

THE
DEVELOPMENT
OF AN
**INTERNATIONAL
BUSINESS
STRATEGY**

DeRuiter Consultancy

International Market & Investment Surveyors

A STEP-BY-STEP APPROACH TO DEVELOPING A BUSINESS STRATEGY FOR INTERNATIONAL GROWTH

We at DeRuiter Consultancy have formulated an efficient and cost effective step-by-step approach to developing an international business strategy. Its focus is on penetrating foreign markets and its development process involves structured meetings with the top management of a company. The strategy determines the optimum mix of direct exports, foreign investment, co-operation through outsourcing, licensing, co-production, joint venture, acquisition or merger with regard to selected target markets. This brochure informs you of our approach.

IN WHICH DEVELOPMENT PHASE IS YOUR COMPANY ?



WHY GO INTERNATIONAL?

Global competition will increase. The European Union, notwithstanding the obstacles will more and more become a single market and notwithstanding cultural differences dominating for a long period. European companies have to strengthen their international activities. US and Japanese firms try to obtain market shares in the European market. Businesses in the former “Eastern Block” countries and in the fast upcoming “Newly Industrialising Countries” will increasingly export finished products worldwide at competitive prices and certainly within some time on a large scale at international accepted quality levels.

In our present world 20 % of the total population, living in the industrialised countries, consume 80 % of the total global industrial production. But new markets open up every day, new consumers participate, requiring work, jobs, income and wealth. In most cases low-cost production in the private sector and infrastructure development in the public sector have been the start for economic growth; often at rates the industrialised countries can only dream of. Very rapidly the world is changing. Industry is shifting its manufacturing from traditional places to the other end of the world. Information technology and highly sophisticated logistics have been making many compa-

nies working effectively on an international scale. Time has come to make the move in a structured way: face the strategic choice between creating a global market position or no position at all.

DIRECT EXPORTS: WILL YOUR PROFITS REMAIN ATTRACTIVE?

Many companies seem to do very well without a formal business strategy. International operations very often start with direct exports. These are initiated by the indispensable entrepreneurial vision of top management and the excellent salesmanship of a few international export managers, resulting in immediate and attractive financial returns.

However, after some time the management in those companies will begin to realise, that such a profitable but nevertheless haphazard approach involves certain risks and will result in less optimal results in comparison with the potential of the company. For example, the limited international export staff might overlook business opportunities in other foreign markets. Other companies do not have a contingency plan of action in case profitable export markets suddenly disappear because of new trade barriers, unexpected political events or new competitors. Further, international growth might require major financial investments, for which systematic planning will be necessary.

DAILY ROUTINE SHOULD NOT RULE OUT STRATEGIC PLANNING

When companies reach a certain phase in the growth of international activities, they can no longer avoid paying attention to the development of a formal international business strategy, following the example of the existing multinational companies. Strategic planning should support 'good salesmanship' in order to optimise results and avoid risks.

In practice most companies consider such a planning effort useful, but show a tendency to postpone it for many reasons. The most common reason is, that 'daily routine rules out planning'. Besides, the development of an international business strategy inevitably takes more time and effort than a similar activity for a domestic market.

PREPARE YOUR INTERNATIONAL BUSINESS STRATEGY NOW

Good reasons for starting the development of an international business strategy now are the following:

Improved communication

The tremendous improvement in the means of international transport and communication facilitates quick access to the world's markets. Never before has our world seen such acceleration of the growth of business transactions across national borders.

Globalisation of markets

Globalisation of markets is now becoming a reality for many business sectors. More and more services and products are offered on a worldwide scale.

Stronger NIC's and developing Eastern Europe

At present the Newly Industrialising Countries offer good business opportunities, thanks to their rapid economic growth. Eastern Europe's industry is making its way to established markets, improving its product quality and competing at price.

Follow the competition

Your competitors might already be ahead of you in penetrating into foreign markets, without you being aware of such developments.

Availability of market information

The world market is big and complex. However, thanks to technical improvements in international research methods, databases and communication networks, more and more valuable market information can be made available at reasonable cost. Market research on all the world's markets will help you to focus on the most promising areas, provided that this is carried out in an efficient manner.

