A new framework for navigating expansion
Keith Robinson and David van Oss

Guiding global growth

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As the pace of globalisation accelerates, companies are finding it increasingly difficult to keep up. Our research provides a new framework – the Globalisation Maturity Model – that firms can use to assess how well they’ve mastered the challenges of global expansion, and what they need to do operationally to realise their strategic goals.
The achievement of a long-held dream or a poisoned chalice? After decades of global expansion and fierce competition, Toyota Motor Corporation finally became the world’s largest automaker in January 2009, surpassing General Motors, which had held the leadership position for more than 75 years. Yet just one year later, Toyota found itself embroiled in a deeply damaging series of global product recalls. How did such an experienced global enterprise stumble so badly?

Shockingly, it became clear that Toyota lacked a company-wide governance framework for such matters. Furthermore, the company’s quality processes were still Japan-centric, even though problems were surfacing in the U.S. and elsewhere. President Akio Toyoda admitted that “an especially important subject was the decision-making process for recalls and other safety matters.” The company has now set up a Special Committee for Global Quality, which promises “to ensure that regional input receives full consideration in that process.”

Toyota is not an isolated example. As the opening of global markets over the past two decades has brought greater opportunities for enterprise, it has also brought an inevitable increase in operational complexity and systemic risk. When the Chinese telecommunications vendor Huawei secured a breakthrough contract for next generation network equipment in Sweden, the homeland of world leader Ericsson, one fact became patently clear: Established companies must compete not only with their traditional rivals, but also with new players riding high on growth. Globalisation used to be considered an economic process whereby big companies from rich Western economies sold their products and services to less-developed markets. The economic balance has shifted dramatically, and has become more of a two-way trade.

In this environment, the challenge for global companies is to ensure that operational strategies and organisational capabilities keep pace with this new reality. Our new research shows that, without a clear framework to guide their international expansion and partnerships, firms can make costly missteps.

### Table 1: The Nine Dimensions of Globalisation

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
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<tbody>
<tr>
<td>Market Reach</td>
<td>Define and penetrate target markets</td>
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<tr>
<td>Market Offerings</td>
<td>Maintain a product portfolio suited to the needs of targeted markets</td>
</tr>
<tr>
<td>Operations</td>
<td>Define an operating footprint that balances cost and customer service objectives</td>
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<tr>
<td>Procurement</td>
<td>Ensure product quality, reliability, and timeliness through a network of trusted suppliers</td>
</tr>
<tr>
<td>Intellectual Property (IP) Management</td>
<td>Develop strategic technologies while protecting access</td>
</tr>
<tr>
<td>Capital</td>
<td>Ensure access to strategic capital and meet investor expectations for ROI</td>
</tr>
<tr>
<td>Talent</td>
<td>Ensure that critical skill sets are available where needed</td>
</tr>
<tr>
<td>Operating Model</td>
<td>Define and manage internal and external partnerships and alliances to achieve the right operational strategy for each new market</td>
</tr>
<tr>
<td>Governance</td>
<td>Define responsibility for setting strategy and meeting business objectives</td>
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Meeting the Demands of Globalisation

To see how companies are responding to the globalisation challenge, we looked at more than 30 companies across three broad industry sectors—telecommunications, health care, and industrial—and interviewed their executives. The findings were powerful:

- Business strategies for globalisation are clear, but operational strategies are not.
- Across industries, there are three distinct phases to globalisation, each of which is highly fluid.
- There are nine common dimensions to globalisation that are critical for senior management teams to consider.
- The best-performing companies have a clear globalisation road map that helps them manage the complexities, risks, and opportunities of world markets.

Companies are generally confident in their business strategies—they know what they want to achieve. But executing on these strategies is another matter entirely, raising many difficult questions: How do we double our size in Brazil over the next five years? How do we manage regulatory quality throughout an increasingly complex supply base? How do we develop an R&D partnership in Indonesia? How do we obtain fresh capital from local partners without losing control? How should we evolve our leadership team in line with our emerging regional presence?

