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SMEs AND GLOBAL GROWTH:
SUSTAINING GROWTH AND DEVELOPMENT

Adapting products to local tastes, offering customers multiple purchase channels, and committing to each foreign market, are success factors for SMEs expanding internationally.

When a small or mid-sized enterprise (SME) ventures abroad for the first time, its first aim is typically to kick-start sales and build a local market. That, however, only establishes a foothold. To continue growth and development in a new market, SMEs require a broader strategy aimed at developing and maintaining a strong local presence.

This growth strategy has many facets, depending on the nature of the SMEs business, its strengths in its home market, and the nature of its targeted foreign markets. For example, for many SMEs, sustaining growth abroad involves modifying products and even changing entire business models to suit local tastes and conditions. For others, sustaining growth entails partnering with multinationals or with other established players to provide initial entrée –and then ongoing access—to foreign markets.

For yet other SMEs, sustaining growth in foreign markets requires building on a unique proprietary technology and using existing distribution channels to extend the firm's market reach. Paradoxically, other firms may find they can best sustain their international growth by pulling back from an overly ambitious expansion, thereby keeping the international business manageable.

Above all, though, one general principle applies: SMEs must make a long-term commitment to their chosen foreign markets if they wish to sustain their growth in these markets.

ADAPTING TO LOCAL TASTES: THE GRAZE EXAMPLE

An example of successful adaptation of both products and business model to sustain growth in a foreign market is offered by Graze, a mid-sized UK snacks maker that made a successful entry into the US market in 2013. Several years before it took that step, the company, which is majority-owned by US private equity giant Carlyle Group, took several measures in its home market that later served it well in the much larger US market.

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First, Graze switched from a subscription-only sales approach—in which customers signed up to receive snack packages periodically through the mail—to a multi-channel distribution system including subscriptions, sales of individual items over the company's website, and sales of individual items through supermarkets such as Sainsbury's and other retail outlets such as Boots. "Our customers are telling us it would be more convenient if the product were to be available in a number of different ways," Chief executive Anthony Fletcher said at the time, a year before the firm introduced multiple sales channels in the US market as well.

Second, Graze built an efficient warehousing and distribution system in the UK, thereby acquiring expertise which later helped it to bypass distribution bottlenecks in the US postal system. And third, Graze developed expertise in gathering and analysing customer feedback to tailor products to local tastes. The firm employs a team of ten data scientists at its UK headquarters to analyse thousands of customer ratings, and responds with changed product offerings within a few months. In the US market, this meant dropping British staples such as mango chutney—a food item that befuddled many Americans—and introducing such US standbys as cinnamon buns and peanut cookies.

The distribution and product development expertise developed in the UK worked to Graze's advantage in the US, the world's largest snack-foods market. Within a year of entering the US market, the company's US sales reached an annualised US$35m a year. In 2016 Graze started selling through 3,500 US stores, including Boots' sister company Walgreens. Overall, the firm grew quickly since its founding in 2007, reaching a turnover of £70 million in the year to February 2016.

Along the way, the firm's "unique selling proposition" has evolved along with its product line and business model. Originally focusing on snack boxes containing health-oriented basics such as nuts, grains and berries, Graze has since introduced healthy variants on fat- and sugar-intensive snacks. For example, the firm's American cinnamon buns are not the familiar dough-based, fat- and sugar-intensive US staple, but rather are cinnamon fig rolls which, the company says, are healthier and lower in calories. Similarly, Graze's package of "sweet and salty cookies" sold in America actually consists largely of nuts and is marketed as protein-rich and low in calories.

In adapting itself to the US market, Graze essentially exported business-model modifications—such as continuous product development and multiple-channel selling—that it first introduced in its home market. In this, it is typical of SMEs going abroad: Try an approach at home, develop expertise, and then use it in foreign markets. Yet Graze's example also shows the importance of building a new brand identity in a foreign market that suits the specific tastes of that market.

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USING A LOCAL TOUCH: THE TED BAKER EXAMPLE

Ted Baker, a British luxury clothing brand listed on the London Stock Exchange, offers another example of developing techniques in the home market and then exporting them, while also ensuring a local identity within each foreign market. Ted Baker's global presence relies on investing in the design of its distinctive and sometimes quirky clothing—as well as paying close attention to smooth-running warehousing and distribution. Much of this foundation work, on both product design and logistics, takes place in the UK. But the work is done with a view to serving a global market.

