CONSIDER STRATEGIC ALTERNATIVES TO GEOGRAPHIC EXPANSION

Companies often launch adjacency moves in response to a slowdown in the core business. But the desired growth often proves illusory and the net result is just another layer of complexity and cost. We encourage companies to take a more discerning view towards adjacencies.

The pull of ‘Greener Pastures’ is one of the four ‘Sirens of Growth’ outlined in our book *Growth in the Age of Complexity*, and one to which companies are highly susceptible. It taps into a number of existing mindsets:

- We won at home, so we will do great over there too
- This is a natural growth adjacency for us
- Competition is less tough elsewhere

This leads companies to stray too far from their core by falling for common traps particularly prevalent with geographic adjacencies, such as overestimating revenues and underestimating costs. The size of the potential market is a key factor in any decision to expand geographically, but it is easy to underestimate local competition, and market size is rarely a good indicator of the level of complexity.

Our Global Markets Complexity Index analysis shows the 20 largest economies in the world are spread across six different complexity groups. They range from countries like Germany and Japan, with low complexity across all categories, to countries like India, with high market and regulatory complexity. The allure of India’s large population, fast growth, and relative wealth is attractive to many companies, but there have also been high-profile retreats, such as those of Walmart and General Motors.

Geographic proximity can be another red herring. The linguistic, cultural, and logistical advantages of moving to a nearby country are enticing, but it can be easy to focus too much on similarities and overlook significant differences in, for example, supply chain complexity or regulatory overhead. Geographically close countries can vary greatly in the types and levels of complexity that characterize their markets, which can erode the more obvious benefits of geographic proximity.

ADJACENCY GROWTH OPTIONS IMPACT COMPLEXITY

While alluring, geographic adjacencies are not a silver bullet—and are often one of the higher complexity options.

In many cases, there are better adjacency options available to companies. At the very least, before committing to international expansion, create a deliberate process to map out strategic alternatives to geographical adjacency.

These options may include investing funds in new channels, such as better digital capabilities, accessing new customer segments, or simply investing in the core—such as improved pricing discipline, operating model improvements, or go-to-market strategy.

The goal of any adjacency move must be clear before generating strategic alternatives to assess against objective financial metrics. The upfront investment in time will not only generate better ideas, but will also help to build alignment and buy-in for the move and the subsequent work to follow.