

2.8: Key Management Decisions and Considerations

Learning Objectives

1. Understand the organizational support that will be needed for exporting activities.
2. Understand the need to select the best market to entry.
3. Identify and describe each possible market entry strategy.
4. Learn about the different approaches to getting paid.
5. Appreciate the importance of business etiquette when traveling to visit customers.
6. Understand the importance of an export plan.

After a business decides to jump into the global pond, several key management decisions must be made (Figure 15.3). Among them are organization for the global project, selecting the best market to enter, the level of involvement desired, and how to get paid. There should also be consideration of global etiquette and travel.

Figure 15.3 Management Decisions



Several important questions about the global venture should be answered before making any management decisions or considerations. "Management Issues Involved in the Export Decision," *Export.gov*, March 31, 2011, accessed February 7, 2012, export.gov/exportbasics/eg_main_017455.asp. Less than satisfactory answers to these questions may put the global venture in jeopardy.

1. Do the company's reasons for pursuing export markets include solid objectives, such as increasing sales volume or developing a broader, more stable customer base, or are the reasons frivolous, such as the owner wants an excuse to travel?
2. How committed is top management to the export effort? Is it viewed as a quick fix for a slump in domestic sales? Will the company neglect its export customers if domestic sales pick up?
3. What are management's expectations for the export effort? Will they expect export operations to become self-sustaining quickly? If so, how quickly?
4. What level of return on investment is expected from the export project?

Organization for the Global Project

It will be important to have some kind of structure or team within the business to handle the global side of the business. It does not have to be large, but it should be dedicated to ensuring that export sales are adequately serviced, and there should be a clear indication of who will be responsible for the organization and staffing. "Management Issues Involved in the Export Decision," *Export.gov*, March 31, 2011, accessed February 7, 2012, export.gov/exportbasics/eg_main_017455.asp. Having the right resources for the global effort is critical, so a business should make the most of skills already held by staff members, for example, languages

or familiarity with a range of foreign currencies. If these and other needed skills are not already available on staff, a small business should seek assistance from external experts. Tricia Phillips, “Biz Bureau Gives Top Tips on Going Global with Your Business,” *Mirror*, January 26, 2011, accessed February 7, 2012, www.mirror.co.uk/advice/money/2011/01/26/biz-bureau-gives-top-tips-on-going-global-with-your-business-115875-22875517.

Other organizational issues that small businesses must address before going abroad include the following: Denise O’Berry, “Is Now the Time to Expand to Global Markets?,” *AllBusiness.com*, April 14, 2008, accessed February 7, 2012, www.allbusiness.com/company-activities-management/company-strategy/8518731-1.html; Anita Campbell, “Smaller and Younger Companies Get Overseas Presence,” *Small Business Trends*, December 7, 2007, accessed February 7, 2012, smallbiztrends.com/2007/12/smaller-and-younger-companies-get-overseas-presence.html; “Management Issues Involved in the Export Decision,” *Export.gov*, March 31, 2011, accessed February 7, 2012, export.gov/exportbasics/eg_main_017455.asp.

- **Getting internal buy-in.** Because going overseas to do business is a larger undertaking than many businesses realize, make sure that senior management and the people who are responsible for implementing and supporting the overseas effort know what the goals are and what is expected of them with respect to oversight and management. Knowing how much senior management time should be and could be allocated is an important part of getting internal buy-in. Look for support from people in all functions of the business.
- **Making sure that the full costs of overseas hiring are understood.** If people from overseas will be hired, employment regulations and practices are very different. For example, outside the United States, employment benefits often represent a larger percentage of an employee’s salary than in the United States; in the European Union, for example, a full-blown employment contract is needed, not just an offer letter. This tilts the balance of power to the employee at the expense of the company, making termination very difficult. Understanding the full ramifications of hiring people outside the United States has significant implications for a company’s financial success.
- **Thinking about how the business will manage overseas employees’ expectations.** Different time zones and countries wreak havoc with keeping employees on the same page. Employees hired locally may have very different ideas about what is considered acceptable than a US employee does. Unless expectations and responsibilities are clearly conveyed at the beginning, problems will undoubtedly arise. They may anyway, but perhaps they will not be as serious.

