DEARIN & ASSOCIATES

Seven Mistakes That Can Wreck Your International Expansion

Introduction

Welcome to Dearin & Associates' *Seven Mistakes That Can Wreck Your International Expansion* e-book. In the next 16 pages, we will help you to recognise and avoid some of the key mistakes which small companies expanding overseas often make.

Seven Mistakes That Can Wreck Your International Expansion touches on areas that are vital to expanding your business overseas. We cover company readiness to internationalise, expansion strategy, product suitability, customer expectations, the nature of foreign commercial environments, cultural awareness, and the problems that unfamiliar regulatory environments can cause.

We hope that as you read this - and assuming you've already started your international journey - you'll be able to celebrate having avoided a few of these mistakes. That said, we hope that you'll cringe at least once as you come across a mistake you're currently making. Without those cringeworthy moments, you'd have nothing to improve upon. And if you've got nothing to improve upon, then your business has gone as far as it can go. With that in mind, we hope you'll see this ebook as an opportunity to discover new ways to grow your company internationally. We wish you every success.

Mistake #1: Starting before you know you're ready

International business is exciting. So exciting in fact, that business owners sometimes jump in without really thinking it through. One of the biggest mistakes that we see all the time is companies launching into an international expansion with very little understanding of how prepared they really are to operate outside their home market. Here are a few examples of what that looks like.

You lack self-awareness.

Most companies don't actually know why they are successful. This is a paradox that firms have to wrestle with as they embark on their international expansion: a company can be highly successful in its home market without fully having understood why. Many businesses have grown and expanded organically without ever really stopping to assess which combination of factors have led to their success. Entering a new international market requires a strategic rather than an organic approach, if it's to be done well. The first step is to understand what has made the company successful at home and to what degree that success is able to be recreated abroad. Skip this step and you'll probably struggle to understand what it is that you need to do well to be a success in a new place.

You don't understand your motives.

Why do you want to internationalise? Is it just to generate more sales or are there other strategic goals? As they expand into new territories, companies need to understand their goals and motivations so that they know what to measure and, importantly what success looks like. You'd be surprised how many businesses haven't thought through these questions before getting started. Essentially, if you don't understand what you're trying to get done, you won't know what needs to be done.

You aren't clear on your commercial logic.

Do you know why you expect your company to succeed in a new market? Does it offer a unique service, better-quality services or more value than competing firms? Are you clear on what will give you a competitive edge and win clients away from existing competitors? If you don't have the answers to these questions, press pause ... you'll need to answer them comprehensively before you can hope to succeed in a new market.

If for example, your product has no particular advantage to what is already on offer in the market, you'll need to consider what you can change so that your company is able to offer something valuable and different in the target market - something that will make you stand out from the competition. Think about the specific core competencies of your business? What do you do better than anyone else?

You haven't done your calculations.

Even if they have considered the three questions above, companies often overlook the critical task of calculating the direct and indirect costs of taking their product, service or company into a new market. The decision to go abroad is as much about capacity and opportunity cost as it is about self-awareness and motives.

Do you know what kinds of fixed and variable costs the company will be exposed to during the first three years in the new market? How will you cope if you make losses in the new country for several years in a row? Can you afford to expand your production capabilities if demand in the new market outstrips your current capacity to supply product? Will you continue to be excited about expanding to South Korea if it means that your VP of sales will need to spend a week each month in Seoul for the foreseeable future? What domestic opportunities might you have to forego if you decide to internationalise? These are just several examples of the kinds of issues that you need to bear in mind as you get ready to expand beyond your domestic market.

The desire to expand a company into new territories is common (and commendable), but although success begins with desire, successful international expansion is a serious commercial undertaking that demands self awareness. Don't leave home without it!

Mistake #2: Not double-checking that you have chosen the right market

Too many companies make the decision about where to expand to opportunistically or emotionally. What often happens is that a senior executive goes on holiday to a new place, falls in love with it and decides that this would be a great place to expand the business to. Or the company receives a random order from a customer in an overseas location and suddenly finds itself selling into that market.

The problem with both these approaches is that they don't allow you to establish whether your offering really belongs in the new market and whether going there really fits with your company's broader strategic priorities. Essentially, an opportunistic start can ultimately lead to a great deal of time and money invested for little reward.

Too many companies also trust "gut feel" to guide them as they put together an internationalisation plan, rather than actually taking the time to carry out research and testing to make sure that their preferred market is actually right for them. While this might be ok if you're a seasoned player in international markets, it can be a disaster, especially if you've never operated outside your home market before. Let me give an example.

