

# Geographic expansion in professional services

Only 30% of geographic expansions are still profitable after 2 years

What can professional services companies do to increase likelihood of success?

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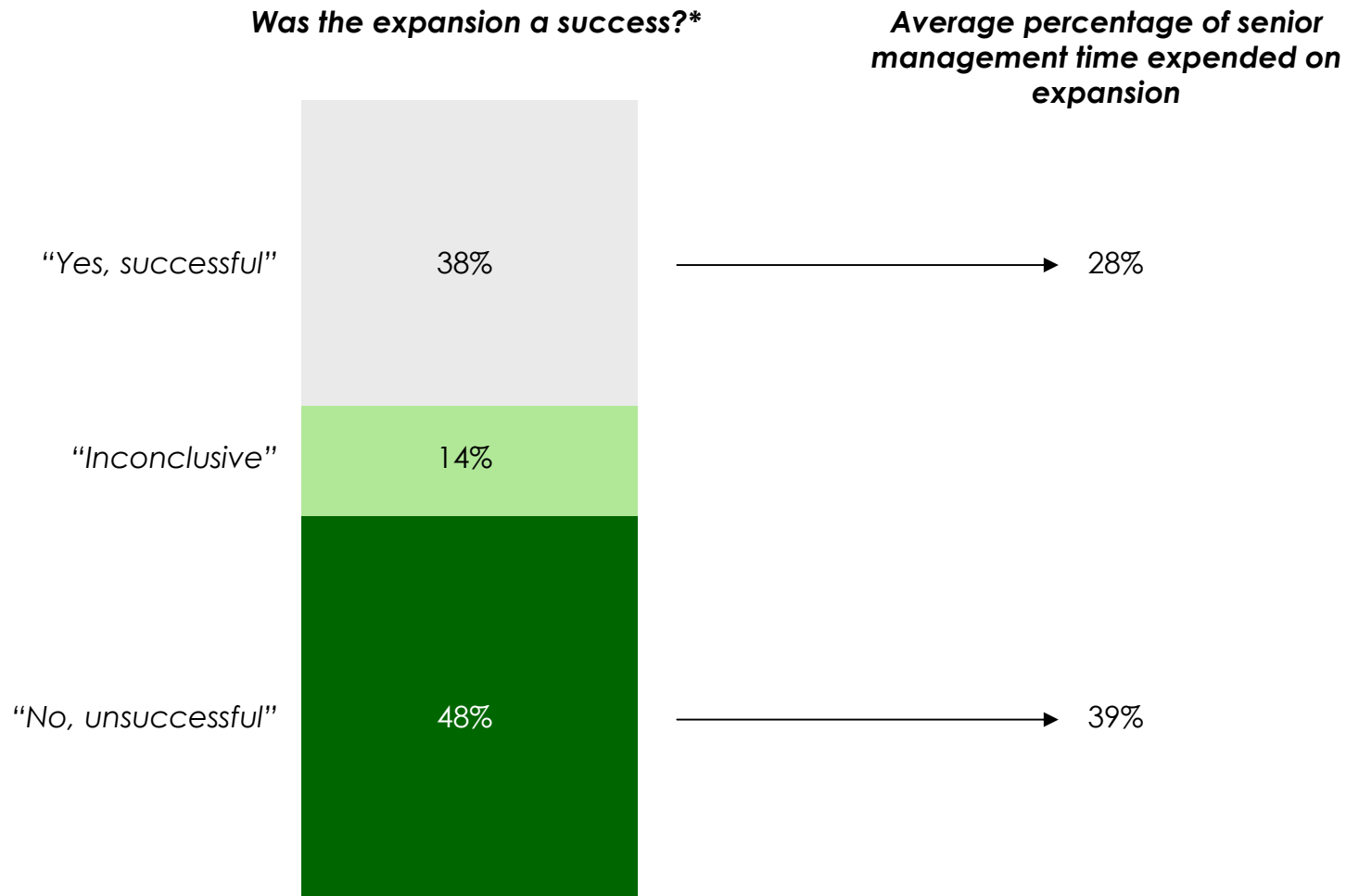
**Latitude**

Basis for findings	
Source	Participants
Professional services firms with experience of expansion	<ul style="list-style-type: none"> <li>▪ Bain</li> <li>▪ Bates Advertising</li> <li>▪ BDO Stoy Hayward</li> <li>▪ Criterion</li> <li>▪ Diamond Cluster</li> <li>▪ ISIS PE</li> <li>▪ Lane4</li> <li>▪ MAC Group</li> <li>▪ Monitor Group</li> <li>▪ The Kalchas Group</li> <li>▪ 24 unsuccessful expansions</li> </ul>
Clients of professional services firms in the following industries	<ul style="list-style-type: none"> <li>▪ Financial services</li> <li>▪ FMCG</li> <li>▪ Oil and Gas</li> <li>▪ Retail</li> <li>▪ Technology services</li> </ul>
Survey	<ul style="list-style-type: none"> <li>▪ Quantitative survey of 32 respondents with experience of 74 geographic expansions</li> </ul>
Research	<ul style="list-style-type: none"> <li>▪ Review of available academic and business articles</li> </ul>

