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THE EXECUTIVE SUMMARY

Overseas Opportunity?

Should you expand outside the US or not? Most manufacturers face this question sooner or later. Large companies with significant financial and management resources can often go it alone and capture OUS opportunities themselves. Small and mid-sized companies, however, need to tread carefully as both opportunities and risks abound when entering foreign markets. While there is no single path to success, there are several principles to keep in mind.

A. **Set the objective first.** Do you want to manufacture and market globally or just export? While these are not mutually exclusive options, they do dictate the type and quantity of financial and management resources that will be initially required.

B. **Is there really an opportunity?** Assessing the sales and profit potential of an OUS market (and its product and service requirements) is well beyond the capability of most small or mid-sized US firms. They need to employ an international research firm to profile the environment for their products/services. The US Department of Commerce and most state trade offices can provide a list of qualified research and competitive intelligence firms. Country reports by industry are also available from the USDC.

C. **Is culture really a consideration today?** Yes, more than ever. Why? Because in the "old days" English was less commonly spoken OUS. Consequently the sound of a foreign language provided a constant reminder that the speaker was from a different culture. We then took great care in choosing our words and confirmed conversations in writing. Today most Asian and European businessmen and women speak excellent English. Hearing them speak our own language leads us to believe that they think like we do and share our business practices and cultural values. This is rarely the case.

D. **What about negotiations?** Negotiations are usually the last thing on the agenda. Preparing for them, however, should be the first. A business transaction is a financial expression of trust. Negotiations require trust to succeed. Engendering trust requires not only empathy and hard work, but also understanding the culture and customs of the foreign country and especially how they value time.

In most of the world time is considered to be a continuum, not a quantifiable commodity as in the US. Many OUS believe it should be spent establishing relationships, understanding one's partners, their objectives, and even their personal lives. In other words, unlike Americans most other cultures are willing to trade time for relationships. If you hurry negotiations, especially in Asia and the Latin countries, you will be greeted with mistrust.

E. **Simple or complex contracts?** Simple. Most cultures view complex contracts (thick documents that anticipate every possible negative outcome) as a sign of mistrust. Yes, you have to be detailed in terms of the protection of intellectual property, length of the contract, and the specific duties/responsibilities of each party. Beyond that, no.

After a year's experience you'll likely have to renegotiate the contract anyway as you and your partner will have learned a great deal about the market, your products, and each other. For this reason be sure the contract includes a clause that allows renegotiation in the event of unforeseen problems, misunderstandings, or performance that varies widely from what was estimated in the original contract.

F. **Don't forget your CFO.** Accounting principles and how they are employed differ from country to country due to culture, tax laws, etc. In some countries they are clearly defined and scrupulously adhered to. In other countries they are simply advisory.

How long does the whole process take? Typically it requires one to two years and dedicated personnel. Why? Establishing a foreign alliance or sister company is a long-term strategic decision and must be treated as such.

The Point: Establishing a foreign presence is more complex and potentially profitable than just hiring an export agent and shipping containers of goods OUS. It is not, however, a "quick fix" for a sales shortfall. Thoughtfully establishing a quantifiable objective and strategic direction, and taking the time to build trust with potential partners, are the keys.

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