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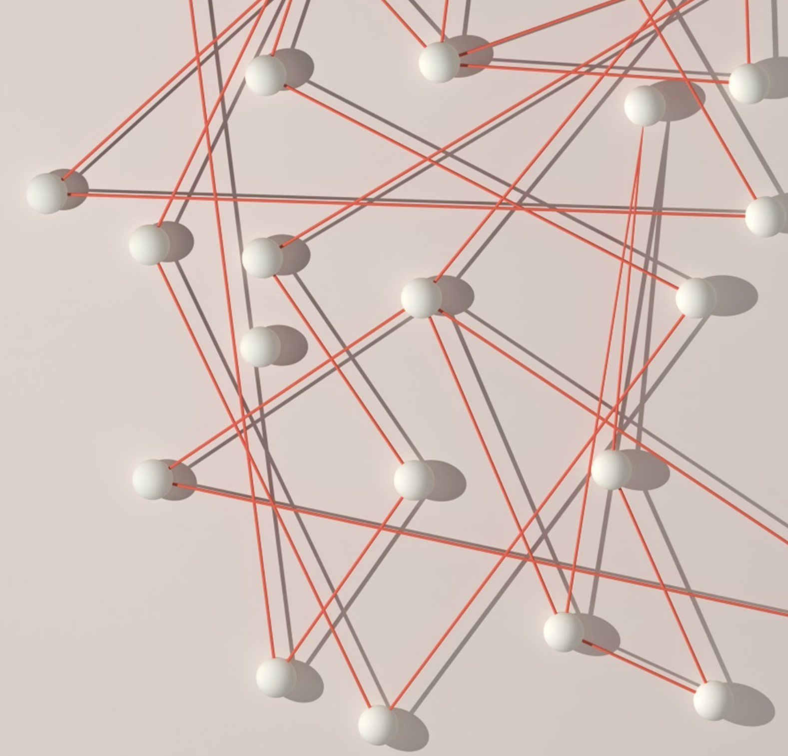


RIGHT-SIZE YOUR GEOGRAPHIC FOOTPRINT

Even before the pandemic, companies were taking a more critical view of their geographic footprints. That trend is accelerating in the wake of reduced demand expectations, supply chain shocks, and the need to bolster the core. One example is General Motors, which announced in early 2020 it was pulling out of Australia, New Zealand, and Thailand in an effort to improve its return on investment. Similarly, UK grocery giant Tesco scaled back its overseas operations, particularly in Asia, to focus on its core European markets.

We expect to see more geographic rightsizing and retrenchment over the next 18 months despite the counterargument that it makes sense to withstand a few down quarters in exchange for long-term opportunity. This is partly a correction for rampant overseas expansion over the last two decades. The fact is, many companies have passed the point of diminishing returns and are now operating in too many countries.

It's not about the individual country, it's about the portfolio.

Like a company that offers too many product choices, it's possible to make a case for each additional expansion choice, despite the dilutive effect in the aggregate. For many organizations, a tighter configuration of core countries would be beneficial—and more profitable.