**Geographic expansion is often considered to be a critical route to growth, but carries major inherent dangers**

Pros			Cons	
<b>Increased local sales</b>	<b>Increased delivery capability</b>	<b>Global brand presence</b>	<b>Drain on company resources</b>	<b>Management wary of future ventures</b>
<i>“Revenue growth can rarely be sustained without considering expansion”</i>	<i>“Our clients have global operations and so if we can deliver globally, it follows that we will gain more business”</i>	<i>“Having a global presence gives you a lot more credibility with clients”</i>	<i>“Our new office soon became seen as a great way of losing money”</i>	<i>“I know that several of the board burnt their fingers and have since considered other means of growth”</i>

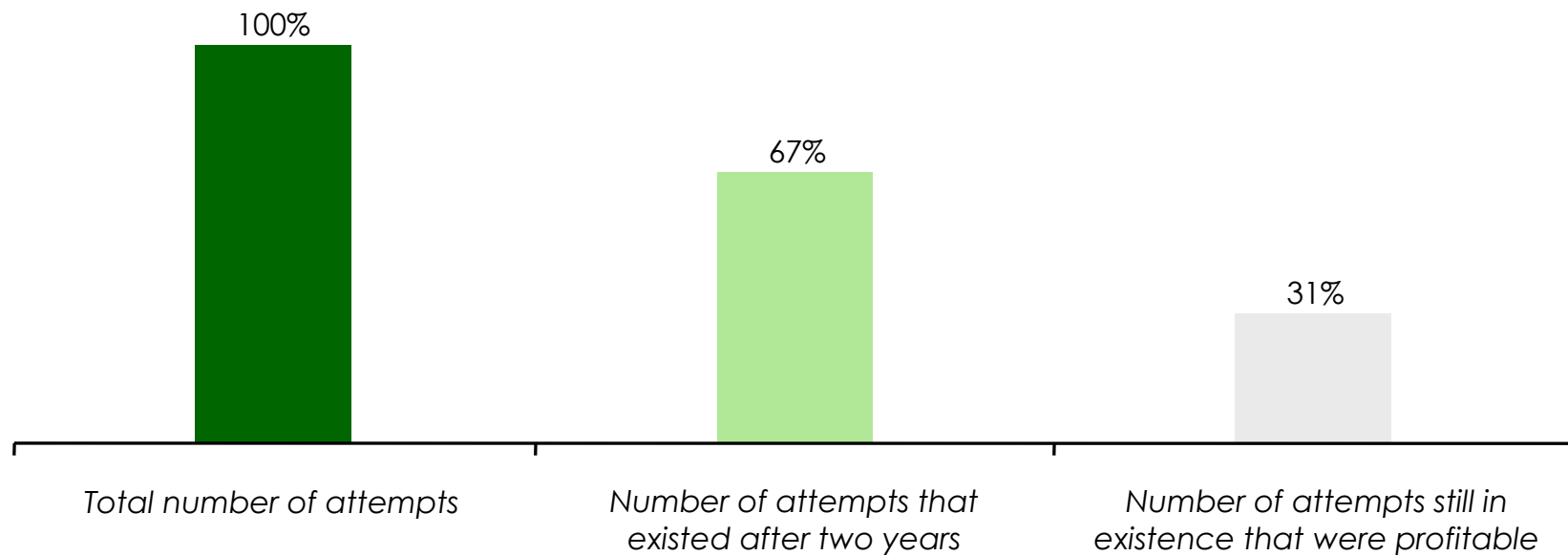
**~50% of expansion attempts were considered unsuccessful and on average took up ~10% more of senior management time than successful attempts**



