Chapter

14 Global Aspects of Entrepreneurship

National borders are no longer defensible against the invasion of knowledge, ideas, and financial data.

—Walter Wriston

"Pepsi brings your ancestors back from the grave."

—Chinese translation of "Pepsi comes alive."

LEARNING OBJECTIVES

Upon completion of this chapter, you will be able to:

1. **EXPLAIN** why "going global" has become an integral part of many small companies' marketing strategies.
2. **DESCRIBE** the principal strategies small businesses have for going global.
3. **EXPLAIN** how to build a thriving export program.
4. **DISCUSS** the major barriers to international trade and their impact on the global community.
5. **DESCRIBE** the trade agreements that will have the greatest influence on foreign trade in the twenty-first century.

Until recently, the world of international business was much like the field of astronomy before Copernicus revolutionized the study of the planets and the stars with his theory of planetary motion. In the sixteenth century, the Copernican system replaced the Ptolemaic system, which held that the earth was the center of the universe with the sun and all the other planets revolving around it. The Copernican system, however, placed the sun at the center of the solar system with all of the planets revolving around it. Astronomy would never be the same.

In the same sense, business owners across the globe have been guilty of having Ptolemaic tunnel vision when it came to viewing international business opportunities. Like their pre-Copernican counterparts, owners saw an economy that revolved around the nations that served as their home bases. Market opportunities stopped at their homeland's borders. Global trade was only for giant corporations that had the money and the management to tap foreign markets and enough resources to survive if the venture flopped. This scenario no longer holds true in the twenty-first century.

Today, the global marketplace is as much the territory of small, upstart companies as it is that of giant multinational corporations. Powerful, affordable technology, increased access to information on conducting global business, and the growing interdependence of the world's economies have made it easier for companies of all sizes to engage in international trade.

It is no longer a surprise to entrepreneurs that they face global competition in the marketplace. The new economic world order is the result of the interaction of many dynamic forces. Culture, politics, and the basic social fabric of nations are evolving an unprecedented pace as change is facilitated by technology and challenged by global economic and competitive forces. Early twenty-first-century entrepreneurs recognize that the markets of today are small in comparison to the market potential of tomorrow. The world market for goods and services continues to expand, fueled by a global economy that welcomes consumers with new wealth. Technology, which continues to become increasingly affordable and powerful, links trading partners whether they are giant corporations or individual owners with small companies.

The interdependence of nations is highlighted daily as billions of dollars in trade takes place with little or no interference. Global business is accepted as a natural phenomenon, and new entries join daily. The tools of global business are not beyond the reach of any entrepreneur. This chapter is designed to demonstrate the nature and scope of the opportunities available to entrepreneurs who accept the challenge to "go global." In fact, two-thirds of the world's purchasing power lies outside of the borders of the United States!

Successful global ventures are built on a match between the needs of the market and the products and services of the seller.

A Company Example

This is reflected in an opportunity discovered by ***AMD Telemedicine*** *on a visit to Scandinavia. Denmark, Norway, and Sweden are all increasingly employing telemedicine in health care. As an example, Denmark currently imports $850 million of medical equipment and technology each year. U.S. products are viewed as "world class" and in high demand. The match between the health care needs of the Scandinavian countries and the products of the small U.S.-based company AMD Telemedicine demonstrates the basics upon which all global business can be conducted.*[1]

A Company Example

The United States Chamber of Commerce established ***Trade Roots****, an international trade leadership program that networks over 3,000 local U.S. Chambers of Commerce. The program also facilitates the transfer of current information on the benefits and methods for its members' involvement in international trade. Blending this program with a multiagency publication by the U.S. government called* Export Programs Guide *provides entrepreneurs with a substantial amount of resources at their fingertips.*[2]

1. Explain why "going global" has become an integral part of many small companies' marketing strategies.

WHY GO GLOBAL?

The main reason to go global is not unlike the reason given by the legendary bank robber, Willie Sutton, who, when asked why he robbed banks, replied, "That's where the money is." The same is true for global business today. Failure to cultivate global markets can be a lethal mistake for modern businesses, whatever their size. Increasingly, small businesses will be under pressure to expand into international markets and to consider themselves businesses without borders.

Going global can put tremendous strain on a small company, but entrepreneurs who take the plunge into global business can reap the following benefits:

- *Offset sales declines in the domestic market.* Markets in foreign countries may be booming when those in the United States are sagging. In this way, global business acts as a countercyclical balance.
- *Increase sales and profits.* Two forces are working in tandem to make global business increasingly attractive: income rising to levels where potential sales are now possible and the realization that 96 percent of the planet's population is outside of the United States.
- *Extend their products' life cycle.* Some companies have been able to take products that had reached the maturity stage of the product life cycle in the United States and sell them successfully in foreign markets.
- *Lower manufacturing costs.* In industries characterized by high levels of fixed costs, businesses that expand into global markets can lower their manufacturing costs by spreading those fixed costs over a larger number of units.
- *Improve competitive position and enhance reputation.* Going up against some of the toughest competition in the world forces a company to hone its competitive skills.
- *Raise quality levels.* Customers in many global markets are much tougher to satisfy than those in the United States. One reason Japanese products have done so well worldwide is that Japanese companies must build products to satisfy their customers at home who demand extremely high quality and are sticklers for detail. Businesses that compete in global markets learn very quickly how to boost their quality levels to world-class standards.
- *Become more customer oriented.* Delving into global markets teaches business owners about the unique tastes, customs, preferences, and habits of customers in many different cultures. Responding to these differences imbues businesses with a degree of sensitivity toward their customers, both domestic and foreign.

Becoming a global entrepreneur does require a modification in a company's mind-set. Success in a global economy also requires constant innovation; staying nimble enough to use speed as a competitive weapon; maintaining a high level of quality and constantly improving it; being sensitive to foreign customers' unique requirements; adopting a more respectful attitude toward foreign habits and customs; hiring motivated, multilingual employees; and retaining a desire to learn constantly about global markets. In short, the path to success requires businesses to become "insiders" rather than just "exporters." Entrepreneurs must remain the "hunters" in the global market or they will find themselves the "hunted."

As with any new venture, entrepreneurs need to prepare. In this case, it is critical to ask, and answer, the following questions about their business.

1. Is there a profitable market in which the firm has the potential to be successful for an extended period of time?
2. Does the firm have the specific resources, skills, and commitment to succeed in this venture?
3. Are there pressures domestically that are forcing the firm to seek global opportunities?
4. Do entrepreneurs know the culture, history, economics, value system, and so on of the countries they are considering? Will you be comfortable doing business there?
5. Is there a viable exit strategy if the conditions change or the new venture is not successful?
6. Can the company afford *not* to go global?

Entrepreneurs must see their companies from a global perspective. An absence of global thinking is one of the barriers that most often limits their ability to move beyond known markets. Indeed, learning to *think globally* may be the first—and most threatening—obstacle an entrepreneur must overcome on the way to creating a truly global business. Global thinking is the ability to appreciate, understand, and respect the different beliefs, values, behavior, and business practices of companies and people in different cultures and countries. This means entrepreneurs must "do their homework" about every aspect of a potential host country when they believe they can successfully sell their product in that market. The U.S. government, through the Department of Commerce, has a vast amount of current information about all nations, including economic data that can be useful in the evaluation of a potential opportunity. Doing business globally presents extraordinary opportunities only to those who are prepared. Never assume that business "there" is conducted like business "here."

Construction is a major segment of the United States economy (8 percent of GDP or $800+ billion a year). Yet the global construction market is estimated to be in excess of $3.5 trillion. This vast and lucrative market will require U.S-based construction companies that are known for their skills in engineering, construction and project management, and specialized technology to form joint ventures with firms in the host country. Many foreign governments mandate these conditions to ensure that local construction firms benefit as well as learn the specialized skills of U.S. construction companies.[3] An example of how parties to a trade agreement benefit is International Chem-Crete.

A Company Example

*With the assistance of the United States Department of Commerce, Texas-based **International Chem-Crete** was able to establish relationships with the Egyptian company Technomechanic. This relationship allows the distribution of Chem-Crete chemical-based products for use in the repair of Egypt's infrastructure. On the same trade mission, International Chem-Crete established another agreement with the Moroccan firm YNNA Holdings. This arrangement is expected to generate 500 to 1,000 new jobs in Morocco. Examples such as this are truly "win win" situations that have the potential to benefit to all parties involved.*[4]

STRATEGIES FOR GOING GLOBAL

Learning Objectives

2. Describe the principal strategies for going global.

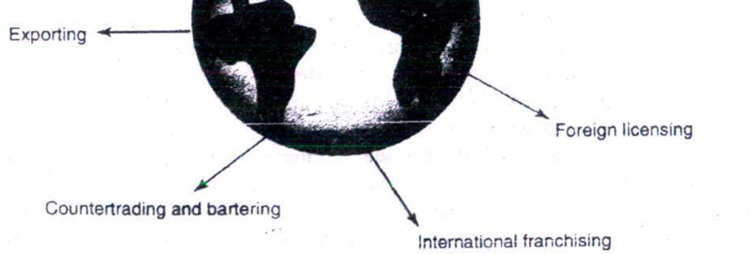
Entrepreneurs have eight strategic options to choose from when going global. The principal strategies include launching a World Wide Web site, relying on trade intermediaries, creating joint ventures, foreign licensing, franchising, engaging in countertrading and bartering, exporting, and establishing international locations (see Figure 14.1). Whatever strategic options the entrepreneur selects, the mind-set of the organization's leadership must become broader. Becoming a global business depends on instilling a global culture throughout the organization that permeates *everything* the company does. Entrepreneurs who routinely conduct international business have developed a global mind-set for themselves and their companies.

