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RESEARCH REPORT

INTERNATIONAL GROWTH SCANNING

THE IGS TOOL

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CONTENTS

ABSTRACT

This paper develops a tool that scans for profitable growth opportunities in foreign countries which the company has targeted for its international expansion. The tool focuses on the strategic implications of such an international expansion by explicitly considering the potential value creation and the external risk and business model alignment risk of doing business in these countries.

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1. INTRODUCTION

This paper focuses on a particular growth direction of the company: the expansion of an existing product offering to a (set of) foreign country(ies) and investigates how 'growth traps' can be avoided. Expanding to a foreign market is indeed a risky growth decision, which, if done in a thoughtless way, could move the company too far away from its core business and underlying core competencies (Zook, 2004).

We introduce a new analytical tool, IGS – International Growth Scanning, which helps guiding strategic decision making towards the achievement of sustainable growth, i.e. growth that preserves or strengthens the competitive advantage of the company. The IGS tool is an easy-to-use tool to detect profitable growth based on readily available, or easily collectible, data, improving upon existing tools of a similar nature.

Several motives exist for a company to internationalise its operations (e.g. Ghemawat, 2007; GRi Survey, 2010; Cavusgil et al., 2013). Companies are pushed (e.g. because their high costs of R&D require to go to global markets) and pulled (e.g. market opportunities abroad) to expand internationally (Etemad, 2004). However, the internationalisation process entails important risks. Many companies fail in the process, not only because of many (internal and external) internationalisation barriers, but more importantly because of a too opportunistic attitude and the neglect of the strategic consequences of an international expansion (European Commission, 2010; GRi Survey, 2010).

On the other hand, insufficient motivation, a lack of information and capabilities and an overestimation of the failure risk appear to deter the large majority of small and medium-sized companies from expanding abroad, in spite of the growth and profit potential: "Few non-internationalized companies show any intention to start international operations. Only about 4% of all SMEs have concrete plans to start such activities" (European Commission, 2010).

Ghemawat's work shows that doing business in a foreign country is not without risk, as the cultural, administrative, geographic and economic conditions specific to the country often create an environment that is unfamiliar to the company (Ghemawat, 2007). Contextual differences increase the costs of doing business and challenge the underlying business model of a company. At the extreme, local conditions can discriminate against foreign companies. In such case the company may face a real 'liability of foreignness', which puts the company at a competitive disadvantage vis-à-vis local companies (Zaheer, 1995).

The attractiveness of a country is most often calculated without considering the adaptations of the business model to the foreign market conditions which the company needs to make. Companies are often aware of the differences across countries, but simply assess the attractiveness of a country by calculating the long-run net profit potential and then weighing it by the country risk. Doing this for multiple countries, a shortlist of attractive countries is developed. However, this approach is insufficient as it does not consider the impact of the international expansion on the competitive strategy of the company. Expansion to a particular country is too often considered as a separate venture. Companies do not realise that business model adaptations often generate costs that are more substantial than the costs of acquiring extra competencies to expand to the country. As a result, many companies fail in their international expansion (Onkelinx and Sleuwaegen, 2011).

To avoid such failures, companies need to perform an environmental scanning[*] of foreign countries that, from the start, takes the wider business model implications into account. The IGS tool is an environmental scanning tool that does so by adopting a business model based approach. The tool is designed to help decision-makers to assess the strategic opportunities and risks posed by the international expansion, both in terms of external and internal risks.

The paper is structured as follows. After a review of the conceptual basis of the IGS tool in section 2, the tool is presented in section 3. An application using a fictive example is provided in section 4. Section 5 concludes.

[*] Environmental scanning has been defined as "the study and interpretation of the political, economic, social and technological events and trends which influence a business, an industry or even a total market" (Kroon, 1995).

2. CONCEPTUAL BASIS

The topic of internationalisation readiness has recently gained renewed attention in the literature. Most of the research on the topic considers explicitly the pre-internationalisation phase. According to Tan et al. (2007), the key to assess internationalisation readiness is the development and learning process of the company in the period before internationalisation. The starting point of this learning process is triggered by various stimuli factors that encourage companies to expand abroad.

Within this process, Cavusgil et al. (2013) find it essential that managers ask the following questions to assess the company's organizational readiness to expand abroad:

1. "What do we hope to gain from international business?"
2. "Is international expansion consistent with firm goals, now or in the future?"
3. "What demands will internationalisation place on firm resources, such as management, human resources, and finance, as well as production and marketing capacity?"
4. "What is the basis of the firm's competitive advantage?"

The above questions require analysis at the following three levels:

- **Strategic level** (What is the source of your competitive advantage? Will you be able to sustain or improve it?)
- **Tactical level** (How will you do it?)
- **Operational level** (What means do you need?)

To help managers with this analysis several tools have been developed. However, most of the existing tools do not pay enough attention to the strategic aspects of internationalisation and are limited to the operational and tactical level. This is a significant shortcoming, as many internationalisation failures originate from a lack of strategic preparation.

At the strategic level, when a company has plans to expand internationally, it is important to consider the implications of internationalisation on each separate element of its business model, and the adaptations of the business model that need to be made (e.g. De Kluyver, 2010; Mäkela and Lehtonen, 2011; Porter, 1966; Zook and Allen, 2001).

Being able to adapt to local conditions is extremely important to be successful abroad (e.g. Shankar et al., 2008; Ghemawat, 2011; Casadesus-Masanell and Ricart (2009)). However, the adaptations of the business model should not be too costly or radical to not jeopardize the company's position on other markets. The expansion should ideally leverage core activities and competences that create a company's competitive advantage, and not undermine them by an opportunistic adaption of the business model to foreign market conditions. Hence, in scanning a foreign market, it is important to assess the compatibility of the current business model with the foreign context and to evaluate where adaptations can be made.

The IGS tool presented in this paper pays attention to the business model implications, and complements existing tools by focusing on the strategic dimension. The tool provides strategic guidance and assesses the strategic benefits and various risks of an international expansion.

3. THE IGS TOOL

The IGS tool consists of two parts. The first part aims at revealing how internationalisation can increase profitability and add value to the company. The second part is further divided into two sections, each one dealing with a particular type of risk that the company might face as it expands to a particular country. The first section deals with external risks. The external risks stem from the political, social, economic and market environment of the target country. The second section deals with business alignment risk. The business environment in the country may create a risk of misalignment of the company's business model (i.e. the 'business alignment risks'). In the final part, the combination of the potential benefits with the two types of risk yields the target country's attractiveness for the company's international expansion.

The tool examines the strategic implications for a particular target country, which the company considers as a potential candidate for the international expansion of its activities, and for a particular entry mode (export, licensing, local establishment,…) chosen by the company. Repeating the scan for another country or another entry mode allows decision makers to make useful comparisons afterwards.

3.1. PART 1: POTENTIAL BENEFITS OF EXPANDING TO THE TARGET COUNTRY

Companies should have good strategic motives for an international expansion of their business. An international expansion will yield extra value if it meets these motives in the best way. The strategic motives may be diverse and very different from company to company. Accounting for this diversity, Ghamawat (2007) has proposed a useful framework, the 'ADDING Value Scorecard', which summarizes the main strategic benefits from internationalisation. The acronym 'ADDING' stands for extra value created through: Adding volume, Decreasing costs, Differentiating benefits, Improving industry attractiveness, Normalizing risk, Generating and deploying knowledge. Depending on the company's strategy and specific motivation to expand on an international scale, specific ADDING elements should receive a high weight in the assessment. Hence, the IGS environmental scanning tool will consider the target country as being attractive for expansion if it offers macro- or industry-specific conditions that are driving factors for the generation of the envisaged strategic benefits.

The first part of the tool asks the manager to assess the potential value which the target country is offering measured along the six ADDING dimensions. We slightly modified the ADDING terminology to relate it to the internal risk assessment, following the business model canvas proposed in the next part. As a result, the following types of internationalisation benefits are considered [*]: raising sales volume, reducing costs, improving the value proposition, improving competitive position and bargaining power, acquiring strategic assets and reducing corporate risk.

[*] Based on Ghemawat (2007) and Hill (2011)

The company is asked to assess the potential benefits of an international expansion to the target country by answering on a series of questions grouped according to the six strategic value dimensions.

The results are plotted on a radar chart, as shown in Figure 1.