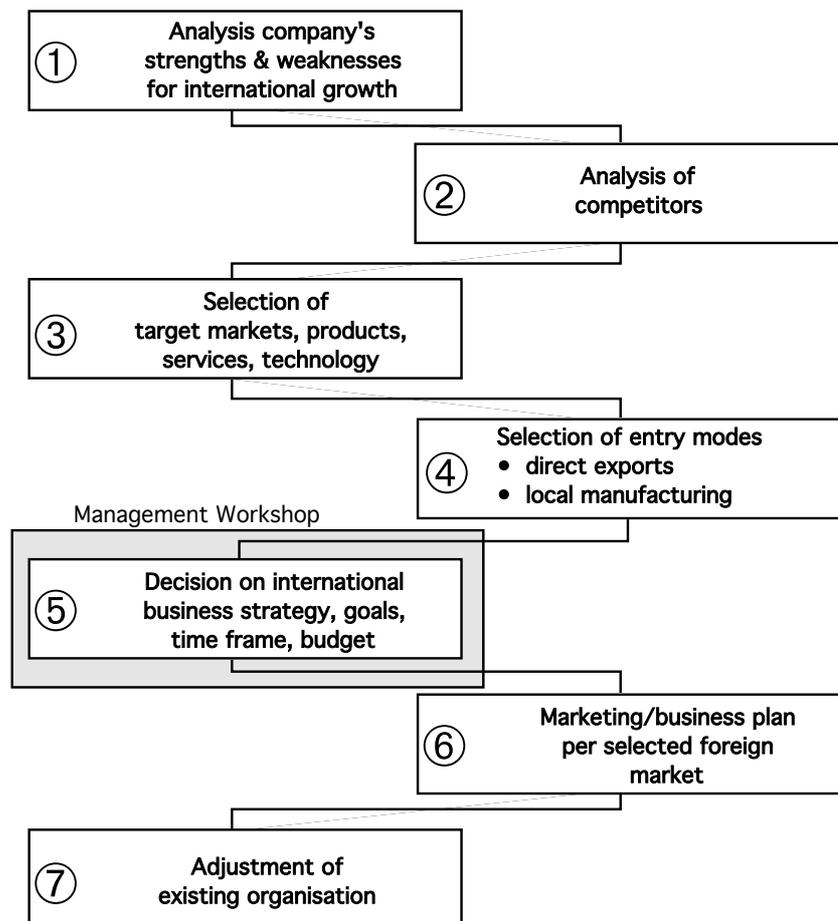
Creative entrepreneurship

The preparation of a strategic business plan will stimulate the creativity and entrepreneurship of your top management team and will help you to set priorities when management time and financial resources are scarce. The preparation of a plan is also a team-building activity.

FOLLOW THE STEPS IN THE INTERNATIONAL BUSINESS STRATEGY FORMULATION PROCESS

No consultant can write a strategic plan for a company. The development of a business strategy is the exclusive responsibility of the top management. The outline of such a plan should be prepared and presented by the top management itself, in order to guarantee the company's commitment to the international business strategy chosen. DeRuiter Consultancy has specialised in organising the process, through which your management team will develop an international business strategy. Roughly, this process will have the following steps:

STEPS IN THE INTERNATIONAL BUSINESS STRATEGY FORMULATION PROCESS



The outline of the international business strategy will be decided upon during a 2-day top management workshop, which will be organised by our company. At the start of this workshop, the results of steps 1 to 4 will be presented. For each step we will work together with a small project

team composed of managers from your company, representing the various disciplines and backgrounds required for the execution of each step. All steps will be concluded with a concise situation report. After having reached consensus during the workshop on the desired, international business strategy, steps 6 and 7 will be completed. In a medium-sized company the whole process will take approximately 4 - 6 months.

DeRuiter Consultancy - having wide and versatile consulting experience in the development of international business strategies - knows how to organise the planning process for your specific company. During the process the consultant will act as 'sparring partner' for your line management, will stimulate creative brainstorming and will take care of a fair and consistent presentation of opportunities and risks.

THE STEPS IN THE STRATEGY FORMULATION PROCESS IN MORE DETAIL

Step 1: Analysis company strengths & weaknesses for international growth.

We assist the company's executives in preparing an objective presentation of the company's capabilities of further international growth. A central issue will be the analysis of the competitive advantage of your present products.

Other key aspects are:

- availability of international management and staff
- financial resources
- availability of patents, exclusive know-how and R & D capabilities.

Checklists adapted to the specific needs of your company will be used. During the first step in the Strategy Formulation Process your motives for international growth must be clarified.

The following motives could be provided:

Necessity to spread fixed costs over a larger sales volume:

- excess capacity present factory
- future manufacturing process requires larger economy of scale
- saturation demand home market
- expected increase in Research and Development costs
- shorter life cycles of products

- opportunity to gain additional income on existing technology, know-how and/or management capabilities.

Reaction to a competitive situation:

- saturating market share in home markets, because of national and/or foreign competition
- follow national competitors going abroad
- compete more effectively with foreign competitors invading home markets.

