"Grab some lederhosen, Sutfin. We're about to climb aboard the globalization bandwagon."

The four keys to expanding across borders

Making foreign moves pay off

By James Root and Josef Ming

BAIN & COMPANY

The four keys to expanding across borders

International expansion requires a sure-footed strategy. Bain analysis shows that more than 60% of geographic moves fail entirely, and only 17% of companies achieve profitable foreign growth. But for those who get it right, the rewards can be great. Consider how Nike recently eclipsed Adidas as the leading seller of soccer shoes in Europe. The firm has grown its soccer-gear business, which stood at $45 million in 1994, to more than $1 billion worldwide through nimble marketing. Among other strategies, it equipped the 2002 Brazilian team with silver shoes that flashed as they beat Germany (Adidas's home turf) for the World Cup.

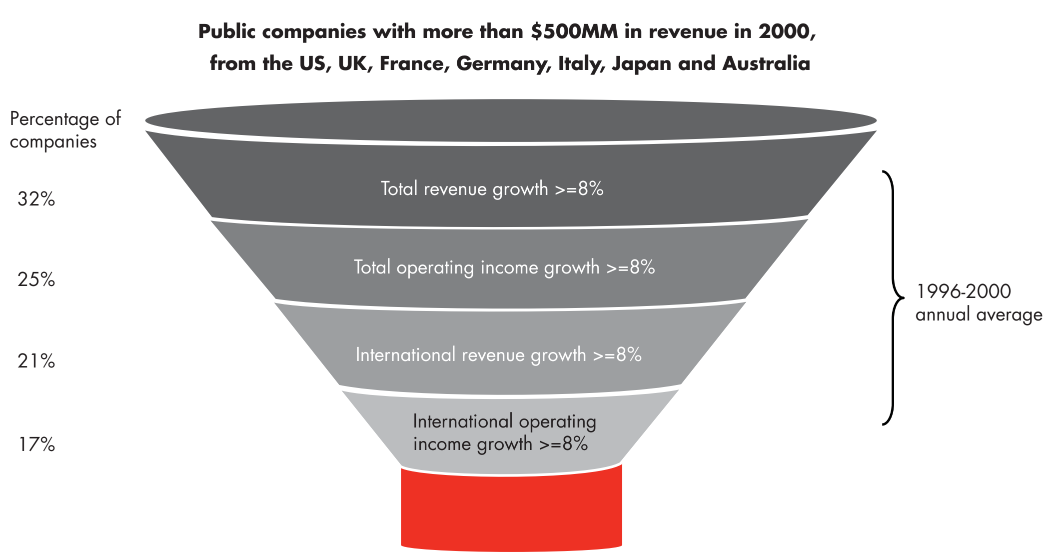
How can companies score similar successes in overseas fields of competition? Our research surfaced four major conditions linked to profitable international expansion: a strong domestic core; a repeatable expansion formula; customer differentiation that travels across national borders; and a favorable industry structure. By assessing these conditions, companies can predict whether foreign moves will pay off.

A strong core

A company with a weak domestic business cannot win easily abroad. In our study, 90% of the companies with profitable foreign growth began with a strong core business at home.

A relentless focus on its core propelled Vodafone from a small national cellular company to the global industry leader in a decade. Realizing it couldn't compete against established players in fixed-line phone services, Vodafone placed its bets on mobile service. From a strong home base in the UK, it used acquisitions to build leading positions in the mobile business

Figure 1: Only 17% of companies achieve sustained, profitable foreign growth



overseas. In contrast, many incumbent European telecom companies spread themselves thin, expanding in mobile while investing in fixed-line service, Internet service and directories. While the incumbents struggled with the debt and complexity brought on by their different moves, Vodafone vaulted to the top of the mobile market.

A repeatable formula for expansion

By following one formula again and again, companies develop critical aptitude and knowledge. They improve their ability to execute quickly. A repeatable formula brings predictability to a process that is often experimental and chaotic. It helps companies avoid risk as well as complexity.

A repeatable formula helped Avon Products enjoy strong growth in emerging markets from 1994 to 2004. Entering those markets, CEO Andrea Jung has said, is "Avon's core competency." The company's direct-sales model, in which self-employed "Avon ladies" take orders and deliver items in return for commissions, allows Avon to operate where infrastructure is weak. In Brazil, for instance, Avon reps have been known to paddle kayaks up the Amazon to bring their wares to remote mining camps.

Under that low-investment model, Avon would bring in experienced hands as general manager and sales manager in a new market, give them three years to train local managers, and then tackle another market. It also would send out teams that shared their expertise in emerging markets, teaching local executives to handle such challenges as pricing products during hyperinflation.