An entrepreneur also must understand the needs of the customers in the new marketplace. Consider the case of Pentaura Ltd., a Greenville, South Carolina, manufacturer of high-quality, handmade furniture, that sought assistance from the Japan External Trade Organization (JETRO). In addition to helping Pentaura navigate the intricacies of the Japanese economy, JETRO recommended that the firm modify the height of its tables to accommodate the smaller stature and compact living space of Japanese customers.[5] In this case, product acceptance was improved through product modification to the physical needs of the customer.

Creating a World Wide Web

Perhaps in our technology-rich global environment the fastest, least expensive, and lowest-cost strategic option to establishing a global business presence is creating a Web site. Because the Web is global, with a well-designed Web site, entrepreneurs can extend their reach to customers

FIGURE 14.1 Eight Strategies for Going Global



anywhere in the world—and without breaking the budget! A company's Web site is available to anyone anywhere in the world and provides exposure 24 hours a day to a firm's products or services seven days a week. For some small companies, the Web has become as essential a tool to doing business as the telephone and the fax machine.

Establishing a presence on the Web has become an important part of a company's strategy for reaching customers outside the United States. A study by the International Development Conference estimates the number of World Wide Web users to be 500 million worldwide. Approximately 143 million of them live in the United States, leaving 357 million potential Web customers outside this country's borders.[6] Figure 14.2 provides a comparison of the Web-using population by world region.

Most small companies follow a three-step evolutionary approach to conducting global business on the Web.

Step 1. *Connecting to e-mail.* Even though it lacks the ability to provide the engaging images, sounds, and animation available on the Web, e-mail gives entrepreneurs the ability to communicate with customers anywhere in the world quickly and easily. E-mail correspondence often is the first step to establishing lasting relationships with international customers. Not only is e-mail communication less expensive than international telephone calls, but it also overcomes many of the problems associated with different time zones.

Step 2. *Using the Web to conduct international market research.* Once they discover the power of the Internet through e-mail, entrepreneurs soon begin to explore the Web's capacity to generate sales leads by researching customers and market characteristics in other countries. With the help of the Web, they begin to see the world as their market.

Step 3. *Building a globally accessible Web site.* This step allows a business to both educate potential customers about the products and services the company offers as well as generate inquiries and, hopefully, orders. With the introduction in recent years of highly secure transactions software, orders a company can accept quickly and safely. The Internet provides the entrepreneur with the quickest and easiest way to go global. Unfortunately, small companies miss out on millions of dollars in potential Web sales every year because their Web sites are not set up to handle international transactions!

A Company Example

Anthropologists tell us that all civilizations made and drank wine, but could a small northern California winery successfully market its products globally? ***Next Wine*** *turned to the Internet as the vehicle to reach the market. Dain Duston, president of the firm, struggles to make the "little things" work while meeting the regulations on the sale of wine in various countries. It was necessary to have the Web information translated accurately into multiple languages. For this task, Next Wine turned to SDL International, a firm that offers translation services for the Internet. This is an example of two small businesses working together to achieve a presence in a global market.*[7]

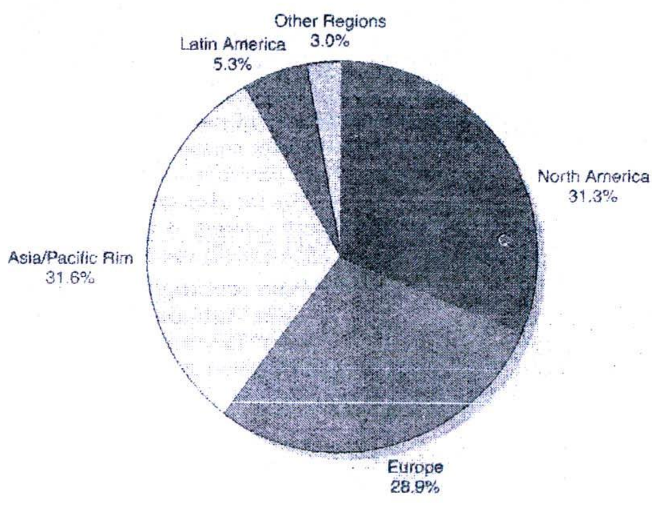


FIGURE 14.2 Internet Users Worldwide by Region

Source: United Nations Conference on Trade Development, E-Commerce and Development Report 2002, p. 8

Trade Intermediaries

trade intermediaries—*domestic agencies that serve as distributors in foreign countries for domestic companies of all sizes.*

Another alternative for low-cost and low-risk entry into international markets is to use a trade intermediary. **Trade intermediaries** are domestic agencies that serve as distributors in foreign countries for domestic companies of all sizes. They rely on their networks of contacts, their extensive knowledge of local customs and markets, and their experience in international trade to market products effectively and efficiently all across the globe. Although a broad array of trade intermediaries is available, the following are ideally suited for small businesses.

export management companies—*merchant intermediaries that provide small businesses with a low-cost, efficient, off-site international marketing department.*

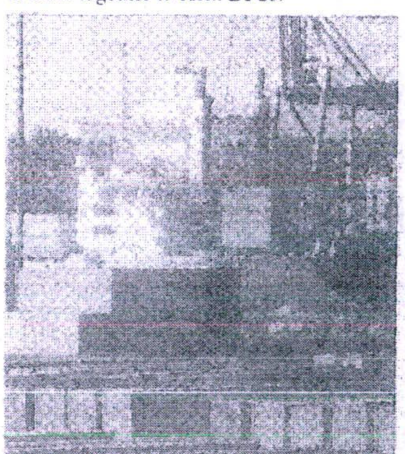
EXPORT MANAGEMENT COMPANIES. **Export management companies (EMCs)** are an important channel of foreign distribution for small companies just getting started in international trade or for those lacking the resources to assign their own people to foreign markets. Most EMCs are merchant intermediaries, working on a buy-and-sell arrangement with domestic small companies. They provide small businesses with a low-cost, efficient, independent, international marketing department, offering services ranging from market research and advice on patent protection to arranging financing and handling shipping. More than 1,000 EMCs operate across the United States, and many of them specialize in particular products or product lines.

The greatest benefits EMCs offer small companies are ready access to global markets and an extensive knowledge base on foreign trade, both of which are vital for entrepreneurs who are inexperienced in conducting global business. In return for their services, EMCs usually earn an extra discount on the goods they buy from their clients or, if they operate on a commission rate, a higher commission than domestic distributors earn on what they sell. Finding an EMC is not difficult. The Federation of International Trade Associations (FITA) provides useful information for small companies about global business and trade intermediaries on its Web site (http.fita.org). Industry trade associations and publications and the U.S. Department of Commerce's Export Assistance Centers* also can help entrepreneurs locate EMCs and other trade intermediaries.

export trading companies—*businesses that buy and sell products in a number of countries and offer a wide variety of services to their clients.*

EXPORT TRADING COMPANIES. Another tactic for getting into international markets with a minimum of cost and effort is through export trading companies (ETCs). **Export trading companies** are businesses that buy and sell products in a number of countries, and they typically offer a wide range of services such as exporting, importing, shipping, storing, distributing, and others to their clients. Unlike EMCs, which tend to focus on exporting, ETCs usually perform both import and export trades across many countries' borders. However, like EMCs, ETCs lower the risk of exporting for small businesses. Some of the largest ETCs in the world are based in the United States and Japan. In fact, many businesses that have navigated successfully Japan's complex system of distribution have done so with the help of ETCs.

In 1982, Congress passed the Export Trading Company Act to allow producers of similar products to form ETC cooperatives without the fear of violating antitrust laws. The goal was to encourage U.S. companies to export more goods by allowing businesses in the same industry to band together to form ETCs.



With a global mindset and a solid international business strategy, entrepreneurs can capture a share of the $6.4 trillion in global trade each year.

Courtesy of Corbis - NY

MANUFACTURER'S EXPORT AGENTS. Manufacturer's export agents (MEAs) act as international sales representatives in a limited number of markets for various noncompeting domestic companies. Unlike the close, long-term partnering relationship formed with most EMCs, the relationship between the MEA and a small company is a short-term one, and the MEA typically operates on a commission basis.

EXPORT MERCHANTS. Export merchants are domestic wholesalers that do business in foreign markets. They buy goods from many domestic manufacturers and then market them in foreign

*A searchable list of the Export Assistance Centers is available at the Export.gov Web site http://www.export.gov/comm_svc/eac.html.

markets. Unlike MEAs, export merchants often carry competing lines, which means they have little loyalty to suppliers. Most export merchants specialize in particular industries: office equipment, computers, industrial supplies, and others.

RESIDENT BUYING OFFICES. Another approach to exporting is to sell to a resident buying office, a government-owned or privately owned operation of one country established in another country for the purpose of buying goods made there. Many foreign governments and businesses have set up buying offices in the United States. Selling to them is just like selling to domestic customers because the buying office handles all the details of exporting.

FOREIGN DISTRIBUTORS. Some small businesses work through foreign distributors to reach international markets. Domestic small companies export their products to distributors that handle all of the marketing, distribution, and service functions in the foreign country. They also offer exporting small businesses the benefits of knowledge of their local markets, the ability to cover a given territory thoroughly, and prompt sales and service support.