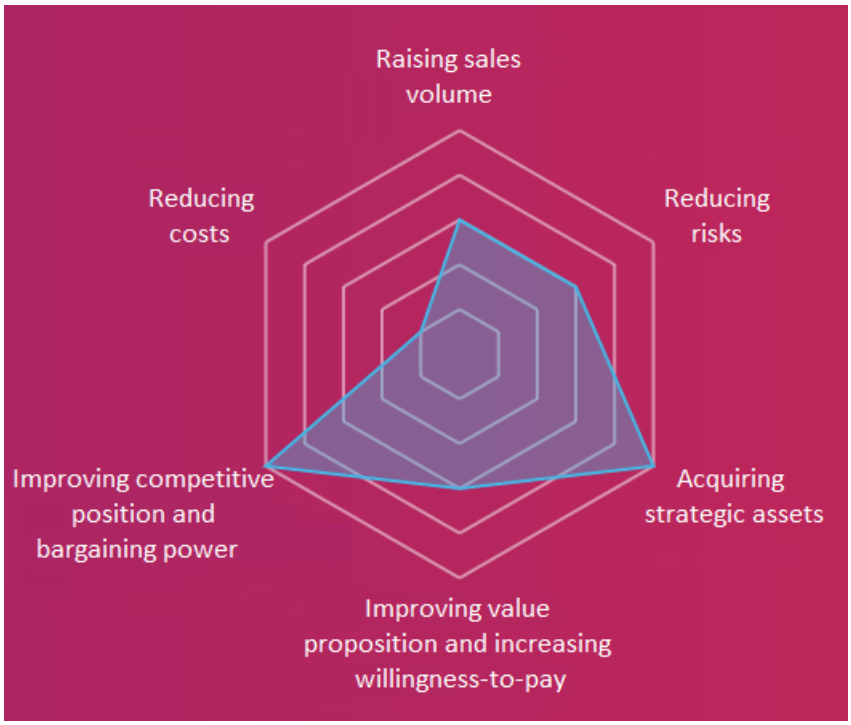

Figure 1: Potential internationalisation benefits

3.2. PART 2: EXTERNAL AND BUSINESS ALIGNMENT RISK OF EXPANDING TO THE TARGET COUNTRY

A company needs to carefully consider the potential risk of failure it might face in the target country. The IGS tool helps the company to reflect on the different types of risks, both internal and external to the company. Managers need to carefully analyse these risks, and take appropriate action to minimize or manage them. The IGS tool provides a guiding instrument to do so.

3.2.1. External risk: political, economic, commercial, and competitive risks

The first type of risk is external to the company. The external risks represent the threats stemming from the political, legal, social, economic and market environment of the target country. The IGS tool asks managers to reflect on political, economic, legal and commercial risks as well as risks stemming from competition in its industry in the target country. External risks are difficult to control and, although they can be managed to some extent, the source of the risk is beyond the control of the company. Table 1 presents a summary of the different types of risks and their definition.

Table 1 Internationalisation risks

Political risks	Social unrest (revealing itself in strikes, terrorism, …), presence of an unfavourable political regime regarding international companies, etc.
Economic risks	The country's mismanagement of its economy, inflation rate, GDP growth rate, liquidity situation, government spending, fiscal policy, investment freedom, etc.
Legal and commercial risks	Contract law and enforcement, weak protection of intellectual property, corruption, institutional weaknesses, extent to which cultural differences have a hampering impact on the transactions made and required contract specifications, etc.
Risks stemming from competition	The presence of strong competition in the target market, the presence of a dominant incumbent which can make it hard to enter the target market successfully, actions and reactions by the major competitors active in the target country, etc.

Managers are asked to assess the severity of the different risks in the target country. One can make use of various sources of information, as provided in Appendix 2. These consist of well-known databases such as World Bank's 'Doing Business' database, Global Competitiveness Report, Delcredere, etc.

3.2.2. Business model compatibility

An important risk of failure is internal to the company and relates to the fit of the business model with the local context of the target market. An extensive literature exists on the topic of business models (e.g. De Kluyver, 2010; Osterwalder and Pigneur, 2010; Casadesus-Masanell, 2011 among others). “A business model describes the rationale of how an organization creates, delivers, and captures value” (Osterwalder and Pigneur, 2010). It reflects the chosen strategy of the company. Osterwalder and Pigneur (2010) propose the “Business Model Canvas” to visualize the components of a company’s business model (see Appendix 1).

The Business Model Canvas is a framework covering four chief business areas, each business area consisting of several building blocks (Osterwalder, 2004): product (building block: value proposition), customer interface (building blocks: target customers, distribution channels and customer relationships), infrastructure management (building blocks: key activities, key resources and key partnerships) and financial aspects (building blocks: revenue streams and cost structure).

The particular business model of the company with all the elements and the links between them reflects the company’s strategy and the source of its competitive advantage. Hence, the basic question is to what extent the basic elements of the business model would face implementation difficulties or become ineffective in the target country. More generally, the company needs to assess how the business model is influenced by an international expansion and how it should be adapted to successfully expand abroad. Therefore, it is important to assess how the elements of the business model (and links) fit with the business context of the target country.

The IGS tool assumes managers to have a good understanding of the business model and its components as depicted in the Business Model Canvas. By having a good understanding of the business model, specific questions can be asked on the extent to which the macro-environment, the market and other institutional conditions differ in the foreign country that directly affect the business model building blocks (Mäkelä and Lehtonen, 2011). A company should for instance assess to which extent the value proposition needs to be adapted as the company expands to the target market(s). Sometimes, the adaptations can be far reaching, and affect the operations of the company worldwide. Following De Kluyver (2010), a company developing a global strategy decides about “how it should change or adapt its core (domestic) business model to achieve a competitive advantage as a company globalizes its operations”.

The IGS tool considers the impact from entering the target country on the value proposition, customer interface, infrastructure management and financial management of the company. The impact will depend on the chosen entry mode. For instance, if the company chooses to export to the target country, the impact on infrastructure management will be limited.

3.2.3. Overall risk of failure

The tool calculates a score for external risk as the average of the individual scores on each sub-dimension (political, economic, legal, competition) and a score for business model risk as the average of the risks related to all sub-items (value proposition, customer interface, infrastructure, financial elements)

The overall risk indicates the suitability of the foreign target country by combining the internal (business model) risk with the external risk, following the graph shown in Figure 2.

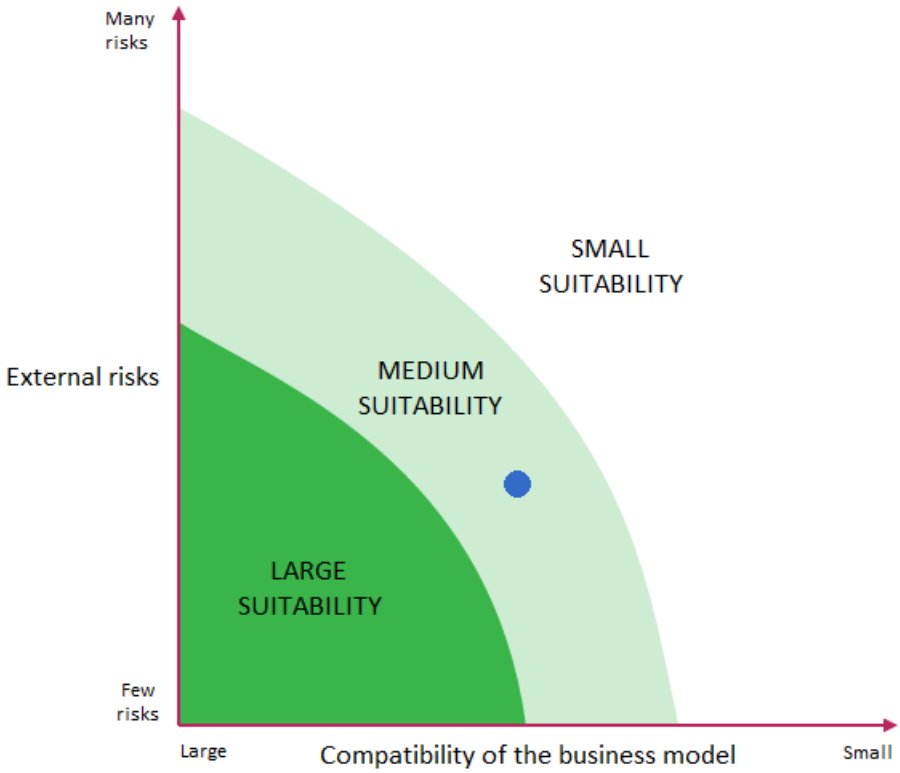

Figure 2: The overall risk

The graph is similar to the innovation "risk matrix" proposed by George Day for assessing the risk of introducing radical innovations (Day, 2007). The more adaptations needed to the business model (x axis) and the less favourable the external environment of the target country (y axis), the higher the risk. The graph shows a more rapidly increasing overall risk with increasing business model misalignment.