Similarly, Nestlé has a formula that it too has applied throughout the developing world, from Brazil to China. Because many of these countries lack steady, hygienic supplies of milk, Nestlé regularly teams up with government to strengthen the dairy industry's infrastructure. Tapping a team of 800 agronomists and field technicians, Nestlé teaches farmers how to increase their yield. It offers them loans to build the size and quality of their herds. Then it works to improve roads and set up milk collection systems with cooling tanks and weighing machines, built locally to Nestlé specs. Of course, sometimes the formula requires a cultural tweak: After finding that sun roofs for dairy cows in Brazil increased milk production, Nestlé tried to introduce them in Mexico. The Mexican farmers initially balked, saying, "Our cows are no princesses."

Customer differentiation that travels

Developing a repeatable formula requires building capabilities to serve the same customer segments overseas as at home, with the same differentiated offerings. Only the geography is different. That way, companies can integrate marketing plans across countries.

That has been Nike's winning formula. It consistently targets the athletic customer with the same series of propositions: sports shoes, then clothing and equipment, endorsed by a top celebrity athlete. When it set out to conquer the global market for soccer, Nike followed the approach it took with the running and basketball segments back home. It built a leading position for footwear and launched a clothing line, both endorsed by the likes of Brazilian soccer star Ronaldo and the UK's popular Manchester United team. Having established its brand and its distribution channels, Nike began selling soccer balls.

The result: Nike, once seventh in the global soccer market, is now close on the heels of the number-one player, Adidas. And, as it has taken its customer proposition overseas, Nike has seen its international business surpass its domestic one, accounting for more than 60% of revenues.

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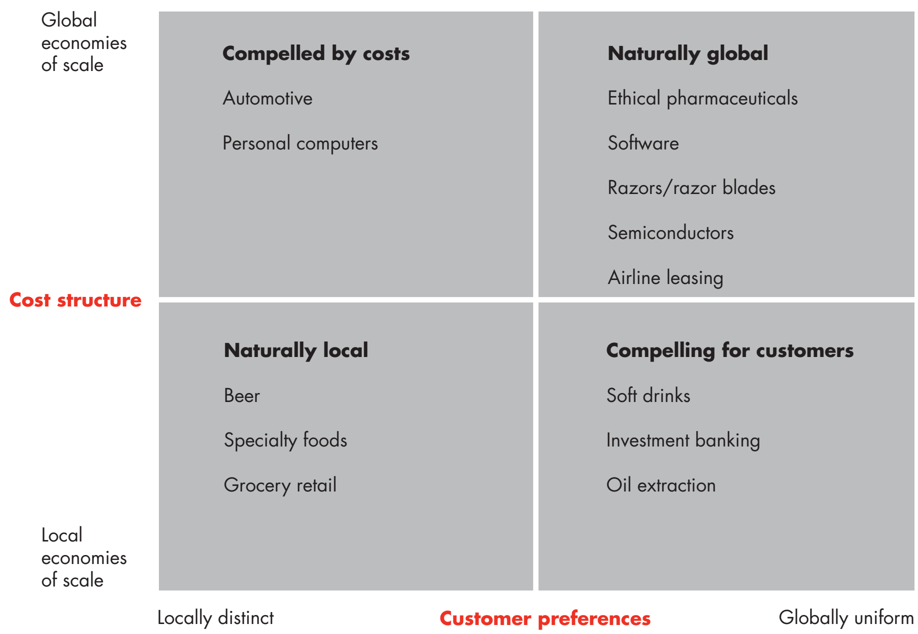
Figure 2: Some industry structures favor global expansion, while others are naturally local



Favorable industry structure

Some industries are naturally global: In them, cost structures improve with global scale, customer requirements are similar worldwide or, in some cases, customers are literally the same around the world. But in other industries, the winners are those that build the largest *local* market share—or best appeal to distinctive local tastes. Razors, for example, are naturally global: lightweight and easy to ship, with customer needs the same everywhere. Beer is naturally local, because it's heavy and costly to produce and transport. Plus, local taste preferences in beer vary greatly. When making overseas moves in local industries, companies need to capture local share and tailor offerings to local consumers.

A clear understanding of the factors that drove profitability in its industry was one of the keys to Vodafone's rise, for instance. Success in mobile phone service depends largely on gaining local market share. The European telecom companies that established minority positions in the mobile markets had only a weak platform for growth. Meanwhile, Vodafone, which acquired majority holdings in leading local operators, could capitalize on its local leadership to gain preeminence in each country.

Understanding these four critical factors—a strong core, a repeatable formula, customer differentiation and industry economics—will help your company avoid risky cross-border moves. Moreover, the right kind of international growth can also be a launchpad for innovation for worldwide markets. For example, Unilever's Indian unit recently introduced a detergent that reduces water consumption by a whopping 50%. That proprietary technology not only is a boon to that arid country but is likely to be in increasing demand as water supplies become stretched globally.

About the authors

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