Grow Your Global Markets

A Handbook for Successful Market Entry

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Raymond A. Hopkins

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Raymond A. Hopkins
Chandler, Arizona, USA

ISBN-13 (pbk): 978-1-4842-3113-5 ISBN-13 (electronic): 978-1-4842-3114-2
https://doi.org/10.1007/978-1-4842-3114-2

Library of Congress Control Number: 2017956764

Managing Director: Welmoed Spahr
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Cover: eStudio Calamar

Distributed to the book trade worldwide by Springer Science+Business Media New York, 233 Spring Street, 6th Floor, New York, NY 10013. Phone 1-800-SPRINGER, fax (201) 348-4505, e-mail orders-ny@springer-sbm.com, or visit www.springeronline.com. Apress Media, LLC is a California LLC and the sole member (owner) is Springer Science + Business Media Finance Inc (SSBM Finance Inc). SSBM Finance Inc is a **Delaware** corporation.

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The Apress Business Team

To the memory of my parents,
Virginia L. and William P. Hopkins,
who provided encouragement and
guidance in ways they never imagined.

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About the Author

Doctor and Business Development/Contracts Management Executive, **Raymond A. Hopkins,** is the author of several articles in refereed marketing/international marketing journals. Working in the fields of international procurement and contract administration, he has purchased aircraft parts and structures from South Korea and Japan, and negotiated the execution and administration of contracts for the sale of aircraft, upgrades, structures, and parts to the U.S. government and customers in Southeast Asia (Japan, South Korea), South America (Colombia), and Europe (Denmark and the United Kingdom).

Ray began his career in sales with U.S. Steel Corporation, moving into subcontract management with Fluor Engineers Inc., procuring petrochemical plant control systems for CF Braun Co., and purchasing and contract manufacturing for US Borax & Chemical Corporation. For Hughes Helicopters Inc. (later McDonnell Douglas Helicopter Co.), he initially procured military aircraft components and light helicopter fuselages from South Korea and other aircraft components from Japan.

Ray is a graduate of California State University at Fullerton with a BA in political science, California State University at Los Angeles with an MS in public administration, and Nova Southeastern University with a Doctorate in Business Administration. He has completed additional graduate work in law, international business, and U.S. government contracts. He was awarded the 2010 Emerald Literati Network Outstanding Paper Award, and has delivered graduate and undergraduate college courses in marketing and international business. In his spare time, he enjoys teaching marketing and international business as MBA adjunct faculty.

Ray was born in Chicago, Illinois, and raised in a family of four boys and one girl. He lives with his wife, Madeleine, in Chandler, Arizona. Learn more at http://www.raymondhopkins.net and connect with Ray on Twitter at @DocHop or e-mail at mhopkins21@cox.net.

Preface

In essence, this book is a comprehensive primer for aspiring and current exporters and others who want to simplify their global market entry; discover exportable products and services; and determine and select their best target market entry alternative, while ensuring they are paid. U.S. small- to medium-sized business owners ([SMEs] with less than 500 employees) interested in global business will learn how to overcome the most significant challenges and barriers to entering foreign markets.

Interestingly, based on research[1] conducted in a survey of 530 small business owners in 2016 by the National Small Business Association (NSBA) and its council, the Small Business Exporters Association (SBEA), small-business owners not currently exporting, perceive the largest barrier is a lack of exportable products and services. Thirty-seven percent of non-exporters said they do not know enough about exporting and are not sure where to start, and 24 percent cited concerns over being paid by their foreign customer, regulatory barriers, and complexity. When asked whether they would be interested in exporting in the future, if some of these concerns were addressed, 49 percent said they would. Among current exporters, Canada maintained its number one spot in terms of countries to which small firms exported, with Mexico, the United Kingdom, and China rounding out the top four. When it comes to emerging markets, SMEs cited North America, Northern Asia/Pacific Rim, and South America as the regions that hold the most potential for their future exports, and, notably, regions in which the United States has many free trade agreements. *Grow Your Global Markets* addresses these SME concerns.

[1]NSBA/SBEA 2016 *Small Business Exporting Survey*. Retrieved from http://www.nsba.biz/wp-content/uploads/2016/04/Export-Survey-2016-Final.pdf.

Acknowledgments

Bringing a book to publication demands the guidance, support, and energies of many. Without them the research and writing effort would not have been possible.

First and foremost, I acknowledge my debt to my family. For their sacrifices and support of my dream, I offer my children, Joanna Noonan and David Hopkins and their spouses, Dan Noonan, and Carly Hopkins, my heartfelt gratitude. To my wife, Madeleine, I acknowledge my greatest debt. It is to you that I dedicate this project. Without your love and support, I could not have begun this research and writing effort, much less complete it.