At the outset, we expected that companies’ strategies for answering the “hows” would vary significantly by industry. Not so. For companies in all industries, the globalisation journey occurs in three distinct phases, and in each phase there are nine common dimensions senior management teams need to master. Together, these distinctions form a framework that can help companies bring the complexity of globalisation under control.

Top-performing global companies are already using this framework to guide their investment and execution efforts. They keep a close eye on which three or four dimensions are critical to succeed in each new phase. As Toyota found out, pursuing ever-greater market reach is important, but, when it comes at the expense of global governance, the results can be disastrous.
The Globalisation Framework
To understand how companies can use the framework to their benefit, let’s look at the research findings in greater detail.

Three distinct phases of globalisation.
The research revealed that the globalisation journey occurs in three distinct phases, which we have named Export, Regionalise, and Originate. Companies and industries do not move smoothly through these phases. Progression is disruptive, and, when one company changes the game, an entire industry can be forced to respond. But, as a general rule, progression through the phases depends on the maturity of the company’s globalisation strategy and on the complexity of the challenges in question.

In the first phase, the “Export” model, national companies sell their domestic market offerings to similar customers in selected overseas markets. This approach builds scale for core home products, with companies typically managing through strong, direct control from the centre.

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But executing on these strategies is another matter entirely, raising many difficult questions
## Table 2: The Globalisation Maturity Model

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Phase 1: Export Model</th>
<th>Phase 2: Regionalise Model</th>
<th>Phase 3: Originate Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Reach</td>
<td>The home market dominates sales; “foreign sales” are made through representative offices and third parties</td>
<td>The company has an active presence in several major markets outside the home region, often with local partners</td>
<td>The company adapts its market approach for each region, and may make long term structural commitments to partnership</td>
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<tr>
<td>Market Offerings</td>
<td>Products offered in non-home regions are virtually identical to home market products</td>
<td>Product characteristics are adjusted for local market requirements</td>
<td>Product offerings originate in and are tailored to new regions and may be sold globally</td>
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<tr>
<td>Operations</td>
<td>The company has a strong national supply chain with international distribution</td>
<td>An increasing proportion of production and supply is localised in new regions; quality systems are evolved</td>
<td>The company manages a global footprint and uses total landed cost to determine sourcing, production, and distribution locations, with integrated quality management</td>
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<tr>
<td>Procurement</td>
<td>Commodities and manufacturing services are procured from low-cost countries</td>
<td>The company actively sources in newly targeted regions and partners with local companies</td>
<td>The company manages a global tiered partner network</td>
</tr>
<tr>
<td>IP Management</td>
<td>IP is closely guarded and held tightly in the home market/ company headquarters</td>
<td>The company deploys R&amp;D centres in expansion regions</td>
<td>The company maintains a global network to exploit the wider R&amp;D ecosystem while ensuring innovation and quality in design</td>
</tr>
<tr>
<td>Capital</td>
<td>The majority of capital financing is provided by the home region</td>
<td>The investor base becomes more global and regional allocations of capital are increased</td>
<td>Financial structures are designed to access new sources of capital in-region</td>
</tr>
<tr>
<td>Talent</td>
<td>The company’s senior management is based in the home country and transferred to new markets</td>
<td>The company recruits locally and regional management teams are from the new region</td>
<td>The senior management team is composed of leaders representing their home regions</td>
</tr>
<tr>
<td>Operating Model</td>
<td>The company uses a radial structure – a dominant hub with multiple spokes representing internal and external partners</td>
<td>The company increases collaboration, both internally and with external partners</td>
<td>The company understands and leverages multiple operating models to optimise global opportunities</td>
</tr>
<tr>
<td>Governance</td>
<td>The company uses a traditional command and control approach with a functional/ business unit-based structure</td>
<td>Increasing regional dimension rebalances functional and business unit roles; regulatory and compliance procedures are evolved</td>
<td>The company uses integrated global/local governance processes and regional P&amp;Ls in parallel to business unit-based performance management</td>
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</tbody>
</table>
In the second or “Regionalise” model, companies put significant focus on adapting to local market needs. They begin to reconfigure core offerings and to develop multi-domestic strategies to meet those needs. In addition, companies work closely with local partners to access markets and seek lower-cost resources to hit lower price points worldwide. Active partnering begins to challenge traditional control models, and new governance approaches emerge.

