# Strategies for Expanding into International Markets

A business analysing the options suggest by the Ansoff Matrix might well be tempted to focus on the bottom-left quadrant (market development) and try to enter international markets as part of a growth strategy.

Selling into international markets is increasingly attractive for UK businesses. For example because of:

* Stronger economic growth in emerging economies such as China, India, Brazil and Russia (BRICs) and Malaysia, Indonesia, Nigeria & Turkey (MINT)
* Market saturation and maturity (slow or declining sales) in domestic markets
* Easier to reach international customers using e-commerce
* Greater government support for businesses wishing to expand overseas

The main methods of investing in international markets are:

**Exporting direct to international customers**

The UK business takes orders from international customers and ships them to the customer destination

**Selling via overseas agents or distributors**

A distribution or agency contract is made with one or more intermediaries.

Distributors & agents may buy stock to service local demand.

The customer is owned by the distributor or agent.

**Opening an operation overseas**

Involves physically setting up one or more business locations in the target markets. Initially may just be a sales office – potentially leading onto production facilities (depends on product).

**Joint venture or buying a business overseas**

The business acquires or invests in an existing business that operates in the target market

Whatever method is used, a business looking at international expansion needs to consider some specific risk factors:

**Cultural differences:** a business needs to understand local cultural influences in order to sell its products effectively. For example, a product may be viewed as a basic commodity at home, but not in the target overseas market. The sales and marketing approach will need to reflect this.

**Language issues:**although the common business language worldwide is now English, there could still be language issues. Can the business market its product effectively in the local language? Will it have access to professional translators and marketing agencies?

**Legislation:** legislation varies widely in overseas markets and will affect how to sell into them. A business must make sure it adheres to local laws. It will also need to consider how to find and select partners in overseas countries, as well as how to investigate the freight and communications options available.

Each of the above methods has benefits and drawbacks, as summarised below:

## **Exporting Direct to International Customers**

**Advantages**

* Uses existing systems – e.g. e-commerce
* Online promotion makes this cost-effective
* Can choose which orders to accept
* Direct customer relationship established
* Entire profit margin remains with the business
* Can choose basis of payment – e.g. terms, currency, delivery options etc

**Disadvantages**

* Potentially bureaucratic
* No direct physical contact with customer
* Risk of non-payment
* Customer service processes may need to be extended (e.g. after-sales care in foreign languages)

## **Selling Via Overseas Agents or Distributors**

**Advantages**

* Agent of distributor should have specialist market knowledge and existing customers
* Fewer transactions to handle
* Can be cost effective – commission or distributor margin is a variable cost, not fixed

**Disadvantages**

* Loss of profit margin
* Unlikely to be an exclusive arrangement – question mark over agent and distributor commitment & effort
* Harder to manage quality of customer service
* Agent / distributor keeps the customer relationship

## **Opening an Operation Overseas**

**Advantages**

* Local contact with customers & suppliers
* Quickly gain detailed insights into market needs
* Direct control over quality and customer service
* Avoids tariff barriers

**Disadvantages**

* Significant cost & investment of management time
* Need to understand and comply with local legal and tax issues
* Higher risk

## **Joint Venture or Buying a Business Overseas**

**Advantages**

* Popular way of entering emerging markets
* Reduced risk – shared with joint venture partner
* Buying into existing expertise and market presence

**Disadvantages**

* Joint ventures often go wrong – difficult to exit too
* Risk of buying the wrong business or paying too much for the business
* Competitor response may be strong