\*Note: Based on survey of 74 expansions

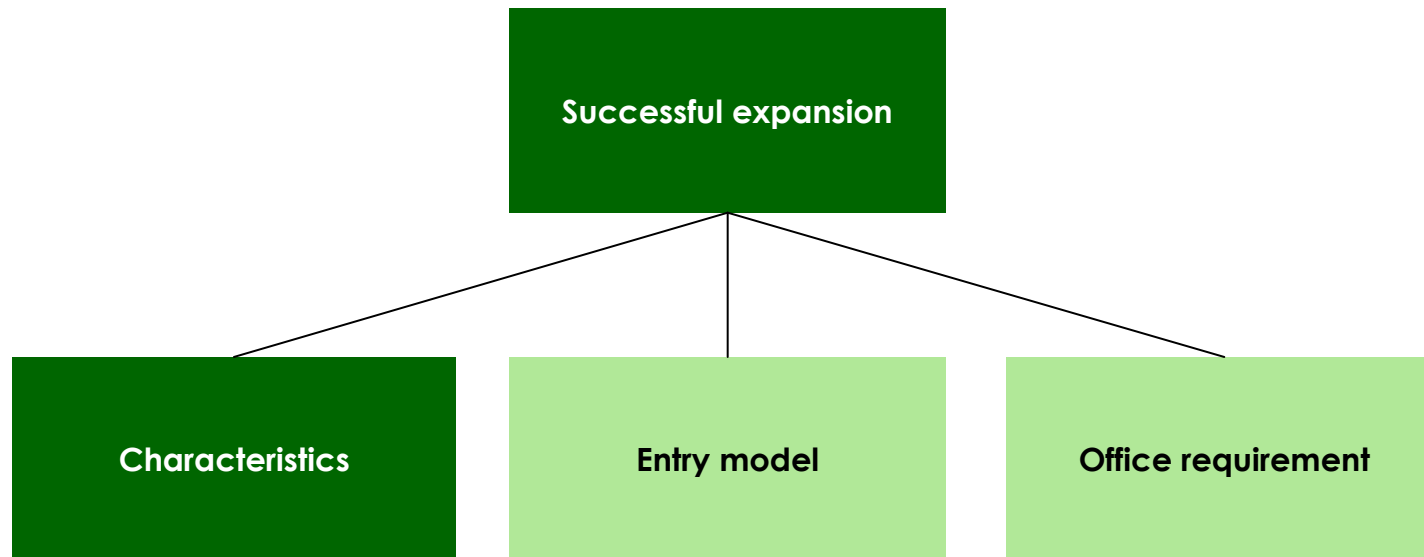
Only ~70% of all expansions attempted still existed after two years and only ~ 50% of those were profitable

*Expansions that were successful after two years\**



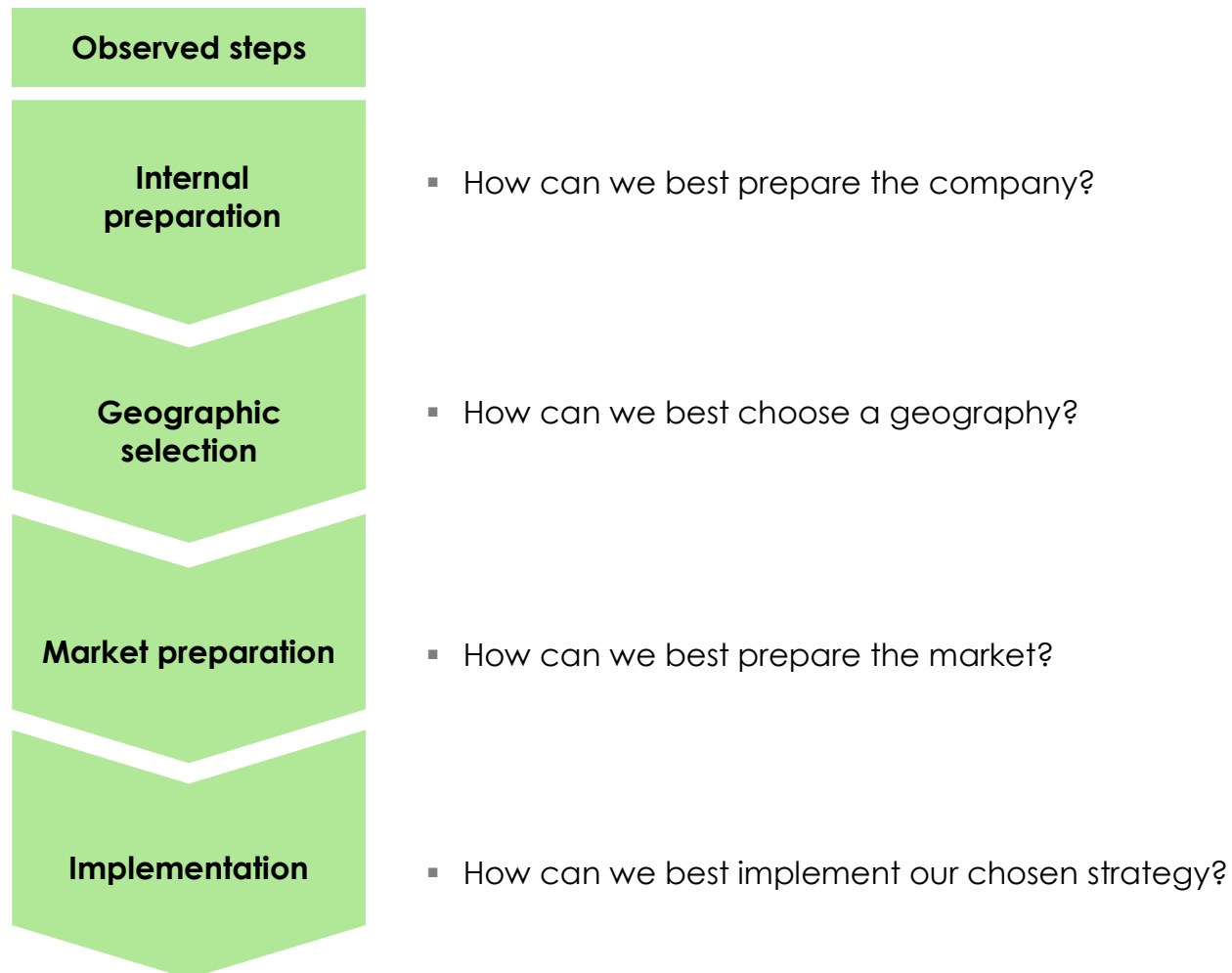
\*Note: Based on survey of 74 expansions

