

**NECESSARY SKILLS FOR WESTERN COMPANIES WHEN
EXPANDING TO LOW COST COUNTRIES**

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Abstract

When planning to expand business to low cost countries Western companies need to pay attention to certain important skills and abilities of their employees as well as management. Consumers and customers in Western societies are vastly different from each other; therefore it needs teamwork between both “worlds” to be successful. Simply setting up a new business unit abroad will not do the trick since it takes a lot of intercultural understanding, using other processes and using a different management approach.

Key words

Globalization, Transfer of knowledge, Creating a social network

Necessary skills for Western companies when expanding to low cost countries

Working in China and India offers ideal conditions to learn interculturally

For R&D centers in Europe it is often difficult to understand what the market in Asia, Eastern Europe or Latin America really is looking for. First of all the local customer needs to be clearly understood before starting with any product development.

The global vision to develop products in Europe and sell them worldwide is only possible if one modifies and adjusts the products according to the local requirements. In order to be successful selling products globally the following the following criteria need to be considered:

- Knowledge of country specific as well as regional differences in comparison to Europe
- That the local market always is influenced by the local (business) culture
- Common ground can still be found between Europe and other markets and it is helpful to analyze and use these similarities.

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Growing markets require more attention than the simple set up of distribution and production unit in the respective country. Nowhere else in the world is middle class growing as rapidly as in China and India. The populations of these two countries are enormous as the IMF (International Monetary Fund)² shows in their ranking. This on the other hand means that there are two megamarkets with millions of consumers.

Consumers in Western societies have a different buying behavior than people from developing countries. Westerns have a ten times higher buying budgets than the average Chinese or Indian. In 2010 the annual per capita income in the USA was estimated at 47,000 US Dollar whereas India only reached 3,000 US Dollar. Even with ongoing economic growth in India it will take more than two generations to reach the income level of the US.

The income in India as well as China is constantly rising and the need for industrial goods is growing as well. Besides modern machines, household goods or cooling equipment especially the demand for mobility and infrastructure must be met. It is easier for Western companies to export consumer goods to China than to India, since India has not taken the same economic development as other “richer” developing countries.

India offers the chance to solve “old fashioned” problems with new technologies. Indians across the whole country are willing and open minded enough to reach for leadership in new technologies. It is important to point out that the entry to the market does not simply mean to open a distribution office locally. First of all it is best to forget about everything that one has done in order to be successful in the home country. The key to being successful in India means that one has to step away from the logic thinking one is used to and that is generally works in Western societies.

The first approach normally starts with adjusting tried-and-tested products from the European market to the local needs, mostly without success. The new approach now implies to develop completely new products with low performance at low cost.

The target is to create a solution where the product offers 50% of performance at only 15% cost compared to the European counterpart. Trying to reach this relation is impossible if companies use existing products and partly buy its components locally. Vijay Govindarajan and Chris Trimble³ state in their book that it is necessary to start from the very beginning, to start from scratch.

“Rich” countries such as Europe or the US have an excellent infrastructure at hand, whereas in developing countries things like streets, telecommunication, power plants for power supply, airports, schools, hospitals, banks or raw material storages are still in development.

The introduction of new ideas and products to low cost markets is often critically seen by Western societies where capitalism has been introduced since quite some time. Therefore one finds a stable market with a traditionally grown legal framework, secure working conditions as well as established knowledge about consumers and their needs. But all these features are hindering the implementation of new technologies. And this is the chance for developing countries; they have a higher potential to introduce new processes at lesser resistance. Furthermore developing countries are facing problems that are not yet addressed nor are there any solutions provided by Western countries.

² IMF, 2010

³ Govindarajan, Trimble, 2012

Therefore developing countries have the option to implement environmentally friendly technologies much faster than “richer” countries which are stuck in their “old” ways and systems. Concluding this means:

- Developing countries offer enormous market chances,
- Developing countries are very different from the Western world,
- Innovation leads to success, simple export will lead to losses.

And all of the above implies that a significant change in the business culture of the mother company needs to take place.

Vijay Govindarajan and Chris Trimble describe 5 levels of thinking regarding a business approach.

On the first level only the markets in rich countries are of interest. Developing countries are not taken into consideration, because the expected profit from exports is seen as too marginal.

On the second level companies can be found that are trying to sell existing products. Their strategy is to start entering the market with a low amount of their product, hoping that after a certain while business will rise based on the assumption that purchasing power also rises in developing countries. Mostly these are goods that only a few rich customers in these countries can afford.

On the third level the so called „customizer“ can be found – they adapt their existing products for certain local requirements. The product basically remains the same; the only difference is that local manufacturer produce a few or even most of the components. This might help to generate a cost advantage due to local purchasing, but on the other hand could lead to lower product quality.

Being on the fourth level means that the product is developed totally from scratch finally the fifth level signifies that all stakeholders are global and not local any more.

The most interesting approach is the new development of products from scratch. That means that developers need to start with the customers’ basic requirements and create a solution that contains only the necessary minimum of features. In order to be successful it is important to keep not only technical solutions in mind but also adjust the business model, introduce new processes or form new cooperation.

