Making success travel

Changing models to fit overseas markets

By basing its talent and organization design on local labor market dynamics, this major Western retailer found a practical route to growth in unfamiliar territory.

"The revised model turned out to be more profitable than the cookie-cutter alternative, with non-store costs 15 per cent lower than the budget with the original template."

Once you've built a leadership position in your home market, the next logical step is to expand overseas. If your target market is just like home, this can be a "cookie cutter" exercise: simply take the established model and roll it out somewhere new. But if the new market is dramatically different, overseas expansion can become a high-cost, high-risk initiative if your plans and your workforce don't match local dynamics.

This was the issue facing a major Western retailer that had targeted India as its next major market expansion.

At home, its business model worked on four tried-and-tested components: "big box" hypermarket stores, low-cost labor, sophisticated and aggressive buying, and just-in-time logistics. The initial idea was to replicate this successful model for the Indian market. Quickly understanding that the cookie-cutter approach wouldn't work for its ambitious plan to build from 10 stores to 150 in a few years, the retailer turned to Korn Ferry Hay Group to help it evolve its business model.

The first step was to understand where the model should be adjusted:

- Unstable real estate laws made it difficult to create 20,000+ m2 stores, jeopardizing the typical model in which shoppers purchased everything under one roof.

- While there was a good supply of low-cost labor, the lack of a service culture in India meant employees would need significant training. This, in turn, would make them susceptible to poaching from competitors, driving a need for higher compensation and expensive retention programs.
- The buying environment was unfamiliar too, meaning that the company would need a different mix of buyers, from strategic individuals who could deal with global players to operational employees who would buy from local farmers.
- Finally, in a country plagued with chronic road congestion and lacking the sophisticated logistics networks of its home market, the company's traditional approach to just-in-time logistics would have to change and be based on a "can-do" attitude.

To support the evolution of the model to Indian realities, we identified the critical roles that would support the strategic capabilities needed: real estate managers, store employees, a spectrum of buyers and heads of logistics. So this new model could be fully put into practice, we did very specific analyses. For example we looked at the categories for which the company needed local merchandising presence, identifying fresh foods, grocery and textile merchandise as priority areas. This allowed us to specify the different types of buyers required, their numbers and their optimal locations in the organization, from corporate down to the stores.

We then created organizational design recommendations to support the evolved model. These followed three principles aimed at optimizing the retailer's cost and efficiency as it expanded:

- Bottom-up design. Rather than imposing the cookie-cutter structure on the Indian market, we proposed an approach based on first building small-format stores, which over time would form "districts" of 8-10 stores and, once stabilized, then create "markets" of 3-5 districts where bigger stores could eventually be established.
- Lean and mean. We identified savings by omitting a "regional" layer between HQ and the new market for at least the first 3-4 years; and we assessed that there was no need to replicate roles like finance and HR at this level. By 2015/16 we identified a need for "span breaker" roles that would each oversee 7-8 markets.
- Functional integration. With general management and business-enabling functions such as HR and marketing at the "market" level, the retailer was able to make savings by integrating these functions across the business.

By integrating workforce and organizational dynamics that differed from its original Western approach, we worked with the retailer to adapt its model to the Indian market. This allowed it to expand in the most cost-efficient, low-risk way.

In fact, the revised model turned out to be more profitable than the cookie-cutter alternative, with non-store costs 15 per cent lower than the budget with the original template. Korn Ferry Hay Group's pragmatic approach has helped this company towards achieving its expansion plans cost-effectively despite an unfamiliar and complex new market.