IDEAS

NEXT STOP: MAKING SMEs INTERNATIONAL

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Taking a proactive approach to internationalization makes companies more robust and potentially more successful, with a far greater client base and more scope to expand.

STRATEGY• DECISION ANALYSIS • SMES • INTERNATIONALIZATION

To most, the word internationalization denotes big business carried out on a global scale, but even the smallest companies can internationalize successfully with limited resources if they play their cards right and find partners who can take them places they couldn't reach on their own.

WHY INTERNATIONALIZE?

When a company decides to internationalize, it's usually motivated by the possibility (or necessity) of increasing sales, diversifying its operations (and associated risks), getting closer to its clients, reducing costs (labor production or supply), compensating for the decline or saturation of the home market.

Although they are perfectly valid, what all of these arguments have in common is that they are "reactive," that is to say, internationalization is seen as the solution or the answer to a fact or a set of circumstances that is changing the normal course of business. These may include the deterioration of the margin, a market that is stagnant or isn't growing or a client who wants services and products in another country. However, there are other reasons of a more proactive nature for incorporating internationalization into the competitive strategy of the company. For example, taking advantage of the development and growth of other markets, moving certain activities in the value chain to more competitive regions, be they costs (delocalization of production to countries with lower manufacturing and labor costs) or in capacity (externalizing various processes from client services to call centers or research and innovation), exploiting economies of scale and reach, or simply to gain knowledge: about other clients and markets, the capacity of competitors at a global level in a particular industry or sector and even the cultural diversity typical of teams in global companies.

This last argument, to gain knowledge, rarely appears in the list of reasons why a business goes international. And yet it is of crucial importance because those companies that don't work in international markets become less competitive and more vulnerable. For this reason, it's imperative for companies to work abroad and to be exposed to the need for excellence that international competition brings.

The ten steps to international expansion

1

Internationalization is a ***necessity*** and also an ***opportunity*** that should not be passed up. Make sure that the management team is convinced and committed.

2

Everyone must be clear about the ***company's strategy,*** where the competitive advantage lies, what the business model is and what its strong and weak points are.

3

Look at what human and other ***resources*** are needed to internationalize.

4

Take a close look at the ***motive*** for internationalization. Ensure that it fits the overall business strategy.

5

Answer the ***key questions:*** what activities are we going to internationalize and why, what markets do we plan to enter and with what strategy?

6

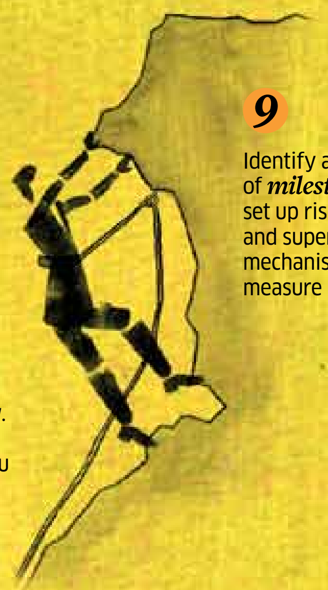
Analyze the organization's ***starting point:*** what do we hope to achieve through internationalization? What resources do we need to succeed? What talent and resources do we have to begin the process?

7

Draw up an ***action plan*** that identifies the starting point, the desired objective and the resources that can be mobilized to this end.

8

Anticipate ***obstacles*** and how to overcome them.



9

Identify a series of ***milestones*** and set up risk control and supervision mechanisms to measure progress.

10

Get started, better today than tomorrow. And don't forget to ask for help when you need it.

AS A STRATEGY FOR CREATING GLOBAL VALUE, IT GOES FAR BEYOND MEASURES TAKEN TO OFFSET DIFFICULT CIRCUMSTANCES

Come what may, internationalization as a strategy for creating global value goes far beyond measures taken to offset a difficult set of circumstances. Furthermore, it has been shown that it makes companies bigger, more productive and more resilient in adverse cycles. And international companies also create more and better jobs.

DEFINING THE STRATEGY

There are many ways of creating value by taking advantage of the opportunities presented by semi-globalization that all are covered by one of the three generic strategies outlined by Prof. **Pankaj Ghemawat,** (*Redefining Global Strategy*, 2007), a leading expert on globalization, within the conceptual framework of the Triple A:

- **Adaptation: adjusting to the local frameworks.** The adaptation strategy consists of increasing income and market share by tailoring products and services to the local context and the key is to arrive at the correct adaptation of the business model and the product and service offered to the target market.
- **Aggregation: overcoming differences.** Taking advantage of economies of scale through the creation of regional and/or global operations. The key is to standardize products, grouping together activities on the basis of areas or geographical zones in order to optimize costs.
- **Arbitrage: exploiting differences.** Exploiting differences between national and regional markets in order to convert them into opportunities for optimizing available resources. The key is to locate independent parts of the supply chain in different places in order to exploit the advantages of specialized production on a global scale.

FROM THEORY TO PRACTICE

Any business that wants to break into new markets must begin by asking itself if it can produce solid answers to three big questions:

1. What markets to enter?
2. With what strategy?
3. With what type of structure?

The answers to these key questions, along with the company's resources and capacity, will define its international strategy. And while it is essential to dedicate time to each of these issues, they can be rolled up into one question, the answer to which affects everything: What competitive advantage are we trying to gain?

If a business isn't able to offer better value than its competitors, even if it's selling at a higher profit (note the significant difference) or at a lower price (leading on cost) it will not be able to sustain a competitive strategy. While this is true in any market, it is especially relevant in the global context.

Choosing between, in the short term, different ways of entering a market and, in the medium and long term, how to consolidate, is a key consideration when it comes to international expansion. Whether it is simply a case of exporting or of investing abroad, there is a wide range of options. Exports may be direct, indirect or both; investment may be in the form of a joint venture or through buying 100 percent of a local business and setting up a local operation. It is also possible to grow abroad through franchises, agreements and licenses and to delocalize activities through foreign sub-contractors and suppliers. It is not an easy decision and it hinges on a range of factors.

Entering a market simply to sell is not the same as entering to use it as a manufacturing or supply base, nor is using a country to optimize manufacturing costs the same as going there to develop R+D. Furthermore, commercializing, for example, a food product is not the same in the United States as in China.

One size does not fit all. Each company is unique, each project is different and every country is a world unto itself. Nor is the decision to internationalize a straightforward one, but a long and complex process. It requires planning and a high degree of flexibility, the ability to adapt and, above all, patience. Each company must make its own way, in line with its resources, although much can be learned from others that have gone down a similar road.

There will be obstacles to overcome. You will have to adapt to the different culture, language, religion and administrative norms of the country as well as different modes of consumption, competition and distribution. There will also be internal challenges such as a lack of resources and the need for a firm commitment to the internationalization project across the company. Internationalization brings great opportunities but also great risks. However, in the long run it is probably more risky not to internationalize at all.

EACH COMPANY IS UNIQUE, EACH PROJECT IS DIFFERENT AND EVERY COUNTRY IS A WORLD UNTO ITSELF