Market Selection

A business must select the best market(s) to enter. The three largest markets for US products are Canada, Japan, and Mexico, but these countries may not be the largest or best markets for a particular product. Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html. If a business is not sure where the best place for doing global business is, one good approach is to find out where domestic competitors have been expanding internationally. Although moving into the same market(s) may make good sense, a good strategy might also be to go somewhere else. Three key US government databases that can identify the countries that represent significant export potential for a product are as follows: Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html.

1. The SBA’s Automated Trade Locator Assistance System
2. Foreign Trade Report FT925
3. The US Department of Commerce’s National Trade Data Bank

After identifying the country or countries that may offer the best market potential for a product, serious market research should be conducted. A business should look at all the following factors: demographic, geographic, political, economic, social, cultural, market access, distribution, production, and the existence or absence of **tariffs** and nontariff trade barriers. Tariffs are taxes imposed on imported goods so that the price of imported goods increases to the level of domestic goods. Tariffs can be particularly critical in selecting a particular country because the tariff may make it impossible for a US small business to profitably sell its products in a particular country.

Nontariff trade barriers are laws or regulations enacted by a country to protect its domestic industries against foreign competition. Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html. These barriers include such things as import licensing requirements; fees; government procurement policies; border taxes; and packaging,

labeling, and marking standards. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 40.

Market Entry Strategies

A small business must decide how it wants to enter the selected foreign market(s). Several choices might look attractive for a business (see Figure 15.4). Direct and indirect exporting, strategic alliances, joint ventures, and direct foreign investment are discussed in this section. The benefits and risks associated with each strategy depend on many factors. Among them are the type of product or service being produced; the need for product or service support; and the foreign economic, political, business, and cultural environment to be penetrated. A firm's level of resources and commitment and the degree of risk it is willing to incur will help determine the strategy that the business thinks will work best. "Exporting Basics," *SmallBusiness.com*, February 6, 2010, accessed February 7, 2012, smallbusiness.com/wiki/Exporting_basics.

Figure 15.4 Examples of Export Market Entry Strategies



Direct exporting and indirect exporting are discussed in [Section 15.2](#).

- A **joint venture (JV)** is a partnership with a foreign firm formed to achieve a specific goal or operate for a specific period of time. A legal entity is created, with the partners agreeing to share in the management of the JV, and each partner holds an equity position. Each company retains its separate identity. Among the benefits are immediate market knowledge and access, reduced risk, and control over product attributes. On the negative side, JV agreements across national borders can be extremely complex, which requires a very high level of commitment by all parties. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 329; William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2008), 93; "Joint Ventures and Strategic Alliances," *Fukuda Law Firm*, accessed February 7, 2012. Because some countries have restrictions on the foreign ownership of corporations, a JV may be the only way a small business can purchase facilities in another country. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 47.
- A **strategic alliance** is very similar to a JV in that it is a partnership formed to create competitive advantage on a worldwide basis. William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2008), 93). An agreement is signed between two corporations, but a separate business entity is not created. "Joint Ventures and Strategic Alliances," *Fukuda Law Firm*, accessed February 7, 2012. The business relationship is based on cooperation out of mutual need, and there is shared risk in achieving a common objective. Growing at a rate of about 20 percent per year, strategic alliances are created

for many reasons (e.g., opportunities for rapid expansion into new markets, reduced marketing costs, and strategic competitive moves). Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 327. “Small businesses excel at forming strategic partnerships and alliances which make them look bigger than they are and offer their customers a global reach.” Laurel Delaney, “Global Guru: Shaking Things Up. Making Things Happen,” *Change This*, October 19, 2004, accessed February 7, 2012, changethis.com/manifesto/6.03.GlobalGuru/pdf/6.03.GlobalGuru.pdf.

- **Direct foreign investment** is exactly what it sounds like: investment in a foreign country. If a business is interested in manufacturing locally to take advantage of low-cost labor, gain access to raw materials, reduce the high costs of transportation to market, or gain market entry, direct foreign investment is something to be considered. However, the complicated mix of considerations and risks—for example, the growing complexity and contingencies of contracts and degree of product differentiation—makes decisions about foreign investments increasingly difficult. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 332.

Getting Paid

Being paid in full and on time is of obvious importance to a business, so the level of risk that it is willing to assume in extending credit to customers is a major consideration. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 177. The credit of a buyer will always be a concern, but potentially more worrisome is the lessened recourse a business will have when it comes to collecting unpaid international debts. Extra caution must be exercised. Both the business owner and the buyer must agree on the terms of the sale in advance. Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html.