A Company Example

*Ed Anderson, founder of **Lil' Orbits**, a Minnesota-based company that makes doughnut machines, sold his machinery only in the United States for nearly 15 years with great success. Then he began to wonder why his doughnut-making hardware wouldn't sell in international markets as well. In 1987, he placed a $40 ad in a U.S. Department of Commerce publication and was flooded with inquiries from foreign distributors. Today, Lil' Orbits has 42 long-time foreign distributors that sell the company's line of seven machines around the world. The company collects more than 60 percent of its $10 million annual revenue from abroad.*[8]

THE VALUE OF USING TRADE INTERMEDIARIES. Trade intermediaries such as these are becoming increasingly popular among businesses attempting to branch out into world markets because they make that transition much faster and easier. Most small businesses simply do not have the knowledge, resources, or confidence to go global alone. Intermediaries' global networks of buyers and sellers allow their small business customers to build their international sales much faster and with fewer hassles and mistakes.

The key to establishing a successful relationship with a trade intermediary is conducting a thorough screening to determine what type of intermediary—and which one in particular—will best serve a small company's needs. A company looking for an intermediary should develop a list of criteria by which to measure candidates' suitability and then compile a list of potential candidates using some of the sources listed in Table 14.1. After compiling a list of potential intermediaries, entrepreneurs should evaluate each one using the criteria to narrow the field to the most promising ones. Interviewing a principal from each intermediary on the final list should tell entrepreneurs which ones are best able to meet their companies' needs. Finally, before signing any agreement with a trade intermediary, it is wise to conduct thorough background and credit checks. Entrepreneurs with experience in global trade also suggest entering short-term agreements of about a year with new trade intermediaries to allow time to test their ability and willingness to live up to their promises.

Joint Ventures

Joint ventures, both domestic and foreign, lower the risk of entering global markets for small businesses. They also give small companies more clout in foreign lands. In a **domestic joint venture,** two or more U.S. small businesses form an alliance for the purpose of exporting their goods and services. For export ventures, participating companies get antitrust immunity, allowing them to cooperate freely. The businesses share the responsibility and the cost of getting export licenses and permits, and they split the venture's profits. Establishing a joint venture with the right partner has become an essential part of maintaining a competitive position in global markets for a growing number of industries.

domestic joint venture—*an alliance of two or more U.S. small companies for the purpose of exporting their goods and services abroad.*

In a **foreign joint venture,** a domestic small business forms an alliance with a company in the target nation. The host partner brings to the joint venture valuable knowledge of the local market and its method of operation as well as of the customs and the tastes of local customers, making it much easier to conduct business in the foreign country. Sometimes foreign countries place certain limitations on joint ventures. Some nations, for example, require host companies to own at least 51 percent of the venture.

foreign joint venture—*an alliance between a U.S. small business and a company in the target nation.*

The most important ingredient in the recipe for a successful joint venture is choosing the right partner. A productive joint venture is much like a marriage, requiring commitment and understanding. In addition to picking the right partners, a second key to creating a successful

TABLE 14.1

Resources for Locating a Trade Intermediary

Trade intermediaries make doing business around the world much easier for small companies, but finding the right one can be a challenge. Fortunately, several government agencies offer a wealth of information to businesses interested in reaching into global markets with the help of trade intermediaries. Entrepreneurs looking for help in breaking into global markets should contact the International Trade Administration, the U.S. Commerce Department, and the Small Business Administration first to take advantage of the following services:

- *Agent/Distributor Service (ADS).* Provides customized searches to locate interested and qualified foreign distributors for a product or service. (Search cost $250 per country).
- *Commercial Service International Contacts (CSIC) List.* Provides contact and product information for more than 82,000 foreign agents, distributors, and importers interested in doing business with U.S. companies.
- *Country Directories of International Contacts (CDIC) List.* Provides the same kind of information as the CSIC list but is organized by country.
- *Industry Sector Analyses (ISAs).* Offer in-depth reports on industries in foreign countries, including information on distribution practices, end users, and top sales prospects.
- *International Market Insights (IMIs).* Include reports on specific foreign market conditions, upcoming opportunities for U.S. companies, trade contacts, trade show schedules, and other information.
- *Trade Opportunity Program (TOP).* Provides up-to-the-minute, prescreened sales leads around the world for U.S. businesses, including joint venture and licensing partners, direct sales leads, and representation offers.
- *International Company Profiles (ICPs).* Commercial specialists will investigate potential partners, agents, distributors, or customers for U.S. companies and will issue profiles on them.
- *Commercial News USA.* A government-published magazine that promotes U.S. companies' products and services to 259,000 business readers in 152 countries at a fraction of the cost of commercial advertising. Small companies can use *Commercial News USA* to reach new customers around the world for as little as $395.
- *Gold Key Service.* For a small fee, business owners wanting to target a specific country can use the Department of Commerce's Gold Key Service in which experienced trade professionals arrange meetings with prescreened contacts whose interests match their own.
- *Matchmaker Trade Delegations Program.* Helps small U.S. companies establish business relationships in major markets abroad by introducing them to the right contacts.
- *Multi-State/Catalog Exhibition Program.* Working with state economic development offices, the Department of Commerce presents companies' product and sales literature to hundreds of interested business prospects in foreign countries.
- *International Fair Certification Program.* Promotes U.S. companies' participation in foreign trade shows that represent the best marketing opportunities for them.
- *National Trade Data Bank (NTDB).* Most of the information listed previously is available on the NTDB, the U.S. government's most comprehensive database of world trade data. With the NTDB, small companies have access to information that only *Fortune* 500 companies could afford.
- *Economic Bulletin Board (EBB).* Provides online trade leads and valuable market research on foreign countries compiled from a variety of federal agencies.
- *U.S. Export Assistance Centers.* The Department of Commerce has established 19 export centers (SEACs) around the country to serve as one-stop shops for entrepreneurs needing export help. Call (800) 872-8723.
- *Trade Information Center.* Helps locate federal export assistance, provides export assistance, and offers a 24-hour automated fax retrieval system that gives entrepreneurs free information on export promotion programs, regional market information, and international trade agreements. Call USA-TRADE.
- *Office of International Trade.* The Small Business Administration provides a variety of export development assistance, how-to publications, and information on foreign markets.
- *Export Hotline.* Provides no-cost trade information on more than 50 industries in 80 countries. Call (800) 872-9767.
- *Export Opportunity Hotline.* Trade specialists have access to online databases and reports from government and private agencies concerning foreign markets. Call (202) 628-8389.

alliance is to establish common objectives. Defining *exactly* what each party in the joint venture hopes to accomplish at the outset will minimize the opportunity for misunderstandings and disagreements later on. One important objective should always be to use the joint venture as a learning experience, which requires a long-term view of the business relationship.

Often joint ventures fail because entrepreneurs didn't do the following:

- Define at the outset important issues such as each party's contributions and responsibilities, the distribution of earnings, the expected life of the relationship, and the circumstances under which the parties can terminate the relationship.

- Understand in depth their partner's reasons and objectives for joining the venture.
- Select a partner who shares their company's values and standards of conduct.
- Spell out in writing exactly how the venture will work and where decision-making authority lies.
- Select a partner whose skills are different from but compatible with those of their own companies.
- Prepare a "prenuptial agreement" that spells out what will happen in case of a business "divorce."

Foreign Licensing

Rather than sell their products or services directly to customers overseas, some small companies enter foreign markets by licensing businesses in other nations to use their patents, trademarks, copyrights, technology, processes, or products. In return for licensing these assets, the small company collects royalties from the sales of its foreign licenses. Licensing is a relatively simple way for even the most inexperienced business owners to extend their reach into global markets.

Licensing is ideal for companies whose value lies in unique products or services, a recognized name, or proprietary technology. Although many businesses consider licensing only their products to foreign companies, the licensing potential for intangibles such as processes technology, copyrights, and trademarks often is greater. Some entrepreneurs discover that they can make more money from licensing their know-how for production or product control than they can from actually selling a finished product in a highly competitive foreign market. Foreign licensing enables a small business to enter foreign markets quickly, easily, and with virtually no capital investment. Risks to the company include the potential of losing control over its manufacturing and marketing and creating a competitor if the licensee gains too much knowledge and control. Securing proper patent, trademark, and copyright protection beforehand can minimize those risks, however.

International Franchising

Over the past decade, a growing number of franchises have been attracted to international markets to boost sales and profits as the domestic market has become increasingly saturated with outlets and much tougher to wring growth from. International franchisors sell virtually every kind of product or service imaginable—from fast food to child day care—in international markets. In some cases, the products and services sold in international markets are identical to those sold in the United States. However, most franchisors have learned that they must modify their products and services to suit local tastes and customs. As you travel the world, you will discover that American fast-food giants like McDonald's and Domino's make significant modifications in their menu to remain attractive to the demands of local customers.

A Company Example

*For instance, **Domino's Pizza** operates restaurants in more than 50 countries, where local franchises offer pizza toppings that are quite different from traditional ones used in the United States, including squid (Japan), pickled ginger (India), green peas (Brazil), and reindeer sausage (Iceland) to cater to customers' palates. The dough, the sauce, and the cheese are standard in every location, however. At **McDonald's** locations around the world, Big Macs share the menu with Vegetable McNuggets in India, teriyaki burgers in Japan, and McHuevos (a burger topped with a poached egg and mayonnaise) in Uruguay.*

More than 20 percent of U.S. franchisers have outlets in foreign countries. In some cases, the products they sell are identical to those in the United States, but most franchises adapt their product offerings to suit local tastes.

Courtesy of Corbis Bettmann, © John Dakers; Eye Ubiquitous/Corbis.