We look first at characteristics of successful expansions



- Are there any characteristics common to successful expansions?

**In our study across the professional services sector, we observed four steps common to successful expansions**





### Step one - prepare the company internally

- Create a clear, replicable business model

*“If our existing model wasn’t easily definable, then the new one certainly wouldn’t be either – it would have caused complete confusion”*

- Ensure clear accountability and decision making processes in place

*“Someone was always in charge – preferably someone who could project manage”*

- Introduce a consistent review and evaluation process

*“Head office cracked the whip to make sure the review process was completely standardized”*

	Expansion strategy	Result
<p><b>Successful</b></p> <p><b>Bain &amp; Company</b> Management consultancy</p>	<ul style="list-style-type: none"> <li>Tightly managed simple business model</li> <li>Head office firmly in charge of regional offices</li> <li>Consistent global review process</li> <li>'Bain' cult – intensive standardized induction programme</li> </ul>	<p>→ Global company with successful offices in all major markets</p>
<p><b>Unsuccessful</b></p> <p><b>Company A*</b> Marketing services organisation</p>	<ul style="list-style-type: none"> <li>Undefined business model</li> <li>Opened in Europe to "land grab" volume</li> <li>Expansion strategy never debated</li> <li>No review process</li> </ul>	<p>→ Office "leaked money"</p>

\*Note: Names of companies with unsuccessful expansion strategies withheld



### Step two - select a commercially attractive location

- Follow the money
  - Existing clients with significant budget over long time frame

*“Our biggest global client wanted us to work with them in the UK and that supported the office we opened out there”*
  - Corporate centres

*“It’s vital that you have good business possibilities in place before you consider expansion”*
- Choose location where you have knowledge, experience and contacts

*“The manager did not know anyone out there, nor had he worked there before – he ended up coming back after 6 months”*

	Expansion strategy	Result
<p><b>Successful</b></p> <p><b>Monitor Group</b> Strategy consultancy</p>	<ul style="list-style-type: none"> <li>▪ Always followed long term client need</li> <li>▪ Recognized need for presence in corporate centres</li> <li>▪ Used knowledge and contacts of nationals already working in company</li> </ul>	<p>→ Presence in over 25 countries globally</p>
<p><b>Unsuccessful</b></p> <p><b>Company B*</b> Supply chain consultancy</p>	<ul style="list-style-type: none"> <li>▪ Expansion driven by individuals' location preference</li> <li>▪ Little support from head office</li> <li>▪ No prior knowledge of location</li> <li>▪ Initially paid for by short term one-off project</li> </ul>	<p>→ Expansions stalled after six months as clients dried up</p> <p>→ Office closed after 2 years with million dollar plus write-off</p>

\*Note: Names of companies with unsuccessful expansion strategies withheld



### Step three: prepare the market for entry

- 'Warm up' market with existing relationships – choose a geography where head office can give introductions to buyers. Never go in to a market 'cold'

*“Our partners' connections allowed us to hit the ground running and ensured we weren't sitting twiddling our thumbs for the first six months”*

- Use local sales people and nationals who have knowledge of
  - Local market, including budget-holder relationships
  - Local culture, including language capability

*“By far and away the most important factor in making our expansion successful was the ability of the local team to sell our services – they had the contacts and the experience”*

- Ideally, nationals will also have prior experience of expanding company

*“Knowing how we worked helped smoothen the process. The manager knew what was expected”*

