



GLOBAL EXPANSION

DON'T DISCOUNT THE DATA

In the not too distant future, U.S. businesses will be placed into one of two categories: those that skilfully entered into the global marketplace and those that sheepishly exited out of business. A wait-and-see mindset is nothing short of organizational suicide. However, a reactionary, ill-conceived global expansion is no improvement. That, too, spells disaster. What's needed? Start with a mindset overhaul, fuel it with 100 percent commitment and do your homework – none of which should be any secret to entrepreneurs who've launched successful domestic businesses.

As Bill Gates reminds us, though: "Success is a lousy teacher; it seduces smart people into thinking they can't lose." Consequently, many "smart" business people approach global expansion as just that, an expansion of their existing business. Instead, it is important for U.S. businesses to approach globalization as an entirely new enterprise: an enterprise worthy of all the money, time and sweat equity used for getting domestic start-ups running successfully. Globalization needs to be fully incorporated into the overall corporate strategy and not treated as a disjointed side business.

WHERE SHOULD YOU GO?

With more than 200 countries to examine for global expansion opportunities, and with a group of "hot" markets and

emerging economies that have future promise, the first question to answer is, "where will my product or service find its highest demand?" Finding the answer to this question requires a leader to step-back and take a panoramic view of all potential markets. Then, investigate the most promising markets with a more detailed and focused emphasis on criteria such as infrastructure, standard of living, economic/political stability and attitude toward foreign investment. Make use of available information to help guide the decision making process regarding which markets will yield the greatest demand and warrant further consideration.

However, demand itself is not enough to ensure a success. In addition to looking outside at potential opportunities and demand, it is equally critical to look internally at the corporate commitment to globalization. Conduct an honest self-assessment and evaluate internal resources such as motivation, goals, talent, budgetary constraints and tolerance for risk. Nor is corporate size a guarantee for success. Today's decentralization and technological advances have leveled the global playing field, allowing plenty of room for both small- and middle-market entrants. In fact, the agility of small- to middle-market corporations challenges their less nimble, larger competitors in the race for international market share.

ENGAGE, COMMIT AND IDENTIFY

Penetrating and developing an international market requires an entrepreneurial philosophy and drive – the same kind of philosophy and drive behind every successful start-up business. Following that logic, American businesses – birthplace of the entrepreneurial spirit – should perform well in global business, right? Wrong. American businesses fail at a rate three to four times the rate of other

countries in their ability to expand internationally, and the majority of U.S. businesses never make an attempt.

One reason for this is an overall lack of willingness to engage, commit and really identify with the global marketplace. After all, the size of America's market afforded U.S. businesses the luxury of complacency for many years. Not surprisingly, many American businesses continue to hold back on foreign investment, fail to commit the necessary resources, and make only limited advances in global expansion – all in an effort to reduce risk. Ironically, this effort to reduce risk forfeits opportunities and almost always guarantees a failure. This is contrary to what all entrepreneurs know about sowing seeds of success. Worthwhile investments involve risk that must be anticipated, understood, calculated and planned for through the analysis of actionable data.

Rather predictably, U.S. companies approach foreign markets with a sales-push mentality. They offer a product or service that has achieved great success domestically hoping that it will appeal to the local population. Unfortunately, hope is not an effective strategy, and many U.S. businesses have lost hope trying to figure out what went wrong – why didn't the local population respond more positively? A better strategy is to focus on facts and actionable data upfront, consider cultural differences and allow the data to guide the decision making process. Set realistic expectations based on data, case studies and other relevant information. Get help from experts who have "been there and done that" and offer the indispensable perspective to avoid costly mistakes. Learn what to do, focus on success, seek opportunities while managing the fear and obstacles. Most importantly, do your homework.

BE PREPARED

Successful business people understand that risk is inherent in all new business ventures – both domestic and international. Moreover, risk is an effective barrier to entry that makes success, once

achieved, all the more worthwhile. Consequently, every successful venture must include a comprehensive and calculated risk assessment. This step is especially important when entering foreign markets where a general lack of experience and lack of knowledge increases the potential for costly mistakes. So important is this step that engaging the assistance of experts is highly advised. Experts can anticipate problems, plan for problems and, thereby, control the level of risk experienced.

Few U.S. businesses have the in-house skill and knowledge to adequately prepare an international risk assessment. A hands-on expert, on the other hand, has been down the road before and should be able to navigate the process from a platform of familiarity with the international marketplace. Knowing when to be cautious, when to push forward, when to attempt a new strategy, what questions to ask and when it is necessary to seek the assistance of professionals like attorneys and accountants. An expert offers an invaluable perspective that can eliminate surprises and costly mistakes.

Nevertheless, before making any international expansion move, it is critical for leaders to exhaust every available resource in gathering the data necessary. Having this helps educate the expansion team in guiding future decisions and working collaboratively with the experts engaged to assist. While this process may seem tedious and cumbersome, it is far better (and more cost-effective) than the process of undoing costly mistakes later. Easily accessible resources include:

- > *Department of Commerce*
- > *U.S. Commercial Service – Export Assistance Centers*
- > *Trade Development Office of Foreign Governments*
- > *Export-Import Bank of the United States*
- > *General searches on the Internet*
- > *TradeNet.com*
- > *International expansion experts*

Be warned, the amount of data accessible is overwhelming. The best place to start is with the formulation of global expansion goals. Ask the right questions

and then search for the information to answer these specific questions. Then, locate the actionable data that can guide decisions specific to those goals – what does the data suggest for my company, my resources, my vision and my products? Market research can be very complicated and may, again, require the assistance of experts who can translate the information into a successful strategy, execute critical decisions and customize it to achieve specific corporate goals and plans. But, there is no one size fits all. Just because your neighbor and/or competitor entered China, doesn't mean it is the right market for your business. The purpose of the data is to provide a platform to jumpstart and support an information-driven decision making process. That way planning for expansion is based on knowledge, not just hopes.