Although franchise outlets span the globe, Canada is the primary market for U.S. franchisors, with Japan and Europe following. These markets are most attractive to franchisors because they are similar to the U.S. market: rising personal incomes, strong demand for consumer goods, growing service economies, and spreading urbanization. There is little doubt that franchising is becoming a two-way street and that globalization will continue to be a powerful force in the growth of the strategic marketing option. Early entry into emerging markets with cultural sensitivity to national tastes is a key to long-term success.

Countertrading and Bartering

countertrade—*a transaction in which a company selling goods in a foreign country agrees to promote investment and trade in that country.*

A **countertrade** involves a transaction in which a company selling goods in a foreign country agrees to promote investment and trade in that country. The goal of the transaction is to help offset the capital drain from the foreign country's purchases. As entrepreneurs enter more and more developing countries, they will need to develop skills at implementing this strategy. In some cases, small and medium-sized businesses find it advantageous to work together with large corporations that have experience in implementing this strategy.

Countertrading does suffer numerous drawbacks. Countertrade transactions can be complicated, cumbersome, and time consuming. They also increase the chances that a company will get stuck with merchandise that it cannot move. They can lead to unpleasant surprises concerning the quantity and quality of products required in the countertrade. Still, countertrading offers one major advantage: Sometimes it's the only way to make a sale!

Entrepreneurs must weigh the advantages against the disadvantages for their company before committing to a countertrade deal. Because of its complexity and the risks involved, countertrading is not the best choice for a novice entrepreneur looking to break into the global marketplace.

bartering—*the exchange of goods and services for other goods and services.*

Bartering, the exchange of goods and services for other goods and services, is another way of trading with countries lacking convertible currency. In a barter exchange, a company that manufactures electronics components might trade its products for the coffee that a business in a foreign country processes, which it then sells to a third company for cash. Barter transactions require finding a business with complementary needs, but they are much simpler than countertrade transactions.

3. Explain how to build a thriving export program.

EXPORTING

Until recently, small businesses were reluctant to undertake exporting because of the perception that the process was overly complex and required sophisticated skills. More than 200,000 U.S. companies currently export; however, experts estimate that at least twice as many are capable of exporting but are not doing so. The biggest barrier facing companies that have never exported is not knowing where or how to start. The following steps provide guidance to an entrepreneur on how to establish an exporting program:

1. *Recognize that even the tiniest companies and least experienced entrepreneurs have the potential to export.* A company's size has nothing to do with the demand for its products abroad. If the products meet the needs of global customers, there is the potential to export. U.S. businesses export nearly $700 billion worth of merchandise a year, and with the right approach, small companies can snare their share of that business.
2. *Analyze your product or service.* Is it special? New? Unique? High quality? Priced favorably because of lower costs or exchange rates? In which countries would there be sufficient demand for it? In many foreign countries, products from America are in demand because they have an air of mystery about them! Exporters quickly learn the value foreign customers place on quality.
3. *Analyze your commitment.* Are you willing to devote the time and energy to develop export markets? Does your company have the necessary resources? Export start-ups can take from six to eight months (or longer) to develop, but entering foreign markets isn't as tough as most entrepreneurs think. Table 14.2 summarizes key issues managers must address in the export decision.
4. *Research markets and pick your target.* Nearly two-thirds of small businesses export to just one country. Before investing in a costly sales trip abroad, however, entrepreneurs should make a trip to the local library or the nearest branch of the Department of Commerce. Exporters can choose from a multitude of guides, manuals, books, newsletters, videos, and other resources to help them research potential markets. Some of the most helpful tools for researching foreign markets are the Country and Industry Market Reports available at the U.S. government's export Web portal (http://www.export.gov/marketresearch.html), which provide detailed information on the economic, political, regulatory, and investment environment for countries ranging from Afghanistan to Zimbabwe. Armed with research, small business owners can avoid wasting a lot of time and money on markets with limited potential for their products and can concentrate on those with the greatest promise. Research shows export entrepreneurs whether they need to modify their existing products and services to suit the tastes and preferences of their foreign target customers. Sometimes foreign customers' lifestyles, housing needs, body size, and cultures require exporters to make alterations in their product lines. Such modifications can sometimes spell the difference between success and failure in the global market. Table 14.3 offers questions to guide entrepreneurs conducting export research.

TABLE 14.2

Management Issues in the Export Decision

Source: Adapted from *A Basic Guide to Exporting* (Washington, DC: U.S. Department of Commerce, 1986), p. 3.

I. Experience

1. With what countries has your company already conducted business (or from what countries have you received inquiries about your product or service)?
2. What product lines do foreign customers ask about most often?
3. Prepare a list of sale inquiries for each buyer by product and by country.
4. Is the trend of inquiries or sales increasing or decreasing?
5. Who are your primary domestic and foreign competitors?
6. What lessons has your company learned from past export experience?

II. Management and Personnel

1. Who will be responsible for the export entity's organization and staff? (Do you have an export "champion"?)
2. How much top management time
   a. *Should* you allocate to exporting?
   b. *Can* you afford to allocate to exporting?
3. What does management expect from its exporting efforts? What are your company's export goals and objectives?
4. What organizational or structure will your company require to ensure that it can service export sales properly? (Note the political implications, if any.)
5. Who will implement the plan?

III. Production Capacity

1. To what extent is your company using its existing production capacity? Is there any excess? If so, how much?
2. Will filling export orders hurt your company's ability to make and service domestic sales?
3. What will additional production for export markets cost your company?
4. Are there seasonal or cyclical fluctuations in your company's workload? When? Why?
5. Is there a minimum quantity foreign customers must order for a sale to be profitable?
6. To what extent would your company need to modify its products, packaging, and design specifically for its export targets? Is your product quality adequate for foreign customers?
7. What pricing structure will your company use? Will prices be competitive?
8. How will your company collect payment of its export sales?

IV. Financial Capacity

1. How much capital will your company need to begin exporting? Where will it come from?
2. How will you allocate the initial costs of your company's export effort?
3. Does your company have other expansion plans that would compete with an exporting effort?
4. By what date do you expect your company's export program to pay for itself?
5. How important is establishing a global presence to your company's future success?

5. *Develop a distribution strategy.* Should you use an trade intermediary or sell directly to foreign customers? Small companies just entering international markets may prefer to rely on trade intermediaries to break new ground.
6. *Find your customer.* Small businesses can rely on a host of export specialists to help them track down foreign customers. (Refer to Table 14.1 for a list of some of the resources available from the government.) The U.S. Department of Commerce and the International Trade Administration should be the first stops on an entrepreneur's agenda for going global. These agencies have the market research available for locating the best target markets for a particular company and specific customers in those markets. Industry Sector Analyses (ISAs), International Market Insights (IMIs), and Customized Market Analyses (CMAs) are just some of the reports and services global entrepreneurs find most useful. They also have knowledgeable staff specialists experienced in the details of global trade and in the intricacies of foreign cultures.

A Company Example

Jimmy Kaplanges, head of ***GP66 Chemical Corporation****, a small producer of industrial degreasers, has led his company into exporting its products to Brazil, Spain, France, and Greece. He also saw plenty of opportunity for the company's products in China, but Kaplanges knew that cracking that*

TABLE 14.3

Questions to Guide International Market Research

Source: Adapted from *A Basic Guide to Exporting* (Washington, DC: Department of Commerce, 1986), p. 11.

- Is there an overseas market for your company's products or services?
- Are there specific target markets that look most promising?
- Which new markets abroad are most likely to open up or expand?
- How big is the market your company is targeting, and how fast is it growing?
- What are the major economic, political, legal, social, technological, and other environmental factors affecting this market?
- What are the demographic and cultural factors affecting this market (e.g., disposable income, occupation, age, gender, opinions, activities, interests, tastes, and values)?
- Who are your company's present and potential customers abroad?
- What are their needs and desires? What factors influence their buying decisions: price, credit terms, delivery terms, quality, brand name, and the like?
- How would they use your company's product or service? What modifications, if any, would be necessary to sell to your target customers?
- Who are your primary competitors in the foreign market?
- How do competitors distribute, sell, and promote their products? What are their prices?
- What are the best channels of distribution for your product?
- What is the best way for your company to gain exposure in this market?
- Are there any barriers such as tariffs, quotas, duties, or regulations to selling your product in this market? Are there any incentives?
- Are there any potential licensing or joint venture partners already in this market?

market was more than GP66 Chemical could accomplish on its own. That's when Kaplanges turned to the Export Assistance Center in the company's hometown of Baltimore, Maryland. Kaplanges credits the trade specialist there, Nasir Abbasi, with helping his company enter the Chinese market successfully. Sales to Chinese customers have climbed from $3 million to more than $12 million.[9]

7. *Find financing.* One of the biggest barriers to small business exports is lack of financing. Access to adequate financing is a crucial ingredient in a successful export program because the cost of generating foreign sales often is higher and collection cycles are longer than in domestic markets. The trouble is that bankers and other sources of capital don't always understand the intricacies of international sales and view financing them as excessively risky. Also, among major industrialized nations, the U.S. government spends the least per capita to promote exports.

   Several federal, state, and private programs are operating to fill this export financing void, however. Programs such as the Small Business Administration's Export Working Capital Program (90 percent loan guarantees up to $750,00), the Export-Import Bank (www.exim.gov), the Overseas Private Investment Corporation, and a variety of state-sponsored programs offer export-minded entrepreneurs both direct loans and loan guarantees. (A list of all state foreign trade assistance offices is available in the Commerce Department's *National Export Directory.*) In recent years, the Export-Import Bank has emphasized loans and loan guarantees for small exporters; 81 percent of its lending volume has gone to small companies.[10] The Bankers Association for Foreign Trade (www.baft.org) is an association of 450 banks that matches exporters needing foreign trade financing with interested banks.