Dearin & Associates worked with a company that was building its entire internationalisation and export strategies around selling into China. The product was a fresh one and the rationale for going into China was:

> "*We know China is a huge market and we know that its middle class is growing rapidly. We know that the middle class wants premium products and doesn't trust domestically produced food. We will sell our premium fresh food into China and exploit that market."*

So far so good. The statements above are true and on that basis, China seems like a prime market for foreign food producers. So, the company had decided that it would target China to the exclusion of other overseas markets. What its leadership team failed to appreciate was that there was no market access to China for the products it was producing, and it had no way of selling the products in the Chinese market. So that was the end of that expansion strategy.
90% of the time, unless you already know the market that you plan to go to back-to-front, more research and less reliance on what seems intuitively to be the right answer will save you time, energy and money.

Do your research

Nothing, apart from spending a lot of time on the ground, will give you a better idea of whether a new country is the right market for your company. Research is not fun, it's not sexy, but it is vital to success overseas. There are lots of things that you'll need to research and market size, segmentation and market trends are right up there with the most important items. So is research on competitors and relevant regulations.

If you hate research, don't know where to start, or don't have time, get help from the experts. Include conversations with people who have already tried operating in the market you're planning to enter as part of your research. Hearing first hand what has worked and what hasn't can be gold.

Visit

Once you've done enough research to verify that the market you want to enter seems to be the right one, visit. Don't try to do much business on the first visit, just go there and make sure that it is somewhere you will enjoy working and that you like interacting with the people. Use the time to set up more meetings and conversations, to confirm and enrich the information that you've gotten through desk research. Get comfortable and connected with the locals. Then start.

Mistake #3: Failing to make sure that your product or service is right for the new market

Imagine that you're about to launch a new line of high-end duck liver pate into the market in one of the Gulf States. You know that there is a market for luxury products and your distributor has assured you that the pate will sell well in the new market. Unfortunately, the pate is made with porcine gelatin and your distributor has forgotten to tell you that gelatin is banned in the market that you are exporting to. Your first shipment fails to clear customs, costing you a fortune. Your second shipment arrives in-market, but you discover that duck liver products have fallen out of favour in the target market due to a recent food safety scandal. Frustrated, you decide to give up on the exporting dream.

Before you decide to start selling to a particular market, do your research to make sure that what you are selling is going to be suitable for that market.

In carrying out your research, keep things like market access restrictions and cultural and religious considerations in mind. China for example, has restrictions which prevent many kinds of fresh produce from crossing its borders. The Middle East region has many restrictions around food, alcohol and the depiction of the human form, and very strict labelling requirements, all of which could potentially affect your ability to sell a product or service there.

Even if you believe that your product is the best available and the logical choice for consumers in the target market, make sure that there will be adequate demand for it in the market. Remember that you may have to compete with popular local or international brands which are already established and well-known there. You should also consider whether your business model is one that is understood and accepted in the target market.

Consult an expert about your branding before you start up overseas. For an international brand to be successful overseas, it needs to appeal to the local culture and take into consideration the local values for advertising purposes. Successful brands realize that fostering a global image while pleasing local customers is important.

In addition, make absolutely sure that you have your labelling exactly right before you go to market. If you have adjusted a product to comply with local phytosanitary requirements, such as by removing pork from it, remember that the labelling must be adjusted to reflect this. Otherwise, you will find that, like the duck liver pate, your product will not make it through customs.

Dearin & Associates can help to make sure that your product is right for your target market. Our associates in-region are experts in market research and can help you to assess how your product will perform in-market before you launch it there. We can also assist you in making sure that your branding is appropriate and that your labelling is absolutely correct before you go to market.

Mistake #4: Not being up to speed with customer expectations and competitor tactics

It's easy to assume that you know what customers want. If you've been running a business in your own country for years, then you probably feel as though you have a deep understanding of your customers' needs and wants, right?

Wrong. The problem is that your customers in the new market are often nothing like your customers in the domestic market. They may have totally different expectations about products and services and you cannot simply replicate what has worked at home and expect the same result. Before you get started you'll need to research your potential clientele in the new market, find out who they are, what their preferences are and what they want.

The flip side of this challenge is to research the competition in the target market. You'll need to know who is operating in your space, how well they are doing and ideally as much as possible about how they are operating. Then you need to work out whether you can do you what you plan to do better, differently, or for less. For example, you may have the best product in the world, but if you go to a market that is heavily focussed on price, you might struggle to get enough market share to make your venture worthwhile, because your competition can perform almost as well as you can ... for a lot less.

Mistake #5: Failing to appreciate other people's cultural values

Many of the places that you might choose you expand your business to have very different cultures to your own culture. Studies have shown that the degree to which companies that expand abroad succeed in foreign markets is significantly influenced by their understanding of the culture of their target market and their ability to communicate with the people in it. If you don't make an effort to understand what business partners, clients and customers are likely to expect of you and how the culture of the new market is will affect how business is done, it won't take long for you to run into trouble.

