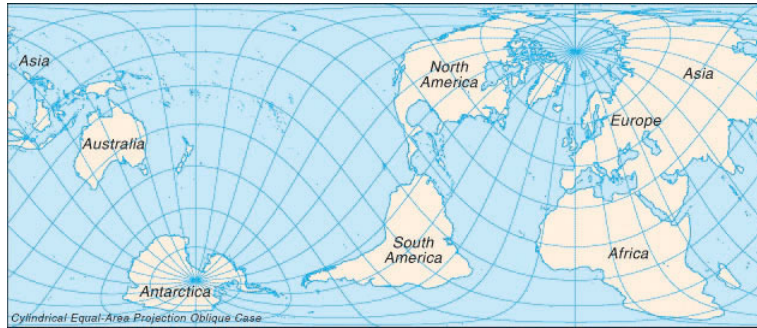


## 8.1: Chapter Introduction

### International Expansion and Global Market Opportunity Assessment



#### WHAT'S IN IT FOR ME?

1. What are the inputs into global strategic move choices?
2. What are the components of PESTEL analysis and the factors that favor globalization?
3. What are the traditional entry modes for international expansion?
4. How can you use the CAGE model of market assessment?
5. What is the importance of and inputs into scenario analysis?

This chapter pulls together all the information about choosing to expand internationally and possible ways to make that choice. Section 8.1 shows that choosing to expand internationally is rarely black and white. A wide variety of internationalization moves are available after choosing to expand. Moreover, some flatteners make global moves easier, while some make them more difficult. Indeed, even importing and outsourcing can be considered stealth, or at least early, steps in internationalization, because they involve doing business across borders. In Section 8.1, you will learn the rationale for international expansion and the planning and due diligence it requires.

This chapter also features a richness of analytical frameworks. In Section 8.2, you will learn about PESTEL, the framework for analyzing the political, economic, sociocultural, technological, environmental, and legal aspects of different international markets. Section 8.3 describes the strategies available to you when entering a new market. Section 8.4 will demonstrate how globalization and the CAGE (cultural, administrative, geographic, and economic) framework address questions related to the *flattening* of markets and how the dimensions they help you assess are essentially *flatteners*. Finally, in Section 8.5, you will learn about scenario analysis, which will prepare you to begin an analysis of which international markets might present the greatest opportunities, as well as suggest possible landmines that you could encounter when exploiting them.

#### Opening Case: The Invisible Global Retailer and Its Reentry into US Markets

Which corporation owns 123 companies, operates in twenty-seven countries, and has been in the mobile-phone business for over a decade? If you don't know, you're not alone. Many people haven't heard of the Otto Group, the German retailing giant that's second only to Amazon in e-commerce and first in the global mail-order business. The reason you've likely never heard of the Otto Group is because the firm stays in the background while giving its brands the spotlight. This strategy has worked over the company's almost eighty-year history, and Otto continues to apply it to new moves, such as its social media site, Two for Fashion. "They are talking about fashion, not about Otto, unless it suits," explained Andreas Frenkler, the company's division manager of new media and e-commerce, about the site's launch in 2008. Lydia Dishman, "How the Biggest Online Retailer You've Never Heard of Will Take the U.S. Market," *BNET*, April 16, 2010, accessed August 20, 2010, [www.bnet.com/blog/publishing-style/how-the-biggest-online-retailer-you-8217ve-never-heard-of-will-take-the-us-market/248](http://www.bnet.com/blog/publishing-style/how-the-biggest-online-retailer-you-8217ve-never-heard-of-will-take-the-us-market/248). The site is now one of the top fashion blogs in Germany and is an integral part of the retailer's marketing strategy.

#### Leading through Passion, Vision, and Strategy

Today, the Otto Group consists of a large number of companies that operate in the major economic zones of the world. The Otto Group's lines of business include financial services, multichannel retail, and other services. The financial services segment covers an international portfolio of commercial services along the value chain of retail companies, such as information-, collection-, and receivable-management services. The multichannel retail segment covers the Otto Group's worldwide range of retail offerings;

goods are marketed across three distribution channels—catalogs, e-commerce, and over-the-counter (OTC) retail. The third segment combines the Otto Group’s logistics, travel, and other service providers as well as sourcing companies. Logistics service providers and sourcing companies support both the Otto Group’s multichannel retail activities and non-Group clients. Travel service providers offer customers travel offerings across all sales channels. Unique to the Otto Group is the combination of travel agencies, direct marketing, and Internet sites. The combined revenue of these three ventures is growing rapidly, even during the global economic downturn. The travel service revenues for 2010 were 10 billion euros, or about \$12 billion. “Otto Group: Private Company Information,” *BusinessWeek*, accessed February 7, 2011, <http://investing.businessweek.com/businessweek/research/stocks/private/snapshot.asp?privcapId=61882597>.

