

A REALISTIC APPROACH TO EXPANDING BUSINESS INTERNATIONALLY

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By submitting this paper, I affirm that this work is my own except for where the words or ideas of others are specifically acknowledged. I also affirm that this work, as it stands, did not exist before the beginning of the course for which it is submitted.

Target Audience: Business owners and operators seeking to expand their businesses globally utilizing tried and true methods of international expansion.

Purpose of this Paper: To outline the steps discussed within the text of Foley's thoughts and then expand on them, using federal sources within the US Government. Specifically, the US Department of Commerce and my own company, Moorhill International Group, Inc.

Executive Summary: This paper will provide the reader with a sense of the largeness of the task involving global expansion. The data cited will reflect actual governmental practice as well as specific "case study" illustrations of current expansion techniques and paybacks.

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THE GLOBAL ENTREPRENEUR – MARKET ENTRIES

The decision of how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved via the following four mechanisms:

- Exporting
- Licensing
- Joint Venture
- Direct Investment

Exporting

Exporting is the marketing and direct sale of domestically produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. Since exporting does not require that the goods be produced in the target country, no investment in foreign production facilities is required. Most of the costs associated with exporting take the form of marketing expenses.

Exporting commonly requires coordination among four participants:

- Exporter
- Importer
- Transport provider
- Government

Licensing

Licensing essentially permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance.

Because little investment on the part of the licensor is required, licensing has the potential to provide a very large ROI. However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Joint Venture

There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Such alliances are often favorable when:

- the partners' strategic goals converge while their competitive goals diverge;
- the partners' size, market power, and resources are small compared to the industry leaders; and
- partners are able to learn from one another while limiting access to their own proprietary skills.
- it is also essential that the respective roles of the partners and the management structure are clearly defined at the outset (*Dr. Laurence Leigh*)

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions.

Potential problems include:

- conflict over new investments
- mistrust over proprietary knowledge
- performance ambiguity - how to split the pie
- lack of parent firm support
- cultural clashes
- if, how, and when to terminate the relationship

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative: the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

Foreign Direct Investment

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise.

Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment, since this strategy also represents the highest potential risk since one has more at stake if things go wrong.

THE GLOBAL ENTREPRENEUR – ENTRY COMPARISON

Mode	Conditions	Advantages	Disadvantages
<i>Exporting</i>	Limited sales potential in target country; little product adaptation required Distribution channels close to plants High target country production costs Liberal import policies High political risk	Minimizes risk and investment. Speed of entry Maximizes scale; uses existing facilities.	Trade barriers & tariffs add to costs. Transport costs Limits access to local information Company viewed as an outsider
<i>Licensing</i>	Import and investment barriers Legal protection possible in target environment. Low sales potential in target country. Large cultural distance Licensee lacks ability to become a competitor.	Minimizes risk and investment. Speed of entry Able to circumvent trade barriers High ROI	Lack of control over use of assets. Licensee may become competitor. Knowledge spillovers License period is limited
<i>Joint Ventures</i>	Import barriers Large cultural distance Assets cannot be fairly priced High sales potential Some political risk Government restrictions on foreign ownership Local company can provide skills, resources, distribution network, brand name, etc.	Overcomes ownership restrictions and cultural distance Combines resources of 2 companies. Potential for learning Viewed as insider Less investment required	Difficult to manage Dilution of control Greater risk than exporting a & licensing Knowledge spillovers Partner may become a competitor.
<i>Direct Investment</i>	Import barriers Small cultural distance Assets cannot be fairly priced High sales potential Low political risk	Greater knowledge of local market Can better apply specialized skills Minimizes knowledge spillover Can be viewed as an insider	Higher risk than other modes Requires more resources and commitment May be difficult to manage the local resources.