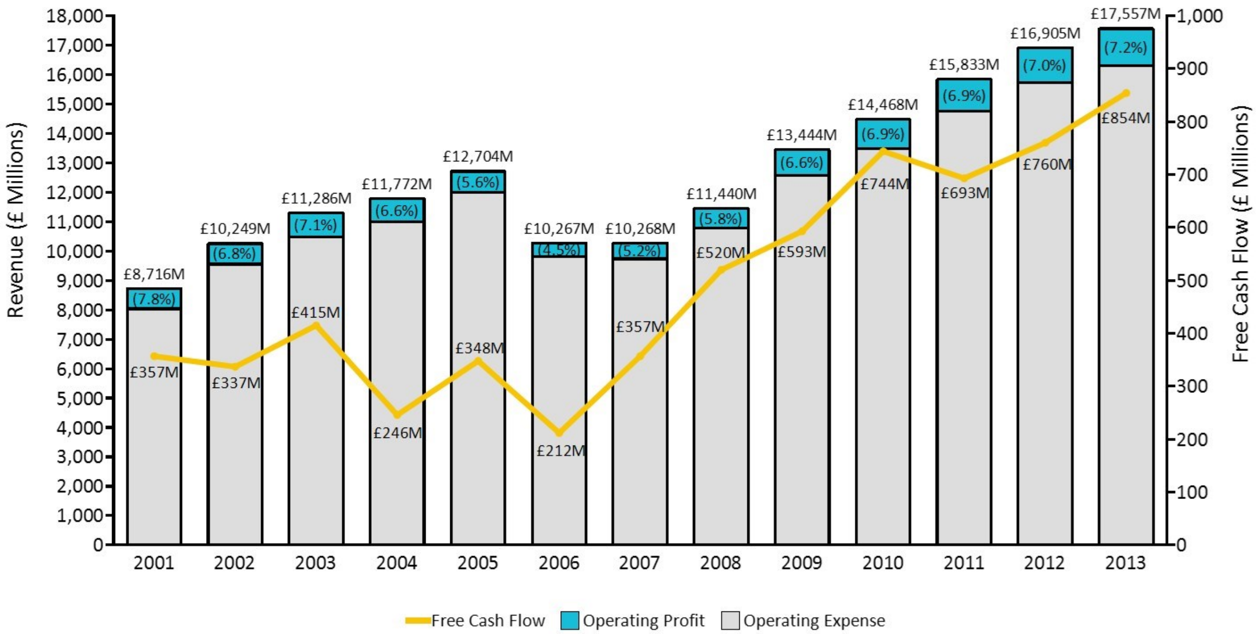
British multinational Compass Group saw this firsthand. Back in 1998, the contract foodservice and facilities management business operated solely in the United Kingdom. By the mid 2000s it had expanded to more than 100 countries, including East Timor, Eritrea, Costa Rica, and Swaziland. Operating costs were relatively high and there were inherent limits on Compass Group's ability to achieve scale and market leadership.

This came to a head in 2004 and 2005, when, rocked by profit warnings, Compass Group began injecting greater focus and discipline into its business. This included exiting 50 countries, leading to impressive boosts in profitability and growth rates. The good news is that our analysis suggests that many can replicate Compass Group's profit recovery story.

FIGURE 1

COMPASS GROUP FINANCIAL JOURNEY, FROM OVEREXTENDED TO RECOVERY

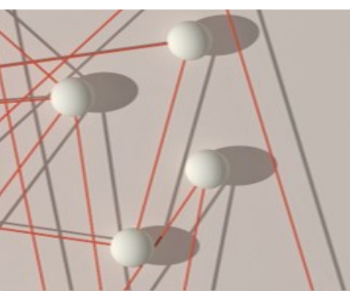
Compass operated in over 80 countries in 2006, cutting that number in half by 2013—today they operate in nearly 50 countries



Compass Financial Performance 2001-2013

Note: Revenue reduction between 2005 and 2006 is because Compass Group sold its roadside and travel catering businesses for a combined £1.82 billion in April 2006. The transaction included the sale of 43 Moto motorway service areas to Australia's Macquarie Bank for an estimated £600m. Compass's Select Service Partners (SSP) travel concessions business was also sold to companies controlled by private equity firm EQT partners, for an estimated £1.2 billion.

