Growth Beyond Borders

*International expansion can seem like a never-ending sequence of impossible decisions. **Criticaleye** examines the steps executive teams can take to find the answers and unlock new markets*

When expanding internationally, success will rely on leaders thoroughly researching their options and building a flexible plan, so they can adapt to any unforeseen events.

A country with fast-growing GDP per capita will be an attractive option, but leaders mustn't ignore challenges specific to foreign-owned entities. **Paul Walsh**, Chairman of FTSE 100 catering and support service Compass Group, says: "Consider… the political environment and question whether this is a market whereby a non-local company can do well."

The next step will be deciding whether to make an acquisition, enter into a joint venture or to 'green field'. Your choice will depend on your experience of the country and the speed at which you plan to grow. You'll also have to be cognisant of the market realities: is there an appropriate target? Can a foreign organisation take a full stake in the company? Is it difficult to find the right people and retain them?

Long-term success will hinge on whether the new venture is properly integrated. **Alison Esse**, Co-Founder and Joint Managing Director of communication consultancy The Storytellers, comments: "You need to assess both organisations, identify where the gaps are, and decide what your new culture is going to look like."

International expansion is difficult to get right, but if executives properly research new markets, grow within their means and dedicate the time and resource to proper integration programmes, the opportunities are unmatched. Criticaleye spoke to a range of business leaders and advisors to find out how they've successfully expanded abroad. ▸

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Tea Colaianni

Group HR Director

Merlin Entertainments

"Our CEO will visit a new business within six months of an acquisition"

Since I joined Merlin Entertainments we have made three large international acquisitions. We bought the Sydney Attractions Group, a multisite attraction operator based in Australia and New Zealand; we acquired the Living and Leisure Australia group, which operates in Australia, Thailand, South Korea and China; and we've purchased the Turkazoo Aquarium in Istanbul.

From the moment we complete any acquisition we start to implement our integration plans. We will send a number of people from Merlin to talk about our culture and values, and to implement our people initiatives and training programmes, including the 'Merlin School of Magic' – our e-learning platform.

From a customer services perspective, we have a dedicated team who will spend time with the local employees explaining our standards, how we measure customer service, and the way in which we expect people to interact with our customers and deliver memorable experiences.

Depending on the type of attraction, we also have operational teams that can be seconded from various parts of the world. For example, in the case of an aquarium, we'll send marine biologists who will make sure the local teams are fully trained and meet our standards in terms of care of sea creatures.

Our CEO will visit a new business within six months of an acquisition to brief the whole team and answer any of their questions.

Our approach to integration is very structured. That being said, we will always adapt to the local culture, the local circumstances and do things at the right pace. The support our acquired businesses and their people get is pretty consistent.

Mark Silver

CEO

VPS

"Make sure you do your research so that you go in with your eyes open"

Your strategy will depend on the markets you're looking at and your proximity to them. You'll also have to consider the risks in that country and the speed at which you want to expand. A lot of the time it's simply taking your opportunities as they come.

For example, when we initially entered Spain we only had a couple of people on the ground. We've now decided we're going to expand, so we're studying the market in more detail to see how we can really drive that forward. In Germany we bought a small business and merged it with ours a couple of years ago, and now we're looking to drive growth there as well.

In the Netherlands we saw an opportunity to move the business forward quite quickly. We bought two companies which immediately made us the market leaders. They were particularly interesting for us because they used a different methodology for delivering the service that we provide.

This has not only taken us into a new geographic market, but provided a new way of doing business. Specifically, we tend to look after our clients' properties through products, through steel and alarm security, whereas they [adapt the space, so small businesses can make use of it] or put [guardians] in place. We've since been able to take that model and introduce it into other markets, particularly in the UK

When you're growing internationally you have to make sure you do your research so that you go in with your eyes open. Most importantly though, get the management team right because you're going to be relying on them to deliver for you.

In terms of strategic expansion in the future, we definitely want to expand our smaller businesses and we're doing that organically. On the whole it's a real mix and match, depending on the particular goal and the particular country.

Paul Walsh
Chairman
Compass Group

> *"Getting it at the right price was the only hurdle"*

When you're looking to expand internationally, the first thing you have to understand is which markets are most appealing for your business. So look at GDP projections, the populous and the ladder of aspirations. Consider the social acceptability of what you're selling, the political environment and question whether this is a market whereby a non-local company can do well.

You've then got to figure out a route to market, which will very much depend on the country you're looking to expand into. For example, when I was with Diageo and we moved into Turkey, we identified a great business that had an impressive distribution model and getting it at the right price was the only hurdle to overcome.