THE U.S. COMMERCIAL SERVICE – OVERVIEW

United States Department of Commerce (USDOC)

|

International Trade Administration (ITA)

|

United States Commercial Service (USCS)

|

National Field Support Team (NFST)

USCS – Reference: [A & B]

NFST - Reference: [C ~ G]

This is s current client of mine! The US Commercial Service: An Overview

- Founded in 1980
- The U.S. Commercial Service (USCS) is a Commerce Department agency that helps U.S. companies, particularly small and medium-sized businesses make sales in international markets.
- The agency's network includes 107 U.S. Export Assistance Centers throughout the country, and more than 150 offices overseas.
- Last year, the U.S. Commercial Service facilitated over \$23 billion in U.S. exports, and conducted nearly 150,000 counseling sessions with American companies.
- The International Trade Administration (ITA) is a sub-set of the USCS, which seeks to counsel individual companies on global markets.

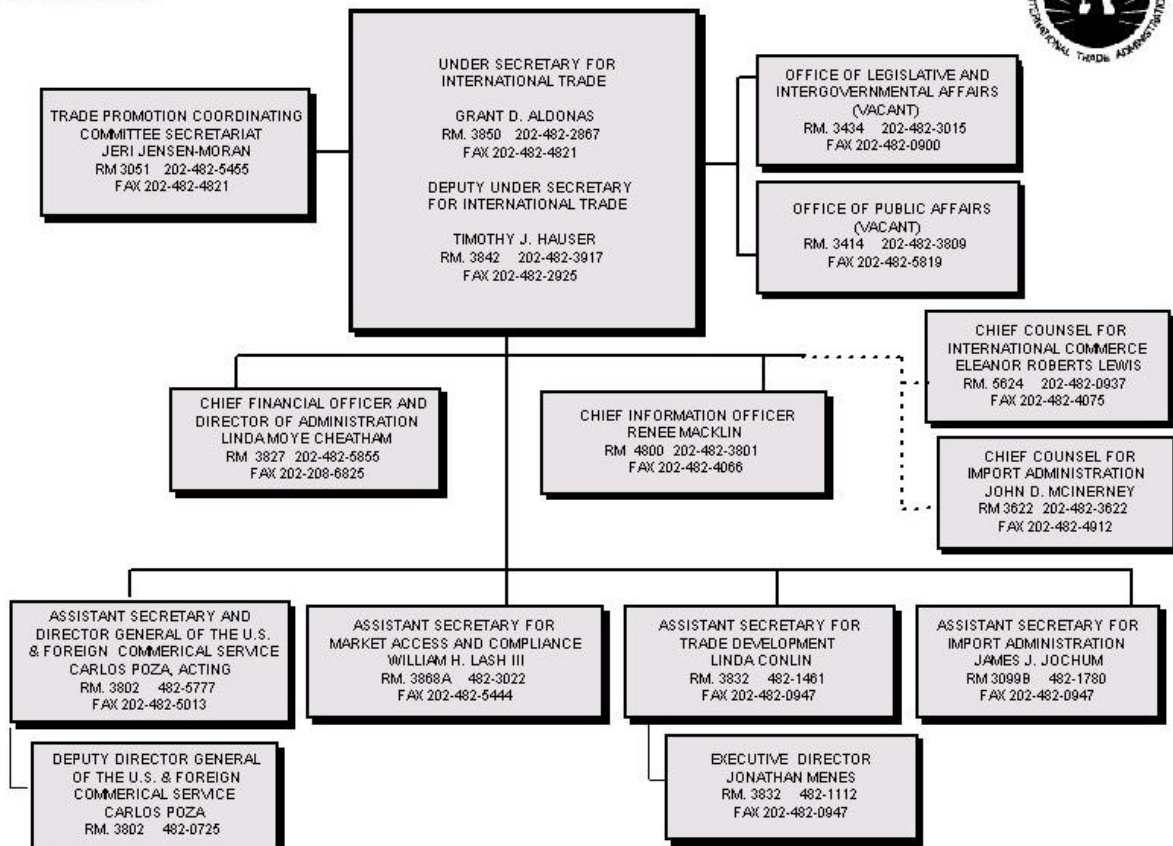
The US Commercial Service is the premier global business solutions provider of the Department of Commerce. The USCS is a dedicated global organization committed to achieving 100% customer satisfaction. The USCS strives to provide exceptional customer service: meeting and exceeding client expectations and cultivating repeat and loyal customers.

