These four articles written by Erwan Henry focus on key concepts or perspectives, to successfully develop, operate and manage international business.

Are You Taking Care of Your Business Model?

The Business Development Equation

Strategizing in Instability and Volatility

Critical Success Factors in International Operations

by Erwan Henry

Surprisingly the Business Model concept remains ignored by many managers and is not yet receiving all the attention it deserves in business education.

Are You Taking Care of Your Business Model?

by Erwan Henry

Many operational executives are wary about complex business concepts, brilliant and sophisticated theories, which are far from their daily issues and goals. They rightly believe that business is about common sense ("do not spend more than you make"), vision ("where do I want to be tomorrow?") and execution ("how will I get there?").
I completely agree with them!

When I teach in MBA Executive Programs, I spend time recommending to junior managers to take a deep breath and think in simple terms. The Global Economy is a matter of size and comprises many different cultures. But at the end of the day a cash flow is a cash flow wherever you work and customers have similar expectations in China or in Germany (pay less and get more). To my surprise, a simple and effective concept does not get all the attention it deserves: This is the Business Model (BM).

The readers of this article should be able to write in 5 minutes and describe in 200 simple words, the BM of his or her company, picturing clearly and concisely how it works. Can you do that?

The Business Model is a recipe

Having a clear understanding of one's BM is mandatory in order to then adjust, improve, expand and duplicate it. A BM is in business what a recipe is in cooking. With the same pan, oven and ingredients two cooks will make different dishes! Allow me to be more specific and still straightforward, the BM

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is the mechanism, which is generating profit margin, a sort of four strokes engine:

Selecting and reaching customers,
Creating value for customers,
Setting up competitive advantages,
Defining tasks and configuring resources,

In other words, selecting and reaching customers is about marketing and sales; creating value is about providing good reasons to become and remain a customer; setting up competitive advantages means to be better in a number or major and minor fields; defining tasks and resources is about organization and execution.

These four components are tightly interconnected (good products must be available at a reasonable price etc.), but often one is the driver of the BM.

Examples of Business Models:

Apple provides a highly reliable proprietary operating system (easier to use computers break hence a skill barrier; this is a competitive advantage too), keeps innovating (creating value for customers) and this leads to a type of luxury sales and branding (selecting and reaching the customers). Tasks and resources remain in the background but we can tell they are very effective.

Low cost airlines: One single type of aircraft based in secondary airports or departing on the leftover slots (resources), online booking (reaching customers), cheap fares (value for customers, breaking an affordability barrier), low fixed costs (competitive advantage).

Nespresso: Espresso coffee made simple for home consumption (value proposition), direct sales through dedicated retail stores and online sales (reaching customers), high-end retail stores and positioning as a luxury delicacy (selecting customers), Nespresso system duly patented (competitive advantage), many machines available and a wide range of fine coffees and limited editions from exotic origins (configuring resources).

Adjusting, improving, changing Business Models

Being aware of one's BM is a first step in the use of common sense management I recommend. The BM's should be observed, possibly dissected, then evaluated and improved.

How old is this BM? If the recipe of your success is over 10 years old, take the time to give it a fresh look. The "we always did it this way" attitude is inept and many complacent managers wrecked their company with that motto.

How does the BM compare with those of our competitors? Remember the most dangerous competitors are those we know little about or look down on.

What can be revisited, changed or improved? This requires guts and vision to walk away from the methods of the past. It is about trial and error, experimenting, testing and evaluating.

A clear and simple understanding of one's BM, with a formal evaluation every other year (not too often to perceive the discrepancies) and honest assessment is sound management practice, but rarely carried out. Successful new businesses typically revise their BM four times or so on the road to profitability1, conversely successful BM's tend unfortunately to be carved in stone.

Indeed, we can all observe collisions of BM's, rocking industries:

Between the 20th century approach of producing where customers are located, and the 21st century global supply chain with manufacturing where the cost factors are the most favorable.

Focusing on core competences (prioritizing resources and costs) or providing a wide array of products and services, to better capture and keep customers?
Pursuing a global strategy to offset risks despite fixed costs and managerial complexity, or remaining in one's comfort zone, lacking growth and sooner or later unsafe?

Boards continue to face such difficult choices as I consider indeed that supervising, strengthening and at times changing the BM is their ultimate responsibility.

Properly identifying and selecting business targets in the immense perimeter of the Global Economy is an imperative and a challenge for small and medium size companies, with limited resources, which cannot afford to fail in trying to find new sources of growth far away from their base.
The "business development equation" that Erwan Henry imagined and designed is a decision-helping tool to screen targets with what really matters in Business: competitive pressure, growth, cost of operations.