The tool also highlights the "points of attention" for the major items (see the random example in Figure 3). Using a colour code, risks that need particular attention are shown in red. More detailed items or comments can be looked up in the questionnaire results.

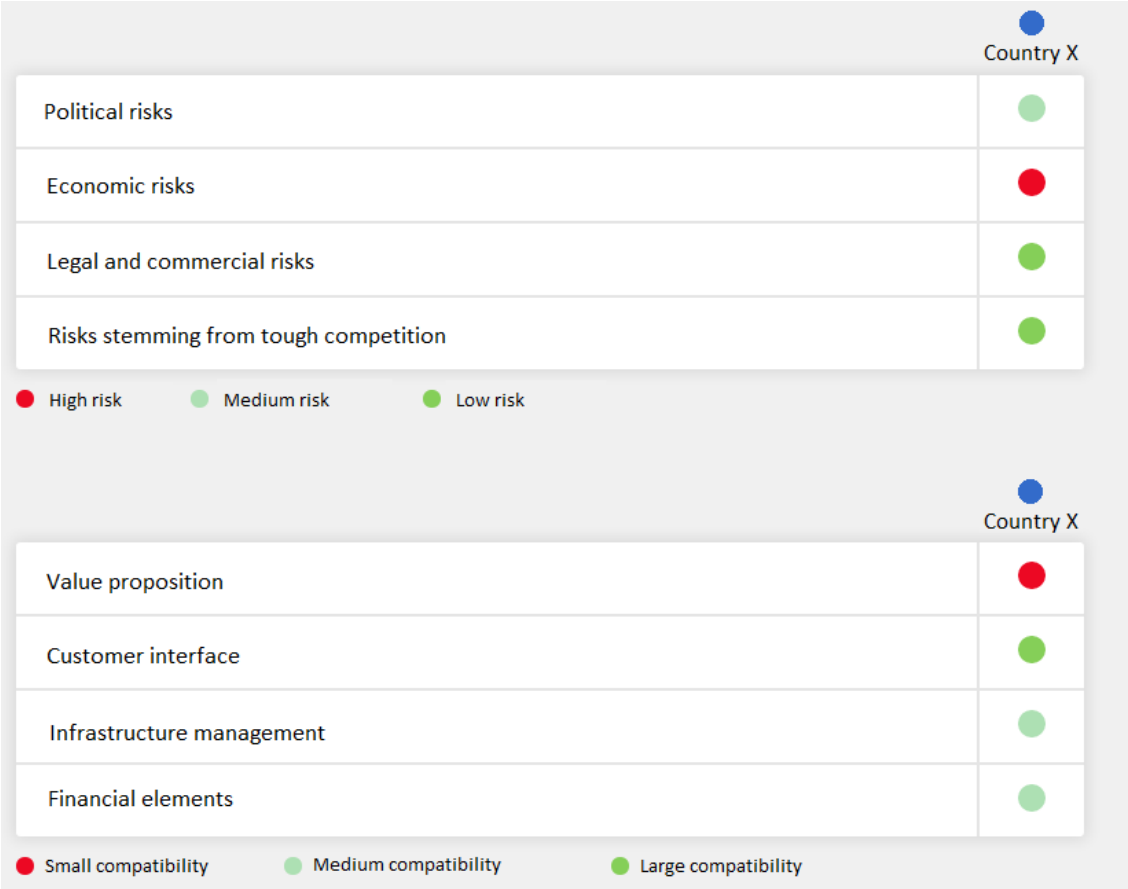

Figure 3: Points of attention

3.3. PART III: FINAL OUTCOME: ATTRACTIVENESS OF THE TARGET COUNTRY

The combination of the potential benefits and the overall risk yields the attractiveness of the target country. The IGS tool combines the scores from the first and second part to position the country in an attractiveness matrix graph (see Figure 4).

The overall benefit score is the average of the different possible benefits. The overall risk is obtained by taking the average of the external and business model risk, as shown in Figure 4. The final attractiveness score should be understood as a “gross attractiveness” score. To calculate the “net attractiveness score” the costs of entering the country and of making the necessary adaptations of the business model need to be taken into account. Those costs will be related to the observed risks. Obviously, a full analysis of all possible costs cannot be part of this scanning tool, but should be done in a further stage of analysis.

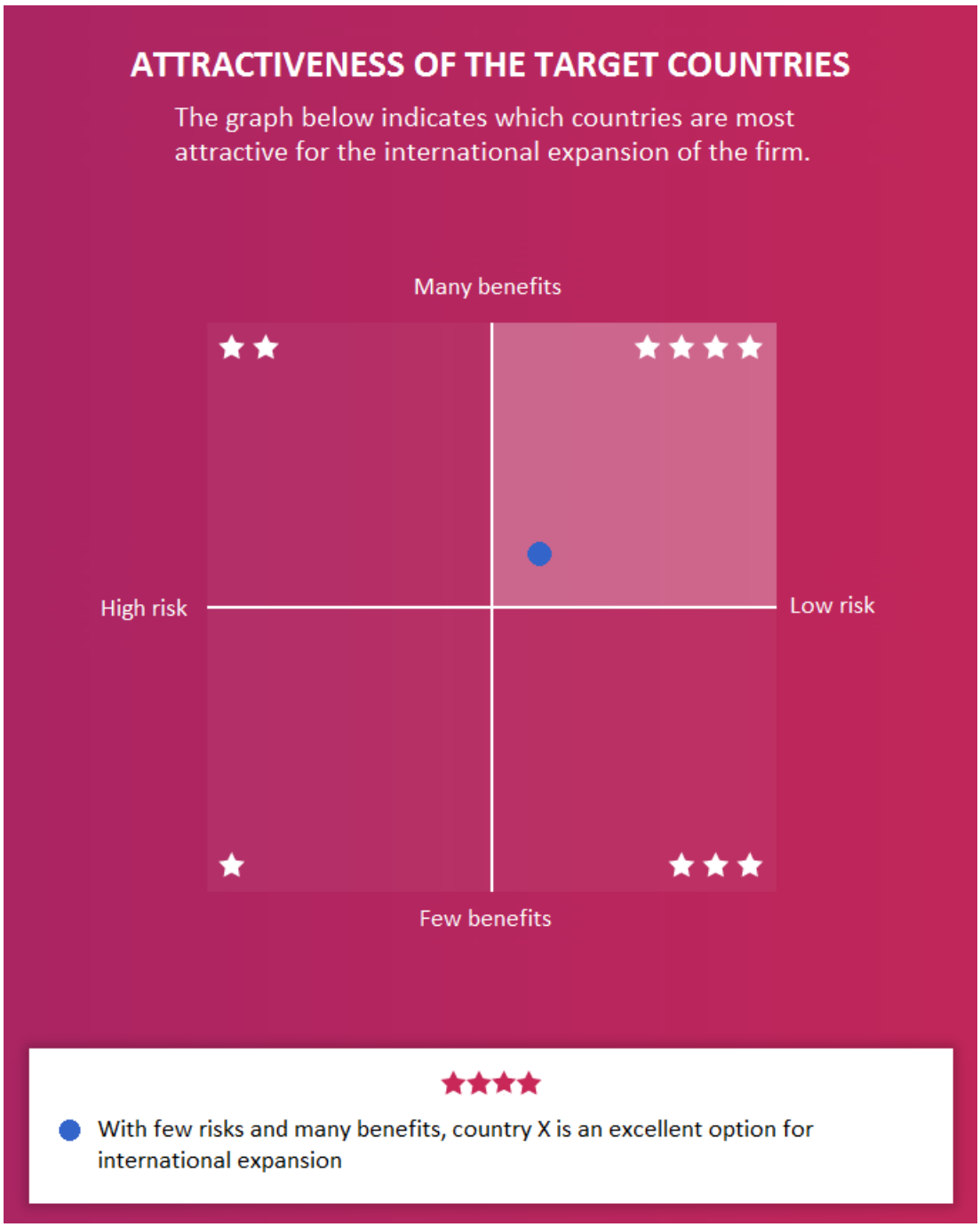

Figure 4: Attractiveness of the target country.