A Company Example

When Robert Cavallarin was traveling in Europe in 1989, he realized that he and partner Steve Macri, co-owners of S&S Seafood, could export Maine lobsters to Europe. Unfortunately, Cavallarin and Macri could not get the $100,000 in financing necessary to start their export venture, despite the fact that they had orders from seafood importers in hand. Macri turned to a trade consultant for help, and soon S&S Seafood had a business plan for its proposed export business and a contact at the Export-Import Bank. With a 90 percent loan guarantee from the Export-Import Bank, S&S Seafood was able to secure a $100,000 bank loan and begin exporting. Today, the company has eight employees and generates annual sales of $12 million, 95 percent of which comes from exports to Europe and Asia.[11]

8. *Ship your goods.* Export novices usually rely on international freight forwarders and customhouse agents—experienced specialists in overseas shipping—for help in navigating the bureaucratic morass of packaging requirements and paperwork demanded by customs. These specialists, also known as transport architects, are to exporters what travel agents are to passengers and normally charge relatively small fees for a valuable service. They move shipments of all sizes to destinations all over the world efficiently, saving entrepreneurs many headaches.

Shipping Term Used	Seller's Responsibility	Buyer's Responsibility	Shipping Method
FOB ("Free on Board") (Seller)	Deliver goods to carrier and provide export license and clean on-board receipt. Bear risk of loss until goods are delivered to carrier.	Pay shipping, freight, and insurance charges. Bear risk of loss while goods are in transit.	All
FOB ("Free on Board") (Buyer)	Deliver goods to the buyer's place of business and provide export license and clean on-board receipt. Pay shipping, freight, and insurance charges.	Accept delivery of goods after documents are tendered.	All
FAS ("Free Along Side")	Deliver goods alongside ship. Provide an "alongside" receipt.	Provide export license and proof of delivery of the goods to the carrier. Bear risk of loss once goods are delivered to the carrier.	Ship
CFR ("Cost and Freight")	Deliver goods to carrier, obtain export licenses, and pay export taxes. Provide buyer with clean bill of lading. Pay freight and shipping charges. Bear risk of loss until goods are delivered to buyer.	Pay insurance charges. Accept delivery of goods after documents are tendered.	Ship
CIF ("Cost, Insurance, and Freight")	Same as CFR plus pay insurance charges and provide buyer with insurance policy.	Accept delivery of goods after documents are tendered.	Ship
CPT ("Carriage Paid to . . .")	Deliver goods to carrier, obtain export licenses, and pay export taxes. Provide buyer with clean transportation documents. Pay shipping and freight charges.	Pay insurance charges. Accept delivery of goods after documents are tendered.	All
CIP ("Carriage and Insurance Paid to . . .")	Same as CPT plus pay insurance charges and provide buyer with insurance policy.	Accept delivery of goods after documents are tendered.	All
DDU ("Delivered Duty Unpaid")	Obtain export license and pay import duty, pay insurance charges, and provide buyer documents for taking delivery.	Take delivery of goods and pay import duties.	All
DDP ("Delivered Duty Paid")	Obtain export license, pay insurance charges, and provide buyer documents for taking delivery.	Take delivery of goods.	All

TABLE 14.4

Common International Shipping Terms and Their Meanings

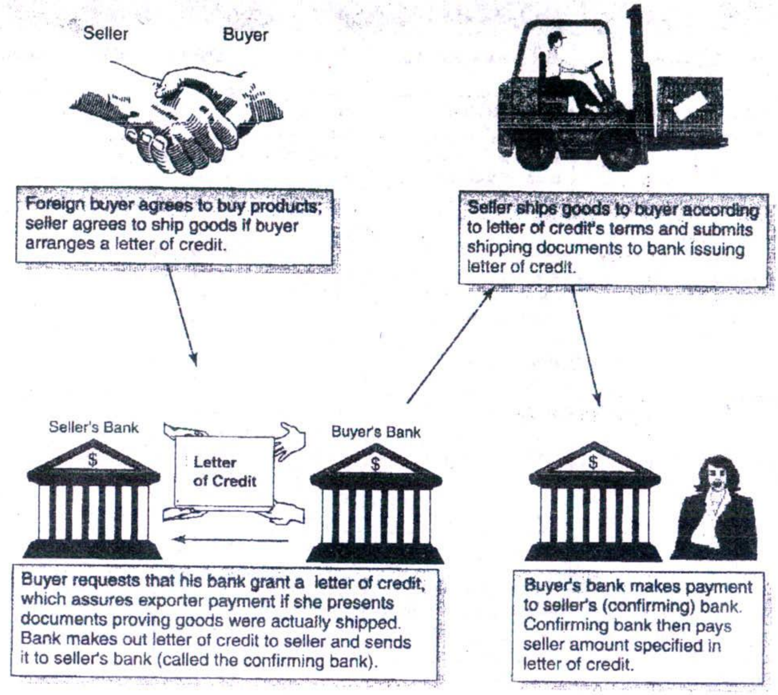
Source: Adapted from *Guide to the Finance of International Trade*, edited by Gordon Platt (HSBC Trade Services, Marine Midland Bank, and the *Journal of Commerce*), /infoserv2.ita.doc.gov/efm/efm.nsf/503d177e3c6f0b485256759001l2e24/6218a8703573b329852567590004c41f3/$FILE/Finance_.pdf/pp. 6-10.

Shipping terms, always important for determining which party in a transaction pays the cost of shipping and bears the risk of loss or damage to the goods, take on heightened importance in international transactions. Table 14.4 explains the implications of some of the most common shipping terms used in international transactions.

9. *Collect your money.* Collecting foreign accounts can be more complex than collecting domestic ones, but by picking their customers carefully and checking their credit references closely, entrepreneurs can minimize bad-debt losses. Financing foreign sales often involves special credit arrangements such as letters of credit and bank (or documentary) drafts. A **letter of credit** is an

letter of credit—*an agreement between an exporter's bank and a foreign buyer's bank that guarantees payment to the exporter for a specific shipment of goods.*

FIGURE 14.3 How a Letter of Credit Works



agreement between an exporter's bank and a foreign buyer's bank that guarantees payment to the exporter for a specific shipment of goods once the exporter delivers specific documents about the shipment. In essence, a letter of credit reduces the financial risk for the exporter by substituting a bank's creditworthiness for that of the purchaser (see Figure 14.3). A **bank draft** is a document the seller draws on the buyer, requiring the buyer to pay the face amount (the purchase price of the goods) either on sight (a sight draft) or on a specified date (a time draft) once the goods have been shipped. Rather than use letters of credit or drafts, some exporters simply require cash on delivery (COD). Insisting on cash payments up front, however, may cause some foreign buyers to reject a deal. The parties to an international deal should always come to an agreement in advance on an acceptable method of payment.

bank draft—*a document the seller draws on the buyer, requiring the buyer to pay the face amount either on sight or on a specified date.*

Planned carefully and taken one step at a time, exporting can be a highly profitable route for small businesses. Many small companies are forming **foreign sales corporations** (FSCs, pronounced "fisks") to take advantage of a tax benefit that is designed to stimulate exports. Although large companies have used the tax advantages of FSCs for many years, a rapidly growing number of small exporters are beginning to catch on. More than 5,000 U.S. corporations have created FSCs in the past decade, and the number is growing by 25 percent a year. By forming a FSC, a company can shelter about 15 percent of its profits on foreign sales from federal—and, in some cases, state—income taxes. Setting up a FSC requires a company to establish a shell corporation in the Virgin Islands, Barbados, or one of another 40 tax-friendly offshore locations that have tax treaties with the United States. The company also must have fewer than 25 shareholders and one non-U.S. resident board member.

foreign sales corporations—*a shell company created in an approved U.S. territory or a foreign country that allows a business to reduce its income tax liability.*

Small companies with $5 million or less in export sales can create small FSCs, which offer the same benefits as regular FSCs but are subject to less stringent procedural requirements. Most companies that establish FSCs use a FSC management company in the designated territory or country to do so. Once it establishes a FSC, a small company can allocate up to 23 percent of its export profits to the FSC, where these profits are taxed at lower rates than normal. Because it costs about $2,000 to set up a small FSC and about $3,000 per year to maintain one, a business should earn at least $50,000 in export profits a year to make the tax savings from a FSC worthwhile. Because of complaints from the World Trade Organization that FSCs give U.S. companies an exclusive and unfair trade advantage, Congress changed the law in 2003, allowing foreign companies that pay taxes in the United States to take advantage of FSCs as well. Further changes to the law may be pending.

YOU Be the Consultant . . .

Opportunity or Risk?

Fareedom Hartoqa, a trade specialist with the U.S. Commercial Service in Dharan, Saudi Arabia, met recently with a representative of 15 small and medium-sized Midland-Odessa, Texas, companies that sell products or services to the oil and gas industry. His mission was to determine the level of interest in doing business in the Middle East, as well as the specifics of the products and services these firms might have. Hartoqa is playing "match maker" and facilitator for U.S. businesses that may wish to pursue opportunities in Saudi Arabia and other nearby oil-and gas-rich countries. Hartoqa believes that there are excellent opportunities for U.S. firms that have the knowledge and skills appropriate to the industry. Hartoqa says the need for new oil- and gas-related technology is high in the Eastern Province of Saudi Arabia and in Qatar. "It needs everything," says Hartoqa, who has been working in the Saudi market for the past two years, especially in the Eastern Province and Qatar. "It's a huge market, especially in oil and gas." Since the late 1990s, the government of Saudi Arabia, owner of the Saudi Arabian Oil Co., the world's largest integrated oil company, has made it a priority to develop its oil and gas reserves in the center of the country. In 1991, Saudi Aramco committed $45 billion to natural gas development and processing facilities over the next quarter-century. The country wants to use natural gas as a feedstock for its petrochemical industry, for electrical generation and desalination plants, and as a replacement to the direct burning of oil.

