Five keys to going global[1]

Expanding into international markets is a growth opportunity for businesses. Among the many benefits, it can generate greater sales and profits. But a company should go global for the right reasons; if it's to avoid facing local competition, going global will only cause trouble and make it more vulnerable. Rather than acting as a lifeline, going international is springboard for businesses to plunge into new markets and reach their full potential.

Whether a firm is looking to expand its supply chain globally or enter new markets, doing business abroad requires much planning and execution. Five points deserve particular attention because they are key to significantly accelerating and increasing a firm's EBITDA[2] as it prepares to go global. They are: 1) global sourcing, 2) R&D, 3) matching products with the right markets, 4) defining a business model, and 5) promoting business abroad. These five points should be tackled and thoroughly explored before taking a company international.

1) Global sourcing.

Going global opens up doors to a wider variety of suppliers and personnel, which may be more cost effective than in a firm's home country. Global sourcing is a strategic way to grow and increase profits from the top of a firm's value chain. Lowering supply costs has a significantly greater effect on net earnings than raising sales prices does. For example, if a company generates $5 million in sales, spends $3 million in supplies/labour and nets $500,000 in profits, it could increase its net earnings by 30% (from $500,000 to $650,000) through reducing supply costs by a mere 5% (5% x $3 million = $150,000). With the range of sourcing options worldwide, opportunity for growth is very real, making it important to find, evaluate, and select international suppliers and create lasting relationships with them.

2) R&D.

Studies have clearly demonstrated a strong correlation between cross-border trade and R&D investment. However, a common concern is whether investment in R&D to create economies of scale in foreign markets will be profitable down the road; companies that have this concern might also wish to apply R&D projects to their domestic market. According to a study on SME financing (Orser & Riding, 2008), businesses that invest in R&D are twice as likely to be exporters than those that don't. The opposite is also true. Firms that are active internationally spend more heavily on R&D for both products/services and procedures so they can better compete with industry rivals and offer products/services that are in tune with constantly changing international markets. However, R&D investments in a firm's internationalization efforts produce a virtuous circle, which makes the firm more competitive abroad and, consequently, generates considerably larger surplus earnings.

1. This article summarizes a speech delivered by Jean-Paul David, President of Mercadex International Inc., on December 6, 2013 at the Temporim-Lyon hotel.
2. Earnings before income tax, depreciation and amortization.

3) Matching products with the right foreign markets

Just as modern portfolio management theory leans towards diversification, a firm's efforts to diversify its investments in various foreign markets will have a significant effect on its overall performance. Many businesses are attracted to the great "potential" of markets like China. But do they fully understand the hurdles they'll have to overcome to enter these markets? This is why, beyond market potential, firms looking to maximize their EBITDA must first assess the cost of going global, or the effort and challenge involved in developing business in the foreign market. Sure, a dollar today is worth more than a dollar tomorrow. But when contemplating a high-potential market that would take several years to penetrate, a firm might also want to consider markets that have lower potential but that will be easier to access in the short term. The Podium-Gallows* tool helps firms contemplate this decision and classify the products and foreign markets they might match up into four categories—priority markets, important markets, interesting markets, and markets to avoid—so that they can build a lasting and profitable international presence.

4) Selecting the right business model in a global perspective.

International experience shows that firms must frequently revisit how they do business in their new international markets. They can avoid certain blunders (e.g., trying to find middlemen when clients actually prefer dealing directly with suppliers) and, perhaps more importantly, take advantage of local conditions that let the firm do things differently and more profitably (e.g., granting manufacturing rights to an overseas partner rather than trying to export products). But having a business model means much more than just being able to enter a new market. Going global is a golden opportunity to review the impact of new international markets on a firm's overall operations. As a determining factor of a firm's profitability as it goes global, the business model must be redefined to judiciously factor in the following elements:

- The optimal balance of standardization vs. adaptation of the firm's marketing strategy (products, promotion, prices, and distribution). For reasons of efficiency, businesses might not want to make any changes to their products/services, pricing policy, promotion, etc., for international markets. However, these firms could be missing out on sales that could have been made with a few minor adjustments to their products/services, for example. Everybody knows that firms have to adapt their products to the foreign markets in which they want to grow. But detail that requires the most attention is the firm's pricing policy. Given the new cost structure (flat and variable) that generally arises for new external markets, firms need to reassess their profitability threshold (break-even point). This new threshold will allow firms to identify when they would start making a profit, which will also help them predict whether going global will be a success or failure. That said, not every product/service should be adapted to every market. The key is to define the level of standardization that works simultaneously for the largest number of markets, generating as much business as possible while benefiting from the economies of scale that standardization enables. If a firm is finding that lost sales in one market could be mostly recouped in another thanks to this standardization, they would be wise to turn their focus to the latter market.

- SMEs should also think about creating strategic alliances with local partners in their target markets. A partner in a foreign market lets SMEs save considerable time on their sales cycle and is a ticket to showcasing their products/services in the target market. Global partners are definitely worth considering!

- Finally, firms can also use financial leverage to maximize their business. However, this takes prudence. If a firm's calculations are good and favourable for the targeted external markets (i.e., the economic benefit outweighs the costs), they might consider investing more capital to enjoy a greater return on investment.

Firms are encouraged to use the Mercadex-Desjardins* model, a tool specially designed to help identify the best way to penetrate international markets, whether for importing, exporting, licencing, strategic alliances or investment.

5) Promoting business abroad.

The fifth key to taking a company international is in the approach to business development in foreign markets. A company can offer the "best product in the world" but if nobody knows about it, nobody can buy it. That's why firms need to spread the word about their products/services and promote them. Promotion should be done with a long-term vision. International trade (importing or exporting) is often deemed "unprofitable" when firms are focused primarily on making transactions (short-term opportunities) rather than building a stable stream of business that will slowly become profitable. Keep in mind that when entering new markets abroad, a new cost structure is created, requiring firms to:

- Understand that they will not be able to offset the cost of going global immediately after just a few transactions.
- Implement a promotion/prospection strategy that will help them reach the new profitability threshold, using an approach similar to starting a business. Indeed, penetrating new markets is akin to launching a business, as in both cases the company has little to no name recognition and is not well known in the target market.

Developing international business is all the more fruitful when it allows firms to increase their operations and achieve greater economies of scale, thereby increasing profitability. In support of international business development, the SICCO approach (summarized in the table below) helps firms define their international promotion program.

SICCO*	BUSINESS DEVELOPMENT ACTIONS Plan specific actions for each of the following phases
1- Being SEEN by target customers	Increase visibility, building name recognition and promoting the products/services in the target markets
2- Creating an INTEREST among target customers	Make products/services appealing to potential foreign customers by adapting them to their needs and requirements
3- CONVINCING target customers	Demonstrate why the products/services are better than what is already available in the target markets
4 - CLOSING the deal with target customers	Make it easy and hassle-free for potential clients in target markets to purchase the product/services
5- OPTIMIZING business with target customers	Ensure the satisfaction of existing foreign clients and forge a close relationship so that they spread the word about the business to others in the target market

Using the five keys described above and the related tools to help carry them out can help accelerate and increase a firm's EBITDA as it expands internationally. These keys are all interrelated, as they all come back to the relationship between a firm's costs, volume and earnings as it goes global. The firm's management just needs to hit the right notes!

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