Luxury Daily®
The News and Intelligence You Need on Luxury

RESEARCH

Globalization strategies fall short on execution: BCG

June 15, 2015

Tokyo's Ginza district at night

By JOE MCCARTHY

Ninety percent of organizations lack the capabilities needed to win overseas, according to a new report by Boston Consulting Group.

Organizations across industries are eager to expand internationally, but only a small percentage have mastered the logistics needed to realize goals. BCG identified 22 capabilities as prerequisite for going global, and just 10 percent of companies believe they have mastered the full set.

“Companies clearly recognize the need to globalize, but few of them are truly ready to execute and bring to life their global strategies,” said Dinesh Khanna, partner at BCG and global leader of the Global Advantage practice, Singapore.

"Companies that want to win overseas should be focusing on the nuts and bolts of going global," he said.

BCG surveyed 362 executives across a range of industries for "The Globalization Capability Gap: Execution, Not Strategy, Separates Leaders from Laggards" report. Fifty-six work for companies based in Western Europe; 11 percent are at North American companies; 9 percent are at Latin American companies; 9 percent are at Japanese and Australian companies; and 6 percent are at companies in emerging Asian markets.

Disconnect

Many companies regard global proficiency as the ultimate test of durability. If a business model can transcend borders and adapt to the myriad and changing economic and cultural climates of various countries, then it can be considered successful.

Plus, globalization disperses the risk of a company, harvests new markets and allows a company to test new ideas, among many other benefits.

However, the vision of a global model versus the actual act of implementing it rarely harmonize.

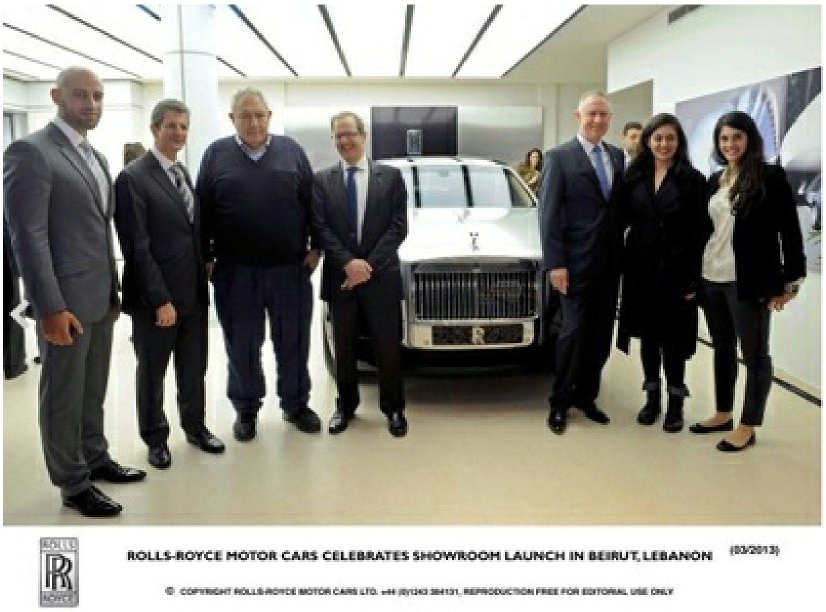
St. Regis Bahia Beach, hotel companies have aggressive expansion plans

Sixty-six percent of executives responded that leadership gives a high priority to globalization, yet only 48 percent feel their global projects get sufficient funding.

Fifty-nine percent of top management teams are held accountable for aggressive globalization tactics, yet 43 percent have adequate incentives.

Fifty-one percent of head-office functions support a company's global agenda, but 40 percent of respondents said that the agenda is not spread throughout the organization.

Finally, 61 percent of executives said that products can be effectively made for specific countries, but just 45 percent agreed that effective sales and go-to market capabilities were in place.



Rolls-Royce Beirut showroom

For most companies, every juncture yields another instance of globalization disconnect.

Line managers who run businesses or regions, the people observing expansion first-hand, are the most pessimistic about global plans, compared to headquarters-based staff who are the most evangelical.

The report notes that midsize companies are the least likely to successfully scale across borders because they lack the agility of small companies and the resources of larger ones.

Of the 22 capabilities measured in the report, respondents rated their companies below average on 15.

The capabilities measured were divided among the following themes: learning and agility, leadership and governance, business capabilities and organizational and executional alignment.

Teaming up

While not a panacea, the report argues that mergers and acquisitions can help companies with executing strategy. By assimilating the expertise of a company with an established position in a specific market, businesses can bypass growing pains.

However, mergers and acquisitions was the lowest rank capability in the survey, with just 34 percent of respondents citing a readiness in this area.

Companies scoring 75 percent or higher in this area saw a boost in their overall score as well.

Luxury brands regularly strike partnerships with companies in different countries to quickly absorb expertise.

For instance, Neiman Marcus Group acquired global online luxury business Mytheresa.com as well as the flagship store in Munich late last year.

The acquisition left the online store and the flagship shop as an independent subsidiary of Neiman Marcus Group with the management teams remaining similar. The procurement of Mytheresa.com will help Neiman Marcus expand its global reach (see story).

“Mergers and acquisitions can be challenging to master as it requires mastery of several skills, such as target selection, negotiation and integration," said Margaret Cording, professor of strategy and regional director of Southeast Asia and Oceania at IMD business school, Singapore.

"But it can also be transformative," she said. "Companies can quickly acquire market share and a global footprint, diversify their talent base and create a more varied portfolio of businesses."

Final Take
Joe McCarthy, staff reporter on Luxury Daily, New York

Embedded Video: https://www.youtube.com/embed/5ZGV_I2TMhQ