Guidelines in the Adaptation of Business Models to Different Markets in the Context of Globalization

Răzvan RĂDULESCU[1]
Florin TÎRLA[2]

Abstract

In the Dynamic environment of the 21st century the vast majority of companies, that expand their operations into new markets, face the challenge of adapting their operations and brand to the particularities of a different region. This adjustment develops in respect to their usage of capital, local talent, institutional culture and the way they are conducting their business altogether.

This clash between business culture and the cultural background of a foreign market may have a huge impact on the financial success of a newcomer. Under this pressure, the challenges of harmonizing the internal business philosophy to the geopolitical, economic, social and cultural realities of new markets are raised.

In this paper, we propose a theoretical structure that evaluates the main areas in which a change in approach is required, so the business dynamics and focus points (that may trigger maladjustment from the market) of an organization are developed in accordance with the environment. As it is a bi-univocal relation, we will analyze the economic, social and the cultural degrees of influences a company should exert in the context of aligning its activities with the local history, geopolitical influences and cultural identity of the new market.

As each company is a bearer of values from a different culture and region, we will also analyze the transfer of national identity. Furthermore, we will analyze the shifts in perception that are required by an emerging market (with strong cultural background) from an organization so it may minimize its image of an economic colonizing force, or to emphasize the organization's own values, if they are viewed as an economic civilizing force (in markets with a permissive cultural background).

Keywords: *Globalization, business model, international business, business adaptation, social and cultural barriers*

JEL classification: P00, F01, F60

Introduction

In the latter part of the 20th century, the critical mass of capital that was accumulated in the seemingly wealthier western nations prompted the need to disseminate business operations to other parts of the world (Buckley, 1967). The

[1] **Răzvan RĂDULESCU,** Faculty of Business Administration – University of Economic Studies, Bucharest, Romania; Email: radulescu.d.razvan@gmail.com
[2] **Florin TÎRLA,** Faculty of Management – University of Economic Studies, Bucharest, Romania; Email: ftirla@gmail.com

new global paradigm started to emerge as a natural response to characteristics embedded in the new markets: cheap labor, untapped natural resources, vast demographics and so on, could be turned into new competitive advantages.

With the beginning of the 1970's nations like Brazil, China, India, some parts of Africa and Asia became the logical expansion grounds for western multinational companies. As the governments from both sides encouraged this trend by recognizing the mutual benefits of such a strategic action (through the exchange of a set of competitive advantages).

This vision was feet in the financial markets as China took the "most favored nation" title in the 1980's, Brazil changed its perspective towards western capital and India put old feuds aside with their British former partners.

Following the trend of a new and more connected world, the strategy and tactics of capital deployment were soon to follow just to see that implementing such a bold paradigm has an unstable side and that the cultural differences in the way of conducting a business were after all present, even if the will to share was bilateral.

This discrepancy in the way companies express and function in a new environment is still heavily related to their capabilities to implement their original business model in a different market. Therefore, the challenge to be faced was in the operational adaptability on one hand, and feedback relation with the environment on the other. Organizations that have to deal with managing this change, required by the external new factors, had to apply changes that affected the core business model and the way it was implemented in their subsidiaries.

To understand the complexity of both internal and external challenges in a more systematic manner we will analyze the influences according to their cultural nature and cultural perception as well as in the context of the region they operated and the period and their estimated acclimatization. From this conceptual framework, we will extract a set of guidelines regarding the points on which a company should focus when conducting its operations in the context of globalization, in a new market.

Furthermore we will take on the complex matter of randomness of doing business in some parts of the world or, the perception of randomness that forces some organizations to be resistant to change regarding their business model when doing business in other parts of the world.

1. Internal and external factors, challenges and adaptations in the global markets

A perception of ones strengths and weaknesses alongside an easy accessible pool of capital generates the basic parameters for venturing into new markets. Alongside this shift in strategic thinking, the moment to recalculate the functionality of an organization in the original and the new environment is revealed, as the opportunity to adjust and relocate investments to spot and capitalize on a new set of competitive advantages.

Creating customized products and services for a new market, may be an capital arduous and expensive task, so the functional question arises: "*How much customization a product needs so it may be able to perform in another market?*" Within the search for an answer, an organizational involvement is needed to align the perception of what is adaptable and what is not to a new market and to draw the core elements that trigger the perception of local/foreign product.

Some environments are more likely to embrace a product or services with minimum customized parts as other markets require a higher degree of customization. From an operations perspective the company must address the functional side of the problem and ask itself "*are the financial capabilities of the targeted or potential customers meet, on such a level, to support a customization or even the unchanged product or service?*" As well as from an cultural/social if "*the potential customer would buy the product just for its functionality or they want to transfer the image that comes with the product, if so on what degree?*"

This plethora of questions is not likely to be answered through the classical means provided by the tools of international business or competitive intelligence used with an information batch from the country of origin. Nevertheless, they force a company to investigate the permeability of a different market and to analyze it from its cultural and self-determined attributes in relation with the organization's internal biases and culture.

