

It Goes With the Territory

How to Keep Your Global Expansion Strategy from Hitting a BRIC Wall



Breaking into the most lucrative emerging markets of the world is not as simple as it may seem. Globalising organisations need the muscle of a sound partnership to back them on both a local and global level and to help them avoid the unforeseen pitfalls and underestimated challenges that go with the territory.

Brazil, Russia, India and **China**. Together, these developing countries are widely referred to as the BRIC emerging markets. And, says Patrick Faure from Dimension Data's International Programme Office (IPO), there are compelling reasons why internationally savvy executives almost always mention them in the same breath. Faure himself has extensive global business experience, particularly in two of the BRIC territories, Russia and Brazil. But, under his directorship, the IPO deals regularly with all four of the geographies, which is why their attraction to foreign investors, as well as the pitfalls of breaking into these markets, are abundantly clear to him.

"It's extremely rare these days," says Faure,

"for any global organisation to present their international expansion strategy to us without including at least one, or more, of the BRIC countries."

However, questions of whether their supply chain logistics support expansion into BRIC territories, whether their financial departments are geared to handle foreign transactions and currency conversions, whether they can deal with multiple languages, or whether their IT departments are able to handle foreign operating systems all need to be addressed. So, while the lure of business in BRIC countries remains strong, a growing number of organisations are finding that the complexities of doing business in these geographies are wasting valuable resources, causing operational inefficiencies and exposing the business to multiple areas of risk.

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Laws of attraction

The reasons why these geographies have become a veritable honeypot for expanding organisations is a golden combination of factors, which are only encountered individually in other emerging markets. The first is **size**. Russia, for example, covers 17 million km², a massive one-eighth of the world's land mass and home to its ninth largest population group, comprising 142 million people. With size, comes **natural resources**. Russia has some of the largest forests and richest mineral reserves in the world, plus an abundance of fresh water contained in its many lakes.

Similar characteristics of size and natural wealth belong to China, and – as with India – this country holds the further advantage of an exploding, **economically maturing** and **upwardly mobile population**. "Remember," says Faure, "developed nations such as those found in the UK or the US – with the exception of their immigrant populations – already have most of the luxuries and amenities of modern life. Public transport. Motor vehicles. Washing machines and tumble dryers. Microwave ovens and television sets. The Internet. Even easy and affordable access to commercial air travel. So, in order to conduct business in developed countries, organisations must grab market share from existing competitors, which is much more difficult and expensive to do than tapping into an untouched market. In the BRIC countries, the average **household income is rapidly growing**, and along with it, the demand for manufactured and luxury goods, for which businesses native to the geography aren't catering adequately. This is in combination with the low penetration of Western international organisations in these areas. It's therefore no wonder that particularly large manufacturers are eyeing the BRIC countries with great interest."

Which types of organisations currently show the strongest interest in the BRIC territories?

- Oil companies, thanks to the abundance of oil reserves in these regions, even in China
- Pharmaceutical companies, owing to the lower operating and labour costs of drug manufacturing plants in these countries
- Motor vehicle manufacturers, for the same reasons as above
- Large manufacturers of consumer brands, such as Coca Cola – who recently invested USD 1.5 billion in Russia – mainly owing to the size of the new markets
- Large aircraft manufacturers, both to leverage lower manufacturing costs and to remain close to their fastest-growing markets. China, for example, is planning to purchase a huge amount of new aircraft over the next decade

Another attractive factor is the degree of political and social stability found in the BRIC countries compared with other emerging markets. African countries are simply not popular investment targets owing to high crime rates, political instability and regular civil unrest. It's not uncommon to hear major industrialists admitting freely that they simply can't conduct business in Africa any longer owing to rampant social problems, including anything from petty crime to vandalism. **A degree of political stability**, law and order in the BRIC countries does not, however, mean that they're flawless or simple to penetrate, warns Faure. Their challenges and idiosyncrasies are many and, since these aspects almost always manifest themselves as unspoken, unwritten rules of engagement, the problems they create are unexpected, vastly underestimated and unpredictable. This makes planning, forecasting, risk management, and corporate governance and control in these countries incredibly challenging.

Nepotistic tendencies

Using Russia as an example, Faure relates that – in spite of the country's apparent political democracy and free market values – it's not uncommon that major contracts and engagements, which have been negotiated and developed to an advanced stage, are suddenly and unexpectedly awarded to a different supplier altogether. The new entrant may not have had any involvement in the engagement whatsoever, but is locally based and well-connected through either family or friendship to the decision-making stakeholders in the client organisation or in senior government positions. This is a direct result, says Faure, of the large portion of political and industrial power being wielded, unofficially, by a relatively small number of extremely wealthy and tightly connected individuals.