	Expansion strategy	Result
<p><b>Successful</b></p> <p><b>MAC Group</b> Business advisory services</p>	<ul style="list-style-type: none"> <li>Always followed demand from long-term clients</li> <li>Established academic business connections in preparation</li> <li>Office founder always sales orientated and country national</li> </ul>	<p>→ Grew revenues to \$250m with offices in all major markets</p>
<p><b>Unsuccessful</b></p> <p><b>Company C*</b> Management consultancy</p>	<ul style="list-style-type: none"> <li>Followed one-off client demand to US</li> <li>Office set up without any further warm contacts</li> <li>First two office “founders” had no sales skills</li> <li>Recruited local office head with no knowledge of company</li> </ul>	<p>→ Two first office founders left after six months without achieving further sales</p> <p>→ Subsequent office head sold no further work and returned to EU operation</p>

\*Note: Names of companies with unsuccessful expansion strategies withheld



#### Step four: commit to chosen geography

- One country at a time – make it successful before embarking on another expansion

*“A second project would have distracted us from reaching our goals on the first expansion, and it doesn't send the right message to the troops”*

- Conviction – don't dabble in markets

*“Once we had decided on the expansion strategy, we never hesitated – that would only have caused uncertainty”*

- Bed in the business – take time to integrate new recruits properly into company

*“The exchange programme helped integrate new staff and demonstrated that head office was 100% behind them”*

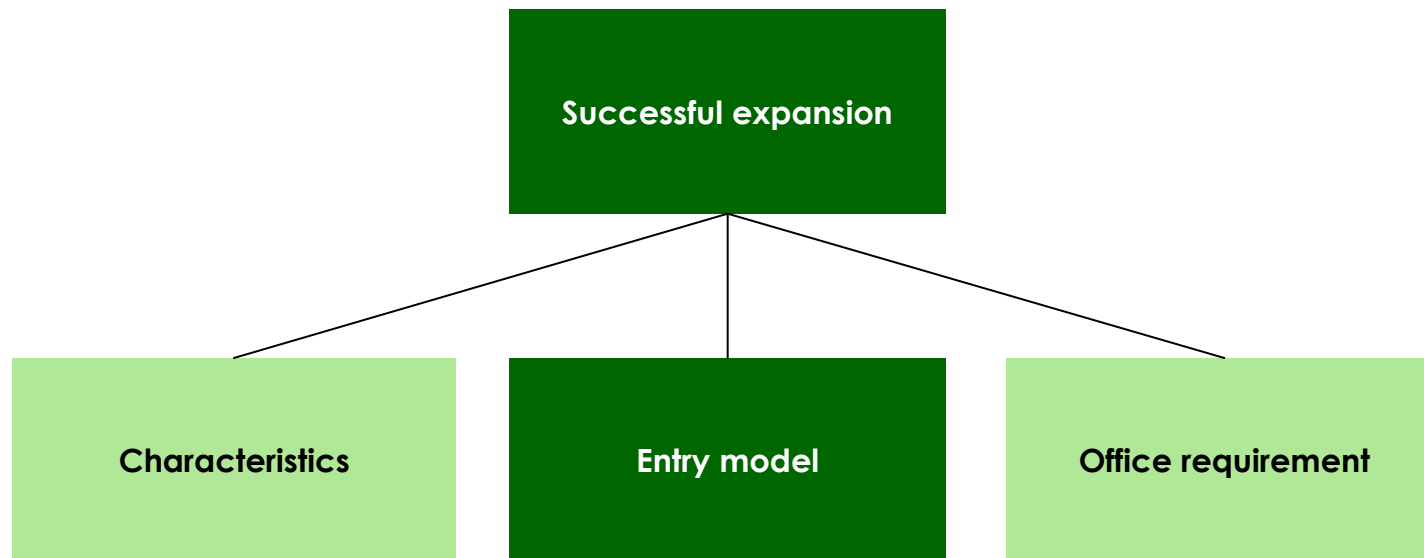
	Expansion strategy	Result
<p><b>Successful</b></p> <p><b>Lane4</b></p> <p>Executive development consultancy</p>	<ul style="list-style-type: none"> <li>▪ Set up US and Australian office supported by demand from global clients</li> <li>▪ Installed one of company founders in US office to bed in business with company practices</li> <li>▪ Created, effectively, a “queuing system” where future offices are planned on 2-3 year horizon, once existing offices are fully operational</li> </ul>	<ul style="list-style-type: none"> <li>→ Built strong case studies of globally sold, locally supported work in US and Australian offices</li> <li>→ International projects now sold to clients with global HQs in Asia and US</li> <li>→ Offices all profitable, with stable core of locally-sold business</li> </ul>
<p><b>Unsuccessful</b></p> <p><b>Company D*</b></p> <p>Management consultancy</p>	<ul style="list-style-type: none"> <li>▪ Simultaneous entry into multiple countries</li> <li>▪ No proactive staff integration following rapid expansion</li> </ul>	<ul style="list-style-type: none"> <li>→ Inconsistent approaches</li> <li>→ Numerous false starts</li> <li>→ Staffing issues on “laissez-faire” appraisal system</li> <li>→ Company closed down after losing money in several countries</li> </ul>

