



Quality knows no borders

Businesses leverage supply
chains to improve offer to
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Data from Grant Thornton's International Business Report (IBR) shows that mid-market businesses continue to be confident about their prospects, with 66% reporting to be optimistic for the year ahead. The fact that two thirds of mid-sized businesses are upbeat, despite forecasts indicating global GDP growth will remain below historic averages, indicates that these firms feel well-positioned to surmount the challenges weighing on the wider economy.



Rather than these challenges causing firms to look inward, most firms are being more globally ambitious in their outlook. As we illustrated in Mid-market momentum more than half of mid-market firms (52%) are planning to increase their strategic focus on international markets over the next 12 months.

For ambitious, well-prepared business leaders, the opportunities offered by global expansion outweigh the risks. From accessing a wider customer base, to seeking new talent and diversifying a firm's portfolio, business leaders have a range of aims when expanding overseas, but one of the key focus areas is on improving their offer to customers.

Mid-market motivations: quality counts

Mid-market motivations: quality counts

The latest International Business Report explores what business leaders are looking to achieve through their international business strategies. Globally, the number one objective business leaders are looking to achieve through expanding into new markets is to boost quality. Of mid-market firms increasing their strategic focus on international growth, 37% say they are expanding abroad with the aim of developing enhancements in quality.

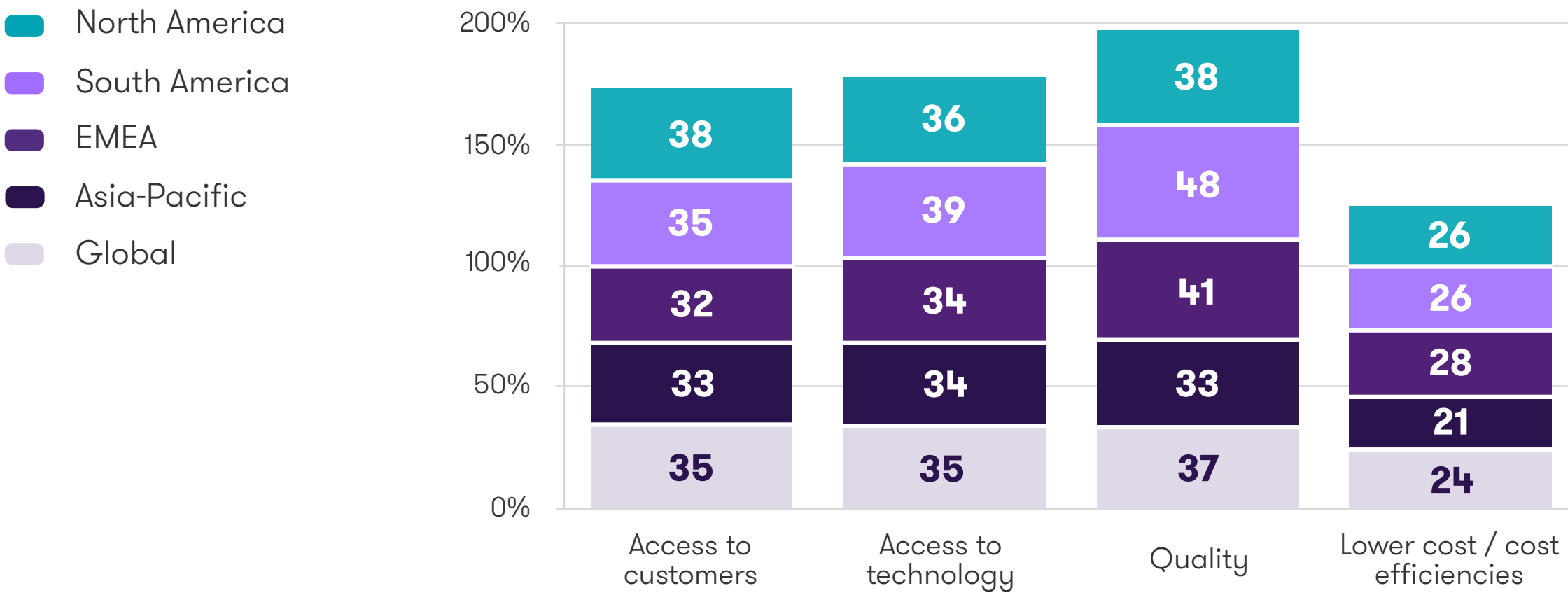
Michelle Alphonso, Partner, National transaction advisory services and Private equity leader, Grant Thornton Canada says: “There is an active push among mid-market firms in 2024 to build strong trade partner relationships to ensure reliability as well as consistency in quality, pricing, and delivery. This is in response to recent supply chain challenges that created unprecedented volatility and constrained the ability of companies to efficiently manage working capital and fulfilment cycles. It is also in part due to regulatory headwinds and the growing focus on ESG. In Canada, for example, we have legislation that requires Canadian businesses to have more transparency and accountability around the quality of their supply chain to help mitigate the use of forced and child labour.”