Even though it operates in a variety of market segments, business ideas, and distribution channels—not to mention its regional diversity—the Otto Group sees itself as a community built on shared values. Otto’s passion for success is based on four levels of performance, which together represent the true strength of the Otto Group: “Passion for our customers, passion for innovation, passion for sustainability, and passion for integrated networking.” Each one of these performance levels is an integral element of the Otto Group’s guiding principle and self-image. “Accelerating toward New Goals,” Otto Group, accessed August 20, 2010, [www.ottogroup.com/en/die-otto-group/daten-und-fakten/segmente.php](http://www.ottogroup.com/en/die-otto-group/daten-und-fakten/segmente.php).

Future growth is guided by the Otto Group’s Vision 2020 strategy, which is based on achieving a strong presence in all key markets of the three largest regions—Europe, North America, and Asia. In doing so, the Otto Group relies on innovative concepts in the multichannel business, on current trends in e-commerce, on OTC retail, and on developments in mobile commerce. In keeping with that vision, its focus for near-term expansion is on expanding the Group’s strong position in Russia and increasing market share in other economic areas, such as the Chinese and Brazilian markets. Investment options in core European markets are continually being reviewed to strengthen the multichannel strategy. As a global operating group, Otto aims to have a presence in all major markets and will continue to expand OTC retailing.

In 2010, for instance, the Otto Group continued to develop its activities in the growth markets of Central and Eastern Europe. Through takeovers and the acquisition of further shares in various distance-selling concepts, including Quelle Russia, the Otto Group has continued to build on its market leadership in Russian mail order. A further major goal for the future is to expand OTC retail within the multichannel retail segment, making it one of the pillars of Otto alongside its e-commerce and catalog businesses. The foundations of value-oriented corporate management are reflected in the uncompromising customer orientation evident in business activities with both end consumers and corporate clients.

The strategy envisages targeted investments that provide the Otto Group with “Best in Class” business models. Otto not only draws on an excellent range of customer services as the basis for its success in its core business of multichannel retailing but also offers an array of retail-related services for its corporate clients. In the future, the company is looking to expand these services, moving beyond its core business. The buying organization of the Otto Group has been repositioned under the name Otto International and is now a firm fixture in the world’s key sourcing markets. Otto International’s corporate clients stand to benefit directly from the market power of the Otto Group while providing the volumes to make their own contribution to its growth.

#### The US Market Reentry Initiative

Germany remains the Otto Group’s most-important regional sales market, followed by France, the rest of Europe, North America, and Asia. In the United States, Otto set up a greenfield division called Otto International and quietly launched Field & Stream 1871, a brand of outdoor clothing, outerwear, footwear, and accessories, in 2010. The products are available only on the Field & Stream e-commerce site. As always, the Otto name is almost nowhere on the site, being visible only on the site’s privacy policy page.

Industry experts thought it surprising that Otto launched the clothing line because it had previously left the US market after its acquisition of Eddie Bauer’s parent company, Spiegel, failed in 2009.

Still, the Otto Group has received much acclaim for its innovations in the retail arena. For example, according to a Microsoft case study, Otto was the first company (1) to use telephone ordering, (2) to produce a CD-ROM version of its catalog in the 1990s (to deal with slow dial-up connections), and (3) to build one of the largest collections of online merchandise, at [www.otto.de](http://www.otto.de). “Microsoft Case Studies,” Microsoft, accessed August 20, 2010, [http://www.microsoft.com/casestudies/Case\\_Study\\_Detail.aspx?CaseStudyID=200504](http://www.microsoft.com/casestudies/Case_Study_Detail.aspx?CaseStudyID=200504); and “Otto Group: OTTO,” accessed February 7, 2011, [www.ottogroup.com/otto.html?&L=0](http://www.ottogroup.com/otto.html?&L=0). So the Otto Group may have other innovations planned for Field & Stream. But the US fashion market is saturated with competitors. As *WWD* reported, Otto may do better to focus on growing its own retail brands and utilizing its impressive in-house manufacturing and logistics divisions, which are now Otto’s fastest-growing

segment. Thomas Brenner, “Otto Group: A German Giant Tiptoes Back to the U.S.,” *WWD*, April 14, 2010, accessed February 7, 2011, [http://www.wwd.com/wwd-publications/wwd/2010-04-14?id=3036440&date=today&module=tn/today#/article/retail-news/otto-group-a-german-giant-tiptoes-back-to-the-u-s--3036500?navSection=issues\\_&navId=3036440](http://www.wwd.com/wwd-publications/wwd/2010-04-14?id=3036440&date=today&module=tn/today#/article/retail-news/otto-group-a-german-giant-tiptoes-back-to-the-u-s--3036500?navSection=issues_&navId=3036440). Otto could use these divisions to build other retail operations—while keeping a low profile, of course.

### Opening Case Exercises

(AACSB: Ethical Reasoning, Multiculturalism, Reflective Thinking, Analytical Skills)

1. How do non-German markets figure into the Otto Group’s strategy?
2. What do you think the firm has had to do to plan for this level of international expansion?
3. Which country-entry modes does the firm appear to prefer? Does it vary these modes?
4. After the Otto Group failed in its first effort to enter the US market with Spiegel, why would it try again?
5. How does this latest effort to enter the US market differ from its prior attempt?

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