If the country is positioned in the upper left part (**), the potential benefits are high but the risks tend to be too high as well. This means that, although entering the target country might create substantial extra value, there is a high risk of failure connected to the external and the business alignment risks. Successful expansion will only be possible if the risks can be controlled or managed. If the overall risk is low and the potential benefits from entering the target country are high, the attractiveness of the country will be high (****). Countries in the bottom left area (*) are not attractive. The overall risk makes the country very unattractive and entering the country will not bring substantial benefits to the company. If the country is positioned in the bottom right part (***) the risk of entering the foreign country is rather low, but there are no strong benefits for the company. The country is not very attractive.

4. APPLYING THE IGS TOOL TO A FICTIVE EXAMPLE: BIOTECH & CO'S EXPANSION TO GERMANY AND INDIA

4.1. THE BUSINESS MODEL CANVAS OF BIOTECH & CO

Biotech & Co is a small Belgian biotech company producing genetic testing kits that wants to assess whether Germany and India are attractive countries to enter. First, Biotech & co reflects on the strategic implications of an international expansion. For this purpose they use the Business Model Canvas framework[*] . This tool summarizes the business model underlying the competitive positioning of the company, as shown in Figure 5: The business model canvas of Biotech & co.

[*] Osterwalder and Pigneur (2010)

The Business Model Canvas

Key Partners

- University
- Independent research institution
- 2 biotech companies

Key Activities

- R&D
- Prototyping and market testing

Key Resources

- Intellectual property (patents)
- Advanced equipment, instruments

Value Propositions

- Rate of new technology development
- Leading-edge products
- Quality (accuracy) of the instruments

Customer Relationships

- Long-term relationships with research laboratories

Channels

- Products are sold through agents

Customer Segments

- Clinical research labs

Cost Structure

- Purchase of research instruments/machines
- Payment of royalties
- Personnel costs

Revenue Streams

- Receipt of royalties
- Sales of testing kits
- R&D subsidies

www.businessmodelgeneration.com

Figure 5: The business model canvas of Biotech & co

Value proposition: The company has gained a strong position in Belgium for its leading edge and high quality products, and the rapid introduction of new products, often in co-operation with customers.

Customer interface: Biotech & Co develops genetic testing kits that can be used by clinical research labs (Customer Segments) to perform tests on personalised medicaments. Biotech & Co is continuously searching for ways to improve its genetic testing kits. Biotech & Co is able to maintain a leading-edge technological position in its research field by offering leading-edge products. The strong and specialised position of Biotech & Co is the result of extensive personal and electronic interaction with its clients and allows the company to maintain long-term relationships with the laboratories (Customer Relationships). In addition to this communication, specialised sales agents approach the laboratories regularly to monitor their needs. (Channels).

Infrastructure management: Biotech & Co relies on highly skilled employees. The company also possesses several patents on past inventions (Key Resources). Research, rapid product development and market testing are the main activities of Biotech & Co (Key Activities). The company relies on several partners that help executing these activities. In particular, Biotech & Co cooperates with a Belgian university, an independent research institution specialised in biotechnology and two small biotech companies for the development of its new technologies (Key Partners).

Financial elements: The company receives most of its revenues through the sale of testing kits. The company also benefits from fees and royalties obtained from licensing part of its technology to users outside the industry, and has obtained several research grants from Belgian and EU institutions (Revenue Streams). The highly skilled researchers employed by Biotech & Co, the equipment and the royalties that it has to pay to technology providers are the most significant costs (Cost Structure).

4.2. POTENTIAL BENEFITS OF DOING BUSINESS IN INDIA AND GERMANY

After having reflected on how Biotech & Co creates and delivers value to its existing customers (by making use of the Business Model Canvas), the management has identified two major strategic objectives of an international expansion of the company: a) to substantially raise sales volume to recoup the high R&D costs the company incurs in developing new products and b) to be first-tier suppliers to major clinical research labs in the world and co-create new products with these labs. Germany and India appear as interesting candidates. The management decided to use the IGS tool to perform a first environmental scan of these countries.

The first section of the IGS tool contains questions aimed at assessing the potential benefits stemming from the expansion to the target countries. Benefits are grouped into six sections: raising sales volume, reducing costs, improving value proposition and increasing willingness to pay, improving competitive position and bargaining power, acquiring strategic assets and reducing risk (see Appendix 3 for the full questionnaire). In this first section the company needs to assess the degree to which the international expansion will help them reach the above-mentioned benefits on a scale ranging from 0 (not significantly), to 1 (moderately) and 2 (significantly). The answers yielded the following assessments.

In Germany as well as India, Biotech & Co would target the same customer segment (i.e. clinical research laboratories). This group of potential customers is much larger in India and Germany than in the home market. However, the rapidly growing market in India offers more opportunities for a new entrant like Biotech &Co (Raising sales volume). Being present in Germany would leverage the competitive position of the company in the European market and improve the company's bargaining power with respect to suppliers. This would also hold for India, albeit to a lesser degree (Improving competitive position and bargaining power). Being present in Germany and India would help Biotech & Co to benefit from scale economies, especially for its main activity: R&D. As the company envisages expanding by means of exporting to these countries, no other cost savings are foreseen (Reducing costs). Being present in Germany would significantly improve Biotech & Co's brand image and reputation (Improving value proposition and increasing willingness-to-pay). This is less the case for India.

Being a first-tier supplier to major clinical research labs in Germany would enable Biotech & Co to cooperate with interesting research partners in the future and to get access to highly valuable knowledge. This also holds for India, but in a lesser degree (Learning/ Acquiring strategic assets). By being present in the emerging market of India, characterized by business cycles that do not strongly correlate with those in EU markets , the company expects to have more stable sales over time (Risk reduction).

Combining all the potential benefits, a radar graph is computed, showing the potential advantages for Biotech & Co of exporting to India and Germany. The outer layer represents the highest possible values for the different factors.

