



# UNIT -5

## STRATEGIES AND PLANNING FOR GLOBAL BUSINESS

### Learning Outcomes

**By the end of this unit the learner will be able to:**

- ✓ Describe the complexities of doing business in a global context
- ✓ Discuss trends in global business

## Unit 5

# Strategies and Planning for Global Business

## Global Growth strategies and Planning

### Choosing Your Growth Strategy

#### The AAA Approach

##### Introduction

Products and the ways that we source, develop, market, and sell them have all changed (and will continue to do so). The AAA approach provides a framework where you can work through the options and make some decisions about what you want to do. The elements in the approach are **adaptation**, **aggregation**, and **arbitrage**.

##### Adaptation

If you consider the way a chameleon changes color depending on its environment, you'll be thinking about a good example of **adaptation**. In a business sense, adaptation is about maximizing your local relevance in order to boost revenue and market share. Many companies use this strategy as they expand beyond their original market and open up business units in each new country they will operate in.

##### Aggregation

In aggregation, the business creates new operating locations with **standardized** products or services, while **grouping** the development and production processes together. A good example of this is a licensed or franchise business, where standardization is key so that customers have a similar experience no matter which location they visit.

##### Arbitrage

Arbitrage requires **exploitation of differences** between national or regional markets, most often by locating different parts of the supply chain in different national or regional markets. One example would be a company with their call center in India, cocoa harvesting and manufacturing in Africa, and retail sales in Western Europe.

## Summary

As you can see, many global enterprises will leverage all three A's to some degree. The framework can also be used to create a scorecard indicating how well the company is performing throughout their global efforts.

However, there can also be tension created throughout an enterprise, so rather than checking boxes off to see what is done or not done, there needs to be a strategic analysis conducted. We'll show how this framework can be leveraged for that very purpose.

## Leveraging Triple A

### Choosing the Right Approach

Most companies will exhibit different A's at different times in their lifespan. Although some will leverage all three at one time or another, others certainly won't. In an organization where the company is the focus, **adaptation** is probably the emphasis. Where cross-border grouping is present, through the use of global business or product divisions, those are likely examples of **aggregation**. And where the focus is on some kind of vertical or functional system that balances supply and demand across organizational boundaries, you'd see a clear demonstration of **arbitrage**.

To apply all three A's at once would lead to complexity throughout the organization that could be very difficult to manage, although combining some elements as needs arise would be helpful.

## Case Study

Let's take a company like **IBM** as an example, who are well known internationally. IBM provided a mostly complete set of activities in every country where they operated (apart from research and development, and resource allocation) for many years.

This was a good example of applying **adaptation**: they set up small scale mini-IBM's in each region in order to accomplish this. However, in the 1980's and 90's, they were not satisfied with their results and overlaid a regional structure to help with scaling up, which meant they **aggregated** the countries that they had operations in into regions. Since then, they also show signs of **arbitrage** as they leverage wage differentials in places like India, where their operations went from 9,000 employees in 2004 to approximately 150,000 employees in 2014.

## A Strategic Approach

When leaders first hear about the Triple A strategy, they sometimes want to try all three approaches. However, it's not that simple. A strategic look at the three approaches will help leaders determine which elements will most closely meet their needs, and help them reach their objectives.

In the context of the three A's, we can look at the following questions.

### Should we globalize for competitive advantage?

- ✓ **Adaptation** would help achieve local relevance while leveraging some economies of scale. We move in, fit into the local area, and start to establish ourselves.
- ✓ **Aggregation** could achieve scale and scope objectives through international standardization. We move in, copy what we do at our main location, and get started.
- ✓ **Arbitrage** could facilitate profit through international specialization. We start exploiting resources from multiple areas around the globe to grow our profits.

### Where should we locate our overseas operations?

- ✓ **Adaptation:** Locations in countries that are similar to ours in economy, language, and legal systems will lead to the smallest amount of adjustments so that we can quickly get established and grow.
- ✓ **Aggregation:** We will set up our locations with the same signs, layout, procedures, and products as our flagship stores, and teach our employees at all locations to do things in the same way. We can even bring employees to one location so they can take training together and all receive the same information.
- ✓ **Arbitrage:** Access to services and resources in a variety of countries will allow us to establish a more global presence and continue to discover (and exploit) unexplored markets. We'll put our call center in India, where call centers are well established and popular, do some manufacturing in Mexico and some in China, and then we'll arrange for packaging and distribution from fulfillment centers in the United States and China.

