Re-engineering products and services to meet demands and preferences

Although it is important to consider the different models of expansion when deciding to go into a new market, new country or even new geographical area of the world, it is also essential to consider the demands and preferences of customers in those areas.

Across the world, there are differences and adaptations that must be made in order to satisfy local tastes and needs. Businesses trading internationally should consider the impact of these adaptations and the extent to which they need to make changes. Changes can incur an additional cost that might be essential to trade in a new market.

Car manufacturing is a good example of re-engineering a product as some countries have left-hand drive cars and others, like the UK, have right-hand drive cars. A car manufacturer operating in the UK would need to re-engineer their products in order to produce an appropriate car.

Another example is that, in some countries, certain food additives, dyes or ingredients are not permitted and it is important that changes are made for local customers.

Key term

Capital investment – the amount of money that needs to be spent on investment in assets such as land, buildings, machinery or technology.

Discussion

Fast-food restaurants, such as McDonald's, have different menus for different countries. For example, in Abu Dhabi (United Arab Emirates) the food is produced and certificated as Halal and there is a selection of additional choices. These include haloumi for breakfast.

What are the advantages and disadvantages of re-engineering menus for McDonald's worldwide?

To what extent do you agree that it is impossible for a business to behave in the same way in each of the countries it operates within?

PAUSE POINT What are the advantages to a business of re-engineering rather than inventing new products or services?

Hint Think of the costs of each and the impact on the business.

Extend Do you agree that re-engineering is always preferable to inventing a new product or service?

Resource considerations

As well as thinking about strategy and the way in which any international business wishes to expand, including the timescales involved, another critical area that the business needs to review before choosing its final strategy for expansion is resources. Resourcing has a huge impact on the potential choices of a business as, without appropriate resources, it is difficult for any business to expand within its own country and certainly very difficult internationally.

Capital costs

Capital costs are those costs that represent high levels of investment in assets that are needed to run the business.

If a business requires high investment in capital costs and equipment, it will need to choose the most appropriate way to expand. Using methods such as franchising or licensing may be most appropriate.

> **Key term**
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> **Depreciation** – the amount of value that an asset loses over time due to wear and tear/use.

Capital costs that businesses commonly incur include:

- computers and printers
- buildings
- plant and machinery
- cars
- furniture and fixtures.

Capital costs may be paid for with a business loan that can be paid back over a number of years. **Depreciation** also needs to be taken into account when valuing the assets.

Revenue costs

Businesses also have to consider revenue costs when they are thinking about expanding. These are all the costs that need to be paid for from sales by the business. The type of revenue costs that a business may expect to incur include:

- staff wages
- utilities including gas, heat or light
- raw materials
- rent
- advertising.

These are all costs that usually need to be paid immediately and, therefore, the business needs to have money available. Making sure that a business has a healthy **cash flow** is very important, or it may risk not being able to pay these costs.

> **Key term**
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> **Cash flow** – the amount of available money flowing in and out of the business. Having a positive cash flow means that a business can always pay its costs. If a business has a negative cash flow for a long time, it means that it is spending out more cash than it receives in income and this can lead to the business not being able to cover its shorter term costs.

