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## 3 Keys to Successful Globalization

The economic world may be flat but you can easily stumble in your global expansion if you don't tread carefully with these three precepts.

*Friday, January 20, 2012*

**By**

The opportunities for global expansion are infinite, and the potential for exponential growth is alluring. However, attaining success demands a well-conceived global expansion plan that is grounded in accomplishing specific corporate goals through the careful formulation of business development strategies. Paying special attention to cultural issues often makes the difference between success and failure.

Regardless of size or ownership structure, companies that take a proactive, strategic approach to evaluating and understanding both risks and costs will stay one step ahead of the competition and reap the benefits of a successful globalization initiative. It's a matter of developing the right strategy to win local markets and their consumer base by asking the right questions at the right time to the right people.

### 1. Start with Strategy, Not Tactics

A manufacturer in the packaging industry made the decision to expand internationally. With no research, the company chose Latin America and Mexico as its target markets. The company then

launched into compiling a list of issues to tackle from each division (finance, sales, marketing, etc.). The questions included queries such as “Should we open a local bank account?” and “What accounting system should we use?” While these questions may represent relevant inquiries at some point in the expansion process, attempting to answer them before investing in the development of an effective strategy almost always derails the entire process. The issues raised were more about the “how” as opposed to the “why” and “where.” It’s putting the cart before the horse.

Any decision to go global must start with developing a long-term action plan that aligns corporate vision, mission, and activities and leverages corporate strengths while identifying opportunities in desirable and compatible markets. It’s about strategy, not tactics. Realistically, before any tactical questions can be answered, it’s necessary to thoroughly examine individual markets and get the expertise necessary to understand the people and their culture.

Unfortunately, due to a lack of international experience, business executives gravitate toward what they are most comfortable with: tactics - actions in a vacuum without a well-conceived conceptual framework. In this case, the lack of strategic direction led to a market choice based on bad assumptions. Latin America is not a homogeneous continent and Venezuela, for example, has little to no similarity with Mexico. Latin America is a conglomeration of vastly different countries, each with diverse markets that offer unique opportunities that must be understood at a local level before any tactical issues can be properly addressed.

## **2. Understand the Culture**

Setting out to conquer a new market with promising growth potential, a very successful transportation company took confidence in its plan. The target market was Eastern Europe, and the strategy was simple. Hire a “native” country manager in each of the three targeted countries with the greatest potential Poland, the Czech Republic and Hungary. This plan would allow for a centrally managed expansion that is locally driven. Each in-country manager would be paid by, and report to, headquarters. In return, each would be expected to hire and train the people necessary to align his country-specific business plans with the overall corporate mission and vision. Perfect. Well, not exactly.

After a year of low sales, and losses that registered in the millions, the humbled corporate CEO searched for the root cause of the trouble. He concluded that the overall plan was good, but the wrong people were hired for the in-country manager positions. While it’s easy to hang the blame on the newly hired native managers, the fact is that no global expansion fails for just one reason - even if that reason is a lack of local talent. In this case, the lack of cultural understanding of the market and people contributed to the major losses.

The team assumed that native country managers would perform well if paid well and wouldn’t require any corporate training. However, Eastern European managers, many of whom may have spent their formative years under communist regimes, have different perceptions of “work” and

different notions of loyalty. In the end, the desire for quick profits coupled with overconfidence and oversimplification of the expansion process created an environment ripe for trouble - and trouble it found.

The plan short-circuited many steps in a comprehensive market-readiness assessment. While the target markets were growing and offered much potential, little was done to identify, understand and relate to the actual consumers, their culture, needs and buying habits. Who was the target audience? Was it the younger generation, the aging professionals or the affluent? These questions, and many others like them, were never answered or even considered. Naturally, the plan failed to properly segment the markets in each of the three countries. The lack of an identified target audience made it impossible to create a persuasive sales pitch and communicate with future consumers. Also, without identifying a target audience, key decisions that deal with the competition, marketing and pricing were made in a vacuum with no basis in facts or circumstances.

### **3. Identify Your Competitive Edge**

Beware going into any new market without leveraging a clear “local” competitive advantage. By definition, a competitive advantage refers to the manner in which a company distinguishes itself to gain market share and establish both a niche and a customer base. A competitive advantage is achieved when a business markets a product or service in a manner that allows it to truly connect with customers and outperform its competitors. Without a competitive advantage, businesses struggle to gain traction, and they often resort to selling their products or services based solely on price. This approach ultimately leads to slashing costs and other non-value-added measures.

Using techniques that led to old goals doesn't make an organization successful. It is a new market, with different needs and players. In order to succeed, the transportation company moving into Eastern Europe should have focused on its competitive edge, whether that be their product, strategy or a combination.

Past performance is no way to guarantee future success. Because this business had competed very successfully against other well-known brands in other countries, it assumed that local competition in Eastern Europe would not pose any threat. Arie de Geus once said, “The ability to learn faster than your competitors may be the only sustainable competitive advantage.”

“Be prepared” is not only a well-conceived Boy Scout motto but sound advice for companies considering global expansion. The move is intricate and starts with understanding cultural habits and perceptions in order to accurately forecast sales, interpret trends and evaluate the existing competition and the potential for new rivals. It also involves understanding the region's overall economy and how to best position your product/service both in the present and for the future as well.

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