CONNECTIONS
November 2004
THE DORRIAN CONSULTING GROUP

DEVELOPING STRATEGIES FOR INTERNATIONAL BUSINESS

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Dr Okhai was one of two brothers who came to Dundee, Scotland, from Pakistan. Their original ambition was simply to earn a better living than was possible back home and for a while they satisfied themselves and their families by running a small general store. The cost of providing paper bags to wrap customer purchases, however, became an irritant and the brothers started sourcing these from their relatives and friends in Pakistan at prices several miles lower than they were paying in Scotland.

Soon they were selling and distributing packaging requirements of all kinds throughout Scotland. The brothers became millionaires. Naturally there was great interest in their success and Dr Okhai, a reticent man, was finally coaxed into giving a short speech at a large international conference in Edinburgh. The audience of business professionals was agog to hear his wisdom and insight.

'Business,' he said, 'is essentially simple. If you buy at lower prices and sell at higher prices then you make money.'

According to this definition business is a simple process: buy low, sell high. No-one can argue with that. Of course, the Okhai brothers had some advantages. First, they were ahead of their time (during the 1960's and 70's) in sourcing their supply internationally when such things were thought of as exotic, expensive and conducted by international traders or very large corporations who could afford telex machines and operators. Second, they were able to quickly establish reliable and trustworthy sources of supply - their own family - and third, they already had access to a rapidly expanding market.

In the first instance, 'globalization' is a term that is used perhaps too loosely to be properly descriptive of the circumstances encountered by an internationally minded organization. In its most restricted business-school sense, globalization is held to refer to a process of addressing a monolithic global market, which has adapted to Western market capitalism and absorbed related cultural norms, with homogeneous products and services expected to meet the requirements of any buyer, anywhere in the world. And indeed, if the organization operates in a highly specialized and concentrated industry sector featuring very large and globally active customers, such as oil & gas extraction or semiconductor manufacturing, such a truly global approach to the market may be entirely appropriate.

On the other hand, both corporations and their employees are increasingly familiar with the more genuine and irrevocable globalization process that proceeds apace. Thanks to trade liberalization and improved communications, organizations in almost every part of the globe have unprecedented opportunities to access new markets and secure new customers; at the same time, they also face unprecedented threats from foreign competitors who view the organization's domestic market as a new territory to be exploited. This more widely accepted and realistic definition of globalization poses its own challenges. An organization focused on accessing global markets is faced with the prospect of stretching corporate resources across a diverse range of territories without necessarily understanding how these resources can be applied most effectively to bring the necessary return on investment. At the same time the introduction of new and aggressive elements into traditional markets provokes the erosion of the domestic market base from which many organizations draw their financial strength, and on which they base their strategic development. Such a welter of opportunity and threat can be highly destabilizing and cause the organization to lose its focus, provoking a management response characterized by knee-jerk responses to short-term situations.

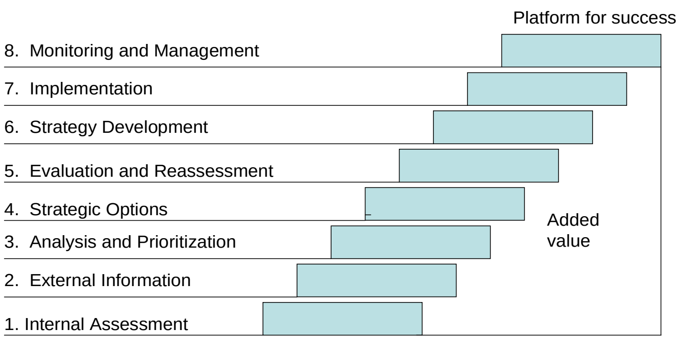
Globalization has introduced a level of complexity that is in many cases not actively appreciated by the individuals tasked with maximizing corporate profitability. If globalization has offered up a huge range of opportunities for the aggressive and ambitious board of directors, it has equally provided new competitive challenges both in marketing and selling products and producing and supplying these goods. In response to these challenges many businesses simply carry on as before, trusting to their legacy of historical success and established business practice to help them respond adequately to a world that behaves in increasingly unfamiliar ways, and manifests competitive conditions that are difficult to respond to from a traditional perspective.

These observations are not academic, nor are they wholly theoretical: they are based on thirty years' experience of observing and working with businesses in every industry sector with the aim of improving their capabilities in the international arena in which they must all, increasingly, compete successfully if they are to satisfy their shareholders and ensure their own long-term survival. From this experience has arisen our conviction that it is necessary that a more rational and indeed empirical approach to international business should be adopted in order to ensure the viability of corporations as they endeavour to compete in an increasingly unforgiving world. To make this possible, corporate strategy development must give explicit consideration to the global context in which the organization operates.

This competitive paradigm requires a more rational and flexible way of thinking about global markets. In this context, and largely as a considered response to increasingly complex international client requirements, ICG developed the WRAP process. WRAP (World Rational Analytical Prioritization) is neither unique nor entirely new; rather, it is as old as the concept of strategy itself and can be said to derive from Sun Tzu, the Chinese general whose thinking was recorded in ' The Art of War' some 2,500 years ago, as much as modern strategic management. According to this approach, the organization's strategic development is based on a balance of capabilities: internal assessment leading to definition of corporate objectives and focusing of corporate activity, external assessment identifying and analysing the business environment, and a methodology for bringing the two into balance to provide a sound foundation for developing effective international strategies.

