets?

- Do I have the administrative and financial resources to conduct an efficient operation?
- Do the current staff have the expertise to market our goods and services successfully overseas and collect payment?
- Can I find appropriate support from my bank, government services and freight forwarders?
- Which markets offer me the greatest potential at the minimum risk?
- What modifications will be needed to make my product/service saleable there?
- What price is the buyer prepared to pay and on what basis, (ex-works or delivered)?
- Do I need an agent or a distributor and if so, how do I find one?
- How do I promote my products effectively?
- Are there any Customs barriers that I need to consider?
- How do I cover the risks of theft and damage to my goods in transit?
- How do I make sure that I get my money?

The answers are not always so obvious and will be different from one market to another. However, good research and the use of the many sources of information and advice available both in the UK and overseas will provide many answers.

Specifically, you should first contact your Local Business Link – **www.businesslink.gov.uk/internationaltrade** – and talk to an International Trade Advisor (ITA) who can offer help in almost every aspect of your export planning and direct you to other sources of help and information. Foremost in providing that help is the employer of the ITAs, UK Trade & Investment, who are the export trade development section of BIS (previously BERR, which was previously DTI). They have an excellent website – **www.ukti.gov.uk/export.html** – full of vital information and links to your local ITAs and other useful sites.

It may be that as new exporters you are eligible to participate in the 'Your Passport to Export Success' programme which offers hands-on help, essential staff training and subsidized overseas visits.

Register for free on the UKTI website and gain access to a wide range of information and support. In particular go to 'Our Services'–'Preparing to Trade' and try the 'Are you ready to export?' online questionnaire covering all of the questions above and many more. The short time it takes you to complete the questionnaire will be time well spent when you print out the subsequent report that is generated from your responses. It will also allow you to make a direct contact with your local Business Link and an ITA who can follow up the preliminary report.

It is often the case that such a report will highlight the need for specialized training for new exporters in export marketing and the technical processes involved in distribution and payment. A number of organizations offer relevant short courses, notably the Institute of Export who offer a comprehensive Short Course Training Programme (details on **www.export.org.uk**).

Other websites that offer essential support are:

Market Access Database: **www.madb.europa.eu/mkaccdb2/indexPubli.htm**
Providing detailed and product specific information on the import requirements and barriers for all non EU countries.

HM Revenue & Customs: **www.hmrc.gov.uk/**
The Customs site provides a huge range of information regarding export and import procedures, mostly written in plain English.

And all for free.

There is a lot of information and help out there. Just make sure that you are not sharing the fate of the exporter who lost money because:

- Their bone china dinner services specially designed for the Italian market failed to sell at all because they lacked a pickle bowl.
- The Libyan flags in the left paws of the promotional teddy bears were seen as an insult to the flag and were destroyed. (In most Muslim countries the left hand is for toilet purposes only!)
- The sole distributor they appointed was actually already contracted to sell a direct competitor's products – which they continued to do with great success.
- The 'before and after' photographs that had worked so well for the sale of depilatory creams in English-speaking countries did not work so well when translated into Arabic, which reads from right to left. They forgot to reverse the pictures!

And how about the loss of £155,000 worth of goods because a comma instead of a full stop on an invoice presented against a letter of credit meant the bank rejected the documents. The buyer, quite legitimately, refused to pay and, because the exporter did nothing, the original buyer then picked them up at the auction in the port of destination some 10 weeks later at a quarter of the original price.

All could have been avoided with some basic research and good advice.

Finally, and with particular reference to the current UK domestic credit crunch, the value of pound sterling and, perhaps more importantly, an ongoing global recession, current economic research consistently shows companies who export to any country, in any financial climate, perform better than those who don't.

They say that companies that export:

- **Improve** their productivity.
- **Achieve** levels of growth not possible domestically.
- **Increase** the resilience of their revenues and profits.
- **Achieve** economies of scale not possible domestically.
- **Increase** the commercial lifespan of their products and services.
- **Increase** the returns on their investment in R&D.
- **Improve** their financial performance.

In other words, professional exporting is just about the best way to survive the recession.

Jim Sherlock FlEx (Hon), Cert. Ed: Following management experience in the UK export manufacturing sector, 20 years as senior lecturer in international trade at Central Manchester College and 10 years as director, educational projects of the UK Institute of Export; Jim is now a full-time writer, trainer and consultant in international trade.

Co-author of *International Trade* (Kogan Page, 3rd edition due January 2011) and author of *Principles of International Physical Distribution* (Blackwells) he is also currently the senior tutor for the online qualification, Certified International Trade Advisor (see **www.citaworld.co.uk**). Contact: **jim.sherlock@citaworld.com**.