The next most important ambitions for internationally growing firms are increasing access to customers (35%) and increasing access to technology (also 35%). However, only one in four (24%) of firms say reducing costs is one of the aims of their international business. France, the UK and South Korea are the markets most likely to have cost effectiveness as one of their

driving motivations for seeking partners abroad, with 39% of firms in France and 32% in South Korea and the UK citing this as a factor. As higher labour and other costs impact these economies’ domestic markets, the added incentive and opportunity to reduce costs by working with others abroad is clear.^{1, 2}

Factors organisations are looking to achieve through international business

Source: Grant Thornton IBR



A wide-angle photograph of a modern highway interchange at dusk. The sky is a mix of orange, pink, and blue. In the background, a city skyline with various skyscrapers is visible, some with lights on. The foreground shows the asphalt road and the curved concrete structure of the interchange. The overall mood is futuristic and urban.

Sectoral look at what firms want from international markets

Sectoral look at what firms want from international markets

For business leaders considering overseas expansion, there are a range of opportunities available. The factors which will add most value will be different depending on the firm's fundamentals, the challenges they face in their domestic market, and the sector they work in.

Despite these differences, enhancing the quality of their offer is the primary aim of organisations in numerous sectors, including construction and real estate (41%), healthcare (36%) and financial services (42%). This drive for quality indicates how firms are looking to differentiate themselves from competitors, while also being mindful of the enormous possibilities available to them in improving their offer to customers. Whether through improving the quality of their products and components, working with better skilled or qualified people, or improving the reliability of their supply chains. A focus on quality can help firms set themselves apart from rivals, climb the value chain and command a premium price for their products and services. Dave Munton, Global head, International capabilities and support, Grant Thornton International shares:

“One of the strategies businesses use is to tap into some really smart people in other parts of the world. These are the brains that will help move their organisation forwards.

“If you look at India, for example, the proportion of young people who have a university degree in the workforce is phenomenal. So therefore, if you set up a site in India, you're going to have the brightest brains helping you develop your products, helping you bring that next generation of your offer along. That's a real attraction of investing overseas. And around the world there are growing pockets of talent which firms can tap into and will help to bring a different perspective and can really help drive innovation and drive quality.”



Not every sector has the same priority. For firms in the consumer products sector, the main aim is access to new customers (39%). While in the travel and tourism sector, the most often cited aim of firms looking to increase international business is diversification into new markets (41%), highlighting the importance of new markets for an industry that can be especially hard hit by regional and local issues. One of the sectors in which firms don't identify quality as the main aim of international growth is those firms in the tech, media and telecoms sector. For business leaders in these industries, the primary goal of their overseas exploits is to improve access to technology, with almost half (47%) of these firms citing this as an aim.

This is perhaps unsurprising given these firms' customers are likely to have high expectations that they will be early adopters. If technology is available in other markets they will want access to it, for example, with the growing race for AI adoption, firms may need to look abroad to benefit from the rapid pace at which technology is changing. Buying in this technology is often a quicker and a more cost-effective way to improve quality and stay at the forefront of technological change. This is a truly global race, with advances in one region quickly being adopted elsewhere.³

“Investment in technology continues to be an important part of firms' international growth strategies as it can help companies to escalate the pace of development and adoption. Leveraging these international relationships with partners who understand the nuances of the markets you're moving into can help you get the most from international business, and much of this is made possible with shrewd investment in technology and better connectivity.”

Michelle Alphonso, Partner, National transaction advisory services and Private equity leader, Grant Thornton Canada

Having the most up to date technology is not just an aspiration for firms that work in tech, media and telecoms though. In the financial services sector, access to technology is the second most cited aim for business leaders, after improving quality. These firms know that ensuring they have access to the right technology can enhance their teams' effectiveness, while potentially reducing costs, and improving experiences for customers and workers alike.



Shifting trade routes

Shifting trade routes

The last round of IBR data highlighted the economic strength of the US, as its recovery outstripped the rest of the world.⁴ It is therefore no surprise that the US is seen as the biggest opportunity for international revenue growth by business leaders looking to expand internationally, though markets such as Germany and Australia are also seen as hot prospects.

