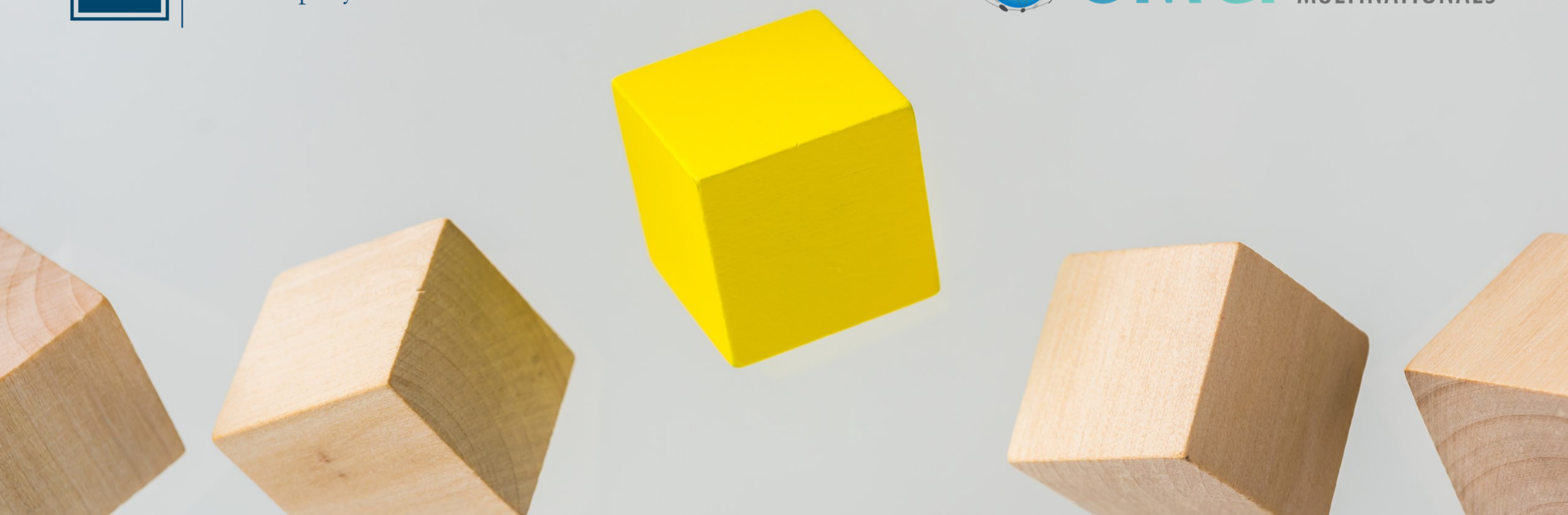


LEVERAGE YOUR CORE

As companies look to expand internationally, they have a choice—replicate the home market in the target market (in terms of products and services offered, target customer segments, operating model) or bring a subset.

The answer will vary, but a critical starting point is this: Define your Core. By 'core,' we mean where you actually make money.

Surprisingly, most companies do not have an accurate view of which products, segments, and customers make or lose money due to complexity-induced cross-subsidizations within the business.

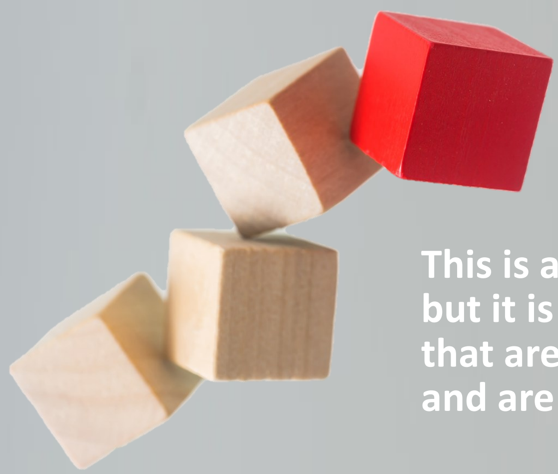
That is a dangerous situation, particularly given that often the most profitable 20% to 30% of products (or customers) generate more than 300% of the profits of the company, with the rest eroding most of those profits away. So that is the first gap to close—and a foundational input to your international market strategy.

*[See our **Portfolio Transformation Vantage Point**]*

Once you have this knowledge, two adjustments usually need to be made. The first is tailoring the core offering to the tastes and circumstances of the local market. This may sound obvious, but there are plenty of examples where this does not happen.

The second adjustment is tailoring the variety of the range to the size of the market, as a bigger market size affords the opportunity to bring a greater variety of goods to market.

Of course, as you will see, the converse is also true.



If your home base is the US and you are expanding into a smaller market, a subset of your original product offering may be optimal.

This is a lesson for companies looking to expand—but it is perhaps an even bigger lesson for multinationals that are already spread across dozens of countries and are looking to improve their profitability.

CASE STUDY: INTERNATIONAL COSMETICS COMPANY

To illustrate this, consider the experiences of a multibillion-dollar US-based international cosmetics company. The business pursued growth through an ambitious international expansion strategy, only to see margins decline. WP&C was tasked with assessing the complexity and profitability of the top five markets and to develop insights which could be leveraged in other markets.

The first finding was a mismatch between the offering and the specific customer requirements in each particular market.

In Brazil, consumers demanded a broad portfolio of affordable makeup products to satisfy their taste for bright colors and to complement a diverse array of skin tones. Strict regulatory impediments to importing products meant local manufacturing was a key element of market entry.

In contrast, the Swedish market demanded a more conservative palette of neutral-toned makeup. When our client entered Sweden, they succeeded by offering a focused portfolio of neutral colors, which could be cheaply imported in bulk.

The second finding related to revenue density (revenue/SKU) and hidden costs.

Innovation was typically focused to drive growth in large strategic markets, but once a product was developed, it could be included in any small market's portfolio. This "everything available everywhere" approach to the country portfolio meant that smaller markets could offer a huge variety of products with the belief that product development contained most of the cost of bringing a product to market.

But this ignored the additional hidden costs associated with offering a large portfolio, such as marketing and inventory management. The result was different profitability levels by market.

Some large markets, such as China, with relatively few products, were able to build revenue density and scale. But others did not fare as well—they were relatively small markets supporting large portfolios, with correspondingly high costs.

The key takeaway was that each market required different country-specific playbooks, but all underpinned by the same set of economic levers.

From our analysis, we determined those levers of profitability to be pricing power, market size, and revenue density. When revenue density was higher, country leadership was able to gain share with fewer SKUs, thus reducing costs and increasing margin.

[*See our* ***Square Root Costing Vantage Point***]

IN KEY MARKETS, REV/SKU WAS A STRONG PROXY FOR OPERATING MARGIN