## Test your knowledge

### Task One

In the space below, sketch out the potential for having operations under all the three A's, and what potential benefits and problems that you foresee for each.

Possible Benefits	Possible Problems
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Working in international markets carries a lot more risk and requires following significantly more rules and processes. Rather than discovering that you cannot flourish in the global market after you've invested significant money and resources and suffered a failed launch, it seems infinitely smarter to figure all that out in advance.

**Think of creating your plan as a way to mitigate risk, and use it as such.**

## The Purpose of the Plan

An international plan is a blueprint for success. It will identify your objectives and establish benchmarks to measure your success. Although this is highly dependent on individual business situations, you should typically plan for a three-year commitment so that you have the opportunity to establish your presence in a foreign market, develop relationships for successful trade, and follow through on your plan. Maintaining commitment is a crucial component of your success, and your plan will help you to assess the feasibility of when, where, and how to carry out your steps.

Your plan should be used as a tool for you to:

- ✓ **Set goals** for performance
- ✓ Provide the **framework** for evaluating and revising performance
- ✓ **Share** messages with stakeholders, including managers and employees, board members, suppliers, potential investors, and the public
- ✓ Identify the **financial elements** of the plan, including cash flow, credit, and borrowing
- ✓ Establish **benchmarks** and **deliverables** to compare progress and performance over defined periods of time

The secondary purpose of the plan is to give you good control at risk mitigation. As the plan unfolds, the application of benchmarks and evaluation techniques will allow you to anticipate some events and react more effectively. In a global business, undertakings are more complex and carry more risk than domestic business, and as a result, international exporters and importers must get comfortable working within the complexities and develop a sophisticated set of skills to be successful.

## Outlining the Plan

### Introduction

Planning is really a cyclical process, which means that once the plan is finished, it's open for review and troubleshooting as things get underway. Below you will find the suggested components to include in

your global business plan. Beneath each section is space for you to make a note of who can provide you with the most accurate and reliable information for each section. After you have finished the course, you simply need to keep moving ahead and filling it all out.

### Global Business Plan Worksheet

This is where you outline what currently exists about the business and what the key foundation pieces are, including corporate structure, key people, and desired outcome. We have included some sections that you might want to consider below.

#### Business Structure

- ✓ Ownership
- ✓ Business setup (corporation, partnership, franchises, etc.)
- ✓ Location and nature of divisions

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#### History

- ✓ How we were founded
- ✓ Key accomplishments
- ✓ Noteworthy news
- ✓ Major changes to the business
- ✓ Awards

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### Objectives

- ✓ Mission
- ✓ Vision
- ✓ Value statements
- ✓ Short- and long-term goals with timeframe for each

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### Executive and Key Staff

- ✓ List of names
- ✓ Positions of each person
- ✓ Education and business background
- ✓ Individual contributions



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### Description of the Business Today

- ✓ Customers served
- ✓ Customer demographics
- ✓ Assets
- ✓ Operations

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**Market Analysis**

- ✓ Location(s) currently served and location(s) proposed
- ✓ Size
- ✓ Description
- ✓ Trends forecast
- ✓ Perceived opportunities
- ✓ Competitor analysis

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**Product Evaluation**

	Features	Advantages	Life Cycle	Warranty
Product A				
Product B				
Product C				

*(Use additional pages if needed)*

**Human Resources**

- ✓ Size of operation
- ✓ Skill levels

- ✓ Performance gaps with current staff

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**Suppliers**

- ✓ Relationships
- ✓ Scalability (can they serve your global presence?)
- ✓ Turnover
- ✓ Reliability

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**Finances**

- ✓ Current financial state
- ✓ Financial forecasts
- ✓ Financing strategy

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**The Planning Process**

### Introduction

Now that we have outlined what the plan will contain, let's look at bringing it all together. On the following pages you will find some tips to help you create a stellar plan that gets used. Writing a plan that people can understand and will use is important. Otherwise the plan will just sit in a drawer (or on a computer somewhere) and people won't refer to it.