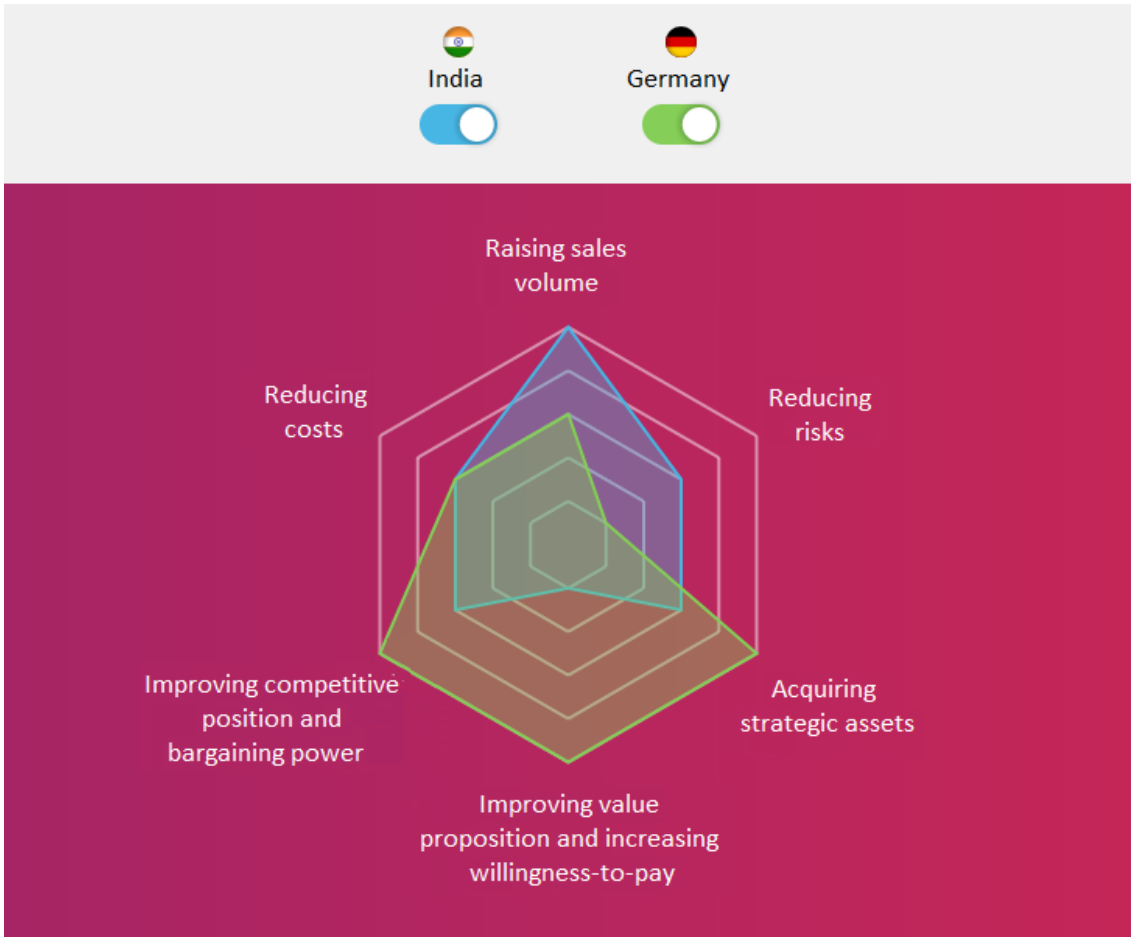

Figure 6: Potential internationalisation benefits

4.3. RISKS OF DOING BUSINESS IN INDIA AND GERMANY

The second part of the scanning tool helps Biotech & Co to assess two types of risks. For the first group of risks, the company needs to reflect on the external risks (i.e. the political, economic, legal, commercial and competitive risks) of doing business in the two countries.

Answering this part of the questionnaire requires some preparation, as the company needs to be aware of the political, economic and institutional conditions and the competitive conditions prevailing in their industry in the target countries. (see chapter 3.2.1 for an explanation of the risks). A list of useful sources of information dealing with external risks is presented in Appendix 2.

After assessing the external risk, Biotech & Co is asked to evaluate whether its business model is compatible with the market and competitive conditions prevailing in the target countries: India and Germany. This section, called "evaluation of business alignment risks", asks Biotech & co to assess whether the elements of the business model are compatible with the socio-economic, institutional and market environment provided by the target country. The aim is to raise awareness about the potential issues stemming from the implementation of the business model in the foreign country. If the company prepared a Business Model Canvas before, at this stage it can be used as a background reference to fill out the questionnaire (see Figure 5).

4.3.1. External Risk

Four types of external risk are considered: political, economic, legal & commercial and competitive risk. Except for a higher competitive risk (Germany has strong large-scale companies in this niche-market), the external risk in Germany tends not be too different from the one in the home market of Belgium. This is not the case for India. From a political risk point of view, India is less attractive. The country scores high on the world corruption index. A different treatment of foreign companies has been an issue in the recent past. Political or social unrest is less of an issue. Economic risks are also very high, because of India's unfavourable liquidity situation, fiscal policy and public debt ratio.

Legal and commercial risks in India tend to be severe as well. Despite a legal protection of intellectual property and an elaborate contract law, the enforcement of rights is considered to be problematic. Moreover, culture and traditions in India have a strong hampering impact on the way in which business transactions are normally made by the company.

Finally, also the competitive risk tends to be high in India. Biotech & Co's understanding of the competitive forces in India is far from optimal. In addition, one Indian biotech company offering similar products is considered as one of the top companies in the world.

4.3.2. Business Alignment Risk

Value Proposition: With its value proposition, based on developing leading-edge products by using proprietary equipment, Biotech & Co is able to differentiate itself from most of the Indian competitors. In Germany, competition is stronger. German clinical research labs are sophisticated buyers willing to pay a high premium for advanced testing kits. This is less the case for India. Leading edge testing kits might not be valued as important by all the Indian clinical research labs. This threat may not be underestimated. Compared to the Belgian product standards, German standards do not differ. Indian product standards differ to some extent.

Customer Interface: The company typically builds long-term relationship with its customers. The interaction with customers happens though personal contact and extensive electronic interchange. This approach raises fewer issues for an expansion to Germany than it does for India. Travel costs may turn out to be higher than expected and communication interfaces are less obvious. Furthermore, maintaining long-term relationships with the Indian customers might be more difficult compared to the Belgian and German customers due to a more volatile environment and cultural differences in the buyers' mentality.

Infrastructure Management: Another potential risk, substantially higher for India than for Germany, is the lack of efficient import procedures, the closed distribution system, and the absence of locally qualified sellers in India. Finding reliable strategic partners might also not be an easy task in the Indian market.

Financial Elements: For India, the cost of exporting often turns out to be high. High duties, less efficient procedures and handling charges are main elements. Revenues from sales are expected to be higher in India than in Germany because of a larger sales volume, but margins will be relatively small Finally, the impact of government taxation is more favourable in India than in Germany and Belgium.

4.3.3. Overall risk of failure

Based on the level of external and business alignment risk, the estimated overall risk of failure of an expansion to India and to Germany are shown in the graph of Figure 7.

As shown in the graph, both the business alignment risks and the external risks are very high for India, positioning the country in the very strong overall risk zone (i.e. the suitability of India as a target country for international expansion is rather small). The overall risk is weak for Germany (i.e. Germany is highly suitable as a target country for international expansion).

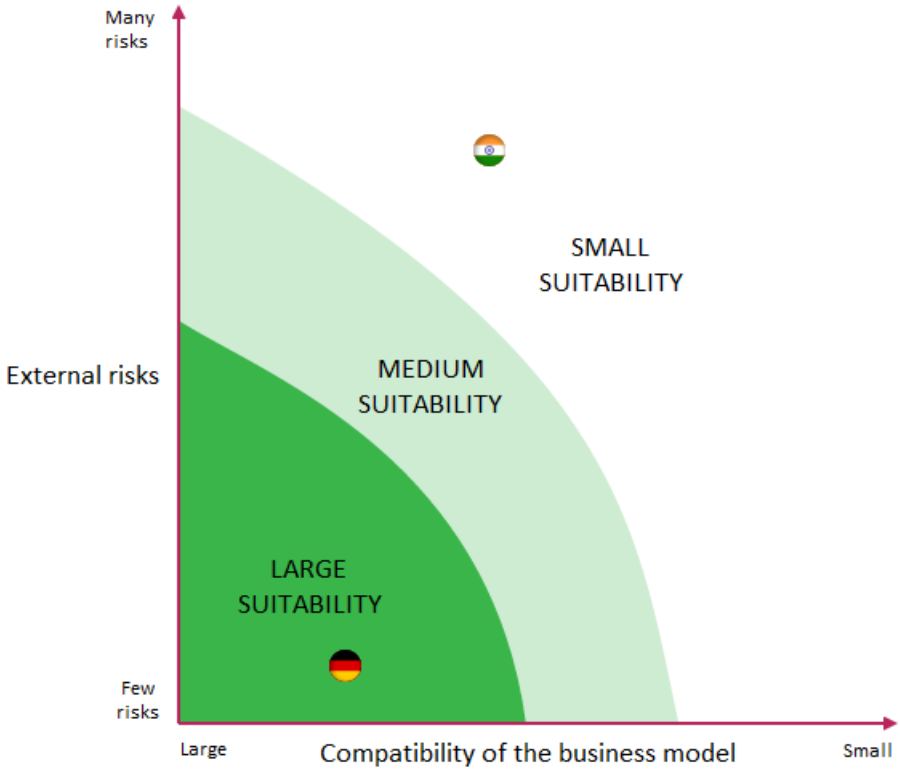

Figure 7: Estimated risk of failure

Figure 8 presents a more detailed list of the factors that are responsible for the high risk in India shown in Figure 7. Biotech & co will face a high political, economic, legal and commercial risk and a medium risk stemming from competitive conditions in the industry. Regarding the business alignment risks, “infrastructure management” constitutes the most important point of attention.

The value proposition and the customer interface are also points of concern, but at a "medium" level. The company will have to insure against external risks as much as possible, and manage alignment risk by walling off technology and investing in partner relationships.