A number of supporters come from the business community and contribute in many indispensable ways. It is a pleasure to acknowledge my debt to you who have instructed, encouraged, and otherwise supported my effort. I greatly appreciate the support of Mr. Don Becka, Mr. Greg Bischak, Ms. Linda Senn, and Dr. Bobbi Boges. I appreciate even more the support, invaluable guidance, and example of Col. James A. Smith (U.S. Army Ret.) without whom my eyes would not have been opened to the world of global business.

Finally, I offer many thanks to my Apress editing, technical and production team of Susan McDermott, Laura Berendson, Rita Fernando, Shiva Ramachandran and Sherly Nandha.

The original version of this Book was revised. An erratum to the Book can be found at https://doi.org/10.1007/978-1-4842-3114-2

Introduction

Are you and your firm feeling the effects of globalization? Today, globalization, the integration of markets, nation-states, and technologies,[2] impacts nearly every business, including yours! The internationalization of markets and technological progress in logistics, distribution, and communication enable nearly every business to buy, sell, and cooperate in global markets, allowing their customers to locate the best product offering. As a result, you and your firm operate in a worldwide economy responsible today for 40 million U.S. trade-dependent jobs[3] and approximately 6 million U.S. factory jobs[4]—roughly half of all manufacturing employment, whether or not they have any interest in global business activities. In the face of globalization, small businesses like yours must evaluate their strengths, weaknesses, opportunities, and threats and then develop strategies that effectively respond to the globalized business environment in which they operate. And those companies that do not recognize this trend will likely become a fatality of globalization. If you and your firm are growth oriented——and what business is not?—you should grow global markets as an important strategic option allowing you to do the following:

- Reach new customers/markets with little or no competition;
- Reduce their dependence on a limited number of major customers;
- Even out business cycle-related demand fluctuations;
- Extend the life of niche products to new markets; and
- Develop a global network of contacts and partners that improves their offerings to established customers.

[2]This is done in a way that enables individuals, corporations, and nation-states to reach around the world farther, faster, deeper and cheaper than ever before. Thomas Friedman, *The Lexus and the Olive Tree* (New York: Anchor Books, 2000), 9.

[3]Trade Partnership Worldwide, LLC (January 2016), *Trade and American Jobs The Impact of Trade on U.S. and State Level Employment: 2016 Update*. Retrieved from: http://tradepartnership.com/wp-content/uploads/2016/02/Trade-and-American-2016.pdf

[4]Jeffrey Hall and Chris Rasmussen, *Jobs Supported by State Exports 2014*. (Washington, DC: Office of Trade and Economic Analysis, International Trade Administration, Department of Commerce, April 9, 2015). Retrieved from http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005411.pdf

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Long-term exporters are self-assured, adaptable, and resilient in selling to a more diverse group of customers.

How can you sell abroad? If you want to grow and internationalize your income, determine what among your products and services you can export, picking up the transaction tools that ensure you avoid risk and get paid by international customers. Grow your global markets by developing essential internal international business expertise, or, with the backing and full support of management, hiring an international business specialist and/or retaining an international business consulting company. You will need this expertise to assess your export potential, develop an effective global strategy, research countries and markets appropriate for your products and services, and develop a marketing plan/communication strategy that ultimately results in contracts to ship your product and deliver services to previously untapped global markets. It is doable and you and your team can do it!

The demand is out there. You should be too! Thinking bigger pays off. Borders should not be blockers. Grow beyond them. You may feel apprehensive? You should view these challenges as opportunities to grow your business and develop additional competitive advantages beyond domestic shores. Many small- and medium-sized U.S. businesses, like yours, could be more successful and sustainable, if they would only export their products or adopt other international market entry modes. Some of your U.S. counterparts and competitors are already actively engaged in global markets. Others have yet to begin. Don't be afraid and hesitant. Overcome any fears; learn the tools and tactics and simply "grow beyond them." If you and your firm are a small- to medium-sized business, shouldn't you consider growing your global markets now? It has never been easier with the Internet and other advanced communication technologies.

PART

I

Introducing Growth in Global Markets

All those trucks and barges that carry our goods to port are vital connections to the only force which can balance our trade deficit: export. We must keep doing what we do best if we are going to get America out of the red.

—Jo Ann Emerson, U.S. Representative for Missouri's 8th congressional district

Today, growing your global markets has never been easier. With recent advancements in technology, any small- to medium-sized company can grow its business in international markets. It is not only simpler and more doable to sell internationally, but it will increase your bottom line in unimaginable ways. *If you can envision it, you and your team can do it.*

Do You Know Where to Start Your Journey to Growing Global Markets?

