

TOP REASONS FOR CORPORATE GLOBAL EXPANSION

WRITTEN IN CONJUNCTION WITH TMF GROUP.



“Expanding into foreign markets tends to enhance revenue growth while improving a company’s return on capital and reinvestment rate.”

Choosing to pursue global expansion is one of the most critical decisions many growth-hungry enterprises will make. Yet while there is rarely one single rationale driving a company’s decision to enter an overseas market, there are a variety of common factors that influence such decisions.

A recent report by the *Economist Intelligence Unit (EIU)*, sponsored by TMF Group, illuminates precisely why today’s companies are choosing to expand. This report draws upon surveys and interviews with more than 160 senior global business leaders from a wide cross-section of industries with varying levels of revenue.

Here are some of the top reasons why companies choose to expand internationally:

GLOBAL EXPANSION REMAINS A MAJOR DRIVER OF REVENUE GROWTH

Expanding into foreign markets tends to enhance revenue growth while improving a company’s return on capital and reinvestment rate. Revenue growth from non-domestic markets typically comes faster, while adding new revenue streams helps a company maintain security and stability.

BUSINESSES THAT EXPAND INTERNATIONALLY CULTIVATE A BROADER CUSTOMER BASE

In an era where global branding is more critical than ever before, the acquisition of a wider customer base and a broader brand footprint pays significant dividends. Additionally, companies with an international presence can leverage their specific understanding of global markets. This kind of “on the ground” expertise is often vitally important in terms of competitive advantage and client service.

EXPANSION IS BEING DRIVEN BY THE DESIRE TO INCREASE MARKET SHARE AND OPEN NEW MARKET

Opening new markets (59 percent) and gaining market share (57 percent) ranked first and second, respectively among those surveyed. This is particularly true for European companies, and for businesses in markets that are underperforming economically. Companies can tap into higher profits and faster growth by entering overseas markets with more favorable prevailing conditions.

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Chart 1: Drivers of expansion

Q What are your company's motives in its recent/current/planned major expansion project into foreign markets? Please select all that apply.
(% respondents)



Source: Economist Intelligence Unit survey, August-September 2015.

COMPANIES ARE SEEKING WHAT THEY CAN'T FIND AT HOME

Whether it's tapping into pools of talented labor (43 percent), new technology resources (42 percent) or fresh infusions of capital (39 percent), companies are using international expansion to fulfill needs unserved by their domestic market.

THE TAKEAWAY

No two companies share precisely the same mix of motivations for choosing to expand internationally. Yet as the EIU survey makes clear, there are some broadly-shared rationales driving most of today's expansions. These include the desire to increase market share, lower costs, efforts to gain an edge on competitors and access to untapped sources of skill, technology and capital.

INTERNATIONAL EXPANSION IS OFTEN A DEFENSIVE MANEUVER

Forty-seven percent of respondents said they pursued overseas expansion as a counter to increased competition in their home market. Companies are also prompted to pursue international growth as a defensive tactic, gaining entry into potentially valuable markets before competitors can do so.

EXPANSION IS FREQUENTLY A COST-SAVINGS STRATEGY

Lowered production costs have long been a magnet for international growth, and the results of the EIU survey indicate that rationale is still relevant. Forty-four percent of survey respondents cited cost-savings as an expansion driver, ranking fourth on the list.



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