In conversation with
Emin Birsel

Senior Executive and Board Member
International Markets

Learnings and Guidance on Expanding to International Markets: Emin Birsel on Crafting a Winning International Expansion Strategy - part II

Sabit Tapan, Partner, Global Key Account Development at Pedersen & Partners:

Emin, last time we discussed strategies for companies going international. In my experience, there seems to be confusion between export and market development. Most firms typically start organically without much of a strategy. They simply fulfil demand and begin exporting to neighboring countries. From there, they may expand to other regions. This becomes a natural evolution, but it's not a strategic process.

There are many concepts to consider: going direct, indirect, targeting markets etc. So, what has been your experience in differentiating these concepts, and in your opinion, what would be the best strategy?

Emin Birsel: Sabit, thank you. In the first part of our conversation, we discussed a strategic approach to international expansion, particularly focusing on stakeholder commitments, readiness, financial health, unique selling points of the company, as well as leadership and talent within the company. This now leads us to delve deeper into various expansion models.

The spectrum of models for international expansion is quite broad, ranging from exporting, licensing, and franchising to joint ventures, and further to establishing a physical presence. The decision essentially hinges on aligning the company's readiness, risk appetite and vision for the target market or more broadly for the international markets.

As you mentioned, the most common and perhaps the most obvious model to start a business in markets outside the home market is the "export model". Exporting can be a relatively low-cost method to test the compatibility of the company's products and services for international markets and can be done incrementally. Starting exports will likely require adapting products or services to meet local regulations and preferences of the target market to be successful. However, there are also different stages for export models if you would like to talk about that.

Sabit: Exactly. Fulfilling inquiries to make decisions to expand to various export markets is what we see in companies. What do you see as the stages of export management?

Emin: Within the export model, probably the most straightforward route is what we can call the model of "indirect export".

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That is using intermediaries like trading companies or export management companies to handle your sales in foreign markets. However, this will give the company only limited information and knowledge about the target markets and consumers, and that limits you in developing your business.

The next model to look at is a "direct export" model that brings the company closer to the target market and potentially to customers. It means selling the products directly to distributors, or potentially directly to resellers such as retailers in a foreign market. This dramatically increases the exposure to new customers and helps you understand the levers for success. The direct export model can be developed further by supporting the local distributor with resources in the target market. This can be in the form of support in trade marketing, brand marketing, or support in other commercial or technical areas, as well as with dedicated personnel on the ground.

It is also possible to work and partner with regional distributors to serve multiple markets and regions. There can even be opportunities to export to multiple customers within the same market. I used this model before, for example in Japan, where we reached different customers in different channels, while to some customers we offered a different portfolio and set of brands. Continuing that example, two distributors went to retail customers, another distributor went to B2B customers, while we were also supplying private labels to the same market through another agent.

In recent decades, the emergence of e-commerce and online marketplaces has created new channels that are by their nature borderless, such as eBay, Amazon, or Alibaba. These platforms give companies unique opportunities that just didn't exist earlier. The models involving international e-commerce require lower upfront costs and offer the ability to reach resellers or customers very quickly in a highly scalable way.

But setting up a successful e-commerce channel is not as easy as it sounds. For significant commercial success, there is a need to invest robustly in the "online presence". Ensuring that the value chain remains sustainable and that there is ample value for the company remains a considerable challenge in these new channels. Additionally, companies often discover that maintaining local physical stocks may be essential to meet customer service level expectations. That requires different kinds of partnerships, but still, these are a bit at arm's length.

Sabit: Thank you for bringing the online and e-commerce angle. Let's delve into that separately. You've mentioned importers or distributors or non-exclusive distributors in the target markets, let's call them "partners". It is also sensitive for companies to cooperate successfully with local partners when winning in international markets because what starts small in one or two shipments, can become substantial as the volume grows. So how should companies choose local partners, or should they go solo if the opportunity is big?

Emin: I think that this is a stage where companies realize that they need to act more strategically, and that international expansion can take different forms. Let me start with a number of alternatives that companies I've known throughout my career used to enter markets in rather different ways.

Let's start with the "international franchising" model. It basically means allowing a foreign entity to operate under your brand name with ongoing support while the company receives royalties, potentially among other revenue streams. I used this model before in markets where the company did not want to enter directly at the given point in time, or the risks were too high. In these cases, we found a franchising partner that would help us. That allows a rapid expansion with minimal capital investment on the part of the company and the franchisee bears most of the financial risk. This model requires a proven brand and a well-documented process. Everything should be carefully structured, and the intellectual assets must be protected.

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A model that is fairly close to this one is what I would call "strategic licensing". This model allows a foreign company to use your intellectual property, such as trademarks, patents, and technology or software in their products or services in exchange for royalties and fees. As an example, we used this model in Algeria, where we brought technological know-how, in terms of formulations or R&D and sustained technical support over a period of time. The advantage is a low-risk scenario but, of course, "intellectual property" must be very well protected. A common version of this is for international management contracts and turnkey projects. This is where you enter a partnership in which you provide your services and leave upon completion. I've seen this in construction, engineering, and other infrastructure projects. We also used this model when starting up factories with or for partners in different countries.