Whether you are just getting started or are already experienced in international business, this book will be your "virtual coach" helping you from start to finish; and more importantly, it will help you establish rewarding relationships with international customers.

Does growing your global markets sound intimidating and possibly overwhelming? It does not have to be. Global market expansion offers numerous opportunities for companies large and small to boost their revenues and profits by introducing new, innovative products and services to the global marketplace.

To get started, let's back up a bit and take a look at how well U.S. small- and medium-sized enterprises (SMEs: those organizations employing fewer than 500 employees) like yours have done growing their global markets. According to the U.S. Small Business Administration, small- to medium-sized businesses produce nearly 50% of the non-farm GDP and account for 60% of the net new jobs. As of May 2017, SMEs are still optimistic about their economic prospects, but they have yet to see the impressive levels of hiring and spending anticipated in welcoming a Republican administration to the nation's capital.[i] Hmm… Is that how you are finding the U.S. business environment in 2017?

How about comparing the characteristics and performance of U.S. SMEs with the export activities, barriers, and opportunities of their European Union (EU) counterparts?[ii] As of January 2010 when the U.S. government last addressed this topic, U.S. SMEs accounted for the vast majority of firms that produced approximately half the gross domestic product generated by nonagricultural sectors within the U.S. economy accounting for about 30% of merchandise exports between 1997 and 2007. Unlike larger firms, U.S. SMEs tended to aim their merchandise exports—labor intensive items such as wood products, apparel, and accessories—at affluent markets such as Hong Kong, Israel, and Switzerland. Available services export data suggest the United Kingdom and Canada are two important destinations for affiliates in two services industries—finance and insurance; and professional, scientific, and technical services. If we compare the U.S. and European markets, we see the U.S. market is more integrated than Europe's, and U.S. firms that export tend to be larger than their counterparts in the EU. This explains why estimated exports by manufacturing SME firms in the EU in 2005 amounted to approximately \$231–\$275 billion (about 31% of total EU exports), compared to the \$65 billion in exports (about 13% of total U.S. exports) made by similarly defined U.S. SMEs.

By mid-2010 the government determined that it provided a wider range of support for pre-export financing and short-term credit than is generally available in EU countries. However, SMEs in the EU appeared to have access to more resources and a higher level of assistance in foreign markets as well as more financial support for participating in international trade fairs than U.S. SMEs did.

In their export operations U.S. SMEs faced several obstacles that included insufficient access to finance, complex and sometimes nontransparent domestic and foreign regulations, rising and unpredictable transportation costs, the small scale of SME production, tariff and nontariff barriers, time-consuming foreign customs procedures, language and cultural differences, and lack of knowledge of foreign markets. Even so, U.S. SMEs found tariff reductions, reduction or elimination of nontariff barriers, better market access, easier interactions with customs, trade facilitation, intellectual property protection, a more efficient and transparent regulatory environment, and dispute resolution mechanisms—all associated with U.S. Foreign Trade agreements (FTAs) and other trading arrangements had improved the exporting environment.

By November 2010 the government reported U.S. exporting SMEs outperformed their non-exporting SME counterparts by several measures. Whether they dealt in services or manufacturing or exporting, U.S. SMEs showed higher total revenues, faster total revenue growth, and higher labor productivity than their non-exporting U.S. SME counterparts. These firms served foreign clients primarily through direct exports. SMEs that exported services, a very small share of all U.S. services SMEs, were more export intensive than large services exporters. U.S. multinational companies that export, which is even less common, were nearly three times more export intensive than large U.S. multinationals. SMEs also participated in the export economy by exporting indirectly through wholesalers and other intermediaries or selling intermediate goods or services domestically to large and small firms that used these intermediate inputs to produce exported goods or services.

Paging forward to April 2017, the U.S. Government Census Bureau[iii] reported a total of 294.8 thousand firms (106,977 manufacturers, 125,245 wholesalers, and 155,175 other companies) linked to U.S. export transactions in 2015. The exporting efforts of these firms accounted for $1,335 billion, a staggering small export volume that should be millions greater. And 228,621 companies of the total, which includes yours, are identified as small- and medium-sized exporters.

In contrast, long-term exporters (those exporting more than five years) are self-assured, adaptable, and resilient. Having developed a global awareness of their brands and sound exporting plans, they now sell to a more diverse group of customers using social media as the source of most of their sales leads. You and your firm could be among them! In addition, by establishing channels of distribution in foreign markets suited to their products before their competitors do, they will have increased their global competitive advantage, an advantage you and your team should seek. So why don't you and more American firms like yours go global by growing their global markets?