### Planning Worksheet

**Set your objectives for the plan. Who will read it? What will they need to do with the information they read? Being clear on this will help you decide what to include and how much detail each section needs.**

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**The plan is only good if it's excellent. Make sure enough time and resources are available to research, write, and produce the plan. Use this space to schedule the time that you will work on your plan. (Tip: Working in half day chunks can be very helpful.)**

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**Share early drafts with others and be open to people's feedback. Because you are moving into a global business situation, it's a good idea to get feedback from inside and outside the organization, including legal, financial, and logistics advice. Who will you share the plan with?**

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The plan must be original and specific to your business situation. Don't buy someone else's plan or copy it thinking that it will do the job. You need to put emphasis on areas of the plan that reflect what's most important in your business, not someone else's. Which areas of your plan will you emphasize?

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The plan should flow like a good story, with each section linking together to demonstrate how and why the business will succeed. Plans that borrow from other plans are typically disjointed. Some sections could contradict what you want to say or important issues might get missed if you use someone else's plan. How will your plan be structured?

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Before you write the meat for each section, make sure you start with a few key points in bullet form. Before you sign off on the plan, review each section carefully and make sure it is telling the story you are after. Are you a strong writer? A detail person? If not, who will you recruit for help to get your plan written and have it read?

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Financial projections have to be realistic. Many of the readers of your plan will focus on the financials more closely than any other area as you identify the financing needs and profit potential. At the same time, the financial section should give the reader confidence that you really understand the business, risk, and reality of your plan. How will you make sure that your financial numbers are solid?

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The executive summary is placed first in the plan, but gets written last. This is a very important because some readers will only read this section, and others will pick out some aspects of the executive summary and then read further into those parts of the plan, avoiding most other areas. What key elements might you want to include in your executive summary?

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## Market Evaluation



### Performing a Market Evaluation

The market is your source for sales, and without sales, there is no business. This section of your business plan, then, is critical to launching your operations in new areas.

Establishing yourself in a foreign market is a complex task. If you've completed a market analysis on your domestic market (and hopefully that's been part of your due diligence in expanding into an international force to be reckoned with), you know it's complicated enough. Going global is exponentially more difficult.

The key steps in your market evaluation must include:

- ✓ Gathering adequate information so that the key members of the company can make an informed decision.
- ✓ Arranging details so that they reflect the reality of the situation.
- ✓ Creating a readable plan that is comparable to other information that members of the company currently encounter. For example, it should measure the same things and set goals in the same area.
- ✓ Validating the accuracy and reliability of the information throughout the process.

### **Pulling the Pieces Together**

A market evaluation can contain a lot of moving parts, and you will have to make sure that the things you investigate and report on make sense and are accurate.

Some of the information you must gather at this stage might include:

- ✓ The size of your target market in terms of spending and as a percentage of the economy overall
- ✓ Recent and forecasted trends
- ✓ The impact of current imports (in terms of creating competition in the market)
- ✓ Customer profiles
- ✓ Purchasing experience and expertise
- ✓ Factors that may influence your potential buyers
- ✓ Stability of the economy you are operating in
- ✓ Cultural issues
- ✓ Distribution channels
- ✓ Government regulations and elements
- ✓ Trade agreements
- ✓ And anything else you can think of!

You also have to do lots of research so that in addition to finding out what's necessary, you can answer questions, provide a risk mitigation strategy, and deal with unanticipated problems (because there will be some).

### **Test your knowledge**

**Is there additional information that you need to gather given your industry and proposed plan? If so, outline it here.**

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## Implementing Your Growth Plan

### Getting Your Product or Service to Global Markets

#### Supply and Demand

Once your business plan is complete, it's time to focus on how you will get your product into the market. Ask yourself:

- ✓ Does your product or service respond to a pressing, urgent need?
- ✓ Or is it something nice to have, but not urgent?
- ✓ If it's nice to have, but not urgent, how will you create urgency in the mind of the consumer so that they buy it?

If there is no natural demand for your product, you will need to create marketing that helps people see one. For example if you are going to export fruit into a winter climate, the availability of something that reminds people of summer might help. However, if you have access to fruit they cannot get any time of year, you might have an extra edge. On the other hand, if you are exporting fruit they've never tried, that might or might not give you an edge (depending on people's tastes and desire to try new things).

The demand that already exists for your products or services will help you determine how quickly you need to get established in the new market, and what kind of reception you will get.