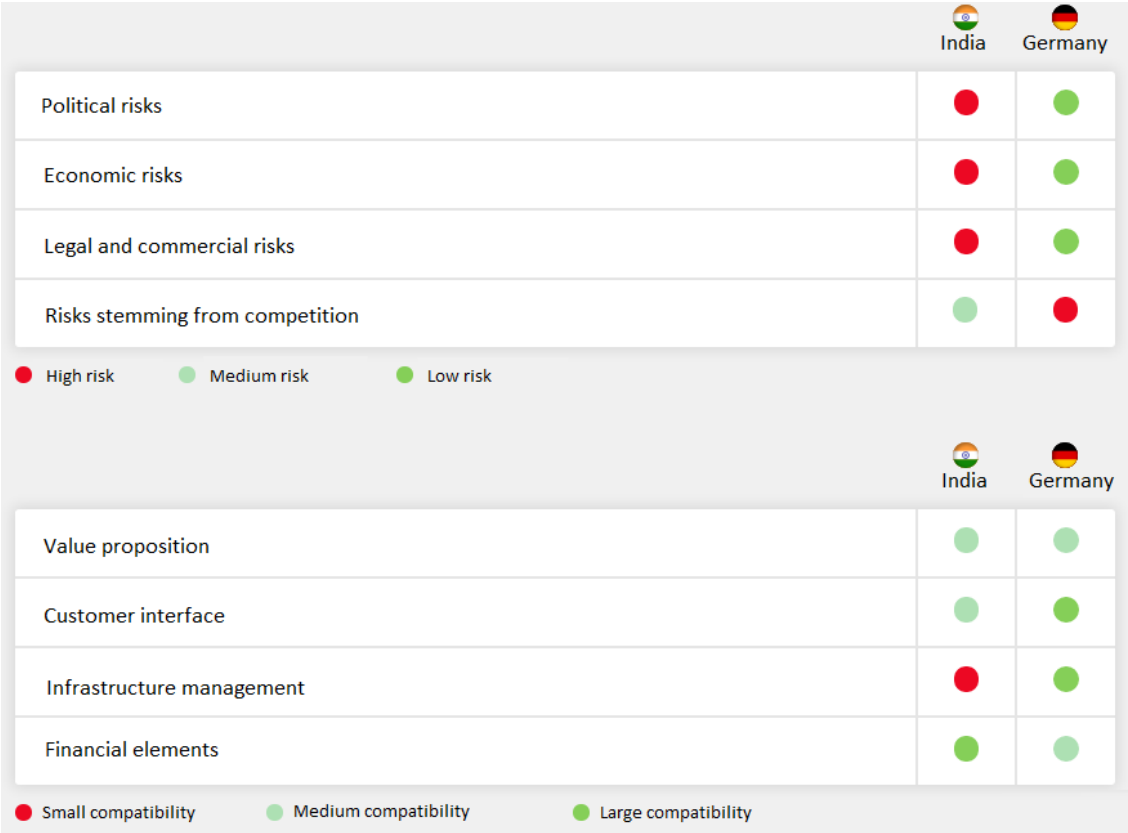

Figure 8: Points of attention of an expansion to INDIA and GERMANY

For Germany, there is only one major risk, stemming from the strong competition in the market. The company will need to carefully analyse the competitive landscape and evaluate how this risk may be reduced by a further segmentation of the market and/or by working together with a complementor i.e. a company supplying other products to the clinical research labs.

4.4. FINAL RESULT: THE ATTRACTIVENESS OF AN EXPANSION TO INDIA AND GERMANY

After the potential benefits and the potential risks have been assessed, Biotech & Co is able to take a better informed decision on whether or not to expand to India and/or Germany, and if so, what issues should be addressed. The IGS tool combines the first and second part of the questionnaire to give a graphical representation of the overall attractiveness of an international expansion to India and Germany. Figure 9 shows the overall result in the matrix graph plotting the benefits against the risks of exporting to India and Germany.

For Biotech & Co, an expansion to India is situated in the upper-left part of the graph. Hence, although there are strong potential benefits of an expansion to India, several risks make this country less attractive. The company should control and manage these risks, as highlighted in Figure 8, by taking appropriate actions before entering the market. For instance, finding effective insurance to cope with external risks, carefully auditing potential partners, learn from other exporters how to circumvent inefficient imports procedures, etc.

An expansion to Germany appears to be attractive. Germany is positioned in the upper-right part of the graph in Figure 9. Compared to India, an expansion to the country is less risky.

However, Biotech & Co should not underestimate the risk caused by the presence of strong competitors. Being able to differentiate itself from the competition will be the key issue.

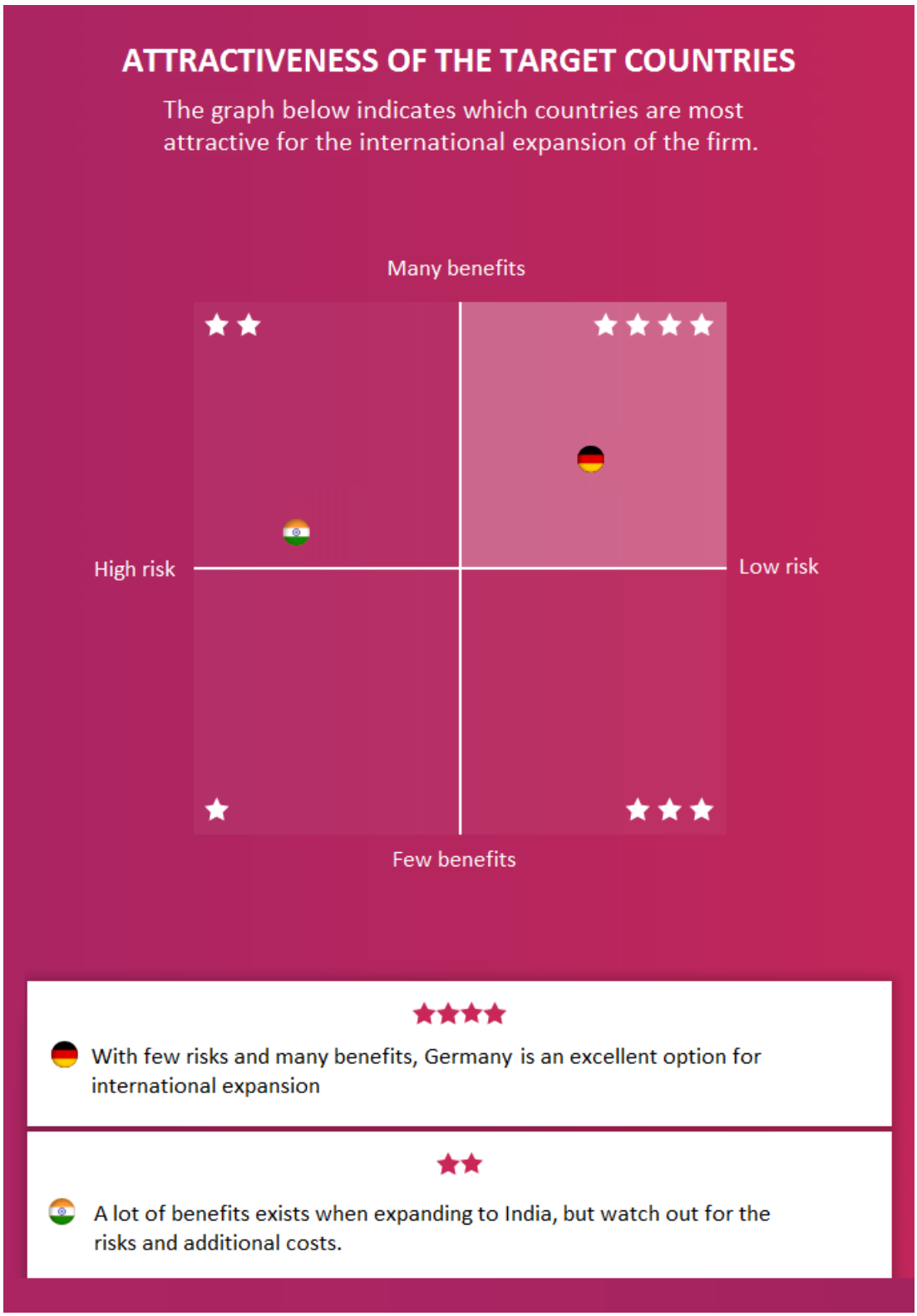

Figure 9: Attractiveness of India and Germany

5. CONCLUSIONS

The IGS tool is an easy to use environmental scanning tool that helps companies to explore profitable growth opportunities in foreign countries. The focus of the tool is on the strategic implications from an expansion to one or more foreign countries. The strategic implications tend to be overlooked in other tools exploring foreign business opportunities.