The Business Development Equation

by Erwan Henry

Do not read this article if you think market and competitive intelligence are a waste of time and money. These lines are dedicated to you if you are aware that running your business requires new tools and methods to tackle the formidable challenges of the competitive pressure of the 2020's. Wave after wave of new competitors keep penetrating your home market, poaching your pet customers and taking a toll on your margin. Your only chance to keep afloat, in particular if most of your sales are made in Europe or North America, is to quickly develop business in emerging countries.
Hence, the first step is to explore, assess and measure new potential markets, identifying several target ones, big enough to provide a decent reservoir of growth.
Nevertheless, how then do you screen the most attractive reservoirs of growth? How do you set up priorities? In the vast perimeter of the Global Economy, allocating resources wisely is critical, to avoid investing a big amount of time, money and energy for a lukewarm

success. The purpose of this article is to offer a simple tool in this respect: the "business development equation" that I imagined and designed.

Growth rate, competitive pressure, operating costs

Penetrating a target market of the adequate size, is easier when it goes up. The GROWTH is a wave and its RATE is the size of this wave on which new entrants can surf. This growth rate can be that of the GDP, of the industrial production or of any relevant market indicator like the consumption of goods or services.

Market penetration is always resisted by competition. A weak competitor will leave way for a robust gain of market share, while a strong competitor will fiercely defend its turf. This is COMPETITIVE PRESSURE.

Business development has a cost and this is the third factor in our approach. The mere local COST OF RUNNING BUSINESS may vary considerably from one country to the other, between cities etc. This has an obvious impact on business development, high costs require sizeable revenue and margin to be covered while moderate costs will enable the mobilization of more troops and contribute to the necessary persistence.

We now have the three components of the BUSINESS DEVELOPMENT EQUATION: growth rate, competitive pressure and the cost of running a business.

Indexes and calculation

The first step of this equation is to DIVIDE the growth rate by the competitive pressure. Why divide? Because the two factors are antagonists, a nice growth rate is attractive but the higher the competitive pressure the more difficult the development will be. The second step of this equation is to SUBTRACT from this quotient the cost of running a business. Why? Because this cost offsets the attractiveness of (Growth / Competition). For example, a promising market like Azerbaijan, with a moderate competitive pressure, but which would require considerable operating costs (expats, high living and travelling expenses etc.) might not be so attractive at the end of the day.

Growth rate. This is objective data related to the product line or market segment.

Competitive pressure. This is subjective. Competitive intelligence research must be carried out to describe, compare and qualify this factor. There is not an absolute evaluation, but a relative one depending on each industry and line of product. My recommendation is the following:

Weak	0.5
Moderate	1
Strong	2
Intense	3

The weak competitive pressure is a kind of "bonus" which speeds up development, hence a figure less than one. The moderate competition is neutral, and the strong and intense ones counterbalance growth.

Cost of running a business

There are many indicators available on the web. This takes into consideration, local wages, travelling to the country and inside, living and operating costs and required structure (local employees / expats, support from HQ etc.). What matters ultimately is the comparison between options.

I recommend establishing a "reference", like the cost of operating business in a given facility, and compare the contemplated options with it. In the example below, 0.9 means 90% of the reference; 1.2 = 120% etc.

Reference	1
Option 1	0.9
Option 2	1.2

Example

Company ABC is worried by the lasting attrition of its European market; it purchased a market study and carried out additional competitive research. This confirmed that China, Indonesia and Turkey are the key growth reservoirs:

China, 8% growth forecast in ABC Company's main product line; cut throat competition; cost of running business very high in Shanghai, but lower in Chengdu.

Indonesia, 6% growth forecast in ABC company's main product line; low competitive pressure; cost of running business high in Jakarta, low in Surabaya.

Turkey, 5% growth forecast in ABC company's main product line; moderate competitive pressure; cost of running business high in Istanbul, moderate in Konya.

The reference for the cost of running the business is the average European cost.

	GROWTH RATE	COMPETITIVE PRESSURE	COST OF RUNNING THE BUSINESS OPTION A	COST OF RUNNING THE BUSINESS OPTION B
CHINA	8	3	1.2	0.8
INDONESIA	6	0.5	1.1	0.6
TURKEY	5	1	1	0.5

China Shanghai	= (8 / 3) - 1.2	= 1.5
China Chengdu	= (8 / 3) - 0.8	= 1.9
Indonesia Jakarta	= (6 / 0.5) - 1.1 = 10.9	
Indonesia Surabaya	= (6 / 0.5) - 0.6	= 11.4
Turkey Istanbul	= (5 / 1) - 1	= 4
Turkey Konya	= (5 / 1) - 0.5	= 4.5

In this example, despite the higher growth rate, China is the less attractive option. So many companies fascinated by the potential size of the Chinese market flocked to China only to crash and suffer high losses, for not realizing that the competitive pressure was lethal!