CHAPTER

1

Growth in Global Markets

Fundamentally, I believe that the U.S. can improve its international standing and its national security by expanding trade and strengthening its relationships…

—Richard Neal, U.S. Representative for Massachusetts's 2nd congressional district

America cannot grow its economy, foster entrepreneurship, or lift the wages and incomes of its workforce unless small- and medium-sized businesses reach beyond U.S. borders and sell products and services to the vast marketplace that lives outside the United States. Despite complaints about trade imbalances, effects on domestic economies, currency upheavals, and loss of jobs, the reality of goods and services continually crossing borders will not go away. International trade will continue to be the engine that runs most nations.

Just as it always has during earlier cycles of growth and recession, exporting of goods and services is a vital contributor to the U.S. economy. In March 2017, export of goods and services totaled $191 billion, a $71.2 billion increase over the 2006 total of $119.8 billion—a great improvement over the last 11 years.[i] March 2017 figures reported by the U.S. Department of Commerce Bureau of Economic Analysis (BEA) show export good surpluses with selected countries, in billions of dollars, with Hong Kong ($2.9), South and Central America ($2.6), Singapore ($0.5), United Kingdom ($0.5), and Brazil ($0.2). Goods export deficits were recorded, in billions of dollars, with China ($31.4),

R. A. Hopkins, *Grow Your Global Markets*, https://doi.org/10.1007/978-1-4842-3114-2_1

European Union ($10.0), Mexico ($6.5), Japan ($6.5), Germany ($5.0), South Korea ($2.5), Italy ($2.1), Canada ($1.9), India ($1.7), OPEC ($1.6), Taiwan ($1.1), Saudi Arabia ($0.8), and France ($0.1).

In 2015, jobs supported by exports totaled an estimated 9.8 million with goods exports supporting an estimated 6.7 million jobs and services exports supporting 3.1 million jobs.[ii] Goods exports to Canada supported the greatest number of U.S. jobs followed by Mexico, China, Japan, and the United Kingdom (UK). The 15 destinations for U.S. goods exports that supported the greatest number of jobs supported almost 4.9 million jobs in the aggregate. The 15 goods export destinations that supported the greatest number of jobs are presented in Figure 1-1.

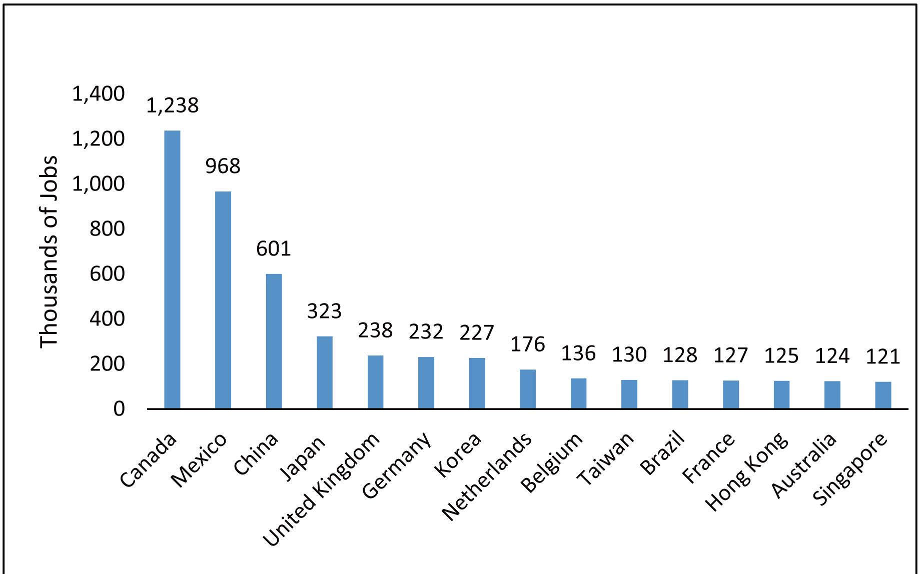

Figure 1-1. Top 15 Destinations, Jobs Supported by U.S. Goods Export in 2015

In April 2016,[iii] the International Trade Administration reported an estimated 11.5 million jobs were supported by exports.

The Bureau of Economic Analysis's (BEA) most recent data indicates the United States exported services to over 70 countries in 2015 with exports to the United Kingdom outnumbering those to Canada, China, Japan, and Ireland. BEA 2015 data indicates these top 15 destinations supported 3.1 million American jobs or 65% of the total as presented in Figure 1-2.[iv]