The USCS provides flexible and comprehensive products and services. The USCS seeks to constantly improve client service to deliver a consistent and quality experience for each and every US Commercial Service client.

The USCS empowers its staff by providing the necessary tools to act quickly to resolve client complaints. This is their commitment to the client, both internally (fellow colleagues and employees) and externally (U.S. companies, trade associations, foreign buyers, State organizations).

ITA ORGANIZATIONAL STRUCTURE - NOTATED

**U.S. DEPARTMENT OF COMMERCE
INTERNATIONAL TRADE ADMINISTRATION
WORK REFERENCE CHART**



*Source: US Department of Commerce
Reference: [3]*

Author's Note:

I have worked with the US DOC for almost a decade now. On a local level, with the USEAC – Phoenix, AZ and on a national level with the NFST – Washington, DC.

PROCESS STEPS TO WORKING WITH THE ITA

The market for services in the U.S. has been growing at a significant rate in recent years. The international market for services has exhibited an even stronger growth rate, providing opportunities that many larger services firms have pursued with great success. These facts have prompted many small to medium-sized firms to ask the question: How do I go global?

There are five basic steps that will help a services firm get its first exporting venture off on a smooth, orderly course:

1. In order to determine whether the firm should pursue international clients, one must assess the export potential of the firm;
2. If the resources and commitment are there, the next step in the process is to seek and obtain expert counseling;
3. After the firm has taken advantage of the counseling that is available, it must then select markets that it considers "ideal;"
4. The firm has to formulate an export strategy; and
5. Finally, the firm must select a selling technique for the services offered.

Reference: [1]

Assess the Export Potential

Since exporting requires an extension of a firm's resources, it is important that you first assess your export potential. This assessment should include a look at industry trends, the firm's domestic position in the industry, the effect it may have on present operations, the status of the firm's resources and the anticipated export potential of the services the firm provides. The U.S. Department of Commerce (USDOC) can help U.S. firms identify their strengths and weaknesses in a systematic and objective way by means of its Business Counseling Program. International trade specialists can provide a preliminary view of a firm's organizational and services strengths. It is, however, only a first step in an in-depth examination of a firm's export potential. The program addresses five aspects of a firm and its services: its business background; its motivation for going international; top management's commitment to exporting; an assessment of services strengths; and an assessment of market-specific strengths.

Obtain Expert Counseling

A logical starting point to get expert counseling and assistance is through the Trade Promotion Coordinating Committee (TPCC). This organization is made up of the nineteen federal agencies that serve American exporting businesses. The TPCC established the Trade Information Center (TIC), a "one-stop" source for information regarding exporter-assistance programs. By dialing a toll-free number, 1-800-USA-TRADE, firms can receive detailed information on the export resources and programs provided by the federal government. Also, the TIC will send, free of charge, a guide, Export Programs: A Business Directory of U.S. Government Resources.

Another viable starting point for counseling is the nearest U.S. & Foreign Commercial Service (U.S. & FCS) office of the International Trade Administration (ITA), U.S. Department of Commerce.

There are eighty-four U.S. Export Assistance Centers (EACs) in cities throughout the U.S. and Puerto Rico. Trade specialists are located within the EACs – these offices will provide export-counseling staff, these EACs offer assistance as well as brief the firm on export programs and services. The export assistance centers are part of a global network of U.S. & FCS offices. The U.S. & FCS offices overseas are located in the Commercial Sections of the U.S. Embassies and Consulates in sixty-nine countries around the world. These overseas posts seek trade/investment opportunities to benefit U.S. firms and provide direct export assistance as well.

There are two other elements of ITA that provide sources of counseling. The industry officers in Trade Development (TD) are assigned responsibility for specific business sectors and provide information regarding industry analysis, trade policy and trade promotion issues. The country desk officers in Market Access and Compliance (MAC) stay abreast of their assigned country's overall economy and trade policies as well as U.S. policies toward that country.

