“Deciding to Go International”

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Author Biography

Asim Khan is the Chief Executive Officer of Business Management Group, Inc., a consulting firm that specializes in engineering, marketing and management. His international business experience spans a wide range of industries, including commodities, energy, aerospace, defense, electronics, manufacturing, computers and technology, health care, publishing and financial services. In addition to his role as an executive consultant, Asim has served on the boards of directors for several corporations and nonprofit organizations. He holds a bachelor's degree in Business Administration and a master's degree in Technology Management from the University of Phoenix. Mr. Khan is also an Honorary Chairman on the National Republican Congressional Committee's Business Advisory Council.

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Executive Summary

There are many benefits to marketing a company's products or services overseas, but the decision to go international must be made carefully. Cultural and language barriers, political issues and variations in religious beliefs, societal norms, and business negotiation styles impact how business should be conducted with international counterparts. Two steps can prepare an organization for an overseas effort. First, an international marketing plan must be developed, and second, the organization must determine how it will enter the new market. Since creation of a dedicated export department can be an overwhelming and expensive task, an alliance with an outside party can reduce the time and effort it takes to become established in a foreign market. One option is to establish a joint venture. Another is the use of an export management company (EMC). An EMC has contacts and knowledge of foreign cultures and governments that can smoothly facilitate an international effort.

DECIDING TO GO INTERNATIONAL

In our increasingly global society, many companies cannot afford to live with the illusion that their domestic markets will always be strong. For this reason, many companies choose to market overseas as well. By taking a venture into international markets, a company can offset seasonal fluctuations in sales and increase profits in general through exposure to a greater number of prospects. Further, technical proficiency is often increased by expanding into markets with greater expertise in certain areas of technology. In addition, expanding into foreign markets can minimize a company's risk of losing market shares to customers who themselves take advantage of the Internet to look for suppliers of goods and services in foreign markets.

The decision to go international must be made with care, as there are many risks and potential obstacles to consider. Cultural and language barriers are among the most obvious of these considerations. Variations in religious beliefs, societal norms, and business negotiation styles all have an impact on how business needs to be conducted when dealing with foreign counterparts. Language barriers may present an obstacle when trying to communicate the benefits and advantages of a company's products and services overseas.

Other difficulties inherent in expanding into foreign markets include economic and political risks. Shifting borders and the instability of some foreign governments can pose a threat to the security of a business overseas. Foreign exchange and the issue of intellectual property protection need to be considered as well. In international arenas, where legal and economic systems are not as developed in some countries as they are in the United States, there is a risk of not being paid for your goods or services.

Even with all of the risks carefully considered, the benefits of going international often remain an advantage. An organization that wants to expand overseas can strike a balance between risk and opportunity by being prepared. There are essentially two major steps in preparing for an overseas effort: (1) develop a specific international marketing plan, and (2) decide how to enter the market. An international marketing plan should outline and define the product or service to be sold and the country or countries in which it will be sold. In doing so, it is essential to consider whether a product that works in the United States will work in other markets. For example, electrical outlets in Europe and Asia operate at 220 volts, while those in the United States operate at 120 volts. Products designed for the American electrical system would need to be modified for overseas markets.

A company that wishes to expand internationally needs to be familiar with the target country's culture and determine the feasibility of marketing its product or service in that environment. Market conditions must be assessed to ensure that a new company can win a share of the foreign market. Tariffs, duties and compliance with United States export administration regulations are other important issues to consider as well. These considerations require some expertise in the financial and legal aspects of exporting.

Developing the required organizational processes and allocating appropriate resources to an international effort often requires creating a separate export department within an organization that is responsible for all aspects of dealing with foreign markets. Many companies attempt this by having a single sales manager and his or her assistants responsible for setting a budget, shipping goods and developing international growth. However, this can be an expensive alternative when overhead and liability costs are considered. Companies that "go it alone" may need anywhere from three to five years to develop a sizeable market share. In many cases, assistance from an outside source can dramatically reduce the time it will take to become established in foreign markets.

The use of an export management company (EMC) is often the most feasible way to break into an international market. In effect, an EMC can be used to manage an entire international sales effort. A reputable company with existing overseas relationships and contacts can offer access to key decision makers and buyers, allowing a company to break into overseas markets more quickly and efficiently. An EMC can also provide localization services, which start with but go beyond simply translating language. Localization refers to adapting a company's entire image to fit another culture. Export management companies offer working capital, clearing customs paperwork, and trade insurance for a fee and commission. Beyond the obvious value of intimate know-how and access to extensive overseas contacts that an EMC can provide is the benefit of having after sales support. A good export management company has years of specialized experience in negotiating with governments, freight forwarders and banks. This keeps suppliers and buyers working together without unethical circumvention of the EMC.

Another route that organizations may consider when expanding into foreign markets is to establish a joint venture. This may be necessary to enter certain markets, and it is often an effective way to offset any political or economic risks that may not be immediately apparent. Setting up a joint venture can also dramatically reduce the time it will take to bring a product into a new market overseas because the burden of marketing and sales is shared with another company already operating in the foreign market. When establishing a joint venture, though, it is vital to find a trusted partner. This requires due diligence in the host market and performing checks and balances to ensure that foreign partners can sufficiently cater to the needs of both an organization and its customers. To be effective, the proposed alliance must bring enough value for both parties to invest directly in a joint venture. Sufficient financial, physical, and managerial resources must be available to manage a new marketing effort.

One type of joint venture that is fairly easy to implement beneficially is a licensing arrangement. For a fee or royalty payment, a licensor usually grants a license to a foreign manufacturer or service provider to use a process, trademark, patent, trade secret or other object of value. The obvious drawback to any licensing arrangement is that it can be difficult to enforce proprieties in developing countries. Also, if the licensee becomes successful in establishing a market, the licensor can end up losing significant profit and control and might end up competing with its creation. To implement a licensing agreement or joint venture successfully, knowledge of local trade practices, language and cultural sensitivity remains an issue. In order to learn about a target country and how to best access it, companies can again use the services of export management companies, rely on internal resources, or turn to available government-sponsored organizations for help.