Other markets may not be that simple. In Vietnam for example a lot of the entities are actually state owned and in certain sectors the government will only allow you to take a partial stake. So as much as you want to own a company outright, you can't. There may also be issues around the stigma of foreign ownership and whether you're going to be able to attract and retain local talent. As such, you may be forced down the joint venture route.

You also have to really understand the economics of your decisions, ensuring that having bought out a business you haven't just funded the seller to start competing against you. On the other hand, if you start from scratch, you've got a lot of up-front investment before you can start selling.

You've got to build the factory and train the people to produce products, then you've got to quality assure it and figure out how you get it to market. It's a much longer process, but you get the security of knowing it's all within your control.

Bart Cornelissen
Head of Emerging Markets
Global Joint Venture Practice, KPMG

> *"You have to build some agility into the partnership"*

International joint ventures (JVs) or partnerships are often seen as a more balanced approach to global expansion because the local partner provides market knowledge and the organisations share the risks and, potentially, the capital requirements. In the most successful JVs, all partners will bring in mutually useful capabilities and skills.

Clear examples of this can be seen in the oil and gas industry. If you look at the national oil companies in emerging markets, they use JVs and partnerships to bring unique skills and capabilities in; for example, the partnership between Russian oil concern Rosneft and American giant ExxonMobil. The local partner has the network and can acquire most things because, from a capital perspective, they are very secure. But the technical skills to execute a major project or operate an oilfield in the most efficient manner, is where the foreign players add value.

That being said, you have to be very careful about how you set up a JV because if the partners fail to put the right governance structure in place, or it's not strategically aligned, they are likely to end up in conflict.

The management teams need to start by asking what both parties really want to get out of the partnership. If they're going to set themselves up for success, they also need to ask: 'Is the chosen structure the right one? Do we have the right governance procedures and processes in place?'

You have to build some agility into the partnership because things will happen that you weren't expecting and you have to be able to respond. So for example, you need to set up a process by which the JV's management team can actually ask for more investment because you can't fully predict what the capital requirements are going to be for the next ten years.

Alison Esse
Joint Managing Director
The Storytellers

> *"You've got to understand how to integrate the cultures"*

For overseas acquisitions leaders have to understand the impact the national culture will have on the business environment. There will be different management styles and employees will have different expectations. I wouldn't say it's a determining factor but you definitely need to be aware of it.

Getting communication right is essential. You can't assume everyone will understand the nuances of the English language, so sense-check what you are saying and ensure that it has been interpreted in the way that you intended.

We know that M&A is most successful when the leader who is driving the deal gets the senior management teams of both organisations on board with what the 'new world' is going to look like. That leader must create a strong vision of success, so that people feel that it is something to look forward to, rather than something they have got to toe the line with.

When we worked with FTSE 250 packaging concern DS Smith on their acquisition of Swedish rival SCA Packaging, they were thinking about how they would communicate the deal a year in advance. Then, on day one of the new business, they had a leadership meeting for a few hundred leaders to inspire them.

If you don't get this right then there will be a time-lag once the deal is done, and that 'radio silence' starts to engender fear and consolidate people's belief that this is not a good thing. You have got to really hit the ground running.

As the acquirer, you've got to understand how to integrate the cultures. You need to assess both organisations, identify where the gaps are and decide what your new culture is going to look like. If you simply try to impose your existing culture on a business, you'll encounter massive resistance.

Giles Derry
Partner
Dunedin

> *"Issues arise when local management don't understand the market"*

When a portfolio company expands internationally we always recommend that someone from the executive team goes out and spends time with the local management. That might not be the chief executive but it will need to be someone who is sufficiently senior and who has a good understanding of the business' culture.

You also need to identify key people within each of the businesses to ensure that there is clear communication between the existing and new operations. They can then take responsibility for integrating the culture and ensuring that both companies begin to feel like a single entity.

I think understanding all of the financial, legal and tax issues in a new territory is essential. As a business you need someone who is familiar with the environment because the biggest issues arise when local management don't understand the market. You shouldn't forget that you still need to put good controls and clear reporting lines in place.

For instance, we have a portfolio business called Hawksford which provides trusts, foundations and other structures for high-net-worth-individuals and corporates. In the period that we've owned it, the company has made three international acquisitions, in Switzerland, Singapore and Dubai. We sourced the acquisition in Singapore for Hawksford and we've assisted them with finding professional advisers in those markets.

Once any business reaches a certain point, they'll probably need to have a presence in more than one market. So, the acquisitions have been about making the company more globally appealing and expanding the service offering. In Singapore, for example, they're now able to provide a degree of local service rather than trying to operate by phone from Jersey.