Hartoqa, a native of Jordan, said he was surprised to find so many small and medium-sized companies with the potential to trade with Middle Eastern businesses.

"They can have a share of the market in Saudi Arabia", Hartoqa says. But, first, American business owners need to learn more about the Middle Eastern market, which is something Hartoqa can help them do. "We can provide all the information they need, anything they want to know about, even about market research on specific industries or specific companies that they want to deal with," Hartoqa said. Saudi Arabia's small to medium sized trading companies and other Persian Gulf states are looking for American products. Mark Nicholas, owner of Nicholas Consulting Group in Midland, met with Hartoqa who was "upbeat about the opportunities over there."

"He (Hartoqa) was saying they are making huge investments in the country and there are opportunities for all sizes of companies," Nicholas said. Nicholas also said he, too, thought there would be "huge opportunities" for Permian Basin's oil and gas industry in postwar Iraq, referring to the billion-dollar reconstruction contract awarded by the Army Corps of Engineers to Kellogg, Brown and Root in Houston. "I think I'll let our salesman pursue this and see what kind of opportunities are there," Nicholas said.

1. If you were one of the undecided companies' CEOs involved with Hartoqa's visit, what questions would you ask Hartoqa?

2. What factors would you evaluate to determine whether the opportunities outweigh the risks?

Source: Julie Breaux, "Saudis Primed for Trade with Basin, Officials Say," Odessa American, April 28, 2003, http://www.oaoa.com/oil/oil042803a.htm.

Establishing International Locations

Once established in international markets, some small businesses set up permanent locations there. Establishing an office or a factory in a foreign land can require a substantial investment reaching beyond the budgets of many small companies. Plus, setting up an international office can be an incredibly frustrating experience in some countries. Business infrastructures are in disrepair or nonexistent. Getting a telephone line installed can take months in some places, and finding reliable equipment to move goods to customers is nearly impossible. Securing necessary licenses and permits from bureaucrats often takes more than filing the necessary paperwork; in some nations, bureaucrats expect payments to "grease the wheels of justice." Such payments are often viewed as bribery and result in many businesses avoiding some countries. Finding the right person to manage an international office is crucial to success; it also is a major challenge, especially for small businesses. Small companies usually have lean management staffs and cannot afford to send key people abroad without running the risk of losing their focus.

The major advantages to establishing an international location can be the combination of lower production and marketing costs, as well as developing an intimate knowledge of customer preferences.

A Company Example

The U.S. tool and die industry never saw a need to look for business outside its local markets because business was always there. Then came the 1990s with low-price foreign competitors, a serious shortage of skilled workers, and the deleterious effects of tariffs on the price of raw materials. ***Metz Tool and Die*** *of Rockforth, Illinois, had built a reputation for exceptional quality and, until this time, had never needed to "think globally." With orders drastically down and* *production capacity skyrocketing, Don Metz began to work with the U.S. Export Assistance Center in the identification of foreign markets for the firm's services. Within a year, Metz Tool and Die landed $250,000 in orders from Mexican firms with additional potential orders for $500,000 to $600,000 in future sales.*[12]

4. Discuss the major barriers to international trade and their impact on the global economy.

BARRIERS TO INTERNATIONAL TRADE

Governments have always used a variety of barriers to block free trade among nations in an attempt to protect businesses within their own borders. The benefit of protecting their own companies, however, comes at the expense of foreign businesses, which face limited access to global markets. Numerous trade barriers—domestic and international—restrict the freedom of businesses in global trading. Even with these barriers, international trade has grown 26-fold to more than $6.4 *trillion* over the past 30 years.[13]

Domestic Barriers

Sometimes the biggest barriers potential exporters face are right here at home. Three major domestic roadblocks are common: attitude, information, and financing. Perhaps the biggest barrier to small businesses exporting is the attitude "I'm too small to export. That's just for big corporations." The first lesson of exporting is "Take nothing for granted about who can export and what you can and cannot export." The first step to building an export program is recognizing that the opportunity to export exists.

Another reason entrepreneurs neglect international markets is a lack of information about how to get started. The key to success in international markets is choosing the correct target market and designing the appropriate strategy to reach it. That requires access to information and research. Although a variety of government and private organizations make volumes of exporting and international marketing information available, many small business owners never use it. A successful global marketing strategy also recognizes that not all international markets are the same. Companies must be flexible, willing to make adjustments to their products and services, promotional campaigns, packaging, and sales techniques.

An additional obstacle is the inability of small firms to obtain adequate export financing. Financial institutions that serve smaller firms are often not experienced with this type of financing and are unwilling to accept the perceived higher risk.

International Barriers

Domestic barriers aren't the only ones export-minded entrepreneurs must overcome. Trading nations also erect obstacles to free trade. Two types of international barriers are common: tariff and nontariff.

tariff—*a tax, or duty, that a government imposes on goods and services imported into that country.*

TARIFF BARRIERS. A **tariff** is a tax, or duty, that a government imposes on goods and services imported into that country. Imposing tariffs raises the price of the imported goods—making them less attractive to consumers—and protects the makers of comparable domestic products and services. Established in the United States in 1790 by Alexander Hamilton, the tariff system generated the majority of federal revenues for about 100 years. The U.S. tariff code lists duties on more than 8,000 items ranging from ice cream to watches.

NONTARIFF BARRIERS. Many nations have lowered the tariffs they impose on products and services brought into their borders, but they rely on other nontariff structures as protectionist trade barriers.

quota—*a limit on the amount of product imported into a country.*

QUOTAS. Rather than impose a direct tariff on certain imported products, nations often use quotas to protect their industries. A **quota** is a limit on the amount of a product imported into a country. Worried about the Japanese economic juggernaut, the European Union has limited Japanese automakers' share of the European market to just 16 percent. In the U.S. auto market, the Japanese have agreed to "voluntary quotas," limiting the number of autos shipped here. The United States imposes more than 3,000 quotas on clothing and textile imports.

Japan, often criticized for its protectionist attitude toward imports, traditionally used tariffs and quotas to keep foreign competitors out. Japan's tariffs are now among the world's lowest—averaging just 2 percent—but quotas still exist on many products.

EMBARGOES. An **embargo** is a total ban on imports of certain products. The motivation for embargoes is not always economic. For instance, because of South Africa's history of apartheid policies, many nations have embargoed imports of Krugerrands (gold coins). Traditionally, Taiwan, South Korea, and Israel have banned imports of Japanese autos.

embargo—*a total ban on imports of certain products.*

DUMPING. In an effort to grab market share quickly, some companies have been guilty of **dumping** products: selling large quantities of them in foreign countries below cost. The United States has been a dumping target for steel, televisions, shoes, and computer chips in the past. Under the U.S. Antidumping Act, a company must prove that the foreign company's prices are lower here than in the home country and that U.S. companies are directly harmed.

dumping—*the practice of selling large quantities of products in foreign countries below cost in an attempt to gain market share.*

Political Barriers

Entrepreneurs who go global quickly discover a labyrinth of political tangles. Although many U.S. business owners complain of excessive government regulation in the United States, they are often astounded by the complex web of governmental and legal regulations and barriers they encounter in foreign countries.

Companies doing business in politically risky lands face the very real dangers of government takeovers of private property; attempts at coups to overthrow ruling parties; kidnapping, bombings, and other violent acts against businesses and their employees; and other threatening events. Their investments of millions of dollars may evaporate overnight in the wake of a government coup or the passage of a law nationalizing an industry (giving control of an entire industry to the government).

Business Barriers

American companies doing business internationally quickly learn that business practices and regulations in foreign lands can be quite different from those in the United States. Simply duplicating the practices they have adopted (and have used successfully) in the domestic market and using them in foreign markets is not always a good idea. Perhaps the biggest shock comes in the area of human resources management, where international managers discover that practices common in the United States, such as overtime, women workers, and employee benefits, are restricted, disfavored, or forbidden in other cultures. Business owners new to international business sometimes are shocked at the wide range of labor costs they encounter and the accompanying wide range of skilled labor available. In some countries, what appear to be "bargain" labor rates turn out to be excessively high after accounting for the quality of the labor force and the benefits their governments mandate: from company-sponsored housing, meals, and clothing to profit sharing and extended vacations. In many nations, labor union are present in almost every company, yet they play a very different role from the unions in the United States. Although management–union relations are not as hostile as in the United States and strikes are not as common, unions can greatly complicate a company's ability to compete effectively.

Cultural Barriers

The **culture** of a nation includes the beliefs, values, view, and mores that its inhabitants share. Differences in cultures among nations create another barrier to international trade. The diversity of languages, business philosophies, practices, and traditions makes international trade more complex than selling to the business down the street. Consider the following examples:

culture—*the beliefs, values, and mores that the inhabitants of a nation share.*

- A U.S. entrepreneur, eager to expand into the European Union, arrives at his company's potential business partner's headquarters in France. Confidently, he strides into the meeting room, enthusiastically pumps his host's hand, slaps him on the back, and says, "Tony, I've heard a great deal about you; please, call me Bill." Eager to explain the benefits of his product, he opens his briefcase and gets right down to business. The French executive politely excuses himself and leaves the room before negotiations ever begin, shocked by the American's rudeness and ill manners. Rudeness and ill manners? Yes—from the French executive's perspective.