So, if a company performs well in one environment (or in a number of regions that share the same value system), internally it may have a strong perception of itself and the methods used in business as being somehow "superior" or more efficient than the ones deployed by a native company. This self-awareness may push them to view their competitive advantages as the single source of their success, disregarding the environment in which they were established and the fact that the business model was molded by it.

This way of thinking damaged the adaptability of a number of companies, *"Coca-Cola"* has a hard time imposing its brand in Russia, where the seemingly more fragile native company *"Wimm-Bill-Dann Foods"* has the leadership in dairy products and it is among the top three in fruit juices (Bhattacharya & Michael, 2008, p. 89). The fact that PepsiCo took the strategic choice of buying Wimm-Bill-Dann Foods in 2012 (maintaining its portfolio, logo and brand awareness and structure unaltered) rather than competing with it, is a testimony of the power of local brands in strong cultural environments.

In a similar position is JCDecaux (the largest global outdoor advertiser) in China where "FocusMedia" it's the largest outdoor advertising company or in Brazil where Casas Bahia is keeping its rivals Carrefour and Wal-Mart at a considerable distance behind them.

Due to this unexpected resistance from some markets to external brands and products, the way to enter a competitive new market was through Acquisition and Mergers (A&M), as a multinational company would buy another company from that market according to their market share, financial characteristics

(E.B.I.T.[3], E.A.T.[4], E.B.I.T.D.A.[5] etc.). This strategic action was taken without a closer look at the company's business model or culture and the similitude with their own business and organizational culture. The "modus operandi" was anyway an infusion of a new way or quasi-similar way of doing business.

This method did grasp the market share for the moment but did not alleviate the causes that generated the resistance in the first place. So even if brought the place in the market the fact that the business model was changed or restructured to emulate the headquarters way of doing business created perception, communication and cultural barriers on one hand (internal) and perception problems and resistance if the headquarters choose to rebrand in some degree the products or services of the acquired company (external).

2. The power of the brand and business model perception

This pattern is easier to notice when we focus on the low-margin businesses in industries like the retail sector, with massive withdrawals of international players like *Tesco* and *Carrefour* from the B.R.I.C.S.[6] and adjacent markets in the last couple of years (Carrefour in South America and Tesco in Japan and southeastern Asia).

In opposition to this trend, but in the same industry, we can observe the massive expansion in the market share of companies like *Delhaize* in countries like Romania, Serbia and Bulgaria (through the brand *"Mega Image"* in Romania, *"Piccadilly"* in Bulgaria and *"Maxi"* in Serbia, among others). As well as the increased revenues and market share of the formally mentioned *Carrefour S.A.* on the same east European markets.

One of the factors that tipped the scale in favor of these international players in some countries and against them in others is the perception of external influences in the cultural value system of the targeted countries.

For example, the positioning strategy used by *Dedeman's* is a near perfect illustration of how the social perception of the brand can tip the scale in favor of a company. The *Dedeman* brand, even if rises the perception of the potential customer as a foreign brand, is a one hundred percent Romanian owned company that functions in the retail industry, as a hypermarket chain of home improvement and do-it-yourself goods, a niche particularly dominated in Europe by German and Scandinavian companies.

Positioning itself in the value system of the potential customers as a foreign brand and combining it with the knowledge and particularities of the Romanian market customers, *Dedeman* became a well-established player operating at the present time 39 hypermarkets in Romania (Dedeman Retail Network).

---

[3] Earnings Before Interest and Taxes;
[4] Earnings After Tax;
[5] Earnings Before Interest Taxes Depreciation and Amortization;
[6] The abbreviation stands for Brazil, Russia, India, China and South Africa, the strongest economies regarded as emergent.

Figure 1. Example of transfer of brand similarities (IDM[7] and IBM[8])
(*Source:* Rădulescu R., Tîrla F., 2014)

A quite different and more aggressive transfer of brand similarities (or quasi-awareness), used to better suit the individual and collective perception of a foreign market can be seen in the development of the IDM brand's logo. A company that operates in the Romanian transport industry and retail market has tapped into the perception of quality associated by the potential customers when they created the brand and the logo trough a mimesis from the foreign International Business Machines Corporation (IBM).

This pattern, taking a different direction, is present in a number of replicas or seemingly substitutions in the name of the brand products that spring from the Asians markets and are sold in undeveloped countries around the world as substitute products for the more established brands.

So why do we see this paradox: the need for the presence of foreign brands is signaled by the rise of similar or replica brands, but in the same time the actual presence of the original brand it's not always successful on those raising markets.