This equation offers a ranking between market targets based on clear critical factors influencing business, while the absolute value of the result is however not relevant in itself. This equation does not take into consideration qualitative factors such political and legal risks, experience or comfort with the business culture and environment etc.

In conclusion the perspective provided by this equation contributes to a thorough decision making process, sorting out options, directing resources where they can be the most effective with a faster return. This is a tool to be used with discerning common sense to fish in the rich but dangerous waters of the Global Economy

Erwan Henry revisits the notion of competitive advantages and addresses the impact of volatility and instability in strategic thinking.

From Lead Soldiers to Video Games: Strategizing in Volatility and Instability

by Erwan Henry

The purpose of this article is to share some reflections on piloting companies in the 2020's, facing increasing instability (brutal Covid crisis, geopolitical tensions), deepening shifts (quasi war between Russia and Ukraine, Brexit, China bullying neighbors), new paradigms (low oil price, reshuffled globalization into economic zones), disruptive technologies (AI, e-cars, self-driving vehicles), accelerated speed at which everything happens.

This acceleration is not limited to given sectors of business: it is fundamentally a new pace of World Inc. to which we all must adapt. The Global Economy keeps challenging established business models, storming entrenched positions, reshuffling the industrial map of the world, shrinking costs and margins, putting prices down, propping up new players and soon fierce competitors. In other words, the 2020's are a time of instability, volatility, and complexity.

Indeed, the acronym VUCA (Volatility, Uncertainty, Complexity, Ambiguity) appeared to describe such environment in military and homeland security, recommending methodical actions. This is now influencing management.

Instability

Instability is triggered by political upheavals such as the tension in the South China Sea and at the Ukraine-Russia border, the wars in Syria, the failed state in Libya, the refugee crisis, populist politicians pouring fuel on fire, the Covid 19 pandemics and the subsequent global recession etc.

Instability also comes from disruptive innovation. This sounds incredible, but in less than a decade the major hotel chains have been missing three waves of the digital revolution in a row: OTA's (Online Travel Agencies such as Booking.com or Expedia), the Metasearch (Tripadvisor, Trivago) and the Sharing Economy (Airbnb). The hospitality industry struggled but got through, until the Covid crisis struck it.

Volatility

The capital market is not the only source of business volatility. Raw material prices take a roller-coaster ride, "recurrence" and "sources of margin" are becoming antonyms, and market positions keep fluctuating with increasing amplitude. Traditional cycles of business (automotive, shipyards, yellow equipment) are disappearing. Windows of opportunity tend to be more frequent but also narrower. Entire industrial sectors may boom and collapse within relatively short periods of time in given locations.

Complexity

Manufacturing patterns changed drastically. The Boeing Dreamliner is a typical case with 30% of the aircraft structure outsourced from 15 suppliers in 8 countries. This disintegration and re-composition of the production processes transform industrial models. Commercial methods too are deeply challenged by the transparency brought by the Internet, societal expectations, sanitary precautions, protection of the environment, respect of fair competition regulations. The ever-expanding globalization has suddenly reversed course to favor regional economies aiming at a deeper intergartion (South East Asia, India, Europe…). In other words new forces are at work, increasing the number of stakeholders.

The end of PIMS

When Michael Porter, developed his clear and effective strategic concept, he assumed a relatively stable world to unfold enduring competitive advantages: building stronger links in the company's value chain, occupying attractive niches, enhancing value for customers etc.

PIMS (Profit Impact of Market Strategies) was for over three decades the corner stone of strategists: market share leaders in any industry were supposed to make a higher profit than others. This became the compass for growth through M&A's to reach N°1 or N°2 positions. This no longer works, just look at GM, IBM, Nokia ...

A new generation of competitive advantages

In our volatile and complex environment, building up sustainable competitive advantages is slow and bears a growing risk of attrition. Hence, in addition to better costs, top notch R&D, higher efficiency, sharper marketing we must also build a new generation of competitive advantages.

The better detection and pro-action capacity rank first: this is the ability of organizations to detect, decipher and translate into pro-active action the «weak signals» of the volatile world in order to adjust to the changes taking place. This means learning how to gather relevant and cost effective intelligence, screen and turn it into practical information for decision making. This is also getting organized and becoming agile enough to run recurring experiments: test business models, try different organizations, validate operational tactics, etc.