- Another American business owner flies to Tokyo to close a deal with a Japanese executive. He is pleased when his host invites him to play a round of golf shortly after he arrives. He plays well and manages to win by a few strokes. The Japanese executive invites him to play again the next day, and again he wins by a few strokes. Invited to play another round the following day, the American asks, "But when are we going to start doing business?" His host, surprised by the question, says, "But we have been doing business."
- An American businesswoman in London is invited to a party hosted by an advertising agency. Unsure of her ability to navigate the streets and subways of London alone, she approaches a British colleague who was driving to the party and asks him, "Could I get a ride with you?" After he turns bright red from embarrassment, he regains his composure and politely says, "Lucky for you I know what you meant." Unknowingly, the young woman had requested a sexual encounter with her colleague, not a lift to the party![14]
- An American businessman grows tired of trying to speak over the persistent chanting of a nearby group of Islamic men. Exasperated, he looks harshly at the group and said to his Muslim host, "Can't somebody shut those guys up?" Only then did he discover that "those guys" were Islamic priests chanting a call to prayer—and that he had just blown the deal he was trying to land.[15]
- An American goes to Malaysia to close a sizable contract. In an elaborate ceremony, he is introduced to a man he thinks is named "Roger." Throughout the negotiations, he calls the man "Rog" not realizing that his potential client was a "rajah," a title of nobility, not a name.[16]
- One company selling a razor aimed at women in Holland creates a television commercial showing a woman's leg and the product's name. Unfortunately, the ad proves to be completely ineffective because the product's name is slang for "homosexual," and Dutch viewers think the leg belongs to a transvestite.[17]

When American businesspeople enter international markets for the first time, they often are amazed at the differences in foreign cultures' habits and customs. In the first scenario just described, for instance, had the entrepreneur done his homework, he would have known that the French are very formal (backslapping is *definitely* taboo!) and do not typically use first names in business relationships (even among long-time colleagues). In the second scenario, a global manager would have known that the Japanese place a tremendous importance on developing personal relationships before committing to any business deals. Thus, he would have seen the golf games for what they really were: an integral part of building a business relationship.

Understanding and heeding these often subtle cultural differences is one of the most important keys to international business success. Conducting a business meeting with a foreign executive in the same manner as one with an American businessperson could doom the deal from the outset. Business customs and behaviors that are acceptable, even expected, in this country may be taboo in others.

Entrepreneurs who fail to learn the differences in the habits and customs of the cultures in which they hope to do business are at a distinct disadvantage. The stories of business executives who unknowingly insulted their foreign counterparts are both lengthy, legendary, and a continuing reminder of the cost associated with a failure to prepare for dealing in a culture different from one's own.

Culture, customs, and the norms of behavior differ greatly among nations and making the correct impression is extremely critical to building a long-term business relationship. Consider the following few examples:

- Japanese executives conduct business much like the British: with an emphasis on formality, thoughtfulness, and respect. Don't expect to hear Japanese executives say no, even during a negotiation; they don't want to offend or to appear confrontational. Instead of "no," the Japanese negotiator will say, "It is very difficult," "Let us think about that," or "Let us get back to you on that." Similarly, "yes" from a Japanese executive doesn't necessarily mean that. It could mean, "I understand," "I hear you," or "I don't understand what you mean, but I don't want to embarrass you."
- In Japan and South Korea, exchanging business cards, known in Japan as *meishi*, is an important business function (unlike Great Britain, where exchanging business cards is less popular). A Western executive who accepts a Japanese companion's card and then slips it into his pocket or scribbles notes on it has committed a major blunder. Tradition there says a business card must be treated just as its owner would be—with respect. Travelers should present their own cards using both hands with the card positioned so the recipient can read it. (The flip side should be printed in Japanese, an expected courtesy.)

- Greeting a Japanese executive properly includes a bow and a handshake—showing respect for both cultures. In many traditional Japanese businesses, exchanging gifts at the first meeting is appropriate. Also, a love of golf (the Japanese are fanatical about the game) is a real plus for winning business in Japan.
- In Great Britain, businesspeople consider it extremely important to conduct business "properly"—with formality and reserve. Boisterous behavior such as backslapping or overindulging in alcohol and ostentatious displays of wealth are considered ill-mannered. The British do not respond to hard-sell tactics but do appreciate well-mannered executives. Politeness and impeccable manners are useful tools for conducting business successfully here.
- Appearance and style are important to Italian businesspeople; they judge the polish and the expertise of the company's executives as well as the quality of its products and services. Italians expect presentations to be organized, clear, and exact. A stylish business wardrobe also is an asset in Italy. Physical contact is an accepted part of Italian society. Don't be surprised if an Italian businessperson uses a lingering handshake or touches you occasionally when doing business.
- In Mexico, making business appointments through a well-connected Mexican national will go a long way to assuring successful business deals. "People in Mexico do business with somebody they know, they like, or they're related to," says one expert. Because family and tradition are top priorities for Mexicans, entrepreneurs who discuss their family heritages and can talk knowledgeably about Mexican history are a step ahead. In business meetings, making extended eye contact is considered impolite.
- In China, entrepreneurs will need an ample dose of the "three Ps": patience, patience, patience. Nothing in China—especially business—happens fast! In conversation and negotiations, periods of silence are common; they are a sign of politeness and contemplation. The Chinese view personal space much differently than Americans; in normal conversation, they will stand much closer to their partners.
- In the Pacific Rim, entrepreneurs must remember that each country has its own unique culture and business etiquette. Starting business relationships with customers in the Pacific Rim usually requires a third-party contact because Asian executives prefer to do business with people they know. Also, building personal relationships is important. Many business deals take place over informal activities in this part of the world.
- American entrepreneurs doing business in the Pacific Rim should avoid hard-sell techniques, which are an immediate turnoff to Asian businesspeople. Harmony, patience, and consensus make good business companions in this region. It is also a good idea to minimize the importance of legal documents in negotiations. Although getting deals and trade agreements down in writing always is advisable, attempting to negotiate detailed contracts (as most American businesses tend to do) would insult most Asians, who base their deals on mutual trust and benefits.

INTERNATIONAL TRADE AGREEMENTS

5. Discuss the trade agreements that will have the greatest influence on foreign trade in the twenty-first century.

With the fundamental assumption that free trade among nations results in enhanced economic well-being for all who participate, the last five decades have witnessed a gradual opening of trade among nations. Hundreds of agreements have been negotiated among nations in this time frame, with each contributing to free trade across the globe.

WTO

The World Trade Organization (WTO) was established in January 1995 and replaced the General Agreement on Tariffs and Trade (GATT), the first global tariff agreement, which was designed to reduce tariffs among member nations. In 2003, the WTO had 146 member countries, including the newest member, China. These member countries represent over 97 percent of all world trade. An additional 30 nations are actively seeking membership. The rules and agreements of the WTO are the result of negotiations among its members. The WTO actively implements the rules established by GATT and continues to negotiate additional trade agreements. Through the agreements of the WTO, members commit themselves to nondiscriminatory trade practices. These agreements spell out the rights and obligations of each member country. Each member country receives guarantees that its exports will be treated fairly and consistently in other member countries' markets. Specifically addressed have been banking, insurance, telecommunications, and tourism under the WTO's General Agreement on Trade in Services (GATS). In addition, the WTO's intellectual property agreement, which covers patents, copyrights, and trademarks, amounts to the rules for trade and investment in ideas and creativity.

In addition to the development of agreements among members, the WTO is involved in the resolution of trade disputes among members. The WTO system is designed to encourage dispute resolutions through consultation. If this approach fails, the WTO has a stage-by-stage procedure that can culminate in a ruling by a panel of experts.

NAFTA

The North American Free Trade Agreement (NAFTA) created a free trade area among Canada, Mexico, and the United States. A free trade area is an association of countries that have agreed to eliminate trade barriers, both tariff and nontariff, among partner nations. Under the provision of NAFTA, these barriers were eliminated for trade among the three countries, but each remained free to set its own tariffs on imports from nonmember nations.

NAFTA forged a unified United States–Canada–Mexico market of an estimated 400 million people with a total annual output of more than $6.5 trillion of goods and services. This important trade agreement binds together the three nations on the North American continent into a single trading unit stretching from the Yukon to the Yucatan. Because Canada and the United States already had a free trade agreement in effect, the businesses that will benefit most from NAFTA are those already doing business, or those wanting to do business, with Mexico. Before NAFTA took effect on January 1, 1994, the average tariff on U.S. goods entering Mexico was 10 percent. Under NAFTA, these tariffs will be reduced to zero on most goods over the next 10 to 15 years. NAFTA's provisions encourage trade among the three nations, make that trade more profitable and less cumbersome, and open up new opportunities for a wide assortment of companies.

YOU Be the Consultant . . .

Safe Water Systems

Since 1996, Safe Water Systems has exported 1,400 solar water pasteurizers to nearly 50 countries in Asia, Central America, and Africa. Will Hartzell, president of the firm, knows that his product has the potential to save lives. Eighty percent of all illnesses in the developing world are directly related to the consumption of waterborne pathogens in unsafe drinking water.