In the third phase or “Originate” model, companies are fully global. The concept of the “home market” has become irrelevant. Operational innovations and new product offerings can come from any region and be applicable worldwide. The complexity of global partnerships forces companies to focus more sharply on the strategic capabilities needed to capture the most value. The “headquarters” mindset all but disappears as leadership teams are dispersed all over the world.

Nine key dimensions. The research also revealed that senior managers consider the same nine dimensions in their globalisation efforts, regardless of the company’s industry or size (Table 1).

We have integrated these three phases and nine dimensions into a single Globalisation Maturity Model (Table 2). This model helps executives define, at a glance, where their companies are today – and where they need to be over the next several years.

Implications. The implications of the model are profound. When a business begins shifting from one phase to the next, strategies that worked well in the past may no longer suffice. The shift can be successful only if each dimension critical to meeting strategic goals is systematically evolved to the appropriate level of maturity. While the nine dimensions will not be equally important, a company’s globalisation strategy must take them all into account and make sure that each continues to evolve.

A further key point is that the model is relative. That is, a company’s absolute position is less important than its position relative to major competitors. For example, Swiss pharmaceutical giant Roche leads the industry in both the number of blockbuster cancer drugs it has on the market and in the strength of its drug pipeline. This success is due in no small part to the vast number of R&D partnerships the company has formed worldwide over the past decade. Yet a company does not have to be in the “Originate” phase to succeed at globalisation: Even the “Export” phase may be sufficient, so long as the company is better than the competition in the capabilities critical for differentiation.
Case in point. A major Western European engineering business had grown its global business over many decades using the “Export” model. All R&D was conducted in the home country, the company’s management was dominated by one group of nationals, and there were global sales offices.

The changes in Russia and Eastern Europe toward the end of the 1980s created great opportunities. Huge markets, formerly closed to Western companies, now became accessible. At the same time, a major new competitor from a different region emerged at global level. Cost pressures increased and the industry shifted progressively into a “Regionalise” model, with product localisation and manufacturing increasingly sourced from low-cost countries.

After a number of years operating in this way, the company undertook a strategic review and realised that it could gain competitive advantage by evolving its globalisation strategy into a phase three, or “Originate” model. The company sought a Russian partner, not just as a channel to market within Russia, but as a major hub for sales across the Commonwealth of Independent States (CIS). To underpin this expansion, the company set up a joint R&D and innovation centre in the CIS. Analysis of total landed costs showed that it was also advantageous to use one of the company’s partner’s factories there. The two partners cemented this operational strategy with an equity participation agreement, which also provided a clear governance structure for the business. The result, in an industry with high barriers to entry, has been unprecedented access to multiple new markets.
Putting the Globalisation Maturity Model to Use

Our research has important implications for any company that wishes to expand globally. Regardless of industry or size, it is critical to understand exactly where your company sits along the spectrum, where your competition is positioned, and where you need to move to meet your strategic objectives. The Globalisation Maturity Model provides a fast and objective way to develop this understanding; companies that approach global expansion with this knowledge will move far faster and suffer fewer missteps. Here are some crucial questions to ask:

1. How do we pressure test our current globalisation strategy to make sure it is strengthening our market position – rather than compromising it?

Determine where you stand on the Globalisation Maturity Model. Are you as far along as your strategic goals say you should be?

How do you compare with key competitors? You need to know this baseline in order to build the right globalisation plan.