Select Markets

The firm must select markets it considers "ideal" to initiate its export activities. One of the best single resources for accomplishing this is the National Trade Data Bank (NTDB). Updated monthly, the NTDB contains information regarding basic export information, industry-specific information, country-specific information and industry-country information. The NTDB can be accessed at hundreds of Federal Depository Libraries around the country or is available by subscription in a compact disc read-only memory (CD-ROM) format. Publications contained in the NTDB that are of great utility to services exporters include Country Commercial Guides, Best Markets, the World Factbook and Key Officers of Foreign Service Posts. The NTDB also holds hundreds of specific market research reports covering a multitude of topics, as well as the Foreign Traders Index (FTI), a list of foreign firms that have expressed an interest in working with U.S. exporters.

Formulate An Export Strategy

The firm must now formulate an export strategy. This strategy should identify and correlate at least four factors that jointly determine the best method of export expansion: the firm's export objectives, both immediate and long term; specific tactics the firm will use; scheduling of activities, deadlines, etc., that reflect chosen objectives and tactics; and allocation of resources among scheduled activities. The marketing plan should cover a two-to-five year period, depending on the kind of service provided, the strength of competitors, conditions in the target market and other factors such as regional expansion. This activity requires good business judgment on the part of the firm as it develops and implements a sound exporting venture.

Counseling can assist the firm's management to focus on its objectives but the final decisions fall on the executives of the firm. A publication that may assist in this element of the exporting process is Services: Export of the 21st Century. This book contains a wealth of information regarding the specifics of exporting services and can be ordered from the Northern California District Export Council. (Affiliated with the San Francisco EAC).

Select A Selling Technique

Alternative selling techniques for services firms include, for example, project consultancy, electronic commerce, subcontracting, establishing a branch office, or affiliating with a firm already established in the market. For many small firms, affiliation is frequently the most viable, given the cost effectiveness and rapidity with which it can be accomplished. Also, the foreign affiliate can provide instant market exposure and market research as well as potential clients. A number of U.S. Department of Commerce programs and services are available to assist services firms in their exporting endeavors. You should contact your local EAC to obtain more information or request any of the programs or services mentioned below.

There are several ways to identify potential affiliates. One way is to use the NTDB and its Foreign Traders Index (FTI). The FTI is a list of foreign firms that have approached a U.S. embassy or consulate to request assistance in obtaining information on American services firms. The firms are listed in the Index by identifying characteristics such as country in which the firm is located or the service sought. The Agent/Distributor Service (A/DS) is a customized search for interested and qualified foreign representatives. The embassy or consulate will identify up to six foreign prospects that have examined the American firm's literature and expressed interest in representation. The Gold Key Service is a custom-tailored service for U.S. firms planning to visit a country. Offered by many overseas posts, it combines several services, such as market orientation briefings, market research, introduction to potential affiliates or clients, an interpreter for meetings and assistance in developing a sound market strategy and an effective follow-up plan.

The Customized Market Analysis (CMA) offers a quick, accurate assessment of how your services will sell in a given market. This custom-tailored market research provides firms with specific information on marketing and foreign representation for their services in selected countries. Interviews or surveys are conducted to determine overall marketability of the services, key competitors, and price of comparable services, trade barriers, possible business partners and applicable trade events. The International Company Profile (ICP) is a customized report that can be used in evaluating potential affiliates as well as clients. It is developed by the overseas posts and includes background information, standing in the local business community, bank references and overall reliability and suitability. Except for the export counseling, there are fees for USDOC programs and services.

Summary

There is a host of techniques and avenues of approach that an interested U.S. exporter may follow. From publicly available information through universities, libraries and the U.S. Government to privately held research institutions and consulting firms.

The interested U.S. exporter must be aware of their strengths (manufacturing and/or services) and even more acutely aware of internal needs (exporting to direct investment) when using such services.