Source: Capital IQ, Compass Group Annual Reports 2006-2013



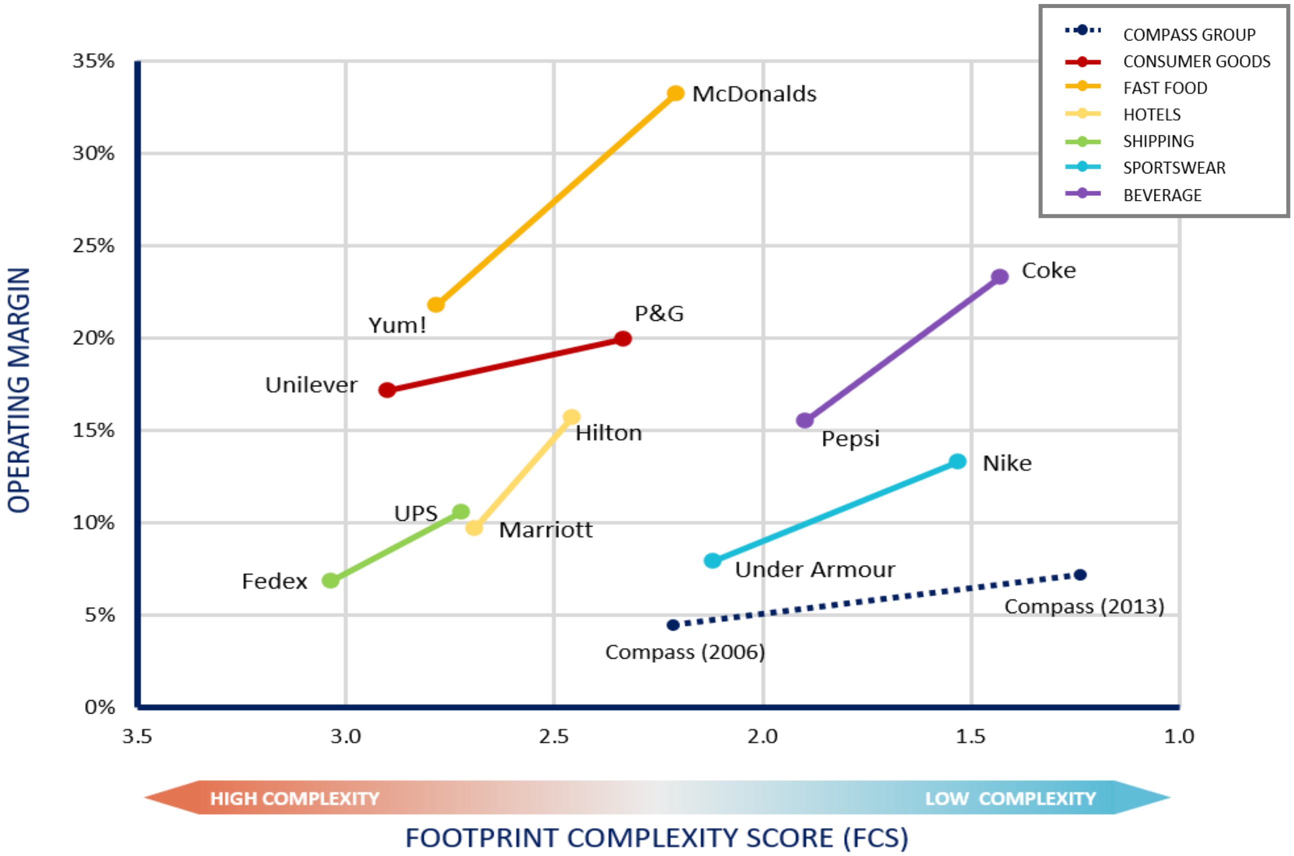
Spreading operations across more GMCI groups with widely varying levels of complexity has a direct, negative impact on operating margin. Conversely, retrenching to fewer groups can boost profitability.

To assess this, we began by calculating a **Footprint Complexity Score** (FCS), a measure of how far afield companies have expanded in terms of the number of **Global Markets Complexity Index** (GMCI) groups in which they operate. An FCS is calculated by summing the percentage of a company's operating countries in each GMCI group multiplied by how far that group is from home base.

We then identified close competitors across a range of industries to compare different geographic strategies and how that impacted profits. We compared 'apples to apples'—Coca-Cola and Pepsi; UPS and FedEx; Hilton and Marriott. While there are many different dynamics at work, we wanted to identify and understand any broad patterns.

FIGURE 2

MULTINATIONALS WITH LOWER FOOTPRINT COMPLEXITY ENJOY HIGHER OPERATING MARGINS



Would two close competitors with different geographic footprint strategies see different levels of profitability? The answer is a resounding 'yes.'

In the examples above, decreasing the FCS by 0.25 improves operating margin by an average of 4.4%. This would be the equivalent of Unilever exiting a country in GMCI Group 8, or two countries in GMCI Group 5.

