

BearingPoint®

Magellan, Alexander and Clausewitz



The agile international
development model

Convergence Letter N°33

About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client's individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world's leading companies and organizations. Our 3,500 people, together with our global consulting network, serve clients in more than 70 countries and engage with them for measurable results and long-lasting success.

For more information: www.bearingpoint.com

Editorial content: Henri Tcheng and Jean-Michel Huet

Coordination and circulation: Sandrine Pigot and Stéphanie Lesdos

Contact: henri.tcheng@bearingpoint.com

International development is the number one growth relay for French companies and, for 90%, it is even one of the top three strategic priorities¹. Looking for international growth relays during periods of economic gloom is by no means new. The models are, however, changing. The history of the entrepreneurial world also shows that international trade shaped the first corporate growth models with the banks. As of the Neolithic Age, Milos was exporting obsidian blades in the Western Mediterranean. Four thousand years ago, Hammurabi, the founder of the Babylonian empire, established an international trade law while the Cretans and Phoenicians subsequently introduced maritime trade between countries and cities². And all quiet on the Western front? Not quite. The traditional models (import/export-type trade, starting from scratch by setting up subsidiaries in a target country, investment in infrastructure) naturally continue to exist but the agile model is becoming increasingly important.

This is illustrated by three major approaches.

1 1stInternational Development Observatory, BearingPoint and Sciences Po Formation Continue Paris, *Gérer le Business Development à l'international*, 2010: 25% of companies consider it to be their number one strategic priority, 90% amongst the top three priorities and 95% amongst the top five.

2 Michel Drancourt, *L'entreprise de l'antiquité à nos jours*, Presse universitaire de France, 2002.

The explorer

The traditional export-based approach sees international trade as simply a bigger market with specific constraints such as taxes, customs duties, languages, etc. From a company perspective, the explorer approach consists of analysing its know-how, tangible (technology, logistics platform, proprietary business tools, etc.) and intangible assets (brand, international contact base, experience, R&D), and leveraging them to build a potential new offering portfolio. In parallel, the company evaluates new markets and seeks to identify which targets would be the best match with its services from an economic standpoint. This pull/push approach can lead to new international growth relays.

Two examples. As of the early 2000s, Monaco Telecom began to market its services and intangible assets to operators in countries without access to the required expertise. In Afghanistan and Kosovo which were emerging from their respective wars, its contribution amounted to sharing both know-how and technical solutions (telephone networks, IT, services platforms) and intangible assets (Kosovo is using the Monaco international code to manage the international recognition transition period). Currently the Monegasque operator is looking to continue its growth based on mentoring small telecoms operators in the emerging countries.

Similarly, Schneider Electric has used its R&D in electricity and lighting to enable Indian communities to benefit from alternative light sources to oil or petrol-based lamps at night. The French group was able to implement a local ecosystem with resellers (renting lamps with recharged batteries by the day) specifically adapted to the local context and backed by its expertise. The Group has also been able to use a number of its strengths as a major industrial company, namely its purchasing power and low-cost manufacturing capability.

The conqueror

How do you develop in new countries other than via the traditional method? This doesn't just mean deploying the heavy artillery (substantial investment requiring several years before any payback on the initial outlay, etc.) but also demonstrating agility in a mode where high fixed costs are replaced, wherever possible, by variable costs. This approach enables the testing of various strategies, rapid chessboard moves and even, in the event of failure, a less-costly exit from a country. It is interesting to see, and it is here that agility really comes into its own, that some players are able to apply the traditional and conquering methods simultaneously, thereby exploiting all the potential scenarios.

In the traditional model, like its competitors, a major banking group like BNP Paribas can open a retail banking network with significant capex (recruitment, branch premises, information systems, banking licence).

At the same time, based on the agile model, its insurance subsidiary can grow by sending in a very small team consisting of a representative network, the business model being fully variabilised.

In 2013, while continuing to acquire telecoms operators, purchase licences and invest in networks, Orange also launched a new entity known as Horizons.

This business is pursuing its international development without significant investment using different asset-light business models like on line sales and the virtual mobile operator which bear little relationship to traditional investment in a telecom network.

The strategist

The idea is to be one step ahead to be able to exit a country rapidly or adapt the business model/legal vehicle (subsidiary, joint venture, representative office, etc.) if necessary³.

This was the strategy Danone adopted for its African development by using different models ranging from the traditional product manufacturing/distribution approach to the financing of social business initiatives via the Danone.communities SICAV (French mutual fund). Between the two, Danone has adapted and is learning to build manufacturing

³ For further information: 2nd International Development Observatory, *Du global au local : quels choix pour la relation siège filiales*, 2011

facilities based on other models. In Madagascar, for example, the French group has built a dairy product manufacturing facility with NGOs taking into account local health and food specificities (allergies, need for nutritional supplements for children, etc.).

The Essilor case in India is well known with the company having successfully implemented a spectacle dispensing model via mobile units in villages. In addition to this good idea, however, the group has also juggled various localised legal vehicles in the country depending on geography: traditional shops in towns, franchisee networks in peri-urban zones and mobile optical vans travelling between villages in rural areas, etc. It is this very flexibility which has contributed to its success.

Such agility requires abandoning the usual beaten track. Which means being able to work on new business models. This is particularly true in emerging countries where Bottom-of-the-Pyramid type approaches are proving successful. The aim is to target populations living on less than 7 dollars a day or, in other words, some two thirds of mankind! Schneider is a good example with its ability to move from a sale to a rental-based model with an intermediary network. The same is true for the telecom and electricity operators thanks to prepaid. It also means being able to work with other players. Danone has learned to collaborate with NGOs even though the business and charity worlds are not always natural bedfellows. International financial backers can be key players in supporting

international development although most major companies tend not to consider it. Lastly, companies need to review their organisation and the traditional links between head offices and subsidiaries. The agile model encourages working in networks, something at which French companies by no means excel in that they prioritise the top-down (40%) or bottom-up (32%) rather than the network mode (28%).

The agile development model is a real opportunity for companies to reinforce their international operations while containing risk. This is an approach in which it is better to have “tried and failed” than “never to have tried at all”. The ball is in your court.

Jean-Michel Huet