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Avoiding The Risks To Global Expansion

If your objective is to expand globally into new and relatively unknown markets, then take a moment to consider these potential risks and hurdles that may challenge progress, or stop your expansion altogether. These risks and opportunities apply to both brands and retailers.

By Alan L. Klein, Global Insights Consultant, The Marketing Agency

Going There Or Coming Here

There is great interest among North American companies with a solid base of success in their domestic market to export that success overseas. They are targeting the established, large consumer economies in Europe and the Pacific, as well as Brazil and other Latin American nations which are finally viable economically. On top of this are the growing interests in the potential of exporting to the huge, middle class consumer markets emerging in India and China.

Conversely, businesses in Europe, Asia/Pacific and Latin America have long looked to the U.S. market with visions of unlimited opportunity. It's a nation with a big, affluent, consumption-intensive population, and America is one of the least restrictive markets to enter. America remains among the most desirable export markets in the world.

Success in one place does not predict success in another place

But international expansion presents the classic dichotomy of opportunities offset by challenges. If you are new to global expansion and are planning your strategies, this can be a good time to consider the risks that can trip up even well-funded overseas ambitions. In addition to whatever other resources you are consulting, here are the six questions you need to think about. They are based on my personal experiences and hopefully reflect valuable lessons learned.

1. Brand equity is not a ready-to-travel commodity.

Your brand may be the hottest in its category domestically, but don't assume that its image, equity and potential demand will exist and be ready for overseas markets. So beware that overconfidence in a popular brand at home can translate to overestimating market acceptance in new markets.

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About PRI

Platt Retail Institute (PRI) is an internationally recognized consulting firm that focuses on the use of technology to impact the customer experience. In a multi-channel marketing environment, PRI works with its clients to develop strategies to integrate various technologies including digital signage, CRM and POS systems, mobile marketing, and the Internet. PRI clients include retailers, media companies, financial institutions, hard-ware and software com-panies, educational institutions, and other businesses.

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Clairol had great ambitions when it licensed the North American distribution of Klorane, the leading premium hair brand in France. But because Klorane was not well known outside of France, and the North American hair care market had become highly price driven, Klorane required an unexpectedly larger investment in introductory advertising. Clairol's eventual success came when Klorane-inspired product attributes were used to re-launch its popularly priced Herbal Essences line.

Klorane's brand equity didn't travel easily from France to the U.S.

2. Some markets may not be ready for your business.

Today, Iams Pet Foods is a global brand, but when this premium pet food line was limited by company policy to the selective (non-mass) channels, it discovered there were no PetSmart or Petco types of retail chains in France, Germany and most of the rest of Europe. Iams (and its extra-premium Eukanuba line) was limited to a micro channel for premium pet foods among breeders and groomers, while the core of the European pet food market was being sold in the mass channel.

The sales channels for Iams premium pet foods were limited when they first were introduced in Europe.

As a consequence, and despite what research confirmed was a superior product with high levels of pet preference, sales for Iams in France and throughout Europe were drastically below target. Iams remained underdeveloped until a broad-based mass distribution strategy was implemented when P&G acquired the brand.

3. What's legal and popular in one country may be less so in another.

North Americans have been accustomed to on-shelf couponing for decades. So there were unpleasant surprises when a North American in-store marketer discovered that coupons were rarely used or understood in France, and were outright illegal in Germany – where brands are expected to stand on their own merits, without financial incentives.

Even today, while couponing and other incentives are more accepted in Europe, they remain far less important in most brands' Euro marketing mix. In-store merchandisers eying European retailers are advised to study the more successful examples, which include point-of-sale demonstrations and sampling activities.

4. Targeting a segment or niche may be the safer strategy for an incoming retailer.

Entering the intensely competitive U.S. supermarket channel can be daunting for any retailer. Carrefour (second only to Walmart worldwide) leads France and several Latin American markets, but has yet to effectively penetrate the U.S.

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Tesco has struggled to gain a foothold in the highly competitive U.S. supermarket channel with its Fresh & Easy brand.

Tesco took a more focused approach: Despite being the leading supermarket chain in the UK (and ranked fourth globally) it is carefully entering via the West Coast with Fresh & Easy. These are eco-friendly smaller stores offering fresh produce, mostly Fresh & Easy’s own brands (including prepared foods), supplemented with a limited number of popular national brands.

This has been a careful learning process for Tesco management. Recent reports indicate that the stores are not yet sufficiently profitable to justify further expansion.

5. Some markets are simply not right for your products.

As hard as it may appear to manufacturers of brands that are dominant in their domestic markets, entering a large, new prosperous market may fail if the products or services are not part of the lifestyle. Toto is the leading Japanese producer of bathroom fixtures and hardware.

Toto toilets, with multiple functions unfamiliar to U.S. buyers, weren’t popular when first introduced.

But the American consumer was not receptive to their exciting new product, a toilet seat that warmed and washed the user. In addition to the unexpected benefits, the devices were expensive to purchase and required the additional costs of electrical and plumbing connections.

What was good for the Japanese was not good for the Americans. Toto wisely focused on its core business and is a successful player in the U.S. today, concentrating on upscale and stylized alternatives to traditional porcelain bathroom fixtures and faucets.

6. There are ways to test the waters at retail and reduce the risk.

Opening a store incurs upfront and continuing costs that can have a strong effect on the early success or demise of the expanding business. Online sales prior to investing in the store can be a testing platform and a barometer of consumer interest, but cannot accurately predict the time and investment needed to generate profits from brick-and-mortar stores.

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A space on trendy Robertson Boulevard in LA near West Hollywood and Beverly Hills assures high traffic levels – but at a very high price.

A Scandinavian fashion leader recently invested in a super-prime Los Angeles retail location, but the cost of rent alone created overwhelming pressures that precluded a profitable venture within the forecast timeline. Far better in these circumstances would be to test with pop-up stores, and corners within department stores, before braving the costs and risks of stand alone in high cost locations.

Getting grounded before you go

Given that success in one place does not predict success in another, here are some things we've learned about how to prepare for global expansion, and where to get some help along the way.

Ask yourself: Would you launch a new product in your home market that way?

Recognize and respond proactively to the need for research to assess competitors, unfulfilled demand, brand potential, regulations, hidden costs, etc. I've had success with conducting this type of cost-effective research using smaller, experienced research providers.

Should you go it alone or go with an overseas partner?

You may discover that some markets demand a domestic partner if you're an outsider (think China). In other situations, a local partner may make the difference in accelerating the dance through the regulations, the traditions, and in learning the intricacies of the country and its customs, not to mention a local partner's networking powers.

Make it here or make it there?

If you are a manufacturer, weigh the options of domestic production versus setting up operations in new markets. Some countries may require you to set up production locally (think India) to encourage job creation, and are far less willing to have you enter their turf only to profit from an emerging middle class.

How about an end run – forming a direct relationship with international retailers?

If you want to share or even eliminate the need to invest in marketing your brand in foreign markets, look into the potential of offering country-by-country exclusivities to one of the major retailers. This is not an easy option unless your product is exceptional and welcomed readily by the retailers. We find it best to work with an introductory intermediary to optimize the presentation.

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Can you count on governmental and trade association support?

These services can provide useful resources – after all, it's their job to encourage trade as long as it's to the benefit of their country. So, in the U.S., look to the Commerce Department as a good place to start. In overseas markets contact the trade commissions – both to export to their country and (of greater interest to them) to import their country's products to your country. But recognize these are invariably bureaucracies with limited capabilities and ambitions for you.