\*Note: Names of companies with unsuccessful expansion strategies withheld

Using various entry models, BDO has successfully expanded throughout the UK

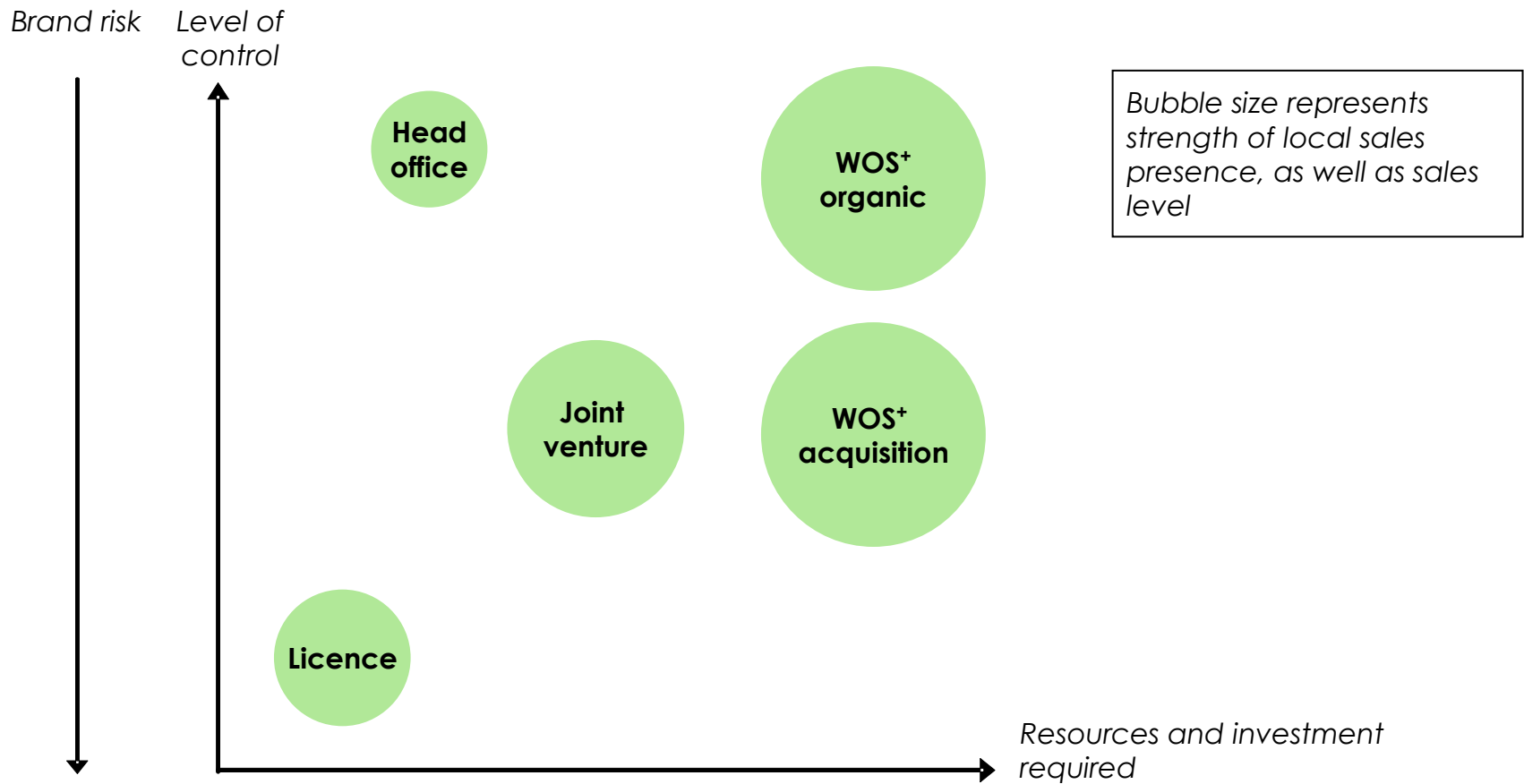
	Expansion strategy	Result
<p><b>Successful</b></p> <p><b>BDO Stoy Hayward LLP</b></p> <p>Audit, accounting and business services</p>	<ul style="list-style-type: none"> <li>▪ Expanded via series of alliances followed by mergers or acquisitions</li> <li>▪ Head office always firmly in charge – includes deciding on exit when conditions not in place and instilling strong set of values</li> <li>▪ Target firms had existing long term clients</li> <li>▪ Used knowledge and contacts of local employees</li> <li>▪ Significant effort spent integrating regional offices e.g. managing partner visiting every office in UK at least once a year</li> <li>▪ Local mergers executed to strengthen existing offices</li> </ul>	<p>→ Grew from one office with 20 partners in London to 16 across the UK with 214 partners</p>

We now turn to the question of entry model



- Which entry model suits us best?