Organised crime

Unpleasant as it may be, organisations should also not be under the impression that the relative stability of the BRIC countries implies that there's no crime at all. Whereas much of the lawlessness in some African countries is visible and widely reported, the type of crime that occurs in the BRIC territories tends to be less obvious and well-organised. This doesn't mean, though, that the threat is any less dangerous. If your business is simply too stridently and obviously successful, says Faure, you risk inviting the interference of organised crime syndicates in your affairs, with all the associated personal threats and dangers that non-cooperation can lead to. Unfortunately, it's a reality of conducting business in these countries, which should not be viewed through rose-tinted glasses. Often, business managers of foreign organisations make a conscious effort to keep revenues below a certain limit so as not to attract unwanted attention – again, an unwritten rule, but the danger of paying it no heed is real.

Operating costs

An aspect vastly underestimated by expanding organisations is how expensive it may be to establish a presence in these geographies. To start a new business in Russia, for example, unofficial 'administrative' payments are to be taken into consideration. Taxes are also often underestimated. One such burden is withholding tax, charged on the margin of profit an organisation makes and exports out of the country. In Brazil, it's as high as 31%. So, the need to know precisely what the potential of that market is, and whether it would be large enough to justify the operations and tax burdens is crucial before considering expansion into these territories.

Expensive connectivity

The greatest need from a technology perspective is teleconferencing and video capabilities, followed by IP telephony. Expanding businesses need to ensure that there are strong communications and collaboration platforms and channels in place when they set up offices in new territories, plus the technology to support them. This is to ensure that the new 'limb' stays connected to the decision-making and governing 'body' of the organisation. The challenge, however, is that telecommunications costs are often extremely high in the emerging markets because the infrastructure is carried by only the wealthiest organisations and users who can afford the services. So, finding a way of minimising the costs of telecoms is a first priority.

Secondly, these collaborative channels need to be in place in order to anticipate the dynamic, sometimes unstable environment in which business is conducted. Emergencies creep up on a far more regular basis than in a developed country. Says Faure:

"If your organisation is not agile and reactive enough in its style of communication and collaboration – which, in turn, is enabled by technology – it would not be possible to deal adequately with the large degree of volatility and change encountered in emerging markets."

Factors for success

According to Faure, organisations with the following characteristics and strategies enjoy the most success in the BRIC countries:

- **A large international footprint** – It's not advisable, says Faure, to attempt entering any of the BRIC countries as a first dive into international waters. It's typically only existing global players and well-known, recognised brands with enough international muscle – both financial and reputational – who would target the BRIC markets. You need to be able to demonstrate that your organisation has the credibility to be an advantageous presence in the target country
- **Strong political support** – It's crucial to establish and maintain to right political connections within the target country in order to garner official support for your presence. Be prepared, says Faure, that authorities are often upfront in asking what right you imagine your organisation to have to conduct business in their country. You have to be willing to illustrate clearly the benefits your organisation would bring, and if you represent a well-known global brand, your chances of success are that much higher

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- **Careful partnering** – Most organisations simply do not have the infrastructure or resources to adequately support the intricacies of BRIC business in-house. In an attempt to address these issues, many organisations have tried to manage numerous service providers in BRIC regions. But this approach can often lead to its own set of problems, including escalating costs, delays, various points of accountability and poor service delivery. It's practically impossible, says Faure, to enter any of these countries without a solid partnership with a IT organisation that's already an established local player, whether through a direct presence in the local country or through a strong partnership of their own. These organisations are entrenched and well connected to the government of the day. If you choose a partner with very little political clout, says Faure, you simply won't be successful. You also need to make sure that your partnership can offer a single point of accountability for all your IT procurement needs; the management of the risk inherent in cross-border shipping, including customs clearance and the payment and reclamation of VATs, duties and other taxes; and visibility and management at every step of the procurement process.

The best way of approaching a partnering decision is to work through your own country's embassy. Set up a meeting with the commercial attaché, present your organisation's commercial goals and take advice as to which local partner would be best in terms of connections and reputation. It's absolutely essential, says Faure, that the expanding organisation operate in very close co-operation with the embassies of both countries, informing them of each step in the expansion and negotiation process, so as to ensure a degree of protection.

“Working with the embassies, and **partnering carefully and strategically**, will help your organisation **avoid** many of the **pitfalls and dangers** that come with expanding into the BRIC countries.”

Visiting a developing country on business?

Tip of the day:

Never accept any hard copy or electronic documents of a confidential or semi-confidential nature when you're about to leave a foreign country, even if you've been given verbal permission to study them at your leisure. Instead, ask for supporting documentation to be couriered to your office address in your home country. Many executives have been 'caught' at the airports of developing countries with confidential documents in their possession after tip-offs to authorities and false allegations of corporate espionage, for which the rewards are tempting.

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