The concept behind Safe Water Systems' technology is really very simple. The solar water pasteurizers use the sun's rays to heat the water to the point where all harmful bacteria and viruses are disinfected. It achieves the same result as boiling but at a lower temperature over a longer period of time. The solar units are designed to last about 25 years, don't need electricity, and require virtually no maintenance, making them ideal for undeveloped rural locations and an efficient alternative to purifying water by boiling. Where firewood cannot be gathered, wood or other fuels must be purchased, with the cost often consuming up to 25 percent of a family's income. Millions of people cannot afford to buy fuel, have no way to disinfect their drinking water, and, consequently, suffer illnesses or die. Each year 5 million people die as a result of contaminated drinking water. Placed at the water source of a local village or clinic, the water enters the solar water pasteurization system, where it is heated for two and one-half hours or so, and there you have it—drinkable water!

According to the World Health Organization, 1.2 billion people do not have access to drinking that is from disease-causing microbes. The World Health Organization predicts that by 2025, this number will increase to more than 2 billion.

Safe Water Systems has used the guidance provided by the U.S. Export Assistance Centers in Honolulu, where the firm is located, to cope with the often confusing regulations of developing countries.

1. What additional steps can a small company such as Safe Water Systems take to distribute its products in developing countries more effectively?

2. Should the U.S. government intercede with governments of other countries to ask them to eliminate any barriers to the distribution of lifesaving products?

Source: Curt Cultice, "The Heat Is On: Solar Technology Creates Potable Water," *Export America: Success Stories*, [www.export.gov/exportAmerica/SuccessStories/ss_SafeWater_0103.html].

Among NAFTA's provisions are:

- *Tariff reductions.* Immediate reduction, then gradual phasing out, of most tariffs on goods traded among the three countries.
- *Elimination of nontariff barriers.* Most nontariff barriers to free trade are to be eliminated by 2008.
- *Simplified border processing.* Mexico, in particular, opens its border and interior to U.S. truckers and simplifies border processing.
- *Tougher health and safety standards.* Industrial standards involving worker health and safety are to become more stringent and more uniform.

The aim of NAFTA is to create increased economic opportunities for the citizens of all three countries through the promotion of trade. South and Central American countries generally favor the geographic expansion of this agreement to include them based on the economic gains achieved by Mexico.

CONCLUSION

To remain competitive, businesses must assume a global posture. Global effectiveness requires managers to be able to leverage workers' skills, company resources, and an understanding of customers across borders and throughout cultures across the world. Managers also must concentrate on maintaining competitive cost structures and a focus on the core of every business—the *customer!* Although there are no surefire rules for going global, small businesses wanting to become successful international competitors should observe these guidelines.

- Make yourself at home in all three of the world's key markets: North America, Europe, and Asia. This triad of regions is forging a new world order in trade that will dominate global markets for years to come.
- Appeal to the similarities within the various regions in which you operate but recognize the differences in their specific cultures. Although the European Union is a single trading bloc composed of 15 countries, smart entrepreneurs know that each country has its own cultural uniqueness and do not treat them as a unified market.
- Develop new products for the world market. Make sure your products and services measure up to world-class quality standards.
- Familiarize yourself with foreign customs and languages; constantly scan, clip, and build a file on other cultures: their lifestyles, values, customs, and business practices.
- Learn to understand your customers from the perspective of *their* culture, not your own. Bridge cultural gaps by being willing to adapt your business practices to suit their preferences and customs.
- "Glocalize": Make global decisions about products, markets, and management but allow local employees to make tactical decisions about packaging, advertising, and service.
- Train employees to think globally, send them on international trips, and equip them with state-of-the-art communications technology.
- Hire local managers to staff foreign offices and branches.
- Do whatever seems best wherever it seems best, even if people at home lose jobs or responsibilities.
- Consider using partners and joint ventures to break into foreign markets you cannot penetrate on your own.[•]

By its very nature, going global can be a frightening experience. Most entrepreneurs who have already made the jump, however, have found that the benefits outweigh the risks and that their companies are much stronger because of it.

CHAPTER SUMMARY

1. Explain why "going global" has become an integral part of many small companies' marketing strategies.

- Companies that move into international business can reap many benefits, including offsetting sales declines in the domestic market; increasing sales and profits; extending their products' life cycles; lowering manufacturing costs; improving competitive position; raising quality levels; and becoming more customer oriented.

2. Describe the principal strategies small businesses have for going global.

- Perhaps the simplest and least expensive way for a small business to begin conducting business globally is to establish a site on the World Wide Web. Companies wanting to sell goods on the Web should establish a secure ordering and payment system for online customers.
- Trade intermediaries such as export management companies, export trading companies, manufacturer's export agents, export merchants, resident buying offices, and foreign distributors can serve as a small company's "export department."
- In a domestic joint venture, two or more U.S. small companies form an alliance for the purpose of exporting their goods and services abroad. In a foreign joint venture, a domestic small business forms an alliance with a company in the target area.
- Some small businesses enter foreign markets by licensing businesses in other nations to use their patents, trademarks, copyrights, technology, processes, or products.
- Franchising has become a major industry for the United States. The International Franchise Association estimates that more than 20 percent of the nation's 4,000 franchisors have outlets in foreign countries.
- Some countries lack a hard currency that is convertible into other currencies, so companies doing business there must rely on countertrading or bartering. A countertrade is a transaction in which a business selling goods in a foreign country agrees to promote investment and trade in that country. Bartering involves trading goods and services for other goods and services.
- Although small companies account for 97 percent of the companies involved in exporting, they generate only 33 percent of the dollar value of the nation's exports. However, small companies, realizing the incredible profit potential it offers, are making exporting an ever-expanding part of their marketing plans. Nearly half of the U.S. companies with annual revenues under $100 million export goods.
- Once established in international markets, some small businesses set up permanent locations there. Although they can be very expensive to establish and maintain, international locations give businesses the opportunity to stay in close contact with their international customers.

3. Explain how to build a thriving export program.

- Building a successful export program takes patience and research. Steps include realizing that even the tiniest firms have the potential to export; analyzing your product or service; analyzing your commitment to exporting; researching markets and picking your target; developing a distribution strategy; finding your customer; finding financing; shipping your goods; and collecting your money.

4. Discuss the major barriers to international trade and their impact on the global economy.

- Three domestic barriers to international trade are common: the attitude that "we're too small to export," lack of information on how to get started in global trade, and a lack of available financing.
- International barriers include tariffs, quotas, embargoes, dumping, and political and cultural barriers.

5. Describe the trade agreements that will have the greatest influence on foreign trade in the twenty-first century.

- Created in 1947, the General Agreement on Tariffs and Trade (GATT), the first global tariff agreement, was designed to reduce tariffs among member nations and to facilitate trade across the globe.
- The World Trade Organization (WTO) was established in 1995 to implement the GATT tariff agreements. The WTO has over 140 member nations and represents over 97 percent of all global trade. The WTO is the governing body that resolves trade disputes among members.
- The North American Free Trade Agreement (NAFTA) created a free trade area among Canada, Mexico, and the United States. The agreement created an association that knocked down trade barriers, both tariff and nontariff, among these partner nations.

DISCUSSION QUESTIONS

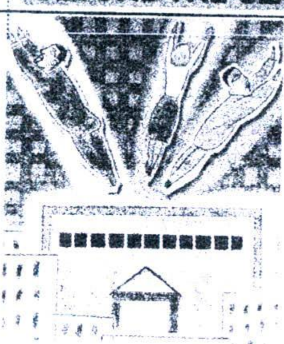
1. Why must entrepreneurs learn to think globally?
2. What forces are driving small businesses into international markets?
3. What advantages does going global offer a small business owner? What are the risks?
4. Outline the eight strategies that small businesses can use to go global.
5. Describe the various types of trade intermediaries small business owners can use. What functions do they perform?
6. What is a domestic joint venture? A foreign joint venture? What advantages does taking on an international partner through a joint venture offer? What are the disadvantages?
7. What mistake are first-time exporters most likely to make? Outline the steps a small company should take to establish a successful export program.
8. What are the benefits of establishing international locations? What are the disadvantages?
9. Describe the barriers businesses face when trying to conduct business internationally. How can a small business owner overcome these obstacles?
10. What is a tariff? A quota? What impact do they have on international trade?
11. What impact have the GATT, WTO, and NAFTA trade agreements had on small companies wanting to go global? What provisions are included in these trade agreements?
12. What advice would you offer an entrepreneur interested in launching a global business effort?

THE BUSINESS DISC

Launch *The Business Disc*. From the menu across the top of your screen, select the "Reference" option and then click on "International Trade." Here you will find several reference guides that offer useful information to entrepreneurs. Click on "Breaking Into the Trade Game: A Small Business Guide," "SBA Automated Trade Locator Assistance System," and "Question and Answer Guide to Trade Finance." Review the concepts in these reference guides and in Chapter 14.

What prevents most small business owners from exporting? Describe the resources available to entrepreneurs who are interested in finding foreign markets for their products. What steps should an entrepreneur take to become an exporter? What steps can entrepreneurs take to ensure that foreign customers pay for the merchandise they order? What should entrepreneurs do to minimize the cultural barriers they face when doing business internationally?

BEYOND THE CLASSROOM . . .



1. Go to lunch with a student from a foreign country. Discuss what products and services are most needed. How does the business system there differ from ours? How much government regulation affects business? What cultural differences exist? What trade barriers has the government erected?
2. Review several current business publications and prepare a brief report on which nations seem to be the most promising for U.S. entrepreneurs. What steps should a small business owner take to break into those markets? Which nations are the least promising? Why?
3. Select a nation that interests you and prepare a report on its business customs and practices. How are they different from those in the United States? How are they similar?