So, for example, in October 2016 Ted Baker opened a giant warehouse in Derby, UK, run by US multinational XPO Logistics, to operate a Europe-wide delivery system. Efficient distribution forms the basis for a network of own-brand stores and other outlets that has spread beyond the UK to Europe, North America and Asia. In less than three decades after its founding in 1988 as a single store in Glasgow selling men's shirts, Ted Baker has acquired a global presence. It now has a total of 470 stores, concessions and outlets worldwide, led by the UK (186), North America (106) and continental Europe (97), with smaller presences in Australasia, the Middle East and Africa.

Significantly, all of the Ted Baker stand-alone stores outside the UK are designed to match the local style and culture, rather than following a single global template. The new store in Amsterdam, for example, uses parquet flooring and interior design celebrating Dutch artists including 20th century painter Theo van Doesburg. In contrast, its most recent store in New York City features walls with a rough concrete finish and brushed brass strips lining the walls to recall grids such as the New York street system. Scale-model buildings attached to the walls add a three-dimensional element to the notional cityscape. The overall marketing message in the design touches: Ted Baker, while a global brand, aims to establish a local identity and appeal to local tastes.

In addition to offering a local touch within its global network, Ted Baker provides customers a multiplicity of purchase channels: through Ted Baker-branded stores, concessions within department stores, and online. This variety of sales channels has allowed the firm to weather retail downturns. Any problems at stand-alone stores, for example, can be compensated for by booming online sales, and by concessions and licensing agreements with outside retailers and distributors.

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The firm's global-local strategy, and its focus on central product design and seamless delivery, appear to be working. The company increased sales by 18% to £456 million in the year to January 30, 2016, and then by another 14% year-on-year in the following six months, despite a generally flat retail market.

PARTNERING WITH ESTABLISHED PLAYERS: THE APMT EXAMPLE

Not all firms start an international expansion from a basis of heavy investment in product design and logistics expertise in the home market, which they then use to enter export markets. Some take a more direct route, partnering with multinational companies or with other local players who already have the foreign-market expertise and the distribution networks in place, and use these to gain a toe-hold in new markets.

An example is given by Advanced Polymer Monitoring Technologies (APMT), a small company in New Orleans, which grew out of academic research at Tulane University in 2011. It holds several patents for real-time monitoring equipment that, claims CEO Alex Reed, can reduce chemicals plants' production costs significantly. With revenues of about US$1 million, APMT is clearly a start-up, but one with high growth potential among plastics and pharmaceuticals manufacturers, among others.

To capitalise on that potential, and develop international markets quickly, APMT sought joint ventures with companies that can take its products to foreign manufacturers. In October 2016 it reached an agreement with Austin Chemical Company, a services and products supplier to the life sciences and specialty fine chemicals industries. This agreement should "expand the reach of our offerings to an international network of manufacturers and researchers," according to Reed. For APMT the challenge is to get its technology adopted by a global industry. "Any of the production plants could use it," says Reed, adding that real-time monitoring of production allows factories to cut waste and increase efficiency.

In addition to the monitoring technology, APMT has developed a light-scattering tool that helps drug makers test the stability of drug formulas. It shines a ray of light onto the drug being produced, which causes the light to scatter, or deflect. If the drug formula is incorrect then this will be detected through variations in the light scattering, allowing the formula and the manufacturing process to be corrected quickly.

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Since APMT feels it has a hot technology in its hands, its aim is to keep its focus on that technology and rely on others for the sales function. Its market-entry strategy, therefore, is to benefit from the local-market knowledge and the marketing and distribution expertise of larger players, rather than developing these skills itself. This approach can allow it to start from a very small base and build up export sales quickly and sustainably.

BUILDING ON A PROPRIETARY TECHNOLOGY: THE GLOBALSTAR EXAMPLE

Some companies sustain their international growth by trying to extend their product range, building upon a unique technology and/or on existing foreign sales and distribution networks. A case in point is Globalstar, a long-established firm with a strong global sales network, which nonetheless needs to find a way to unlock mass sales. Globalstar is a US satellite communications firm set up in 1991 with $1.8bn in funding from industry giants including Alcatel and Hyundai. Now private equity controlled, it supplies navigation and communications equipment to those out of range of conventional mobile phone signals. "Much of the world's land mass lacks mobile phone connectivity," says its chairman Jay Monroe. "Even driving across the US there would be large areas lacking coverage."

Yet with annual sales of around $90m, the firm lacks the product line and brand recognition to reach consumers beyond its small niche. The company has a global sales network in place, since it sells to individuals and firms venturing into remote areas, and many of these are in developing countries, for example in Africa, where mobile phone coverage can be patchy. But the market for its products is limited if the firm remains focused on specialist equipment such as satellite phones.