The tool provides clear indications of the overall potential strategic value and risk of an international expansion to a (set of) target country(ies), and of the value and risk drivers that need particular attention. The scan does not provide the answers to the issues that are raised. However, it guides decision makers in their search for more detailed information and makes them reflect on all the direct and indirect strategic implications from expanding their business to foreign countries.

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7. APPENDICES

APPENDIX 1 – BUSINESS MODEL CANVAS

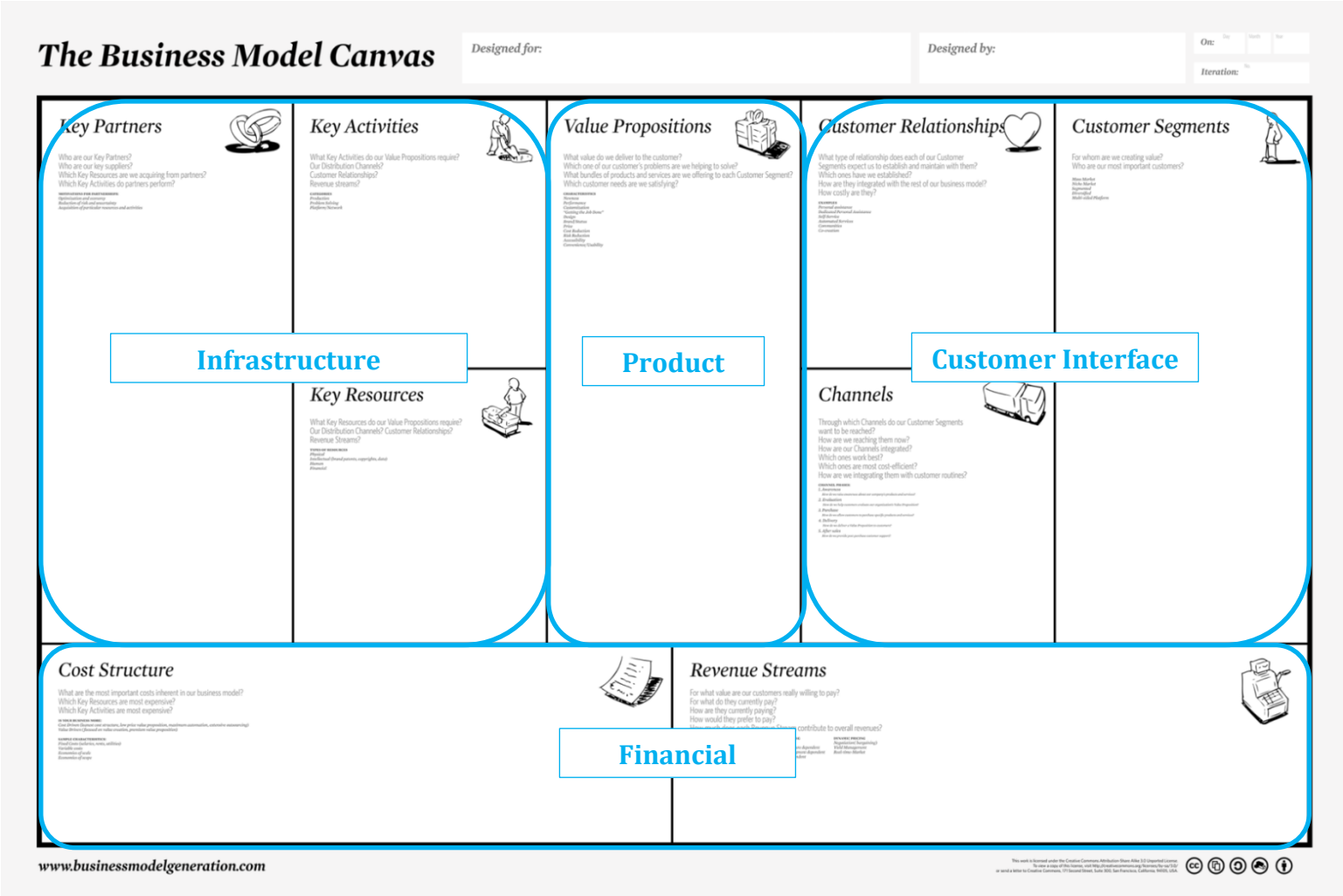

Figure 10: The Business Model Canvas: The division into four business areas is based on Osterwalder (2004)

APPENDIX 2 – SOURCES OF INFORMATION ON EXTERNAL RISKS

Table 2 Information sources	
Delcredere	The **Delcredere rating**[*], developed by Ducroire-Delcredere (a Belgian export credit insurer), is very useful to assess the political and commercial risks of an expansion to a particular country.
Global Competitiveness Report (*World Economic Forum*)	The **Global Competitiveness Report**[†] (2014-2015) evaluates the competitiveness of 144 countries by considering twelve pillars: 1. Institutions 2. Infrastructure 3. Macroeconomic environment 4. Health and primary education 5. Higher education and training 6. Goods market efficiency 7. Labour market efficiency 8. Financial market development 9. Technological readiness 10. Market size 11. Business sophistication 12. Innovation In the report, the scores of the countries on each of these pillars can be found.[‡] Hence, this report helps to assess economic, legal and commercial risks.
World Bank	The World Bank provides data of more than 200 countries on a broad range of topics: - The **World Development Indicators**[§] cover issues such as Education, Environment, Economic Policy & Debt, Financial Sector, Health, Infrastructure, Labour & Social Protection, Poverty, Private Sector & Trade and Public Sector. Political and economic risks can be evaluated by using this data source. - The **Worldwide Governance Indicators**[**] facilitate the evaluation of political and legal risk by providing information on a broad set of governance measures: Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption, Voice and

[*] http://www.delcredere.be/
[†] Schwab, K. (2014), 'The Global Competitiveness Report 2014-2015', *World Economic Forum*
[‡] http://www.weforum.org/issues/global-competitiveness
[§] http://data.worldbank.org/
[**] http://govindicators.org

	Accountability). - The **Ease of Doing Business Ranking**[*] provides support in the evaluation of economic, legal and commercial risks and lists 189 economies based on the extent to which the regulatory environment is conducive to starting and operating a firm (based on the scores on topics such as starting a business, getting electricity, registering property, getting credit, paying taxes, trading across borders, enforcing contracts, resolving insolvency, etc.).
Flanders Investment & Trade	It is highly recommended to talk to people that have experience and contacts in the target country to get informed about the economic, cultural, competitive, and other country- or industry-specific risks. For Flemish firms, consulting the services of **Flanders Investment & Trade**[†] (FIT) is very useful with regard to this information. FIT is a Flemish institution that supports Flemish companies that want to expand their business internationally and foreign companies seeking to expand their business in Flanders. Their website provides a lot of valuable sector information, country information on more than 100 countries and contact information of potential foreign partners, among others. In addition, companies can make use of the 'Exportmeter'. Next to verifying whether the company is ready to go international on the operational level, this tool investigates the company's strengths and weaknesses concerning expanding abroad. By doing an in-depth interview and asking approximately 90 questions, FIT gives the company an export profile and then proposes an action plan.
Market Access Database	The Market Access Database[‡] (MADB) gives information to companies exporting from the EU about import conditions (such as tariffs, procedures and formalities, etc.) in third country markets. The information provided by this information source assists in evaluating the economic, legal and commercial risks.
The Hofstede Centre	The Hofstede Centre[§] provides country scores on a set of dimensions of culture. It is valuable to consult this information when assessing the commercial risk of doing business in a certain country.
Wage Indicator	Wage Indicator[**] provides an indication of the average wage and the minimum wage in approximately 80 countries.

[*] http://www.doingbusiness.org/rankings
[†] http://www.flandersinvestmentandtrade.com
[‡] http://madb.europa.eu/madb/
[§] http://geert-hofstede.com/countries.html
[**] http://www.wageindicator.org/

APPENDIX 3 – THE IGS QUESTIONNAIRE

INTERNATIONAL GROWTH SCANNING

This analysis has to be done separately for each target country and for each mode of entry the company chooses for the international expansion of its activities.