CASE STUDY #1 (ACTUAL) **MOORHILL INTERNATIONAL GROUP, INC.**

Company Overview: Using my own company (Moorhill International Group, Inc.) as a test case, I have been through the process of both using the ITA as a sounding board for ideas as well as having it as an active client. Below is a partial listing of the several services I have used throughout my time with the ITA, specifically, when I was searching for an international “partner” with which to expand my own ISO consulting and training company within the UK. These were the services I utilized.

Counseling:

If one desires to increase export sales and enter new international markets, use the U.S. Commercial Service export counseling service. Trade specialists in more than 100 U.S. cities and 80 countries provide in-depth export consulting and customized business solutions. Its trade specialists near you work directly with their team of experts overseas in getting one the information and advice that one has requested.

Market Research Library:

Accurate, up-to-date information lets one target the best international markets. Their comprehensive market research includes overviews on doing business in more than 120 countries and profiles of 110 industry sectors. One can also get updates on new regulations, currency fluctuations, business trends, and government-financed projects. Much of this research is available at no charge.

Gold Key Service (GKS):

Appointments: Knowledgeable Commercial Service trade specialists contact and set up appointments – typically four per day – with the contacts you need to do business with. Access a broad cross-section of contacts including potential agents and distributors, major end-users, key government officials and other important contacts. With the U.S. Embassy and consulate making your appointments, you will be sure to meet the right people at the right levels.

Cost-effective: The fee is \$600 for the first day, and \$300 for each additional day at all five posts. \$300 is non-refundable for cancellations. Interpreters, translation services, cars and drivers are charged separately according to market price and paid directly to the service provider.

Embassy Briefing: To take full advantage of your trip, the Commercial Service provides an Embassy or a Consulate briefing to give you tips on doing business locally and an overview of the local business environment. We will also introduce you to a wide variety of services, research reports and other resources to help you get timely, relevant information on the local market. Embassy and consulate staff, however, will not normally accompany you to your meetings.

The Gold Key Service is tailored to individual needs: State your specifications clearly:

- Find sales representation
- Gauge the market
- Assess the business environment
- Explore a joint venture
- Gauge regulatory requirements
- Assess the competition
- Agents & distributors
- End users/potential customers
- Producers, trade associations
- Government officials
- Bankers, consultants, lawyers
- US business people/joint ventures

Reference Site: [7]

Each U.S. Embassy and/or Consulate has a Commercial Service which may provide the Gold Key application package and step by step instructions. It requests six weeks lead-time from the time all materials have been received. Please take note that each post is solely responsible for its own specific Gold Key Service.

Visa application: Please note that USCS does not give assistance in visa application. A visa can be obtained conveniently at most foreign Embassies and/or Consulates located within the U.S.

Company Summary: (Moorhill International Group, Inc.)

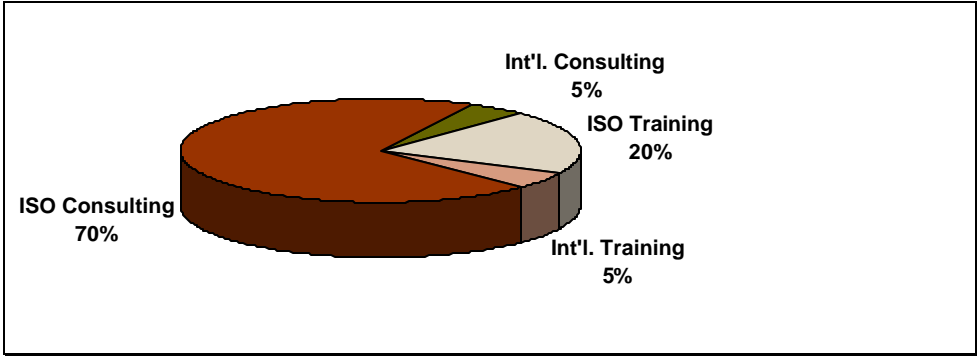
✦ ISO Training & Consulting

◆ ISO 9001 (QMS) & ISO 14001 (EMS)