Now let me continue with more challenging and more evolved models. I will start with "strategic alliances" and partnerships, which mean collaborating with local companies for mutual benefits, such as sharing resources, distribution channels, research, development, sales, or marketing. Depending on the arrangement, this can involve low to mid-level investment for the company, but you start potentially having access immediately to a customer base, local resources, and critical connections in the market. It also gives a realistic market test opportunity in future. The selection of the partner is crucial here.

The next big step is "joint ventures". The simplest way to design a joint venture is a "contractual joint venture". It enables the company to partner with a local entity for a given project or a given term. I've seen this also in construction, engineering, services projects, and even in IT companies. The problem here is that the suitability of a contractual joint venture in a project, or market, must be well understood.

The next common form is the "equity joint venture" when you partner with another company, sharing ownership, risks and investments. Accessing local partners, knowledge, and resources offers a potentially faster and more robust market entry. But this requires a lot more careful selection of the partner and there is a bigger potential for conflict of interest.

Sabit: I'm so glad now we are at a level of strategic decisions, not opportunistic export models. So clearly these next levels will involve the company taking bigger steps either on its own greenfield, or brownfield investments. In terms of alternatives beyond joint ventures, what other options are there?
Emin: Absolutely right. We're stepping into the stage of wholly owned subsidiaries for companies. Naturally, one common way of establishing a presence in a foreign market is by acquiring an existing business in the targeted market or region, either partially or entirely. This allows a swift market entry with the potential to gain and establish supply and production infrastructure, customer base, distribution network and an existing organization. Although the initial costs can be substantial, the success of mergers and acquisitions is by no means guaranteed, especially in the case of international M&A deals, where success rates are lower. If companies approach international M&A with careful planning, rigorous due diligence, and a clear integration strategy, they're significantly more likely to succeed. The challenges and how best to prepare and manage these transactions are a topic of a completely different discussion. Suppose you make a greenfield investment in a country by creating a new fully-owned subsidiary from the ground up. This approach provides full control over your operations and the opportunity to build the business to suit the local market or regional needs. In this model, the total investment phase to reach breakeven and payback will take longer, while the increase in the risks for the company is also substantially higher versus the earlier models we discussed.

It's often very beneficial to consult with the experts, conduct proper market research and evaluate the pros and cons of each model.

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Sabit: Exactly. There are different levels, from exporting to a single country, multi-country, targeting a region, internationally, or targeting to become a global company. Let's give some sense of the timing and milestones needed from export to regions to global.

Emin: This is a crucial point; how to advance through those models and through the evolution of the business cycles. Agree, it's quite common to see companies start their international journey with few targeted markets. This offers companies a first glimpse into the target market and exposes them to the realities of doing business with international customers. Businesses that stay with the export model can continue their journey by expanding their customer portfolio and entering new markets for a very long time. Exports can grow fairly large and become a very substantial part of the company's revenue. However, the rewards and the risks may still be limited versus not realized opportunities.
A potential step forward for international expansion is the "multi-unit development", which means opening units or locations within a designated region or even a country. This is sometimes called a hub & spoke model which means establishing a central office or a location in a key market and surrounding it with smaller offices or operations in nearby markets. It's a "small region" model and it is often used in industries like retail, logistics, franchising, and even professional services. This "hub & spoke" model provides a structured framework for businesses to expand while maintaining control. However, it requires careful planning and a robust communication and support system.

The next level of expansion is what I call the "regional expansion", targeting a specific geographic region, which may encompass multiple countries, generally sharing similar economic and political regulatory characteristics. The most obvious ones are the European Union and ASEAN which share common regulatory frameworks and some economic integration.

There are also "multi-country expansion" models slightly different than those described above. An example is the kind of strategy used by businesses to expand their operations in multiple countries simultaneously. Those models are used when being first in and preempting the market is so critical. In such cases, companies establish a presence in several countries at the same time, often with the aim of capturing a diverse range of markets which are beachheads or the most lucrative ones for a given service or product. Each market is then treated as a different business case, with its own levers and unique characteristics and regulatory frameworks. This is a lot more complicated, but with the advance of technology and some of the services and products, I've seen this model deployed more frequently.

In summary, the key distinctions lie in the scope of expansion, the diversity of the markets, the level of complexity and strategic focus. Ultimately, the specific circumstances of the business and the target market will dictate the optimal speed of international expansion. This requires patience, flexibility, and a willingness to learn from experience.

Sabit: Thank you very much for spelling out the details categorizing various options in developing international markets. It's obvious that you have experienced all of these. Yet, for those who do not yet have a strategic view of international markets, these can be quite challenging. There is also a resource issue, not only capital resources but also human resources, and leadership resources as well. I propose to discuss these topics in the future.

Emin: Sabit, you are touching on exactly the point that I wanted to make next. The key to success lies in the leadership, the organization, and the culture of the company. International expansion requires a long-term commitment, it requires preparing the mindset and the organization for this journey and making sure that you are surrounded by experts and experienced and resilient managers who can lead and support the organization. I agree that the talent aspect and the cultural and organizational aspects deserve another dedicated conversation.