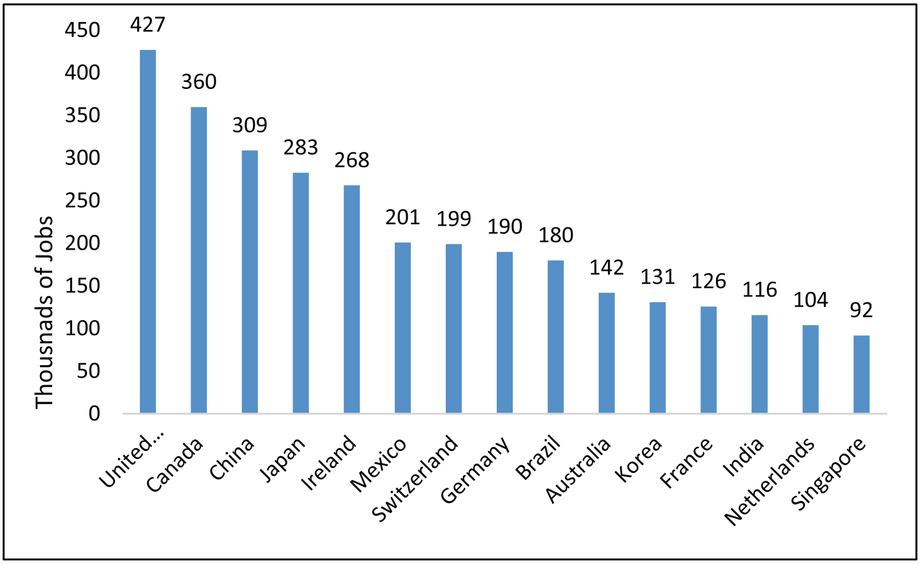

Figure 1-2. Top 15 Destinations, Jobs Supported by U.S. Services Exports in 2015

Clearly, on the basis of this government data, American exporting is important and demonstrates a need to improve. As our economy recovers from the Great Recession, U.S. businesses can rely on exporting to realize their growth potential. The U.S. Department of Commerce International Trade Administration (ITA) has many programs supporting small- and medium-sized enterprises in developing that potential. Its programs include business counseling offered at home through a network of over 100 U.S. Export Assistance Centers and overseas through commercial officers based in more than 50 U.S. embassies. The ITA also has offices that campaign for U.S. commercial policy interests in bilateral and multilateral settings. These offices handle business regulation and product standards in addition to protecting and enforcing intellectual property rights and issues that affect U.S. exports.

The challenges that now lie ahead for U.S. businesses selling in the world market—from slowing markets to regulatory and other barriers—make international trade (i.e., growing our global markets) more crucial than ever to ensure future international business success.

The Benefits of Global Market Growth

Now more than ever it is time to grow our global markets, drive economic growth, and improve our standard of living. So what is economic growth? Long ago a country's natural resources determined the level of economic development it would meet. Today national economic growth is not as dependent on natural resources. It's more dependent on a country's use of its productive resources—physical, human, and natural capital. Theoretically, then, economists use gross national product (GNP) per capita or gross domestic product (GDP) per capita as statistical indicators of how well a country uses its resources. GNP/GDP takes into account all goods and services produced for sale, whether they are sold domestically or sold overseas.

The Benefits of Economic Growth

Should a country grow its economy extensively using more resources or intensively using the same amount of resources more productively? Specifically, higher output and positive economic growth enable a country and its economy to accomplish the following:

- Provide consumers and workers with more goods and services, thus a higher standard of living.
- Increase rates of employment.
- Reduce government borrowing and debt.
- Invest in clean technologies.
- Reduce rates of poverty.
- Increase government income and expenditures to fund superior public services, public transportation, critical research and projects with the potential to further economic development.
- Increase and sustain capital investment.
- Enhance business confidence of those running their own businesses.
- Devote more resources to promote recycling and the use of renewable resources.

For these reasons, all countries strive for positive economic growth. This is equally true of the people that inhabit them - the extreme poor, the vulnerable, the middle class, and the rich. The extreme poor, earning about $1.90 per day per person,[v] are those that strive to provide themselves with most basic of human needs - food, safe drinking water, sanitation facilities, health, shelter, education, and information. A society's vulnerable are those unable to anticipate, cope with, resist and recover from the impacts of natural hazards - children, pregnant women, elderly people, the malnourished and the sick.[vi] The middle class, however, is another matter entirely, especially from the standpoint of any business marketing to consumers across the globe. For the small- to medium-sized business seeking new customers, the people comprising the global middle class, by the standards used by any country, includes those earning between US $10 and US $100 per day in purchasing power parity (PPP) terms,[vii] the kind of disposable income that has made cars, televisions and other consumer goods affordable in the West and today is expanding in the East. This income group, forecast to increase rapidly over the next 20 years,[viii] includes business people, managers, doctors, lawyers, and teachers. Lastly, the rich are that small social group earning more than US $110 per day that can afford any standard consumer good.

