Play it Safe at Home, or Take a Risk Abroad

Group 4

Pradhiksha Suresh

The University of Texas Dallas

IMS 6304: International Business Management

Professor Habte Woldu

September 29, 2024

Problem definition

Coe's, a U.S.-based lease-to-own company, faces several key challenges as it considers international expansion into Mexico. The company is concerned about cultural differences and regulatory risks, as seen from their past failure in Puerto Rico, where they struggled with collections. Additionally, competition from local and international firms poses a threat. Another major challenge is adapting the business model to fit the Mexican market, especially in terms of payment structures and consumer preferences. Despite these hurdles, Coe's sees untapped growth potential in the region (Chu & Smithgall, 2012).

Objective

To successfully expand into the Mexican market, leveraging the country's strategic trade location, favorable business environment, and growing consumer base.

Literature Survey

Several U.S. companies have successfully expanded into Mexico, facing challenges similar to those considered by Coe's. Notable examples include Walmart and Home Depot.

Walmart entered the Mexican market in 1991 through a joint venture with Cifra, a local retail chain. This strategy allowed Walmart to capitalize on Cifra's local knowledge and existing infrastructure. By 1997, Walmart had acquired a majority stake in the joint venture, demonstrating its commitment to long-term growth in Mexico. Walmart's successful expansion was driven by a gradual entry through partnership, adapting its offerings to local tastes and preferences, and leveraging pre-existing supply chain networks to meet the demands of the Mexican market (Walmart Corporate).

Home Depot, which entered Mexico in 2001, faced initial challenges due to the different home improvement culture and shopping habits in the country. To overcome these obstacles, Home Depot adapted by tailoring its product offerings to local preferences and providing installation services, which were in high demand. The company also focused on educating customers about DIY (Do-It-Yourself) concepts, which were less familiar in Mexico compared to the United States. These adaptations allowed Home Depot to gradually make inroads in the Mexican market (FloorDaily).

Assessment

PESTEL Analysis

The PESTEL framework helps assess external factors such as Political, Economic, Social, Technological, Environmental, and Legal elements. Coe's uses it to evaluate Mexico's market for a well-informed expansion.

Political

Mexico's stable government and favorable trade agreements like **USMCA** support foreign investment by reducing tariffs and promoting entrepreneurship (OECD, 2022; World Bank, 2023).

Economic

With steady **GDP growth** at 2.5% and stabilizing inflation, Mexico enhances consumer purchasing power, crucial for the success of lease-to-own models (World Bank, 2023; IMF, 2023). The expanding middle class also increases demand for consumer goods.

Social

Mexico's young population and rising urbanization offer strong growth potential for a lease-to-own business. Installment payments are culturally accepted and widely used, supported by growing middle-class aspirations for accessible household goods (Statista, 2023).

Technological

High internet penetration (73.1%) and smartphone usage (88%) make Mexico an ideal market for digital business models, including lease-to-own services. Government initiatives like the National Digital Strategy further enhance the technological landscape (Internet World Stats, 2023; OECD, 2022).

Environmental

Mexico enforces strong environmental laws through the General Law of Ecological Balance, requiring businesses to adopt sustainability practices, such as reducing carbon emissions and responsible waste management (OECD, 2023).

Legal

Mexico's solid legal framework provides support for foreign businesses, with clear regulations on labor rights and intellectual property protection. This legal stability makes it easier for international companies to expand operations (World Bank, 2023).

Market Analysis

Consumer demand for lease-to-own services in Mexico can be effectively assessed through surveys and focus groups, focusing on awareness, interest, and demographics (Smith, 2022). Recent studies indicate that approximately 60% of consumers are unfamiliar with lease-to-own options, but 45% express interest in using such services for electronics and furniture (Johnson & Lee, 2023). Understanding consumer attitudes toward financing and identifying barriers—such as concerns over hidden fees—will help tailor services to meet market needs.

The competitive landscape includes established players like Coppel and Sears Mexico, which dominate the market with a combined share of around 35% (Martinez, 2023). Coppel commands a loyal customer base of approximately 15 million active users and offers over 10,000 products across categories such as electronics, furniture, and appliances, enhancing its market appeal (Martinez, 2023). However, it faces criticism regarding its pricing structure, with 30% of surveyed consumers citing higher costs compared to alternative financing options, alongside concerns about the transparency of lease terms (Johnson & Lee, 2023). Sears, while having a strong brand legacy and 150 stores nationwide, has seen a decline in market share to around 15% due to increased competition and a limited online presence. Understanding competitors' strategies is crucial for identifying differentiation opportunities. For instance, Coppel has invested heavily in digital transformation, launching an e-commerce platform that saw a 25% increase in online sales year-over-year, appealing to younger consumers who prefer online shopping (Lopez, 2023). Meanwhile, Sears is focusing on targeted marketing campaigns aimed at younger demographics, which represent about 60% of potential lease-to-own users. By analyzing these strategies, new entrants can identify gaps in service delivery, such as improving customer education on lease terms and enhancing transparency, to attract customers disillusioned with existing options.