> **Discussion**
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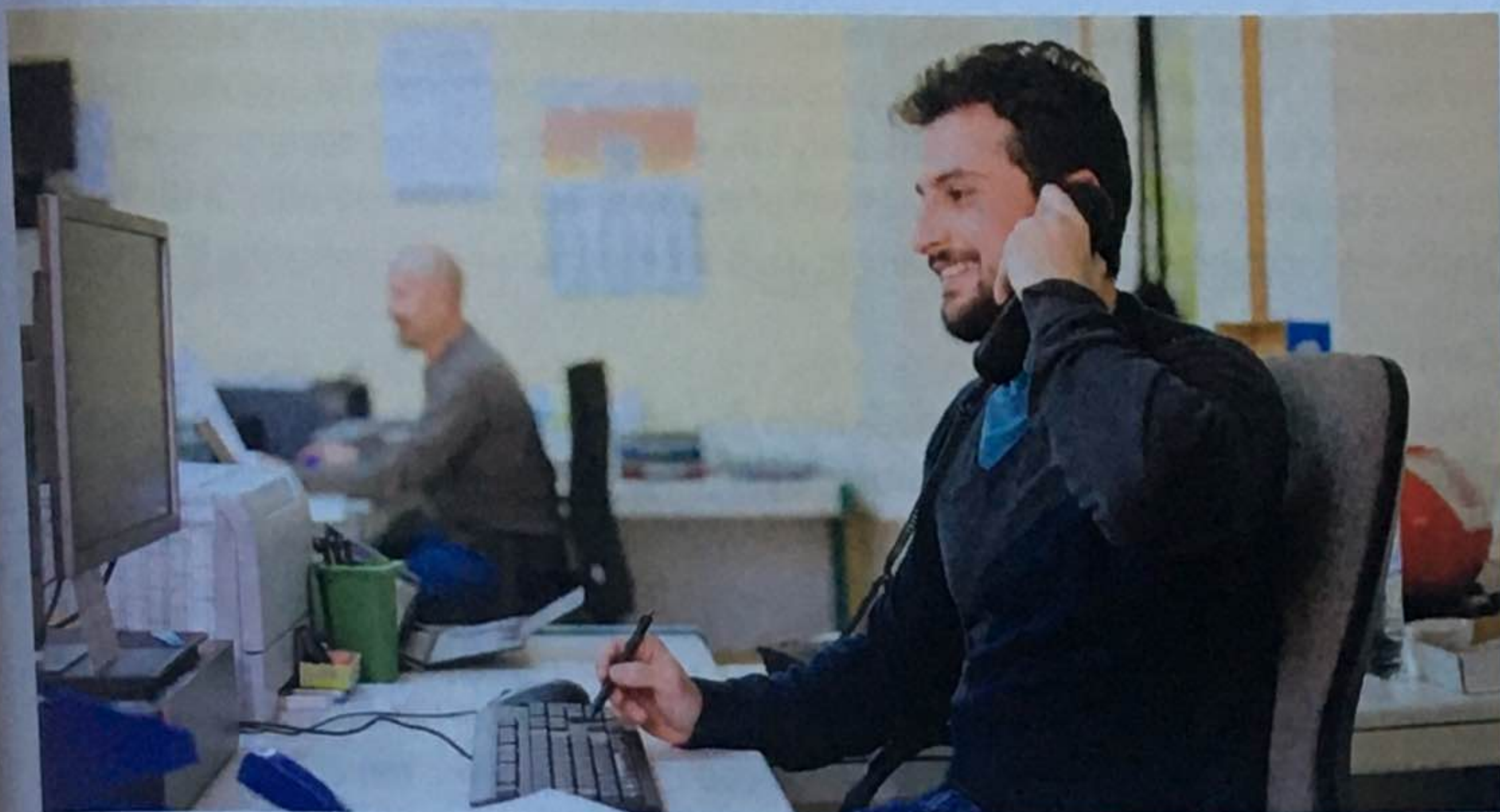
> 'Cash is king' is a common phrase used in business. Discuss, in small groups, what you think is meant by this phrase. To what extent do you agree that 'cash is king' for any business trying to expand into international markets?

Expertise and intellectual capital

You have already learned about the capital and revenue costs that a business must take into account when expanding overseas, but there are also the costs of the expertise and knowledge of staff working in any business. Expertise and intellectual capital refers to the cost of expert knowledge and the skills that have been developed in the business that cannot be immediately transferred, or the need to bring in specialist knowledge, for example when working in particular countries.

Intellectual capital is also the term used to try to put a price on the relationships and knowledge that employees themselves have. It is sometimes difficult to actually calculate the costs of this type of expertise but it is important that any business planning to expand into international markets not only considers the cost of the intellectual capital and expertise in the current markets within which it works, but also the cost of this expertise, if they decide to move into a new market.



Intellectual capital is an important cost within a business that must not be underestimated when expanding internationally.

In some countries, intellectual capital might be higher than in others, as specific expertise for how to work effectively in those countries may be more important than in others. International businesses may also put a cost on intellectual capital when pricing the expertise that they are offering in a country. In a country where skills levels are low, intellectual capital is likely to be higher and worth more than in countries where there are a lot of skilled workers. Being aware of the skills levels of local people, including levels of literacy and numeracy, can have a huge influence on intellectual capital costs.