MARKET ENTRY STRATEGIES

Once a potential market is identified based on data analysis, the next step is to evaluate the various ways to enter that marketplace: joint venture, merger, ac-

quisition, direct sale or single product representative are the most common approaches. While a number of U.S. businesses follow the strategy of direct sales, each possible option should be evaluated in the context of an evidence based business plan. For example, assume research points to a country that has strong brand loyalty to domestic products. In this case, it may be more advantageous to consider a collaborative arrangement, a joint venture or merger. Partnering with an existing domestic enterprise provides immediate access and brand loyalty, eliminates time to market and offers the domestic company an opportunity to expand their product line. The market entry approach selected can be a creative, resourceful, win-win scenario for both the U.S. business and the local/domestic company.

Consider an American company whose cosmetic products appeal to the African American population. The initial view of all potential international markets may point to several markets for equal consideration – Latin America, the Middle



East or areas in Africa. While each of these markets would make sense, an information-based market entry strategy requires actionable data. Data, when interpreted correctly, can answer strategic questions, allow for the formulation of various simulations and the comparison of those simulations as different scenarios are presented. Some questions that require actionable data include:

- > *What is the existing competitive landscape for my product/service?*
- > *What is the buying power in the market(s) and trends?*
- > *Should the market entry plan incorporate the full line of potential products?*
- > *If not, which product mix should be considered? What price points?*
- > *What options are available for a potential joint venture with a local company?*
- > *Should I enter the market as a direct sale? Or maybe manufacture locally?*
- > *What is the optimal distribution channel, and is it economically feasible?*

For further illustration, consider a recent win-win scenario orchestrated with the assistance of Grant Thornton who was retained by a European-based company in the business of manufacturing high-end building products. A U.S.-based company in the same line of business had recently filed for Chapter 11 Bankruptcy protection and was seeking to sell its assets pursuant to a section 363 sale: a bankruptcy section that allows an entity to purchase underlying assets free and clear of any encumbrances. Grant Thornton was able to link its European client with the U.S. manufacturer in an effort to expand its operations and global footprint within this same industry. “The European business was exploring alternative methods of entering into different sales channels and this proved to be a financially appealing method of market entry,” says John Iwanski, partner at Grant Thornton.

Another successful strategy for market entry is to follow existing clients when they expand into global markets. This accomplishes another win-win scenario as the company becomes a key resource helping to guarantee the success of its

customer’s expansion while also providing a solid base of business in the new market. Such a strategy was utilized successfully by Mar-Bal, a leader in the thermostat industry since 1970. While Mar-Bal initially utilized this approach to enter Mexico, it has since doubled international sales in the past eight years, while their 2009 forecast for their domestic sales is down about 12 percent. Mar-Bal contributes their success to properly training select Mexican employees in the U.S. so they understood expectations, goals and quality standards. “While the process was met with

DATA [PROVIDES] A PLATFORM TO INFORMATION-DRIVEN DECISION-MAKING. THAT WAY, PLANNING FOR EXPANSION IS NOT JUST BASED ON HOPES.

challenges, Mar-Bal was prepared for those challenges, committed to the long term and patient with the process,” said Scott Balogh, president.

One model gaining in success as businesses become more experienced and more enterprising in terms of the global marketplace is a strategy that exploits multiple opportunities in multiple markets: create here, manufacture there and sell somewhere else. Take the iPod for example. Its microprocessor was outsourced to engineers in India who worked with designers in Silicon Valley, Calif.; the chip was manufactured in Taiwan; the final assembly took place in China, and it is sold in many different markets around the world. Again, market entry is not a one size fits all. It’s about obtaining and analyzing actionable data that illuminates the best path forward.

GLOBALIZATION IS NOT AN OPTION!

Many U.S. companies still consider going global an “option.” It’s not. Ready or not, almost every U.S. Company is already competing with a foreign enterprise right here on U.S. soil. The fact is foreign-

based companies are taking advantage of the current economic down turn and buying American businesses at fire sale prices. Just look at the percentage of foreign ownership of major U.S. industries:

- > *Mining* – 27 percent
- > *Information Technology* – 24 percent
- > *Manufacturing* – 20 percent
- > *Professional, technical scientific services* – 20 percent

Within the manufacturing category, foreign ownership of chemical manufacturing and industrial machine manufacturing is 30 percent; and commercial service industry machine manufacturing and transportation equipment manufacturing are 25 percent owned by foreign businesses.

The U.S. manufacturing industry can no longer afford the luxury of global isolation. Manufacturers must respond by developing effective globalization strategies and launching successful international ventures.

THE NEW FRONTIER

The new frontier is that there is no frontier – how small to middle-market businesses respond to this reality may have a significant impact on the economy as a whole. Savvy entrepreneurs will likely see opportunity where others see impasse. Accordingly, while some business people will look at the current economic crises as an excuse to enter a holding pattern, entrepreneurs will see the culmination of a perfect storm.

Today, the value of the U.S. dollar makes our country’s goods and services far more competitive abroad. So, what are you waiting for? Now is the time to get started. Focus on the opportunities, not the obstacles. **mt**

Mona Pearl is founder and COO of BeyondAStrategy, based in Chicago. The company develops competitive, cost-effective and sustainable global strategies for leading multinational corporations, mid-market, as well as global entrepreneurs to create significant growth. Pearl is an international business woman who knows that cultural differences can make or break a business deal. She is multilingual and can conduct business in English, French, German and Rumanian. She holds a master’s degree in Global Business and Marketing from DePaul University in Chicago. For more information, call 312-642-4647 or visit www.beyondastrategy.com.