With greater ownership comes greater control and reduced brand risk, but the level of investment required also increases

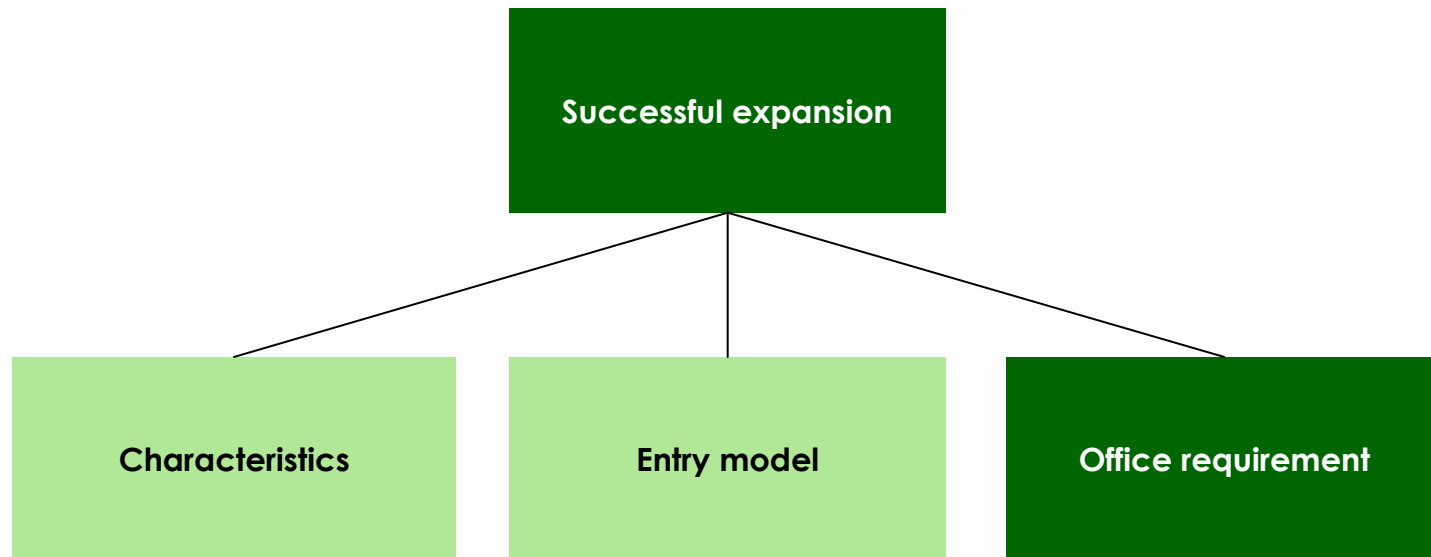


\*Term "head office" signifies situation when company sells and delivers pan regionally from a central office  
 +Wholly owned subsidiary