As you consider your options, you may also look at the feasibility of a joint venture, where you can leverage someone who is known locally to help spread the word. You could also consider pre-selling your products and then just shipping what is already wanted.

#### Creating the Right Strategy

No matter what approach you choose, your market entry strategy has to be carefully considered. If you make mistakes at this stage, they can cost you more than just money. You could lose your market share, someone else could poach your ideas and beat you into the new market, or you could see your products being sold on the black market. If you are a service provider who will go into an area and provide a niche service, it's also possible for other companies to get wind of what you are doing and get in front of you.

#### Test your knowledge

**What services or products do you offer?**

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**Are they new to the target market or an improvement on what's already available?**

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**Will you compete on price or benefits?**

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**What makes you certain that your target market wants what you have to offer?**

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## **Marketing Your Product or Service to Global Markets**

### **Marketing Plan Worksheet**

**What distribution strategy will you select?**

- ✓ Approaching customers directly
- ✓ Arranging distribution
- ✓ A combination of the two methods

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\*Setting up distribution channels can take a long time, although you could partner with a company or retailer who already has distribution set up in the target area, if that makes sense for your business.

**Does your solution provide an opportunity for immediate action, or are there requests (such as proposals, delegations, or trade shows) that need to be completed?**

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**How quickly is the market changing? While things like electronics change quite quickly and are driven by consumer demand and upgrades, other markets (like natural resource management) may be slower.**

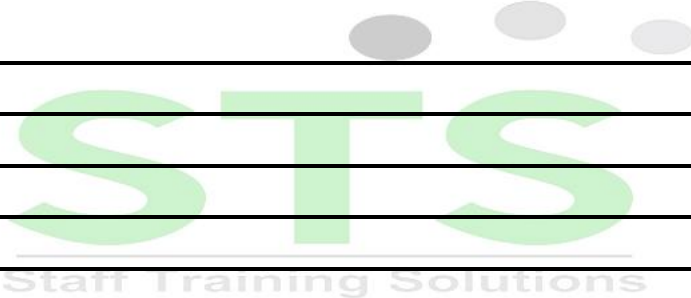
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**How quickly are other companies moving into the region with solutions of their own? Often, it's easier for small companies to respond to opportunities than it is for larger businesses, but larger businesses may have more infrastructure and resources readily available. Where do you fall on the continuum?**

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**Do you have the internal resources needed to move into global business, or do you have development work to take care of first?**

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**Based on your research and analysis, how confident are you that your plans will lead to success?**

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### **Contingency Plans**

#### **Cost-Benefit Analysis**

One critical step needed before you launch an international enterprise is to look at the cost-benefit analysis. The anticipated costs have to lead to a profit in order to have a viable start. Even in a not-for-profit enterprise, there has to be enough money generated to meet expenses and to bring some kind of benefit back to stakeholders in the form of success, recognition, etc.

A cost-benefit analysis will lead you to one of three conclusions:

- ✓ Costs are too high in context of the potential benefit, and the plan must be abandoned.
- ✓ More planning and strategy is needed to reduce costs before proceeding.
- ✓ Forecast benefits are sufficient enough to justify additional costs, therefore we will implement the plan.