> *Imagine that you work for Creative Co., a cutting-edge creative services agency in Sydney. Hierarchy within the agency is next to non-existent, the team turns up to work in jeans each day and the CEO, Sally Smith is know to everyone as "Sally" (or sometimes "Smithy").*
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> *Creative Co. is bidding for some work in Japan and the Japanese company sends its CEO, Mr Ichiban Kanzen, an account director and a new recruit to Sydney to meet the Creative Co. team.*
>
> *Because they know almost nothing about Japan, Creative Co's employees turn up wearing jeans on the day of the visit. They shake hands with the new recruit first, address the visiting CEO as "Ichiban" and serve BLTs (bacon, lettuce and tomato sandwiches) for lunch.*
>
> *Even though Creative Co.'s work is outstanding, the visit does not go well and Creative Co. is not awarded the contract. So, what went wrong?*

It's easy to spoil a relationship or ruin a business deal by misinterpreting a situation or getting an interaction wrong, particularly if you don't understand the broad outlines of the culture and the social and business etiquette. Do not make the mistake of letting your team pull together inaccurate information from the internet!

If you are fully immersed in your own culture, getting a handle on a foreign culture can be a challenge, but here are few things you can do off your own bat.

- Read as much as you can - stay abreast of current political and economic trends in your target market by reading the World pages of the major dailies, English versions of regional press and specialist press such as *The Economist*.
- Set up Google alerts for your target market, so that you receive regular updates on what is happening there, straight to your tablet or phone.
- Take a language course. There are a number of universities and other institutions in Australia which offer Arabic language training on a part-time basis. If you live outside a major metropolitan centre, you may prefer to learn online or via a program such as Rosetta Stone.
- Join an international association or chamber of commerce, where you will have the opportunity to meet people from your target culture.
- Invest in cross-cultural training.

Dearin & Associates can provide your team with the cross-cultural intelligence and tools that they will need to operate effectively in new. Our briefings are tailored to the seniority, role, gender and interests of each participant and our briefing materials are built on decades of first hand experience in getting things done in international markets.

Mistake #6: Not taking the time to understand the commercial and regulatory environment

If you begin exporting or operating without having taken the time to understand the commercial and regulatory environment of your new market, you can expect to run into difficulties very quickly.

If you don't understand the key legal frameworks you could easily run into trouble with local partners, distributors and authorities. Worst of all, you may become embroiled in a costly legal dispute, or find yourself the subject of a civil or criminal prosecution.

Before you start exporting, make sure that you are fully aware of the key laws and regulations relating to exporting and investment.

Also make sure that you have a clear understanding of laws relating to agency, company formation and ownership and local partnerships.

It is very important that you check whether there are any restrictions on the repatriation of foreign capital from the new country, or any special rules about banking (such as a requirement to have a relationship with a local bank in-market) which could affect the sustainability of your operation.

If you are planning to set up an office or industrial operation in a new market, ensure that you have understood the rules relating to employment and residency, including any requirements to employ citizens of the country you are setting up in.

Familiarise yourself with domestic law in relation to bribery and corruption, as well as any relevant laws in the new target market. If you are operating abroad you will most likely be affected by at least two legislative schemes. The penalties for breaching bribery and corruption laws can be severe and ignorance of them is no excuse, so get up to date before you get started!

Bankruptcy is a serious issue in some countries, where the law is sometimes less developed that at home. In some markets, even a simple mistake such as bouncing a cheque can get you into a lot of trouble, so make sure that you are aware of the relevant penalties for financial misdemeanours so that you can avoid them.

Dearin & Associates can provide you with advice and consultancy services related to commercial operations in international markets. Where necessary, we can also connect you with trusted specialist advisers based in the market relevant to you. Let us help you stay out of trouble by making sure that you understand your obligations before you begin.

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Mistake #7 Starting without a strategy

Have you ever tried driving somewhere without a map, a GPS, or an address? You may eventually reach your destination, but not without wasting a lot of time, energy and fuel. Operating in a foreign market is similar. Many companies begin exporting to or doing business in a new market opportunistically, without a carefully formulated strategy.

The result of using this “trial and error” method of exporting or operating abroad is that they waste an enormous amount of time and resources trying to figure out what they need to do to succeed. Companies which proceed without a strategy may miss out on the best commercial opportunities and if early internationalisation attempts are unsuccessful, they may be misled into abandoning their overseas operations altogether. Operating abroad without a strategy also means that you cannot effectively measure your company’s performance in that market.