The continuing attractiveness of the US market for foreign firms demonstrates the pull factor of the world's largest economy, aided by resilient consumer demand.⁵ It also underscores how, in a potentially uncertain global economy, mid-market business leaders are looking for growth in reliable and trusted markets.

Globally, with 42% of mid-market companies planning to increase the number of countries they sell to this year, understanding the destinations helps to see the strategic direction firms take.

Mid-market companies see the greatest opportunity for exports in some of the world's economic power houses. The lure of the US dollar makes this market the most favoured destination for exporting goods and services. This is followed by Germany, Australia, and China.

The data reveals that business leaders often see neighbouring countries as key trading partners; US looks to Canada, France to Germany and Germany to France. This demonstrates deep-rooted relationships but also the importance of practicalities such as the cost and reliability of transportation.

“For mid-market businesses in Canada, working with our closest neighbour has been essential as we emerge from a period of volatility, when supply chain and geopolitical instability impact commodity pricing.

Coming out of a recession, the US offers the highest and best use of capital and a low-cost entry point with high returns; most importantly, it's stable. At a time of unrest in numerous regions across the world, there is a strong desire among mid-market firms to return to stability. Focusing on the US allows mid-market firms in Canada to mitigate risk and uncertainty, providing these firms with the familiarity they need.”

Michelle Alphonso, Partner, National transaction advisory services and Private equity leader, Grant Thornton Canada

In addition to using their international business strategies to diversify and open up new markets, trade routes have also shifted due to government-led initiatives. Mid-market businesses which take an agile proactive approach will be able to drive most value from the adoption of Free Trade Agreements (FTAs) and other Government and regional incentives.

“The widespread adoption of FTAs both regionally and bilaterally, has allowed Australian mid-market firms to benefit from preferential duty rates and enhanced market access. These advantages significantly reduce the costs associated with overseas purchases, making international sourcing an attractive proposition.

Additionally, mid-market businesses can tap into lower production costs due to favourable labour rates, raw material availability, economies of scale, and reliable shipping routes. Collectively, these factors provide businesses with a competitive edge in the export market.”

Richard Nutt, Partner, Tax, Grant Thornton Australia



Managing Uncertainty

The appetite for mid-market firms to expand into the US and elsewhere, shows that leaders are keen to grow internationally, despite political uncertainty ahead of the US election in November. The uncertainties of the ballot box may be weighing on many business leaders’ minds given that 2024 will see dozens of countries having elections.

Globally, more voters than ever in history will head to the polls this year as at least 64 countries — about 49% of the people in the world — will hold national elections, including in the US, in EU and UK, and in India, Pakistan and Bangladesh.⁶ Potential impacts on international economies range from dampened consumer spending to tax changes or exchange rate swings.⁷ Despite the political and economic uncertainty that these processes may present, mid-market businesses’ optimism, and their appetite for international business remains strong.

This doesn’t mean that these business leaders are unconcerned about the potential risks they face. As well as political uncertainty, conflict in a number of regions and strained international relations between some of the globe’s great powers are weighing on leaders’ minds. Of mid-market firms planning to increase their focus on international markets, more than half (58%) cite geopolitical disruption as a constraint on their business.

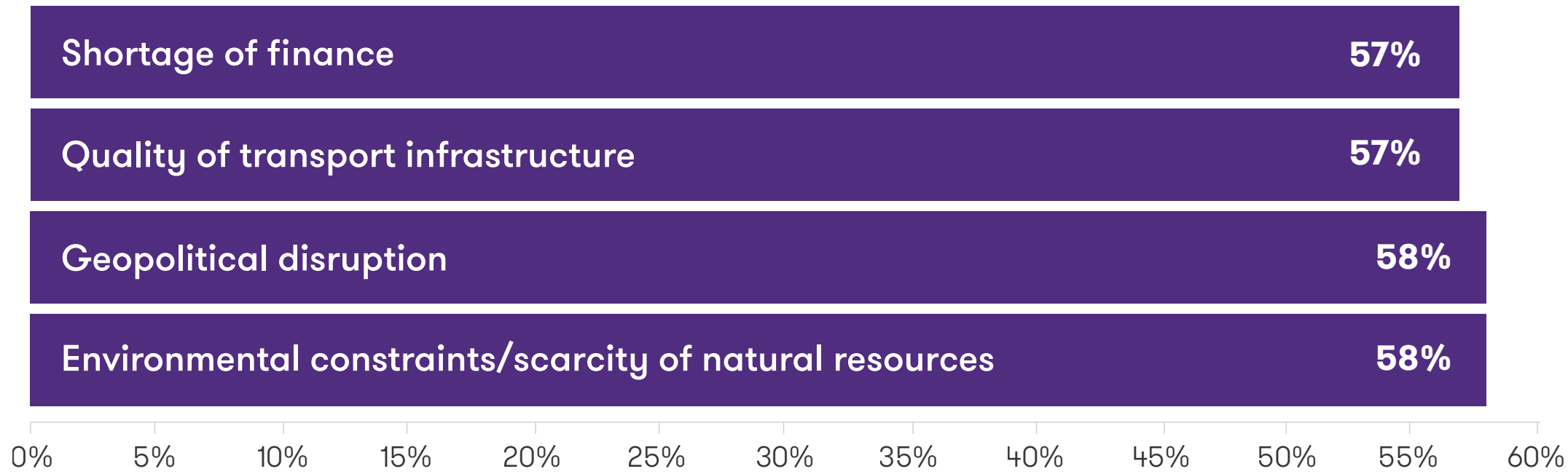
Undeterred by the backdrop of geopolitical uncertainty, mid-market firms feel confident in their abilities at managing these risks and finding ways to grow. Businesses are increasing the resilience of their supply chains in order to mitigate