#### **Exit Strategy**

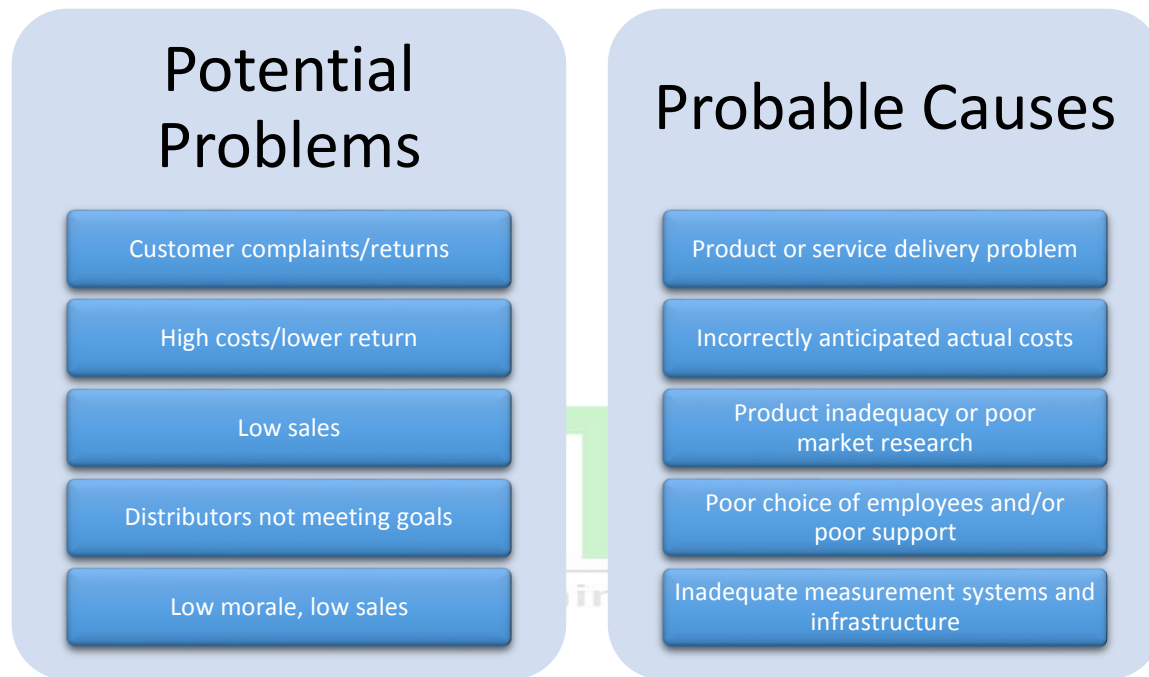
An exit strategy should also be part of your international business plan, in addition to a contingency plan. No one wants to enter a marriage knowing they will get divorced, just as no one wants to start a plan without the potential to succeed. However, as responsible business leaders we must be prepared for the unexpected, whether these include economic challenges, regulatory issues, or an inability to make headway in a new market.

Make sure that your plan is a working plan, where it is reviewed regularly, and you take stock of where you are at in terms of progress compared to what is outlined in the plan. When things get off track, immediately take action to correct problems. Make sure you are communicating with decision makers and stakeholders so no one is ever taken by surprise by what's going on.

## Diagnosing Issues

Issues can often be remediated through good planning and follow through. When problems occur once you have started work in your target market, there are two options available to you: fix the problem, or exit the market.

Consider these potential problems and causes, and see if anything gives you a sense that you should be heightening your awareness.



## Developing Product Names

### What Does Your Brand Say?

There are several issues around branding and naming that you need to be aware of as you enter the global business market.

Your **brand** is the way potential buyers perceive your company. After a while it seems as though the brands we are familiar with blend into the background and we don't notice them.

You'll want your brand to be noticeable, and your products to be recognized. Most Western languages stem from the same Indo-European source, so it's pretty straightforward to create a brand name with similar meanings in multiple places. Other names won't have that same ease of introduction into the marketplace.

## Case Studies

Have you ever eaten **shepherd's pie**? In Canada, this hearty supper meal is made from a layer of leftover roast (usually beef) or ground meat, combined with a few vegetables and some gravy. A layer of mashed potato forms a thick crust on the top. This dish was originally called "cottage pie." Research shows that there are many versions of it all over the world with slightly different ingredients and layering, but the same general idea.

In Québec, Canada, the pie is known as **pâté chinois**, which translates as "Chinese paste," even though the pie doesn't contain Chinese ingredients, methods, or anything even remotely suggested as being Chinese. You couldn't market the pie by that name in an Asian country, could you?

Similarly, Cadbury used to sell something called "Swiss Chocolate" that had neither Swiss ingredients nor followed a Swiss process for making chocolate.

The wrong name can derail your product, even if you think it's something that a new market desperately needs.

## Color Choices

Color is another consideration related to your brand. Some colors create certain messages in some countries. For example, Ikea uses the bright yellow and blue of the Swedish flag. While you might prefer the contrast of black and white for your website, Asian visitors may associate that with a funeral.

## Summary

You will have to test every possible permutation and option for the names of your product, the colors you use, the words you choose, your logo, and the reputation that precedes you. Make sure that what you create has value for you as a seller, and that it reflects your brand while making sure that it also attracts your customers.