The competitors to watch are not only the traditional ones, but also the mavericks, the potential new entrants with non-conventional business models. The follow up of risks and uncertainties should be a fundamental task, carried out by a manager documenting, updating and dissecting the necessary data in real time.
A volatile world means many scenarios of evolution; in turn analyses prior to decision-making must examine several angles and explore various alternatives. What will finally take place is probably not what was envisioned, but the simple fact of having contemplated several options will provide a faster appraisal, a sharper assessment and a more agile reaction to the events taking place.
There is a lot of common sense in this adaptive approach; but I saw prominent companies, continuing to operate obsolete models, stubbornly ignoring the flashing alarms in their cockpit until the Covid crisis made them crash.
No surprise the VUCA approach in management advocates anticipating issues, appreciating how multiple items in the business environment interact and their possible consequences on business volume and margin, strategic reshuffling, gain or loss of a key advantage. The goal is indeed to get prepared for contingencies rather than damage control.

This is an enormous change!

The generation of video games players is probably better prepared for this era than the managers who used to play with lead or plastic soldiers.
How many graduate business schools nevertheless prepare managers to genuinely grasp increasingly complex situations and truly devise the necessary business adjustments?
How many companies select and promote their “talents” according to demonstrating an open and agile mind, thinking outside the box, showing the courage to move out of their comfort zone, and the fortitude to genuinely tackle the issues?

Implementing an international or global strategy is far more difficult than merely designing it. This article is a refreshing reminder of the critical success factors in international operations.

Critical Success Factors in International Operations

by Erwan Henry

Fore scores of companies, operating on an international scale is necessary to survive and thrive in the Global Economy. Tackling globalization requires fortitude and vision. Keeping afloat amongst a landslide of competitors requests a sharp and agile strategy execution.

Let's acknowledge that implementing an international strategy is a long-term enterprise and a never-ending race: it starts with export as a first step, unfolds into direct sales operations to better settle and grow, matures then into local production of goods and services to join the major league and aim at some form of leadership, eventually it possibly reaches the apex of deploying a multinational organization. The runners indeed must fully understand and implement the basics of international operations if they want to keep up in that contest. This article is for them a mere reminder of the critical success factors in putting international strategies into execution.

Sturdy business model

A business model is the recipe generating profit margin, by selecting and reaching customers, creating value for them, setting up competitive advantages, defining tasks and configuring resources.

Running international operations requires a business model adaptable to foreign situations while still performing well. This is often a difficult balance with conscious choices to make: to what extent can we adjust the business model and keep it efficient and effective?

Articulate vision

The next critical success factor is an articulate vision of the venture. This means having a clear and practical understanding of what an international strategy is about. Simple facts like, travelling, translating (language and culture), coping with currency variations, day to day decision-making and management, keeping the pace of the development etc., must be well appraised.

The goals and their related means have to remain reasonably simple, agreed upon within the company and precisely defined: selling what and how, balance between market share and pricing, confronting the competition but at what cost, following major accounts but with what level risks, what return and profit, resources matching objectives…?

Unflinching management

Resolve is the first virtue of the management of a company embarking in an international strategy: the journey will be long, often bumpy, and sometimes hazardous.

Screening and appointing those with the best skills often means depriving current operations from their best employees and disrupting the status quo. During a battle a general keeps some forces in reserve, but corporations subject to heavy cost control lack such comfort and when help is needed a crisis may erupt. The management must be able to tackle the multicultural issues (how cultures interact and clash), overcome setbacks (which always happen), survey honestly their root cause, and refrain from the "blame game".

Sharp business intelligence

What map for the journey? Market, customers, competitors, pricing, regulations, hidden treasures and traps, alternate paths, various lines of communications...

Desk research piling up and screening data is fine, but going where things happen, meeting real persons in the field, getting a first-hand impression, addressing squarely the issues, confronting projects and reality is paramount.

Then, processing information into practical plans of action is the next step. What methodology, at what cost, who is in charge? The answer is a KM system (Knowledge Management) with codified procedures and tasks descriptions to professionally gather and exploit business insights and intelligence.

Bold resources allocation

The lack of means is the N°1 cause of failure: wrong people, no training or not enough training and anticipation, divided attention by management, drain of resources of all kind (from cash to IT) to cope with the problems. An international strategy often triggers a serious depletion of resources; it requires strict planning, a lot of training, and a careful selection when their allocation takes place.

Persistence and determination

Events never unfold as forecast, bright plans fed with wishful thinking crumble, most opportunities require a lot of work to be exploited, years rather than months is the time scale ...in all cases persistence is the magic wand to make success happen. Market share gain has a cost and takes time, harmony between cultures is not "electronic", losses first and profit later is the standard... Key issues, fault lines cannot be ignored for long and failing to address them properly only triggers frustration and failure. Persistence is often tested the hard way.

Steering international operations with good chances of success demands a sturdy business model, an articulate vision, a sharp business intelligence, a bold allocation of resources, a persistent management and a good dose of fortitude.