Environmental Forces That Make International Business Different

As a small- to mid-sized business owner/person competing in a domestic marketplace you are accustomed to managing internal forces—capital, raw material, and people that you manage and face many uncontrollable forces that include, among other things:

- **Your competition** – their numbers, activities, and locations—both domestic and foreign.
- **Distributive forces** – agencies for distributing goods and services.
- **Economic forces** – Gross National Product, Gross Domestic Product, unit labor costs, and the personal and industrial consumption variables that impact your ability to do business.
- **Socioeconomic forces** – characteristics and distribution of populations inhabiting your home marketplace.
- **Financial forces** – interest and inflation rates, taxation, income, and expenses, etc.
- **Legal forces** – laws governing how and with whom you do business.
- **Physical forces** – topography, climate, natural resources.
- **Political forces** – local, state and federal political climate, and government structure.
- **Sociocultural forces** – attitudes, values, and beliefs of the local, state, and national culture.
- **Workforce issues** – composition, skills, and attitudes.
- **Technological forces** – skills and equipment that convert resources into the product.

Should you expand your business to foreign markets, you subject your firm to still another set of uncontrollable forces that are the same in all environments, both foreign and international. Shockingly, these occur and operate differently, are driven by different values, and can be difficult to assess. By operating in foreign markets your firm will meet new issues requiring a change of your business strategies and practices to adapt to the new environmental realities that emerge. These include the following:

- **Cultural forces** – According to Hofstede,[ix] culture is "the collective programming of the mind which distinguishes the members of one human group from another." Given that culture affects consumers' behavior, understanding cultural dissimilarities is crucial for the success of international marketing.[x] No two cultures are the same and understanding both the social and business cultures of a target market are essential to success.
- **Level of competition** will likely be more intense and complex than what you experience in your domestic marketplace.
- **Technological forces** aiming to make continual cost reductions and improvements in products and services can vary substantially in foreign markets. If your product or service requires a high degree of technological sophistication to use or carry out, then markets with low levels of technology will not be suitable for your business.
- **Logistics** – Like technology, availability, and quality of local—transportation, communication, and energy networks—and business infrastructures in foreign markets will be at different levels of development. This may well have an impact on your ability to deliver your products. It is important to research the target market and understand how goods are moved around the country before you commit to expanding your business in that market.
- **Media** – Advertising your product/service will be subject to the types and quality of media available in your target market(s). Not everyone is connected to the Internet, let alone is able to read and write, requiring you to select the most appropriate media.
- **Political and governmental forces** of the host country and the general international environment affect foreign firms and their products. The key is to understand that once you are in a foreign market you must abide by the rules and laws of that country, not the ones in your own

market. It is also important to note that relations between countries and governments have important effects on the operations of international companies.

- **International legal forces** – Countries determine their laws based on the needs of their citizens, not the concerns of foreign companies. International law is a gentleman's agreement that is honored, but not always.
- **Important tax considerations** – The United States has a worldwide income tax system that taxes a U.S. firm on its worldwide income as opposed to only taxing income from U.S. sources. In contrast, many foreign countries only tax their multinational firms' domestic income and not foreign sourced income. In addition, a U.S. firm will face additional income taxation when it repatriates to the United States income accumulated in a foreign subsidiary.[xi]

As one can see from this list, the small- to mid-sized business owner/person and senior management marketing to a foreign market must face multiple hurdles to be successful. Expanding one's business into foreign markets can be done by mastering these forces and monitoring environmental change by trusted in-country representation and/or regular marketing visits, in addition to consultation with qualified legal counsel[xii] and tax specialists.

CHAPTER

2

Determining Your Role in Global Markets

We want to help U.S. entrepreneurs, small business owners, and brands and companies of all sizes sell their goods to the growing Chinese consumer class. Chinese consumers will get to buy the American products they want. This, in turn, will help create American jobs and increase U.S. exports.[i]

—Jack Ma, Founder and Executive Chairman of Alibaba Group

Your financial team's sound analysis of start-up costs will determine the success of your firm's entry into a new foreign market. U.S. companies, especially those new to global expansion, tend to overlook certain important factors during the due-diligence phase of international expansion. An expansion strategy's consideration of market research and planning, the competition, government and legal requirements, cultural habits, and risk will impact the financial analysis. The financial plan should gauge returns on minimal risk where the cost of market entry fits the target budget without being so rigid that responding to market changes is difficult, if not impossible. You should also determine the impact of currency fluctuation, if you plan to reap and return profits generated outside the country. Should the target foreign market's laws and regulations prohibit or complicate repatriation, you and your team may choose to reinvest revenues there.[ii]

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Companies must understand the target market's unique requirements as well as the form of market entry, from tax laws to employment contracts to local business customs, in order to truly understand the cost ramifications there. To do otherwise makes the task of accurately estimating the cost of establishing and operating in a new market impossible. There is no substitute for a comprehensive cost-benefit analysis that possibly involves decisions regarding the following:

- Capital budgeting involving the analysis of investment opportunities, sourcing for raw materials, for production efficiencies and gaining access to local expertise.
- Financing of those activities including the currency type and short-term trade finance.
- Capital structure – the proportions of debt and equity for global operations.
- Cash management – how to optimize cross-border cash flows.
- Working capital management - establishing invoicing policies (which currency), pricing strategies (how much) cash flow networks, accelerating cash flow repatriation and funds positioning.