Of course an international team is of importance in supporting global strategies. This team needs to generate the right knowledge about not only global markets but also understand local markets, cultures and business models. After a certain period of time it is possible that these teams support the mother company and the overall business if local R&D units in developing countries become global competence centers.

Expansion to new markets not only means transferring existing product portfolios but requires a deep understanding of the customers’ needs and wants in these markets. If new developed products are a success in one country such as India it is even possible to generate more profit when introducing these products to other developing countries or even the home market.

Globalization with professional and social competence

The following points could be seen as a guideline to help local team members in their personal development

- A thorough understanding of customers' needs, wants and expectations in developing countries
- Transfer of knowledge and skills to and from developing countries
- Creating a social network amongst colleagues can help to transfer local inventions and applications from the low cost countries to the mother countries in the West

These (personality) traits are a good basis for young talents who want not only prove their ability for personal development but also show that they possess perseverance, creativity, and flexibility.

The global organization needs to coordinate and adjust their processes when it comes to teamwork, especially regarding the following points:

- Board of management and senior management meetings should be organized in low cost countries
- Development of training for members of middle or higher management in the respective low cost country
- Innovation conferences are held in these countries
- Transfer of employees, money as well as responsibilities to the growing markets
- Creating an overall positive attitude concerning the new markets
- putting focus on the growing markets by sending employees abroad (expatriates)
- Deepening experiences regarding new markets and working internationally
- corporate events should take place in low cost countries
- Creative choices when it comes to looking for new members for the board of management
- Setting up separate business scorecards for growing markets including expectations for outcome as well as focusing on growth indicators and figures

Personal experience in India has shown that strategy that mainly is based on localizing very much hinders new product development. The biggest obstacle to overcome are not technical expertise or budget, but the attitude of the management and the whole business organization.

Not only the new local R&D team but the whole new local company should be founded officially without taking over an existing organization.

Talented team members should come from inside and outside the company. It is important to make sure that the new team not only understands the local market but also has knowledge about Western business culture. Unfortunately not a lot of such "multi-skilled" employees are available on the job market. Therefore special courses and trainings need to be offered to make up for it.

The employees need to learn about the requirements of the new market and they must be able to develop solutions for the market's requirements. The challenge is to create a technical solution while taking the existing local options and supplier market into account. Furthermore the new team needs to have a close collaboration with distribution and marketing as well as

with the R&D units since established processes from the West need to be adjusted and sometimes even defined totally new for the local market.

The local team is strengthened through the option that all resources of the mother company are also available for them, especially in case specific possibilities for development are not in place. The Mother Company or also named “lead factory” has two tasks:

Working on own projects while also supporting the new team in the low cost country. In order to support this double duty, the new company in the developing country makes transfer price payments in order to show that know-how and support are honored. Not only are such payments required concerning taxation but more important employees in the lead factory are rather willing to transfer knowledge when money is paid in exchange.

The senior management of the global organization should receive reports on a regular basis to be able to counteract in case things do not develop as expected. A “customer scorecard” which contains the following information would be a good choice.

- Size of the new market
- Which target prices are accepted on the local market
- Is the customer willing to partly carry the risk of buying a new revolutionary product
- Which other competitors are trying to enter the market as well, and at which pace and how aggressive are they
- Is the team able to develop the right product and furthermore can it be produced with the given budget

Plans need to be adjusted in regular intervals. Whereas most companies have one year strategies, this is a term far too long when expanding to low cost markets. In order to have the chance to use experiences more effectively, the management is required to look at the plans and adjust them each month or even at shorter increments. These short term meetings and adjustments help with a quicker teambuilding and in that way also lead to a faster knowledge transfer in both directions.

An optimal process for learning should include the following:

- Quick development of the team if possible at low costs
- Finding solutions based on clearly defined “lesson learned”
- Does the team find creative solutions easily and are they able to put the defined strategy in place

In order to be successful senior managers in charge need to have excellent business knowledge and have to power to get things done fast in the company. Of utmost importance is that management and the relevant employees of the headquarter and all the companies in the organization have a high social competence.

The international network in the organization needs to consist of people that know and challenge each other. Multinational organizations also have to build “bridges” between units in order to secure economic support.

The best ideas often come from outside the headquarter therefore building up networks across borders is so important. Cabrera and Unruh⁴ sum up the skills that are necessary for a successful global business.

⁴ Cabrera, Unruh, 2012

Leading a global team is vastly different from leading a local team, for instance in their approach of problems and the whole way of thinking. When building up a network between the mother organization and the business unit in the low cost country it is necessary to have a good relationship amongst team members, if possible getting to know each other personally. Furthermore members of the local team need to have excellent business contacts to potential customers. Moreover the different way of thinking of cultures involved needs to be understood by both sides. So the aim is to integrate the diverse languages, social habits, working hours or even climatic conditions into one effective team.

Looking at product definition it helps to make a comparison between existing solutions and the real requirements from the customer or the market. The lead factory's production processes and choice of material and parts should be subject to constant testing if they are suitable for the market in the developing countries. An analysis of the processes as well as the courage for change are supporting a successful expansion to low cost markets.

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