To address that problem, Globalstar plans to introduce a device that connects conventional mobile phones to its communication satellites when they lose coverage. Partly, it will sell these through its existing international network of dealers and suppliers. The firm is also talking with car manufacturers, who may add the device to improve the connectivity of vehicles.

Whereas Ted Baker has established a brand to market globally, and APMT sought help from multinationals to market an existing and promising technology, Globalstar is approaching export marketing from the opposite direction: seeking to develop technologies which it can market through an established sales network. In doing so, Globalstar hopes to build not only on its existing sales network but also on its core advantage: a satellite system that would be hard to replicate.[1]

[1] For a fuller discussion of the role technology plays in international expansion by SMEs, please see Article 5 in this series, "Using new technology to foster business growth".

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MODERATION IN ALL THINGS, INCLUDING GROWTH: THE WIGGLE EXAMPLE

Either way—whether seeking products for an existing sales network, or seeking a sales network for existing products—amassing a portfolio of export markets can be a tricky business for an SME. As the local-touch strategy implies, every export market is different, with its own culture and history, consumer preferences, and legal requirements. Some SMEs find that building a sustainable international presence means picking and choosing among individualised foreign markets, to avoid becoming overwhelmed by having to meet so many different local market requirements.

A case in point is Butler's Cycles, a UK-based bicycle store that expanded abroad and found itself a victim of too much success. Two decades ago, the Portsmouth-based shop launched a company specialising in mail-order sales of bicycle parts and accessories. It relied on the then-nascent Internet first to build a UK customer base, and then to sell products abroad, eventually changing the name of the firm to Wiggle. Today, half the company's £179m annual sales come from export markets. With bulk buying keeping prices low, and with efficient delivery, Wiggle was able to compete successfully against local firms even in countries as far away as Australia.

With backing from private-equity owners, Wiggle quickly reached customers in 120 countries. But to make the business more manageable, and to protect profitability, the firm recently cut the number of export markets back to 70. In particular, it chose to focus on fast-growing and profitable markets in the UK and continental Europe. Other markets, for example in Asia, were less lucrative, particularly as exchange-rate differences hurt sales and margins.

Like Graze, Wiggle shows how a successful company can use the Internet to gain entry into export markets globally. But sustaining that success sometimes requires taking a step back and assessing whether all expansions are necessarily good expansions. That calculation is not inconsistent with a key success factor for SMEs entering export markets—namely, the importance of establishing a deep presence in each market. Spreading a small company's limited resources too thinly around the globe can mean devoting too little attention to acquiring a firm foothold in the markets that matter most to the firm's growth.

Developing a recognisable local brand, tailoring products to local tastes and ensuring efficient delivery all require a certain focus. If an SME wants sustainable international growth, it may find that, in amassing a portfolio of export markets, sometimes less is indeed more.

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The same principle applies to amassing a portfolio of foreign subsidiaries. Each subsidiary represents a range of costs, from start-up to maintenance to ongoing compliance expenses. Velocity Global, a consultancy, estimates the global average cost of establishing a foreign subsidiary at US$15,000-20,000, and the average maintenance costs at US$40,000 per employee per year. To this it adds indeterminate ongoing costs of staying current on changing local tax laws, payroll withholding requirements, employment law, and new banking regulations, among others.[2]

CONCLUSION

There is, of course, no "recipe" for success in sustaining international growth by SMEs. But the experience of some successful SMEs points to guidelines to consider.

The examples of Graze and Ted Baker show the importance of adapting products—and when necessary, entire business models—to suit local tastes and conditions. APMT's example showcases the advantage of partnering with established players to ensure both initial and ongoing access to local markets. Globalstar's example indicates the value of leveraging a unique technology and existing foreign sales and distribution channels to extend market reach.

Wiggle, the UK bicycle parts and accessories exporter, offers a cautionary tale concerning expansion that is too fast and too extensive. In its case, sustaining international growth required, first and foremost, focusing on a portfolio of foreign markets that it could manage effectively.

All these examples show the diversity of strategies needed to sustain international growth. While the examples are diverse, they share an important success factor in common: All show the importance of firms committing themselves to their chosen foreign markets. More than anything else, that commitment is a prerequisite for sustained growth in those markets.

[2] https://velocity-global.com/blog/foreign-subsidiary-10-reasons-you-should-not-create-one/

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