- Auditor / Lead Auditor Instruction
- Documentation Courses
- Implementation Courses
- Internal Assessing Courses
- Introduction / Overview Courses
- Baseline Assessment Projects
- Internal (implementation) Auditing Projects

✦ International Training & Consulting

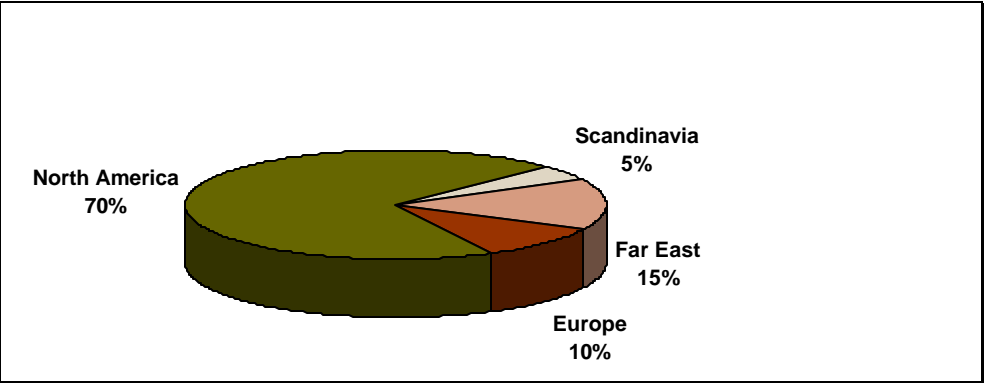
- ◆ In-Depth Country Analysis
- ◆ Expatriate / Repatriate Training
- ◆ Market Entry and Feasibility Studies
- ◆ Joint Venture Projects
- ◆ Turn-Key Operations
- ◆ Product / Service Sourcing
- ◆ Match-Making Opportunities



- ✦ Resident Capabilities
 - ◆ Marketing / Management
 - ◆ Logistics / Operations
 - ◆ Engineering / Support
 - ◆ Translation / Interpretation
 - ◆ CAD/CAM / Pro E
 - ◆ Networking / Sourcing
 - ◆ Confidentiality

- ✦ Successful Country Cases
 - ◆ Japan / Sweden
 - ◆ United States / England
 - ◆ Canada / Mexico
 - ◆ France / China

- ✦ Successful Regional Cases
 - ◆ Far East Asia (Pac Rim)
 - ◆ Europe (EU)
 - ◆ Scandinavia (EFTA)
 - ◆ North America (NAFTA)



CASE STUDY #2 (FACTUAL) **A "VIDEO" GOLD KEY PROJECT**

(Wheeling, WV) Selling Western-style clothing in Calgary, Canada may be like selling coal to Newcastle, but Lariat Leathers roped in a new customer without setting foot in the province.

Sam Kosanovic, president of the company that manufactures high-end Western-style leather apparel, made the sales pitch last Wednesday (June 28) during a videoconference technology pilot project organized by the Department of Commerce's U.S. Commercial Service (USCS).

The sale was made to Barry Lammle of Boutique of Leathers and Lammle's Western Wear, two chain stores in Alberta. Lammle and Kosanovic watched each other on computer monitors and discussed convenient dates to talk about future orders. Lammle ordered \$6500 worth of Lariat's leather jackets to test market during next month's Calgary Stampede, the busiest time of the year for the western wear sellers in Alberta.

"This experience has been really terrific," said Kosanovic's son, Sam, who participated in the video meeting. "We would not have known about this opportunity in Canada without using this service."

The service is called a Video Gold Key (see explanation below) and is offered to U.S. businesses by the Commercial Service, which has offices in 105 U.S. cities and in more than 100 cities around the world. Explains David Kotler, manager of the Commercial Service's Wheeling Export Assistance Center, "We work with our international offices to find qualified buyers for U.S. products." When a buyer expresses an interest, a video meeting is offered as a way of getting acquainted and discussing terms without the need of a costly business trip, although a visit may be necessary later.