Most U.S. companies approach expansion to another country under the mistaken presumption that their target country market(s) operate the same way the U.S. marketplace operates. They typically develop a list of common domestic expenses that might include employer social security contributions, corporate income taxes, and office operating expenses, and then make adjustments to account for target country tax laws, real estate costs, and other expenses. The reality is that each country, like the United States, operates according to its own set of complex, constantly changing laws governing how business operates. Absent familiarity with a target country's business laws, customs and practices can expose the uninitiated business to significant hidden cost and risk.

Take for example the difference between European employment law and U.S. employment law. The unique U.S. employment "at will" doctrine does not exist in European employment law and can be costly in time and dollars to those unfamiliar with this different approach to employment.[iii] Overlooked factors can result in surprise costs that any company considering overseas expansion can overcome by partnering with a local institution and/or retaining outside expertise.

If you are going to "go global," make sure you invest sufficient time and effort to identifying *all* the costs of operating in your target market to ensure you avoid unexpected expense.

Consider the Profit Potential of International Expansion

Each year, many entrepreneurial, growing, and developing companies contemplate international expansion as a marketing and growth strategy. When developing a strategic blueprint to launch international business expansion, developing companies and their consultants must always consider the potential profit of that undertaking and weigh this against the potential risks before embarking on the effort. Calculating the profit potential clarifies the big picture, especially when dealing with an expansion whose profitability can wildly vary under different scenarios. A product's profit potential is the potential to generate revenue, which, after expenses, leads to net income, a projection, not a guarantee. For example, the simple profit potential[iv] is then the following:

> 100 units in inventory x (sale price of $5 per unit – expenses of $3 per unit) = $200 profit potential

Put another way: I x (P-E) = PP, where: I = inventory or potential demand, in units, P = sale price per unit, E = expenses per unit, and PP = profit potential. Note potential demand multiplied by sale price per unit equates to **expected, not guaranteed revenue.** Expected revenue less expenses, therefore, equals profit potential.

Let's dig a bit deeper into the concept using an example with the fictitious aerospace company, ABC Industries (ABC). ABC is the maker of commercial and military aircraft and helicopters. Unfortunately for the government consumer, ABC Industries only produces a standard version of each product. ABC Industries accounts for the expenses of each product separately. Let's take this step by step.

Step 1. Estimate Future Revenue

Revenue – Start by calculating the profits you anticipate in the new market. Begin by determining the size of the market. In particular, research figures of equivalent products, if any, and estimate the number of prospective customers deciding on the portion of the market niche you seek to net. You may be lucky enough to claim the entire market share, but don't overestimate your initial success. ABC Industries will want to multiply its estimate by a price the market can tolerate, taking into consideration the prospect of domestic and international competitors, landed cost, respectable profit, and converting this price into its own currency.

ABC Industries anticipates the following pricing and demand for its products (see Figure 2-1):

- Fighter Aircraft: Sale price of $350,000 per plane; projected demand of 100 units this year.
- Commercial Aircraft: Sale price of $200,000 per box car; projected demand of 50 units this year.
- Helicopters: Sale price of $15,000 per car; projected demand of 1,000 units this year.

Revenue Calculation

Product	Anticipated Demand	Sales Price	Revenue
Fighter Aircraft	200	$350,000	$70,000,000
Commercial Aircraft	25	$200,000	$5,000,000
Helicopters	1,000	$150,000	$150,000,000
Revenue			**$225,000,000**

Figure 2-1. Revenue Calculation

Step 2. Estimate Your Variable Costs

Variable Costs are those monthly costs to you of the goods or services you'll sell as part of achieving your sales estimate. They're called variable, or sometimes incremental, because they go up or down depending on the volume of products or services you produce or sell (see Figure 2-2). They commonly include these:

- Direct materials – charges to expense when the associated products are sold.
- Sales commissions – charges an international representative earns when sales transactions are completed.
- Billable labor - charges to expense when the associated sales transactions are completed.
- Labor – costs incurred for employee labor based on the number of units produced.
- Tariffs – costs charged by a foreign government applied to imported goods.