2. What are the critical dimensions for success and have we invested as effectively as we could?

Is our globalisation plan clear, focused, and coherent across all of our business units, functions, and regions?

The framework will help determine whether you are investing wisely. Do you have the right talent, assets, and resources already in place? If not, what is your plan to secure these capabilities ahead of the competition? Wherever there is a strategic gap, you should make a concerted effort to resolve it.

2. What are the critical dimensions for success and have we invested as effectively as we could? Is our globalisation plan clear, focused, and coherent across all of our business units, functions, and regions? The framework will help determine whether you are investing wisely. Do you have the right talent, assets, and resources already in place? If not, what is your plan to secure these capabilities ahead of the competition? Wherever there is a strategic gap, you should make a concerted effort to resolve it.

3. How do we drive a common approach to globalisation at all levels of the business, including with our partners? How do we overcome the barriers to change?

How can we respond flexibly to global shocks and changes, as well as to the inevitable bumps in the road?

Senior management must use the globalisation framework – especially its provisions for governance – to drive a common approach to globalisation at all levels of the business, including with our partners. How do we overcome the barriers to change? How can we respond flexibly to global shocks and changes, as well as to the inevitable bumps in the road?

The action items for executives are abundantly clear – and the timeline for them to act is all too short. Despite wars, recessions, and natural disasters, the pace of globalisation is still increasing. Toyota took its eye off critical dimensions and found itself forced on the defensive.

To avoid that scenario, leadership teams need to build a strong globalisation plan to ensure companies are on the right track – and stay that way.
Telecommunications Blazes
Globalisation Trails

Of the three industries we investigated, telecommunications is the most fully global, with more mature dimensions than either health care or industrial. Communications technology has helped open up huge markets worldwide, with the past five years witnessing exceptional growth in India and China. Fierce competition for these approximately 20 million new subscribers has accelerated the pace of adoption, and muscular players from the BRIC nations have taken on new positions of power. In response, world-class companies are blazing new trails to establish dominance in large markets.

Cisco is a prime example. Over the next three to five years, the leading telecommunications equipment provider expects to have 20 percent of the company—about 10,000 people—located in Bengaluru, India, known as "San Jose East." Equally worth noting is the evolution of Cisco's market offering. No longer is the company viewed as just selling "plumbing" (equipment) to companies. It now provides "technical consultancy advice" to governments of emerging countries. Cisco is making equally great strides with its operating model by engaging with myriad partners to deliver a wide range of equipment requirements.

Handset giant Nokia is making a strategic shift from products toward services, while leveraging its leading position in mobile phones in several emerging markets. With its new "Nokia Money" service, the company is offering easy-to-use financial services via mobile phone to the billion-plus consumers in these markets who do not have a bank account or personal computer. The service is designed to work in partnership with a wide range of network operators and banks, as well as distributors and retailers. The expertise and scale that Nokia gains by serving such markets will create a massive transactional platform from which it can offer innovative, low-cost financial services in mature economies as well.

These are just two examples of what leading companies are doing. As competitive pressures grow, what's seen as leading practices today will soon become table stakes.
For more information, please contact:

Keith Robinson  
Director  
Email: keith.t.robinson@uk.pwc.com  
Tel: +44 (0) 7725 056611

David van Oss  
Director  
Email: david.van.oss@uk.pwc.com  
Tel: +44 (0) 7802 244741

Mohamed Kande  
Partner  
Email: mohamed.k.kande@us.pwc.com  
Tel: +1 240 793 2755

Methodology
Completed in early 2010, our global research study was designed to determine how top executives perceive and respond to the challenges of globalisation. We developed a series of questions based on a proprietary model of globalisation maturity. We then identified 30 leading companies that described themselves as “global,” and summarised their current practices relative to this maturity model. Each company was given a scaled score on the maturity index across all nine distinct dimensions. The companies we studied represented three major sectors of the economy: health care, industrial, and telecommunications. Findings were validated via in-depth interviews with executives at selected companies.