risk caused by trade route issues, such as the recent Red Sea Crisis and problems with the Panama Canal.

Dave Munton added: “The attractiveness of different markets tends to go in cycles. Currently, there is a trend of mid-market businesses increasing the resilience of their supply chains through friendshoring and being more selective in who they choose to work with. This makes a great deal of sense. Business leaders want to mitigate risk, they want to operate in environments which are stable, which are predictable. This isn’t something we’re necessarily going to see change soon.

Constraints of businesses that are expanding internationally

Source: Grant Thornton IBR



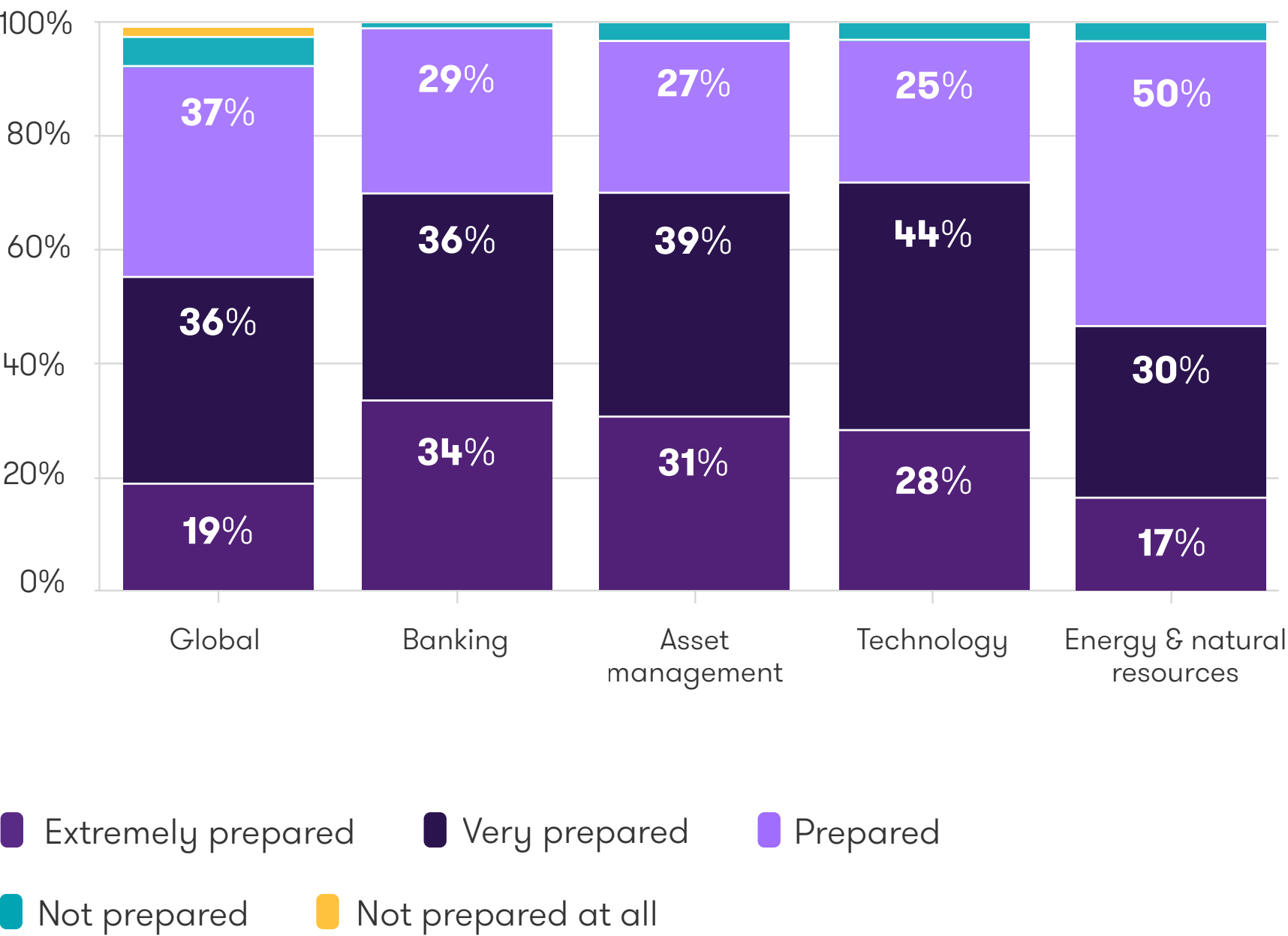
The fact that firms are confident in their prospects for growth, even within an uncertain global climate, shows the entrepreneurial zeal of these firms. Importantly, they also feel they have the systems and teams in place to maximise successfully overcoming challenges that may come their way. Indeed, more than nine in every ten firms (92%) report that, based on past geopolitical and economic experiences, they are prepared for future unforeseen circumstances.