- Packing - costs incurred to ensure delivery arrives in tact for customer use.
- Shipping – depending on the Incoterms of sale you negotiate with your customer for costs incurred by freight forwarders and actual transportation expense incurred in delivering the product.

Variable Expense Calculation

Product	Anticipated Demand	Variable Expenses	Revenue
Fighter Aircraft	200	$125,000	$25,000,000
Commercial Aircraft	25	$100,000	$2,500,000
Helicopters	1,000	$35,000	$35,000,000
Expenses			$62,500,000
Gross Profit			**$162,500,000**

Figure 2-2. Variable Expense Calculation

Step 3. Estimate Your Fixed Costs

Fixed costs are business expenses that do not depend on the level of goods and services you offer. Initial operating costs distinguish international versus domestic markets. Researching the market will consume staff time, if you don't outsource market research. Research costs include those costs you will incur in uncovering regulatory/legal issues; cultural behavior; translation; and finding the in-country assistance you might require, such as representation. If you elect to manufacture product in-country, you'll need to also estimate and include the cost of assets and their operation associated with that effort (see Figure 2-3).

Fixed Expense Calculation

Product	Anticipated Demand	Fixed Expenses	Revenue
Fighter Aircraft	200	$80,000	$16,000,000
Commercial Aircraft	25	$64,000	$1,600,000
Helicopters	1,000	$22,400	$22,400,000
Expenses			$40,000,000

Figure 2-3. Fixed Expense Calculation

These you will subtract from your price as well (see Figure 2-4).

Profit Potential Calculation

Product	Anticipated Demand	Profit Potential	Total Profit Potential
Fighter Aircraft	200	$145,000	$29,000,000
Commercial Aircraft	25	$36,000	$900,000
Helicopters	1,000	$92,600	$92,600,000
Profit Potential			**$122,500,000**

Figure 2-4. Profit Potential Calculation

Step 4. Calculate Your Gross Profit Margin

It's also useful to know your gross profit margin. Gross profit margin measures the difference between the costs of producing a product or providing a service and what you're selling it for. In short, it lets you know how profitable your products and services are.

To get your profit margin, divide your estimated average monthly gross profit by your estimated monthly sales. Generating this calculation is beyond the scope of this illustration. What's a good profit margin? The answer varies across industries and your own requirements. Without looking at the costs of a company's overhead, such as marketing and administration, profit margins don't give the whole picture of a company's profitability. So it is worth examining this aspect of profitability as well.

Of course, the preceding figures are fictitious, but they do depict the type of analysis you and your firm need to thoroughly conduct before launching into foreign markets. Given these figures, one might question whether or not your firm should expand to international markets. Realize expanding into international markets can mean positive growth for your company and a hedge against economic downturns in your home marketplace, providing your market research warrants the effort and expense involved in taking that step.

Rules and Regulations to Consider Before Getting Started

U.S. small- to medium-sized companies weighing the merits of expanding globally must take into account a number of issues they must face, should they venture into international trade.

Exporting

Exporting, or selling products made in one's own country for use or resale in other countries, is normally subject to few restrictions for exports of most ordinary trade goods when they are exported under a U.S. Department of Commerce "general export license"; however, some goods are subject to export restrictions especially when considering the following:

- Products can potentially have military use or dual use (commercial [civilian] and military). Confer with The Bureau of Industry and Security[v] of the U.S. Department of Commerce to whether or not your product is exportable to eliminate any uncertainty.
- The Bureau of Industry and Security of the U.S. Department of Commerce website "Where are you Exporting"[vi] lists countries for which there are product export restrictions. You may violate export restrictions by selling a product to a buyer that you know, or should know, intends to re-export the product to a country to which direct exports from the United States are prohibited.
- Export sales to some *purchasers* may be restricted. Consult the "do not sell" lists maintained by the Bureau of Industry and Security of the U.S. Department of Commerce ("Who Will Receive Your Item")[vii] and by the Office of Foreign Assets Control of the United States Treasury Department.[viii] Under U.S. law you have an affirmative obligation to "know your customer," including the ultimate buyer or end user if your customer re-exports the product(s) you sold him. You will not be able to plead ignorance, if your customer sells your products to restricted purchasers and you knew or should have known that this was your customer's intention.
- Be clear. It is possible to unconsciously make a prohibited export of technology "embedded" in your product's controls. And you may be "deemed" to export technology merely by giving individuals from a foreign country access, in the United States, to that technology by a variety of means (data-fax, telephone, one-on-one meetings – sufficient to enable those individuals to take that technology back home with them).
- Retain a reputable freight forwarder to ensure your company complies with the laws and regulations that govern exports. Retain an export control/compliance specialist as well to ensure you avoid unconsciously making a prohibited export.