The limitations present in new environments are quite diverse in nature, so we are obliged to take into account the following differentiators so we may better understand them:

- ***structural-operational*** (domestic infrastructure and regional, skill sets of employees, legislative voids and/or corruption, competitors and the structure of local capital, resources and the access to them, IT infrastructure, demographics and the spread of wealth);
- ***cultural-marketing*** (self-perception and overall culture, customs and traditions in relation to the western culture, the political influence that shaped the generations that are present in that environment, geopolitical and regional dependencies and animosities).

This structured view must be taken at a scale of country/region, and be assigned a level or degree by comparison to the global spectrum.

[7] Image taken by Rădulescu R., Tîrla F in 2012. All rights reserved.
[8] © Copyright IBM Corporation 1994, 2014.

Table 1. Structural and operational elements that should be considered when entering an emergent market

Limitations	Core facts to be considered
Structural-operational	Potential employees skill-sets
	Demographic pool
	Infrastructure and/or regional limitations
	Labor costs
	Targeted resource abundance and its accessing easiness
	The geopolitical stability regarding the long-term usage of the resource
	Differentials of the business structure and model in the case of A&M's
	The importance of institutional knowledge and the operative efficiency of state institutions

(*Source:* Rădulescu R., Tîrla F., 2014)

Table 2. Cultural and marketing elements that should be considered when entering an emergent market

Limitations	Core facts to be considered
Cultural-marketing	Work ethics and cultural perspective regarding the workplace and work per-se
	Geopolitical view of the native culture towards the foreign culture and its reps
	Inward view of the native culture, it's history and future expectations
	Readiness to embrace foreign influences in its history and the resistance showed in the past
	The individuals perception of "a need" and the way it can be fulfilled

(*Source*: Rădulescu R., Tîrla F., 2014)

Between the structural-operational and cultural-marketing sections relations and dependencies must be created in accordance with the regional characteristics of the emerging region, to understand the initial status-quo of the emerging and undeveloped markets.

Accounts for the various business models and their operational challenges must be mapped, so it could pinpoint the relevant information in the vast focus areas presented in each organizational structure.

3. Guidelines and conclusions

The synthesis of structural-operational and cultural-marketing elements an organization should focus on when entering a new market are revolving around seven major points for each section.

The ***structural-operational*** guidelines extracted from the framework raised before:

1) Create customized product and services according to the markets way of thinking;
2) Too much order will create chaos, if it is too sudden;

3) Expect major obstacles and prepare beforehand your business model for that;
4) Deploy the latest technologies just if the environment can absorb them;
5) Focus on the opportunities, as for example: cheap labor;
6) Think beforehand at scaling the operations;
7) Maintain the local talent if you go A&M and prepare to invest in local talent if not.

The ***cultural-marketing*** guidelines extracted from the framework raised before:

8) Be aware of the political influences that shaped the generations that are present in that environment;
9) Is the company acting or is it perceived as a colonizing entity;
10) How strong are the self-determining ambitions of that nation related to its overall history;
11) How the nation does view itself and its role in the region;
12) Related to the regional ambition, how ready is the culture to embrace foreign perceived products and from what country;
13) Be ready as a company to change the brands to a local and easy to relate ones;
14) Account for: the past memories and the effects created in the collective perception, is the culture ready to emulate or revamp the western ways - are they viewed as a goal or modus operandi.

The capabilities of an organization to address the problems and opportunities raised by the two sections may create a more predicable environment for their future activities and offer them a better view of the operational market than a classical PESTLE or SWOT analysis.

Acknowledgements

The authors would like to thank prof. Gabriela Țigu, Ph.D. - University of Economic Studies, Bucharest, Romania for the support given in developing this article.

This work was co-financed from the European Social Fund trough Sectorial Operational Program Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/142115 “Performance and excellence in doctoral and postdoctoral research in Romanian economics science domain”.

References

1. Bhattacharya, A. K., & Michael, D. C. (2008). “How Local Companies Keep Multinational at Bay”. *Harvard Business Review*, pp. 85-95.
2. Buckley, W. (1967). *Sociology and Modern System Theory* (1st ed., Vol. 1). Prentice Hall.

3. Dedeman Retail Network. (n.d.). *Reteaua de magazine Dedeman*. Retrieved 08 15, 2014, from Dedeman.ro: http://www.dedeman.ro/ro/retea-dedeman.html
4. Gupta, A. (2013). "Enviornment&PEST Analysis: An Approach to External Business Environment". *International Journal of Modern Social Sciences*, "pp. 34-43.
5. Mintzberg, H., & Waters, J. A. (1985, July-September). "Of Strategies, Deliberate and Emergent". *Strategic Management Journal*, Vol. 6, No. 3, pp. 257-272.
6. Porter, M. E. (2008). *On Competition - Updated and Expanded Edition* -. Cambridge, Massachusetts: Harvard Business Review Press.