Mid-market business leaders have learned through experience how to manage their firms and to succeed despite external crises. The senior leadership teams of mid-market firms today have dealt with some unprecedented years of market shocks and business continuity issues, most notably the pandemic and the workforce and inflationary pressures it led to.

Throughout this period, scenario planning and being prepared to respond to an everchanging market in an agile way has been vital. The IBR data for 2023 demonstrated how mid-market firms were responding to business threats,⁸ and as these firms mature, they will be increasingly confident that they can manage risk and remain resilient.

How prepared firms feel for future unforeseen circumstances

Source: Grant Thornton IBR



Delivering quality around the globe

Mid-market business leaders are overcoming barriers to growth by focusing on quality, not only in their technology, skills and talent but also through their supply chains. The ability of these firms to find ways to grow and access international markets, despite geopolitical constraints, shows the entrepreneurial spirit of their leaders.

Even as supply chain pressure normalises,⁹ it takes careful planning, the right management data, and constant re-evaluation, to get these decisions right. With these elements in place, mid-market firms will be able to reap the benefits of the new customers, the new technology, and the better quality that international business can bring.

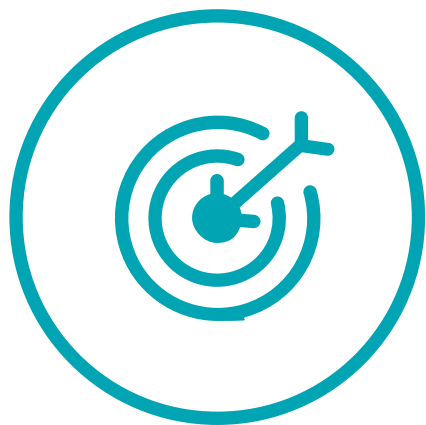


“I am endlessly impressed by the mentality of mid-market business leaders. This frame of mind where you can throw any problem at them and they still push forward. And why is that? Partly it comes down to organisational design, these businesses are of a size where they can respond quickly to change and challenge. The decision-making process is quite short.

For a number of years, the mid-market has been the fastest growing part of the economy globally. In a period of change and challenge, the agility, responsiveness, determination and continued confidence, has contributed to its success.”

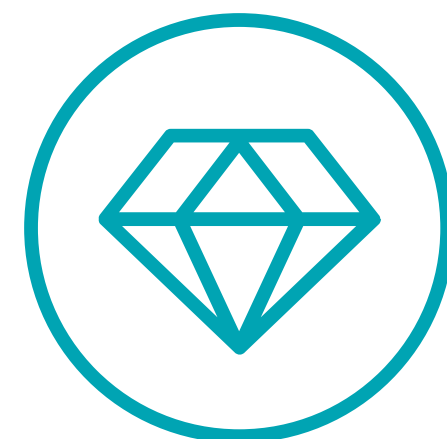
**Dave Munton, Global head, International capabilities and support,
Grant Thornton International**

Top three takeaways for business leaders



Keep focused on objectives

Identifying the key aims that firms want to achieve through international business will help to direct supply chain decisions and deliver value.



Pinpoint skills and expertise

Understanding where the pockets of skills and expertise are allows business leaders to target growth in areas which will drive quality.



Stay ahead of the surprises

Scenario planning is key to a successful international strategy so that unforeseen surprises don't disrupt international operations and hamper growth.

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