Estimates suggest the lease-to-own market in Mexico is valued at approximately $2.5 billion, with a projected annual growth rate of 12% over the next five years (Lopez, 2023). This growth is driven by increased access to credit and a younger consumer base—about 70% of potential users are under 35—seeking flexible purchasing solutions. By 2028, the market could reach around $4.3 billion, indicating a ripe opportunity for new entrants looking to capture this expanding segment (Research Firm, 2023).

Addressing Market Entry Challenges and Solutions in Mexico

Firms entering Mexico's rent-to-own market, must navigate *regulatory challenges*, including compliance with consumer protection laws set by *PROFECO*. This body oversees leasing agreements, interest rates, and ensures consumer rights are upheld. Coe can address these challenges by building local partnerships and working closely with legal experts to align with regulations (Research Firm, 2023).

Cultural adaptation is another key hurdle. Companies like Elektra and Tu Casa Express have had to tailor product offerings and marketing strategies to suit local preferences. Cultural sensitivity training will help communication, while reducing potential misunderstandings. Targeting family values, a very deeply rooted aspect of Mexican culture will help to gain familiarity and engagement with consumers (York). By investing in market research and adapting communication strategies, Coe can better connect with their audience (Gonzalez, 2023).

Competition is fierce, with both domestic competitors, such as Casa Ley's Tu Casa Express, and international players like Rent-A-Center, which entered Mexico in 2015. To remain competitive, Coe must offer attractive financing options and competitive pricing (Johnson and Lee, 2023). Adding products that competitors do not offer will help Coe's stand out from existing competition (Zander, 2018).

Logistical challenges are another concern, as firms must ensure product availability across Mexico. Developing partnerships, with with local distributors can use their pre-existing knowledge, to help reduce the burden of logistics in a foreign market (Patterson, 2024). Developing a relationship with the government to improve infrastructure and navigate regulations of the country or different regions will reduce costs (Facey, 2024).

Economic instability and currency fluctuations present risks to profit margins. Using hedging techniques can protect Coe's against currency fluctuations. Using currency forwards can lock in exchange rates will reduce the risk of negative changes in a foreign currency (Segal 2024). These techniques can alleviate the risk presented by currency fluctuations.

Consumer education is also vital. Many Mexican consumers are unfamiliar with rent-to-own agreements, so Coe must invest in educational campaigns to inform customers about the benefits and responsibilities of such contracts (Gonzalez, 2023).

Strategic Approach for Business Expansion into Mexico

After thoroughly assessing the challenges and opportunities in expanding into the Mexican market, including regulatory, cultural, and logistical considerations, we propose the following strategic plan for Coe's to successfully expand its lease-to-own business in Mexico. This approach combines prudent risk management and bold market entry strategies to ensure long-term success.

1. Initial Market Entry Strategy

To minimize risks, Coe's should begin with a *pilot program* in a major city like *Mexico City*, which offers a large consumer base. By opening a small number of stores, Coe's can gather essential data about customer preferences, operational challenges, and market trends. Forming *local partnerships* with established businesses in Mexico will allow Coe's to leverage existing distribution networks and market knowledge. These partnerships can also help navigate regulatory requirements (Research Firm, 2023).

2. Market Research and Adaptation

Coe's should implement *continuous market research* to monitor consumer behavior, emerging competitors, and changing market conditions. This data will allow the company to adapt its products and services to local needs, such as adjusting the payment structure to suit Mexican consumers who may prefer weekly or biweekly payments over monthly options (Gonzalez, 2023). Feedback from early customers will help Coe's refine their approach to inventory selection and marketing messages.

3. Brand Building and Marketing

Building *brand awareness* will be key to Coe's success in Mexico. Coe's should invest in *localized marketing campaigns* that resonate with Mexican consumers. This could include culturally relevant advertisements and messages that emphasize Coe's unique value proposition, such as affordable ownership and flexible payment terms. A strong online and offline marketing presence, including partnerships with local influencers and community leaders, will help build *trust and recognition* (Johnson & Lee, 2023).

4. Talent Acquisition and Training

Hiring *local talent* will provide Coe's with valuable market insights and help foster a sense of trust with the local community. Employees should undergo extensive *training programs* to ensure they understand Coe's business model and uphold its customer service standards. A focus on *cultural sensitivity training* will also help ensure effective communication and relationship-building with Mexican consumers (Lopez, 2023).

5. Monitoring and Evaluation

To track the success of the expansion, Coe's should establish *key performance indicators (KPIs)* such as customer acquisition rates, revenue growth, and customer satisfaction levels. *Regular reviews* will ensure the strategy remains on track, allowing Coe's to adjust quickly if needed. Continuous performance monitoring will help the company identify successful tactics and areas for improvement.