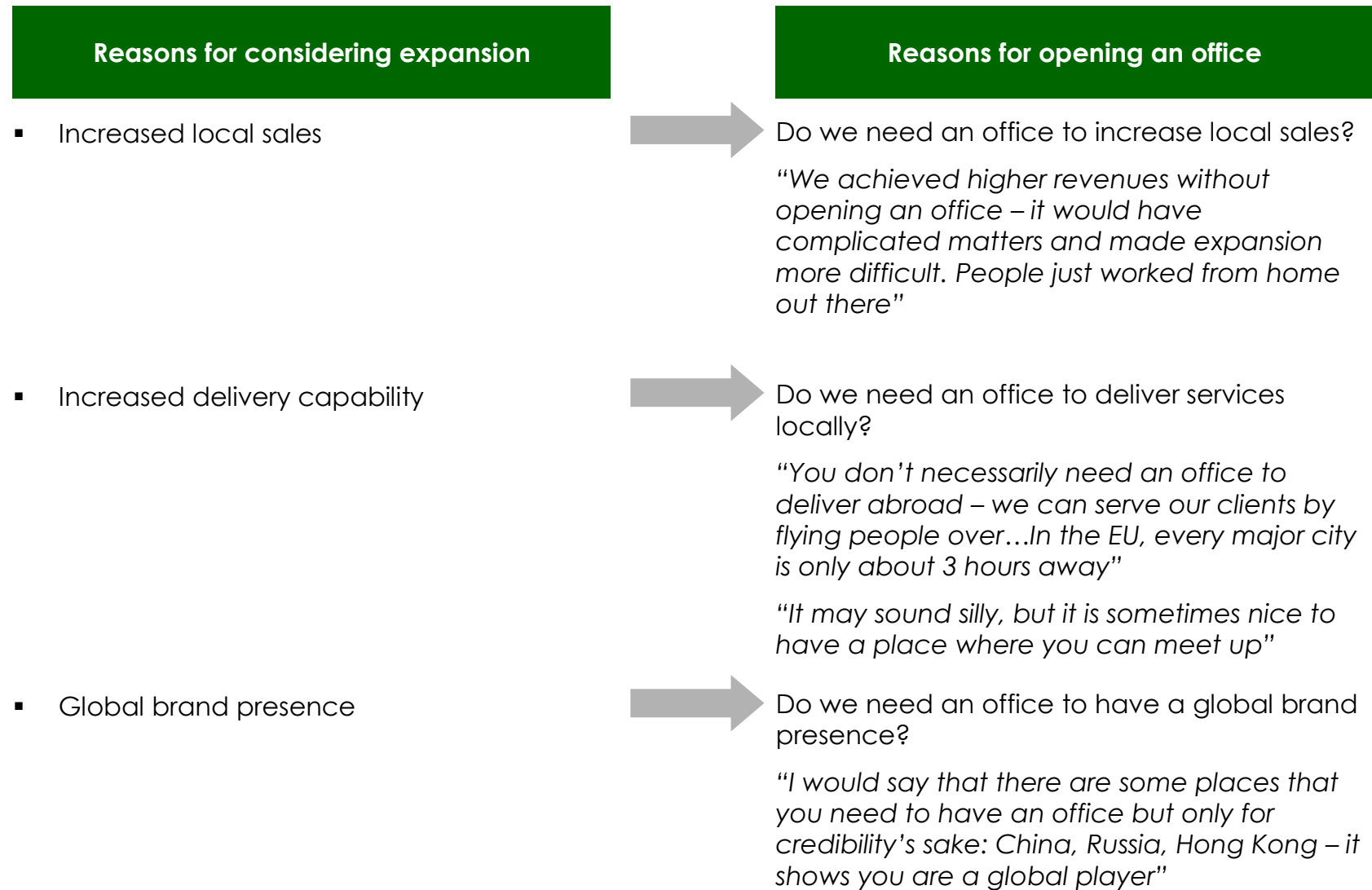
	Licence	Joint venture	WOS - acquisition	Head office	WOS - organic
Requirements	Agree brand rights contract	Negotiate terms with local partner	Identification of attractive opportunity	Business development department International credibility	Recruitment and possible office set up
Pros	<ul style="list-style-type: none"> <li>Quick</li> <li>Local sales presence</li> <li>Local knowledge</li> <li>Understand market with reduced risk</li> <li>Exploratory step 1 as part of longer term plan for investment</li> </ul>	<ul style="list-style-type: none"> <li>Local knowledge</li> <li>Local sales presence</li> <li>Established reputation/credibility</li> <li>Exploratory step 1 as part of longer term plan for investment</li> </ul>	<ul style="list-style-type: none"> <li>Quick</li> <li>Local sales presence</li> <li>Established reputation/credibility</li> </ul>	<ul style="list-style-type: none"> <li>Quick</li> <li>Inexpensive</li> <li>Pitch to decision makers</li> <li>Sell pan EU/ global deals</li> <li>Greater control</li> </ul>	<ul style="list-style-type: none"> <li>Greater control</li> <li>Local sales presence</li> <li>Credibility</li> <li>Low brand risk</li> </ul>
Cons	<ul style="list-style-type: none"> <li>Loss of control/brand risk</li> <li>Negotiation complexity</li> <li>Sales value reduced</li> </ul>	<ul style="list-style-type: none"> <li>Need to successfully integrate new employees</li> <li>Negotiation complexity</li> <li>Potential conflicting interest</li> </ul>	<ul style="list-style-type: none"> <li>High financial risk</li> <li>Risk of employee/client loss</li> <li>Need for successful integration of new employees</li> </ul>	<ul style="list-style-type: none"> <li>Reduced local sales presence</li> <li>Lack credibility</li> </ul>	<ul style="list-style-type: none"> <li>High financial risk</li> <li>Slow</li> </ul>

Lastly, we consider the office requirement



- Is there a need to open an office?

### Successful expansions did not always require a local office and only did so when it was required to achieve the aims of expansion



**So in summary, what can professional services companies do to increase the likelihood of a successful expansion?**

### Prepare for expansion

#### Internal preparation

- Ensure consistent review and decision making processes in place internally

#### Geographic selection

- Choose location based on long term client demand

#### Market preparation

- 'Warm up' market with existing relationships and recruit local sales people and nationals to prepare market

#### Implementation

- Implement strategy decisively and focus on one country at a time

### Evaluate expansion methods

- The choice of entry model depends on
  1. Trade offs between
    - Investment available
    - Operational control
    - Brand control
    - Required speed of entry
  2. Level of sales presence required
- The assumption that expansion involves a local office is often wrong. Successful expansions only opened a local office when necessary to achieve aims of expansion

- If you would like to discuss the details behind these highlights further, then please contact:

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