Overcome trade barriers to direct exports

Realisation of opportunities in foreign markets

- fast-growing foreign economies
- low labour cost
- availability of development aid funds to support penetration into developing markets

Wish to diversify and/or minimise risks

- add new markets
- limitation of foreign exchange risks
- access to raw materials

Step 2: Analysis of competitors

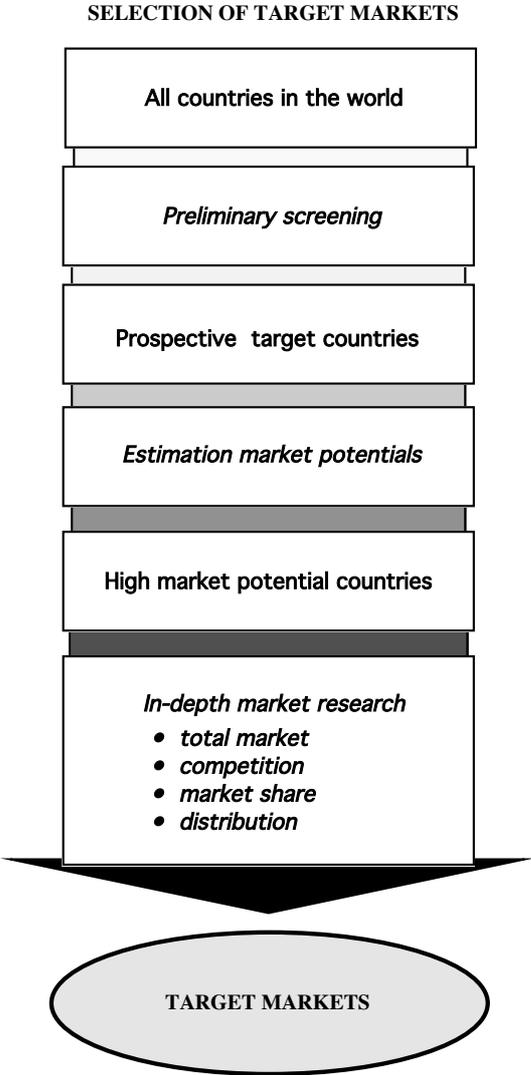
Your company is facing competitors, who might compete at a national, regional and/or global level. These competitors must be identified and their product lines, strengths and weaknesses analysed. From the internationally operating competitors information must be gathered as to how they have penetrated into other foreign markets. For example, do they have a foreign agent network, sales subsidiaries and/or foreign manufacturing operations?

Step 3: Selection of target markets

The selection of target markets starts with a quick preliminary screening of all countries in the world, using readily available basic information on general demand factors for your products and macro-economic and demographic data. This screening will result in a number of prospective target countries, for which the market potential will be roughly estimated.

Specific market parameters and requirements, tuned to your products or services will be included as factors for evaluation and decision-making.

If necessary, in-depth market research will be carried out in the remaining countries offering a high market potential, resulting in a final selection of target markets.



During this market research process the usefulness of market information must constantly be balanced against the cost of acquiring it. DeRuiter Consultancy maintains close relationships with information brokers and external databases throughout the world, which guarantees an efficient data gathering and analysis process.

Step 4: Selection of entry modes

The following basic entry modes can be distinguished:

BASIC ENTRY MODES FOR PENETRATION INTO FOREIGN MARKETS

	DIRECT EXPORT	LOCAL MANUFACTURING	
		ASSEMBLY	FULL MANUFACTURING
CONTRACT WITH INDEPENDENT FOREIGN PARTY	Foreign agent	Product licensing, technology licensing, contract manufacturing	
INVESTMENT IN FOREIGN ESTABLISHMENT • TAKE-OVER • WHOLLY OWNED NEW SET-UP • JOINT VENTURE	Foreign sales subsidiary	Foreign assembly of imported CKD kits	Foreign manufacturing plant

For each selected target market the optimal entry mode will be selected, based on the following criteria:

- expected financial return in relation to cost
- financial and marketing risk
- desired degree of management control

Step 5: Decision international business strategy at top management workshop.

Short and concise presentations will be given at the start of a 2-day top management workshop on the results of the previous steps 1 to 4. The top management will evaluate the various options and will take a decision on the main issues of the desired business strategy for international growth.

Step 6: Marketing/business plan per selected foreign market

When the main issues of the international business strategy have been decided upon, detailed marketing and business plans must be drafted, which will be executed in the various selected foreign markets.

Step 7: Adjustment of the existing organisation

Implementation of the desired international business strategy might have consequences for your company's present organisation. The establishment of foreign assembly and manufacturing operations might have consequences for the international product sourcing and vendor relations. Most probably the capacity of the international management staff must be expanded. Internal and external financial funds must be located. DeRuiter Consultancy will help your management to improve your present organisation in order to meet the new requirements and challenges of the planned international operations.

ASK FOR A FREE OF CHARGE OFFER

We offer an efficient standard consultancy service, through which your company will develop an international business strategy with the emphasis on penetration into foreign markets. Generally, the full strategy formulation process will take 4-6 months, during which part-time assistance of 1-2 consultants will be necessary. All companies being unique with respect to size, organisation structure and complexity of products, this standard consultancy service must first be adapted to your specific needs. We will make you an offer with a fixed budget and time schedule, after having acquainted themselves with your specific situation. Such an offer will of course be free of charge.

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