If we accept for a moment that there is a predictive relationship at work, then we would expect to see the company's operating margin improve from 12.6% to 16.9%. That is a substantial jump, and while we recognize there are many factors driving profitability, the link between FCS and operating margin is consistent across a broad set of industries.

Like any other top-level metric, we suggest it be used to stir debate, as another point of comparison with competitors, and to build alignment around the issue and the opportunity.

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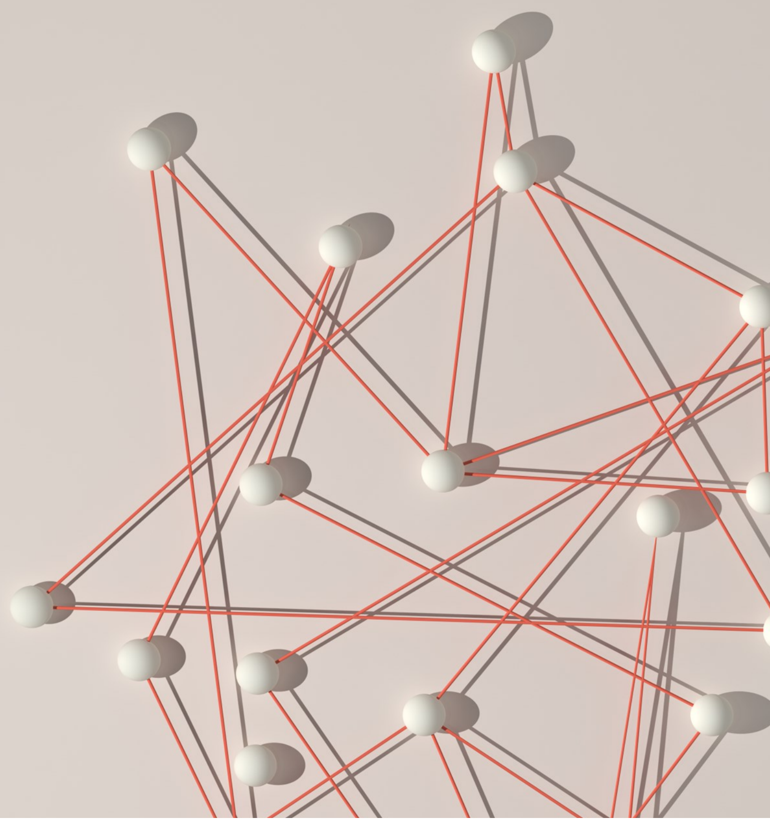
GMCI GUIDE FOR MULTINATIONALS



How does your current geographic footprint align with and support your overall strategy?

From a financial perspective, once you consider all of the hidden complexity costs, which markets and regions are truly delivering a return on investment?

Assessing and simplifying your geographic footprint requires a structured approach and robust analysis, but success can unlock significant profitability.

An overview of our approach is below in Figure 3.

LET'S DISCUSS YOUR GEOGRAPHIC FOOTPRINT >

FIGURE 3

WP&C'S APPROACH TO RIGHT-SIZING YOUR GEOGRAPHIC FOOTPRINT

	1 ALIGN ON THE OPPORTUNITY	2 BUILD OUT THE FACT BASE	3 ASSESS ALTERNATIVES	4 PLAN FOR EXECUTION
ACTIVITIES	Conduct GMCI FCS analysis Align on objectives of the project and impact of complexity Clarify role of geographic footprint in overall strategy	Conduct strategic review of the country portfolio Conduct financial review, leveraging Square Root Costing Develop hypotheses for deeper investigation	Assess long list for strategic, financial and operational viability; exit or reduce cost of operations, or refocus resources Refine the business-case Narrow options down to "short list" for further evaluation	Analyze each short list option and finalize the planning for country exits & operating model restructuring Identify cost-out actions enabled by retrenchment, and based on benefit/risk assessment; prioritize options for execution
OUTPUT	Clear objectives and executive alignment Understanding of complexity	Country fact-base including country-level profitability Quantification of complexity costs in the footprint 'Long list' of opportunities and business cases; GMCI outliers, strategic outliers, unprofitable countries	Short list for execution planning Clear business case, including investment requirements Articulation of business risks	Best path for retrenchment based on pressure-testing of plans