> *Picture this: You're the owner of a small Australian company that makes high-end organic chocolate. You jet off to a trade show in Nuremburg to exhibit some new product lines, and at the show you meet Ed Brown, who represents an American supermarket. Ed loves your products and encourages you to bring them to the United States. He tells you that he can get your products into the supermarket and in your mind's eye you can see customers across the States racing to empty the shelves, while the dollars pile up in your bank account.*
>
> *The United States is a market you've never dealt with before and you don't know much about it. You haven't done any market research and you aren't aware of the targets and kick rates that supermarkets apply (companies have to sell a certain number of units in three to six months or their product does not remain on the shelves). You also don't know about anything about the commercial culture of American supermarkets.*
>
> *Nonetheless, you agree to work with Ed Brown. A great working relationship develops, and for two years he personally strives to secure your products a place in his supermarket. At last Ed succeeds and you place a big order, put the product on the shelf ... and wait. Lo and behold, six months later, Ed Brown writes to let you know that your product isn't selling and that it has been de-listed. Your adventure into a new market has just turned into a nightmare…*

There are lots ways in which entering a market without a strategy can make you come unstuck and the story above is just one example. Unfortunately, this is a true story, which happened to Melinda, a colleague in the food industry.

Melinda says that her biggest mistake was jumping in, boots and all without taking the time to create a comprehensive market entry strategy. For instance, she assumed that distribution in the United States worked the same way that it does in Australia and didn't know that she would need a sales agent in the States. As a result, she couldn't meet her sales targets and in several months, the whole project failed after several years of very hard work.

Luckily for Melinda, she was not easily deterred and few years later, she went back to the US market, this time with a strategy and had much better success.

The irony is that this kind of haphazard approach to internationalisation is the norm, rather than the exception. The vast majority of companies that try to take their goods and services overseas do so without a strategy. Which is why so many don't make it far.

The consequences can be pretty serious. Hundreds of thousands or even millions of dollars lost, years wasted, domestic operations negatively affected, other opportunities forgone, enormous personal and team stress and crushing disappointment.

Perhaps more surprising is that many businesses don't stop to consider the benefit of carefully planning an international expansion. Sure, it costs time and money, but that cost is massively outweighed by the damage that careful planning can prevent. My top tips for avoiding the kind of drama that Melinda went through are:

- **Never assume anything**
- **Carry out research from all angles**
- **Make sure you have a sound market entry strategy**
- **Do your market research!**
- **Plan your steps on a timeline**

Once you have all the data in front of you, you'll be in a position to make some informed decisions about your mode of market entry. I suggest that you write a complete market entry plan that includes your business model, pricing, sales mix, customers, distribution channels, marketing strategy, staffing, financial modelling and risk management steps, and that you frame this information with a timeline. Only when that is done and you have visited the market (at least once) can you make a considered decision to proceed.

If the steps set out above seem overly challenging or you don't have the bandwidth or mental energy to go through this involved process, ask for help from a specialist.

Working with an international business specialist can save your company time and money by ensuring that you get the sound advice from experts with years of experience in international markets.

Dearin & Associates can assist you with end-to-end planning, design and implementation associated with your export strategy, allowing you to concentrate on the core elements of your company's operations.

Don't start exporting or doing business overseas without a clearly thought out strategy! It's that simple.

A market entry strategy provides a blueprint for success. It identifies and prioritizes the top markets for your company's products and services, highlights any changes needed in the product, maps out a process for identifying and managing sales and delivery channels in-country, sets out reasonable sales growth objectives, and a timeline and resources required to meet those objectives.

About Us

Dearin & Associates is an international business consulting company that helps established companies to access opportunities and capital in fast-growing international markets.

We specialize in the Middle East and North Africa (MENA) region, helping Australian companies to enter MENA markets and MENA companies to enter the Australian market. We also provide corporate advisory services to Australian and MENA-based companies and are known for our high quality, independent advice. Our services include investor matching, cross-cultural consulting and training, and international market entry strategy.

Key clients include Qantas, Hassad Australia, Ego Pharmaceuticals, Abu Dhabi Government, Dubai Airport Free Zone and the Export Council of Australia.

Are you ready to enter a new market?

Are you part of a small or medium-sized business with international aspirations?

If you don't have the time or resources to structure an in-depth market-entry plan (and you don't), then you probably haven't gotten very far with your plans for world domination.

Or perhaps you've already been down that road, gotten burned and decided that it was too hard.

Or maybe you really don't know where to start ...

Dearin & Associates' International Business Accelerator (IBA) is for people like you - SME leaders who want a structured pathway into fast-growing international markets. We built the IBA to stop you wasting precious time, money and energy re-inventing the wheel, going off on tangents and down blind alleys.

Our mission is to keep you focussed on your goal of getting extraordinary products and services to the whole world.

To find out more, visit http://www.dearinassociates.com/international-business-accelerator