So why should any company adopt an approach to modern business that is based on a concept as old as Methuselah? Well, primarily, because it works. In practical strategy development, in ease of implementation, in effective management. And it works because each step adds value to the whole so that every key facet can be taken into account. The figure below shows the process in outline.

The WRAP Process in Outline



Source: Gillon and Pearson

Three of the most critical elements in developing international strategy are outlined below, demonstrating the value of independent information, careful consideration and clear objectives.

Market and resource prioritization. Prioritization of global markets, identifying areas of real opportunity and sounding the alert on areas of known risk, permits a more rational allocation of corporate resources towards those markets than show the best chance of meeting corporate objectives. Prioritization of opportunity results in an enhanced capability to ensure an adequate return on investment without dissipating corporate resources of time, experience, and money chasing phantom opportunities that are unlikely to adequately repay the investment. This means that resources can correspondingly be channelled into markets in which they can contribute to supporting defined competitive and financial objectives.

Prioritization also allows the organization to settle on its own terms, once and for all, the argument of large versus small markets. The approach favouring large markets derives principally from the 'triad theory', which argues that successful global businesses focus on major markets in North America, Europe, or Japan. Conversely, the small-market approach makes the case that smaller and less significant national markets can offer a better environment for foreign competitors as they may be easier to access and less competitive than major markets that attract much attention. In practice, however, the most productive approach for any given organization is the one that identifies the most effective balance between investment and outcome. The WRAP process provides a mechanism for understanding and acting on this dynamic, and responding in a manner that benefit the organization itself rather than contributing to the promulgation of a theoretical approach to business.

Risk management. Success in international business is increasingly dependent on the ability to identify and assess the risks inherent in the global business environment. In the corporate environment 'risk' can be addressed as an issue of physical security dependent primarily on responses to the threats posed by political instability, organized crime or terrorism, but is more broadly understood to be a key feature of financial management in an unfamiliar economic and legal business environment. The need for improved awareness and evaluation of risk in many aspects of global trading, which includes not only insurable credit and currency risk but also product cost, pricing and profitability issues as well as IPR losses, can be significantly increased for firms as their territorial spread advances and territorial familiarity decreases. WRAP and similar rational approaches allow firms to be informed of degrees of risk in this broader sense *before* taking steps that can lead them into potentially dangerous commercial waters and in this context functions as a valuable tool for risk management.

Market awareness. Market awareness encompasses the information and judgement required to know what is actually going on in the market, rather than relying on what managers assume to be happening or distributors suggest might be affecting corporate sales. In practice this takes many forms. It includes not just basic market research, but an enhanced awareness of cultural drivers and customer behaviour in foreign markets. An improved awareness of the market incorporates key issues surrounding the way in which products or services are offered: customers in different territories may in fact be buying identical products but for highly diverse reasons, and they usually expect these products to be supplied in manner that best suits them, rather than the supplying organization. Genuine market awareness also includes an appreciation of the strategic requirements of distributors and other partners whose interests do not coincide at all points with those of the organization.

A heightened market awareness has a range of benefits. For example, it permits a mature and realistic comprehension of trade barriers and what can be done to circumvent them. This aids the organization to escape from the trap of blaming all of its difficulties on parochial anxieties or on a lack of goodwill, and to find a way of addressing competitive problems without victimising would-be customers. Improved awareness also opens up the field for new competitive opportunities, in terms of supplying varied products or services to different national markets; these new ideas may in turn feed back into the domestic market to revolutionize the organization's approach to long-standing customers.

Perhaps most importantly, sound market awareness makes it possible for the organization to build up and manage knowledge capital relevant to the global market. Although it is rarely treated as such, an in-depth understanding of the way specific markets operate is an asset in itself. Such knowledge releases the organization from the cycle of trial-and-error management of international businesses, allowing it to register and learn from past mistakes and to understand how success can be created through active engagement with the market and particular competitive conditions. Preservation of knowledge capital also permits an ongoing assessment of the market, making it possible to recognize structural, competitive and other changes in the business environment at an early stage as well as potentially improving the quality of a constructive response.

This process provides a systematic approach to the challenges of corporate strategy development in global markets, but it is not a prescriptive panacea for an organization seeking a quick fix to the issues arising from heightened competition. Essentially, WRAP offers a framework for identifying and thinking through critical issues in global strategic management, encouraging managers themselves to recognize and confront ingrained assumptions and prejudices, and to develop and implement successful strategies appropriate and relevant to their own objectives and circumstances.

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International Consultancy Group is a strategic alliance partner of The Dorrian Consulting Group.

Further Information

CONNECTIONS is the quarterly newsletter of The Dorrian Consulting Group. It has been brought to you, free of charge, in the spirit of sharing knowledge, provoking thought and even friendly debate. The intention is to add value to your thought process and business. To discuss any comments, ideas or needs that you may have, please contact me directly. I hope you enjoy reading this newsletter.

Regards and best wishes,
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