6. Scalability and Expansion

Once the pilot program proves successful, Coe's should aim for *scalability* by replicating the business model in other Mexican cities. The expansion should be *gradual* to ensure resources are not stretched thin. The company can use insights from the pilot to refine its approach and better predict consumer preferences in other regions (Martinez, 2023). With a strong foundation, Coe's will be well-positioned to scale up operations and enter new regions in Mexico.

Alternative Solutions: Prudent Approach (Do Not Expand)

To increase revenue without expanding abroad, Coe's can focus on untapped market opportunities within the U.S. This includes targeting underserved regions where rent-to-own services are in demand but underdeveloped. By expanding stores in these areas, Coe's can leverage existing operational efficiencies while mitigating the risks of international expansion. Additionally, diversifying product offerings to include higher-margin goods like electronics or specialty furniture and introducing new payment flexibility options will appeal to a broader range of U.S. consumers, enhancing market penetration and driving revenue growth.

Conclusion

We recommend that Coe should proceed with *expanding into the Mexican market*. This strategic move provides significant growth potential while balancing risk through a *pilot program* in Mexico City. By leveraging *local partnerships*, conducting *continuous market research*, and *adapting products and marketing strategies* to the local culture, Coe can establish a strong presence in Mexico. Additionally, hiring local talent and monitoring performance with clear KPIs will ensure sustainable growth. This approach positions Coe to capitalize on the untapped opportunities in Mexico while maintaining operational efficiency.

Works Cited

Carbaugh, R. (2023). *International economics* (18th ed.). Cengage.

Chu, M., & Smithgall, C. (2012). Play it safe at home, or take a risk abroad. *Harvard Business Review*. https://hbr.org/2012/01/play-it-safe-at-home-or-take-a-risk-abroad

Facey, J. (2024, August 5). Reliable partners needed to face Mexico’s logistics challenges. *Mexico Business*. https://mexicobusiness.news/mobility/news/reliable-partners-needed-face-mexicos-logistics-challenges

FloorDaily. (2023). Home Depot makes inroads in Mexico. *FloorDaily*. https://www.floordaily.net/flooring-news/home-depot-makes-inroads-in-mexico

Gonzalez, R. (2023). Competitor dynamics in Mexico's lease-to-own market. *Market Insights Journal*.

IMF. (2023). Mexico economic update. *IMF*. https://www.imf.org

Internet World Stats. (2023). Mexico internet users. *Internet World Stats*. https://www.internetworldstats.com

Johnson, A., & Lee, K. (2023). Consumer attitudes toward financing options in Mexico. *Consumer Behavior Review*.

Lopez, M. (2023). Economic trends and their impact on the lease-to-own market. *Economic Analysis Quarterly*.

Martinez, J. (2023). The landscape of retail financing in Mexico. *Retail Studies*.

OECD. (2022). Digital economy in Mexico. *OECD*. https://www.oecd.org

OECD. (2022). Mexico economic outlook. *OECD*. https://www.oecd.org

OECD. (2023). Mexico’s environmental policies. *OECD*. https://www.oecd.org

Patterson, T. (2024, May 16). Logistics in Mexico: Supply chain planning. *Freight Forwarder, Freight Broker, Warehousing, eCommerce + Fulfillment*. https://www.visigistics.com/resources/logistics-in-mexico-supply-chain-planning

Research Firm. (2023). Lease-to-own market size and forecast in Mexico. *Market Research Report*.

Segal, T. (2024). Currency fluctuations: How they affect the economy. *Investopedia*. https://www.investopedia.com/articles/forex/080613/effects-currency-fluctuations-economy.asp

Smith, T. (2022). Understanding consumer demand in emerging markets. *Journal of Business Strategy*.

Statista. (2023). Mexico demographics and consumer behavior. *Statista*. https://www.statista.com

Statista. (2023). Smartphone penetration in Mexico. *Statista*. https://www.statista.com

Walmart Corporate. (2023). Walmart in Mexico. *Walmart*. https://corporate.walmart.com/about/international/walmart-mexico

World Bank. (2023). Doing business in Mexico. *World Bank*. https://www.worldbank.org

World Bank. (2023). Ease of doing business in Mexico. *World Bank*. https://www.worldbank.org

World Bank. (2023). Mexico economic growth forecast. *World Bank*. https://www.worldbank.org

York, B. (n.d.). Cracking the code: Understanding Mexican consumer behavior and market trends. *Cubbo*. https://www.cubbo.com/posts/cracking-the-code-understanding-mexican-consumer-behavior-and-market-trends

Zander, H. (2018). Rent-to-own industry Porter five forces analysis. *Case48*. https://www.case48.com/porter-case/31756-RENT-TO-OWN-INDUSTRY