1. Potential benefits of expanding to the target country

Please fill in the following scales:

a. Raising sales volume

	Not significantly	Moderately	Significantly
I think that an expansion to the target country will increase the firm's turnover …	0	1	2

b. *Reducing costs*

	Not significantly	Moderately	Significantly
I think that an expansion to the target country will reduce the firm's costs … This decrease could, for example, be caused by the more efficient use of the production capacity, the existence of scale economies and experience effects, the access to cheaper resources (e.g. through outsourcing some activities), etc.	0	1	2

c. *Improving value proposition*

	Not significantly	Moderately	Significantly
Through entering the target country, I expect that the firm will improve its product or service offering … The firm could, for example, improve the value creation for the customer, the product or service image, the assortment, etc. through a more global presence.	0	1	2

d. *Improving competitive position and bargaining power*

	Not significantly	Moderately	Significantly
Through entering the target country, I expect that the firm will strengthen its global competitive position and/or its bargaining power w.r.t. suppliers … This could, for example, be due to an increase of the market share.	0	1	2

e. *Acquiring strategic assets*

	Not significantly	Moderately	Significantly
I think that the knowledge (networks), resources and capabilities (e.g. human resources, raw materials, production techniques) that are supplied by the target country can strengthen the core competency of the firm …	0	1	2

f. ***Risk reduction***

	Not significantly	Moderately	Significantly
I think that an expansion to the target country can reduce the variability of the cash flows and the total firm risk … This decrease could, for example, be caused by the fact that the target country is situated in another stage of development, is located on another continent, etc.	0	1	2

2. *External and business alignment risks of expanding to the target country*

2.1 *Introduction: Explanation of underlying concepts*

At this point, it is interesting to have a look at the information sources that are provided in Appendix 2.

2.2 *Evaluation of external risks*

Please fill in the following scales:

a. ***Political risks***

	High	Intermediate	Low
The political risk in the target country is … This could, for example, be due to social unrest (which could reveal itself in strikes), the existence of corruption (which could lead to expropriation of private property), or the possibility of an unfavourable treatment of the firm in the target country.	0	1	2

b. ***Economic risks***

	Unfavourable	Neutral	Favourable
The fiscal policy (including the customs duties) in the target country tends to be …			
The taxes on local activities and/or on import/export can be disadvantageous for the profit that can be made through exporting to the target country.	0	1	2

	Alarming	Slightly alarming	Favourable
The general economic climate in the target country is …	0	1	2
The evolution of the prices in the target country is …			
Deflation (a decrease in the overall price level) in the target country could have adverse consequences because the local population could postpone certain purchases, or find that the prices of the firm are too high. A too high inflation rate can also cause instability in the target country, for instance through a reduction of the local purchasing power.	0	1	2

c. ***Legal and commercial risks***

	Weak	Intermediate	Strong
The protection of intellectual property in the target country tends to be …	0	1	2
The law of contracts and law enforcement in the target country tends to be …	0	1	2
Trade and investment freedom in the target country tends to be …	0	1	2

With regard to the commercial transactions, the similarities between the home country and the target country are rather …			
A weak similarity could, for example, be caused by cultural differences between both countries.	0	1	2
Market functioning and the corresponding supporting institutions (regulations, financial intermediaries, etc.) in the target country are rather …	0	1	2

d. Risks stemming from tough competition

	Strong	Intermediate	Weak
Competition in the target country tends to be …	0	1	2

	Weak	Intermediate	Strong
The firm's understanding of the competition in the target country is …	0	1	2

2.3 Evaluation of business alignment risks

a. Value proposition

	Not at all	To a limited extent	To a large extent
The firm's products and services are valued at least equally by the customers in the target country compared to the customers in the home country.	0	1	2
The product or service characteristics enable the firm to differentiate itself … from the competition in the target country.	0	1	2

A visualization of the value proposition can be created by drawing a value curve (cf. Appendix 4)			
To meet local norms and standards, the firm has to adapt its product or service …	0	1	2

b. ***Customer interface***

	Different	Slightly different	Similar
Compared to the customer segments that are addressed in the home country, the market segments that are addressed in the target country are …	0	1	2
Compared to the regular customer relationships in the home country, the relationships between customers and firms in the target country are …	0	1	2
Compared to the distribution channels commonly used by the firm in the home country, the distribution channels in the target country are…	0	1	2

c. ***Infrastructure management***

	Very difficult	Difficult	Easy
The conditions in which the company will execute its local activities (distribution, production, research & development, etc.) in the target country are…	0	1	2
Finding reliable partners in the target country is…	0	1	2
For the firm, making available the necessary means (financial means, personnel,	0	1	2

time, know-how, etc.) to expand to the target country is …	

d. Financial elements

	High	Intermediate	Low
The expected fluctuations of the margins and revenue streams of the firm in the target country tend to be … This could, for example, be caused by the existence of exchange risk exposure or because the firm's impact on the price setting is weak.	0	1	2

	High	Limited	Negligible
The additional costs for the firm of expanding to the target country are, as far as can be estimated, …	0	1	2

	Negative	Neutral	Positive
The total impact of government taxation and/or subsidies in the target country tends to be…	0	1	2

APPENDIX 4 - VALUE CURVE

The value curve was first described by W Chan Kim and Renee Mauborgne in their article, "Value Innovation: The Strategic Logic of High Growth," published in HBR January, 1997. It is a useful instrument to help a company to find ways to better differentiate its product offering in the market.

Key question: What makes the customer to *buy from your company and not from your main competitor? How is the company's position relative to the position of its main competitor? The essential question is how the firm scores on product attributes or factors that are valued by the customer. (Examples of value creating factors that can be filled in are: low pricing, high quality, high after-sales service, geographic proximity, low time-to-delivery, uniqueness of the products/services, brand image, customization,…).*

	… *no* value creating factor for the **company**	… an intermediate value creating factor for the **company**	… a value creating factor for the **company**	… *no* value creating factor for the main **competitor**	… an intermediate value creating factor for the main **competitor**	… a value creating factor for the main **competitor**
…… *(Please fill in a value creating factor)* …… is	0	1	2	0	1	2
…… *(Please fill in a value creating factor)* …… is	0	1	2	0	1	2
…… *(Please fill in a value creating factor)* …… is	0	1	2	0	1	2

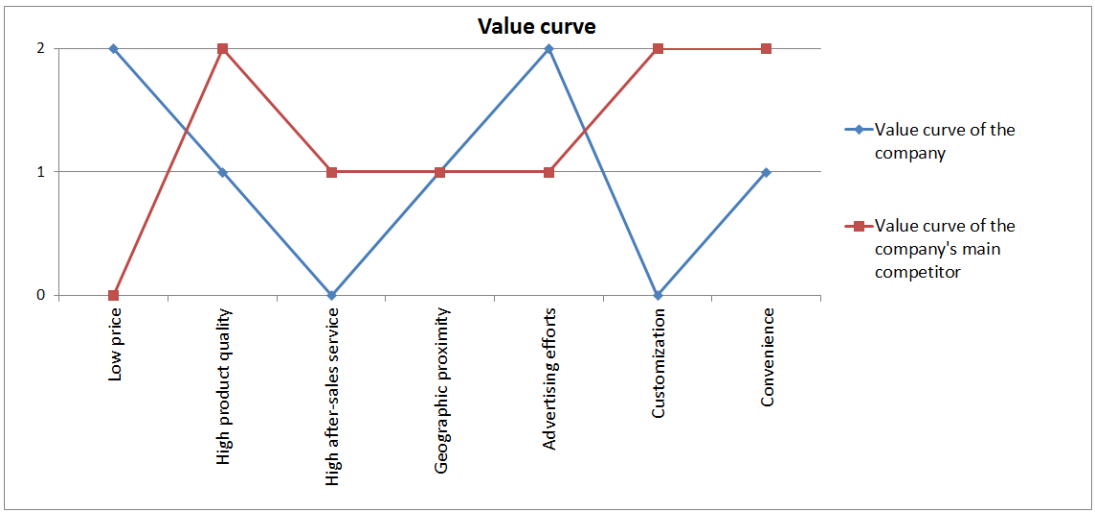

Figure 11: Example of a possible value curve

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