Training costs for local labour

Deciding to move into new international markets can take place by asking existing employees to move from one country to another and also by investing in training new employees in the local area. When a business decides to invest in a new country, they may need to invest in specific training, such as sales training, how to operate machinery or to offer particular services.

Some businesses have also made a commitment to ensuring that they invest in local people and the local population, to enhance the skills of workers there.

Research

Nestlé have a commitment to support employees in various countries around the world. In Mexico, for example, they have provided basic education in their factories to try to help improve the educational levels of their employees. In Turkey, employees have been given basic administration and health and safety training.

Find out more about the types of programme that Nestlé and other companies offer.

- What are the benefits to Nestlé of investing in education in these countries?
- Are there any disadvantages?

To what extent to you agree that investing in local people to improve their skills and support training is a good idea for companies?

Organisational structure of international business

When businesses decide to operate internationally, they can do so in many different ways. They can decide that they are going to run the operations themselves or they can use a third party to help them, such as using subcontractors or franchise arrangements.

The type of structure that a business decides to use is heavily influenced by the way that the business chooses to expand and the countries in which it chooses to operate. The structure of the business is also significantly influenced by the type of decision making that the business wants to use and the control that they feel will be necessary in the future. There are two types of decision making that a business structure can use going forward.

Centralised decision making

This means that all decisions are made from the central or core business. A business offering a franchise in another country makes many decisions centrally and the level of control in terms of the packing, products and service delivery method are relatively well controlled. Central decision making can also be operated when a business opens its own branch or office in another country.

The benefits of centralised decision making for international business are:

- consistent decisions are made from the 'head office' or by the franchisor
- stakeholders are dealt with consistently regardless of where the business is operating
- deals or agreements can be negotiated across a number of countries and areas
- clear recognition of the brand or way of working world-wide.

The disadvantage of centralised decision making for businesses is that the decisions made may not be appropriate for the country in which the business is operating, due to a lack of local knowledge.

Decentralised decision making

This means the opposite to centralised, and decisions are made more locally by the managers, leaders and employees in the relevant countries. The benefits of decentralised decision making are:

- greater leadership and management potential at a local level
- enhanced ability by the business to match to local needs
- more flexibility to adapt to change
- higher levels of motivation for employees.

The disadvantages of decentralised decision making are:

- potential for confusion about the use of the brand or the service
- lack of control for the international business in the new country or countries
- international damage due to lack of care in one country may negatively affect the reputation or sales in another.

The type of structure with which an international business will choose to operate heavily depends on the type of decision making that they wish to use. By being clear about the types of decision and how they can be taken, the business can ensure that the structure that they choose meets their needs. The structures themselves will depend on the following factors.

Figure 5.7: Factors affecting business structure

The types of structure that are used by international businesses will also depend on whether or not a business chooses to operate a hierarchical, matrix or flat structure.

Table 5.16: Features of international business structures

Hierarchical	Matrix	Flat
• Many layers of management. • Clear definition of roles/specialisation. • Clear authority. • Long chain of command. • Limited span of control. • Challenges for communicating from the top to the bottom. • Potentially slow decision making.	• Team structure drawn of specialists, especially good for project working. • Different specialists brought together in a team. • Shared expertise and knowledge. • Team working using specialists being brought together.	• Fewer layers of management. • Wide span of control which can be challenging. • Fast decision making. • Fast communication. • Cheaper to run. • More team spirited ethos.

Traditionally, many businesses – including those operating internationally – would have opted for a hierarchical (also known as tall) structure, as these types of organisation would have had lots of command and control when operating at the head office and also within the countries in which they were operating.

Technology has changed the way that international businesses operate.

However, today, with many changes in technology and the ability to work online using webinars and web communication between countries, the need to have more controlled tall structures when operating in multiple countries has changed. It is now possible to have flatter structures or matrix structures operating across more than one country with the ability to monitor and check progress.

PAUSE POINT The impact of online communications has changed the face and shape of international businesses. Teams can now meet virtually. What are the advantages and disadvantages of meeting in this way?

Hint Think of the costs of travel, time and accommodation.

Extend Do you think that having meetings in person is no longer necessary for multinational businesses operating in the virtual world?