Said Kotler, "Often these meetings help move the parties closer to a deal, but sometimes, as in the case with Lariat Leathers, they result in a sale. This service is a great way for West Virginia companies to overcome some of the barriers they have traditionally faced when trying to enter foreign markets."

First District Congressman Alan B. Mollohan, who has worked with the Commerce Department to establish programs at Wheeling's Export Assistance Center, said the Video Gold Key is an important way to help West Virginia Businesses unlock the door to new markets.

"I'm pleased that the Video Gold Key program has led to new sales for Lariat, and congratulate both the company and the U.S. Commercial Service on their collaboration. I look forward to more success stories, like this one, as more and more of our companies sell their products to overseas customers," Mollohan said.

The Video Gold Key is part of the Commercial Service's Rural Export Initiative (REI), which seeks to get more rural U.S. companies involved in global commerce. REI helps rural firms overcome potential disadvantages of distance using electronic commerce and technology-based services such as virtual trade shows and market briefings via teleconferencing. As part of its commitment to serving rural firms, the Commercial Service has established 18 Export Assistance Centers in rural areas.

VIDEOCONFERENCING FACILITIES

Would you like to talk with a commercial officer globally without having to take the 13-hour flight? Need to make a meeting with an international buyer, but can't get away? The state-of-the-art videoconferencing facilities in the worldwide network of over 200 domestic U.S. Export Assistance Centers and international locations, can offer one a cost-effective and timesaving alternative to long-distance travel.

While the USCS always encourages U.S. exporters to conclude advanced negotiations on-site, USCS Worldwide offers U.S. Government and U.S. exporters this opportunity to meet 'virtually' face-to-face with potential buyers and partners, discuss business opportunities, conduct interviews and gain valuable insight in the local market, before they even decide to leave their home towns.

Fees: Depending on the level of service you require, use of USCS videoconferencing facilities can incur nominal site charges as well as line-use charges, should the ISDN call be initiated from overseas. Standard set-up fee: \$150 (flat rate), Standard hourly rate: \$50 per meeting hour, and ISDN Line Charges from overseas: Line charges are based on actual local telecom rates and may vary from post to post. The following line charges, for example, apply in Beijing.

Speed:	128k	256k	384k
Charge:	\$2.50/min	\$5.00/min	\$7.50/min

Reference Site: [6]

Video Market Briefings – Offered to U.S. Government and groups of U.S. exporters through the U.S. Export Assistance Centers, such as Phoenix, to help them gain custom market information and identify and evaluate key dynamics in the local market prior to formal entry. An important objective of the Video Market Briefing is to help clients identify and understand the opportunities and challenges of the local market. A company may submit a short list of questions in advance on a range of issues including the specific industry, region or market, or competitive local environment.

Videoconference Hosting – offered to individual U.S. exporters and overseas buyers/investors, to provide a forum for a meeting, which the company can arrange. The USCS provides the venue, marginal liaison work and technical support.

SOURCES OF INFORMATION

Web Sites:

- 1) ITA - <http://www.ita.doc.gov/>
- 2) NTDB – <http://www.stat-usa.gov/>
- 3) USDOC – <http://www.commerce.gov/>
- 4) TIC - <http://www.trade.gov/td/tic/>
- 5) NOAA - <http://www.noaa.gov/>
- 6) USA – <http://www.usatrade.gov>
- 7) USEAC - <http://www.azexport.com/>

Personal Citations:

- A) Mr. Frank Woods, Director USEAC – Phoenix, Arizona
- B) Mr. Dan Bjerk, Senior Trade Specialist USEAC – Phoenix, Arizona
- C) Mr. David Tumblin, Director NFST – Washington, DC
- D) Ms. Kathy DuPriest, Associate Director NFST – Washington, DC
- E) Ms. Julie Burch, Associate Director NFST – Washington, DC
- F) Ms. Jan Stephens, Associate Director NFST – Washington, DC
- G) Ms. Carole Odell, Associate Director NFST – Washington, DC

APPENDIX A - THE GLOBAL ENTREPRENEUR – BOOK OUTLINE

SECTION ONE BEFORE YOU GO GLOBAL 1

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