The primary methods of payment for international transactions are payment in advance (the most secure), letters of credit, documentary collection (drafts), consignment, and open account (the least secure), which are described as follows: Laurel Delaney, “A How-To on Expanding Your Business Globally,” *The Global Small Business Blog*, January 11, 2011, accessed February 7, 2012, borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html; US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 178–80, 182–83.

- **Cash in advance.** This is the ideal method of payment because a company is relieved of collection problems and has immediate use of the money. Unfortunately, it tends to be an option only when the manufacturing process is specialized, lengthy, or capital intensive and requires partial or progress payments. Wire transfers are commonly used, and many exporters accept credit cards.
- **Documentary letter of credit.** This is an internationally recognized instrument issued by a bank on behalf of its client, the purchaser. A letter of credit represents the bank’s guarantee to pay the seller, provided that the conditions specified in the letter are fulfilled.
- **Documentary collection or draft.** This involves the use of a draft, drawn by the seller on the buyer. It requires the buyer to pay the face amount either on sight (sight draft) or on a specified date in the future (time draft). The draft is an unconditional order to make payment in accordance with its terms, which specify the documents needed before title to the goods will be passed. All terms of payment should be clearly specified so that confusion and delay are avoided.
- **Open account.** With an open account, the exporter bills the customer, who is then expected to pay under agreed-on terms at a future date after the goods are manufactured and delivered (usually with fifteen, thirty, or sixty days). This payment method works well if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for being creditworthy. This approach is considered risky in international business because a business has limited recourse if debts are unpaid. Small businesses considering this option must examine the political, economic, and commercial risks very thoroughly.
- **Consignment sales.** Goods are shipped to a foreign distributor, which sells them on behalf of the exporter. Title to the goods remains with the exporter until they are sold, at which point payment is sent to the exporter. The exporter has the greatest risk and least control over the goods with this method, and payment may take a while. Risk insurance should be seriously considered with consignment sales.

When buyers default on their payments, it can be time-consuming, difficult, and expensive to obtain payments. A business should contact the buyer and try to negotiate payment. If negotiation fails and the amount of the debt is large enough to make a difference in that business, obtain the assistance and advice of the business’s bank, legal counsel, and the [US Commercial Service](http://www.uscommercialservice.org/), an organization that can resolve payment problems informally. If arbitration becomes necessary, the [International Chamber of Commerce](http://www.iccn.com/) is the place to go. It handles most international arbitrations and is usually acceptable to foreign companies because it is not affiliated with any single country. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 184.

Business Etiquette and Travel

Having a successful global business requires getting to know the history, the culture, and the customs of the country or countries in which a business hopes to expand. Each country is different from another and the United States in some ways. Some of these differences have been discussed earlier in this chapter. Among the cultural differences to be faced are business styles, attitudes toward business relationships and punctuality, negotiating styles, gift-giving customs, greetings, the significance of gestures, the meanings of colors and numbers, and customs regarding titles. For example, engaging in small talk before conducting business is standard practice in Saudi Arabia, and gift giving is an important part of doing business in Japan. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 211.

Before traveling to the chosen country or countries, knowing any and all cultural differences is critical. It is also important to educate stateside employees who will be working with international customers.

Being successful in global operations will depend on the relationships that are built. The best way to build them is by traveling to the selected country. Travel there...but do so with the cultural knowledge and understanding that will allow the conduct of business without inadvertently offending a potential customer.

Video Link 15.11

Meet Your Customers: Traveling There

Building relationships for success in exporting businesses.

www.inc.com/exporting/travelingthere.htm

The Export Plan

After deciding to sell products or services abroad, a carefully researched export plan is a source of direction. An export plan helps a business act on—rather than react to—the challenges and risks encountered in global business. The plan will also help a business obtain financial assistance and find investors, strategic partners, and JV partners that may be needed for success. “10 Steps to Successful Exporting,” *About.com*, accessed February 7, 2012, sbinfocanada.about.com/od/canadaexport/a/10exportsteps.htm.

There are many elements of an export plan, including a description of the company; its market and industry; its objectives; information on its products or services; an analysis of the target market and industry, including trends and forecasts; an examination of competitors and their strengths and weaknesses; international marketing strategies, including customer profiling and the development of sales and distribution channels; employment and training issues; after-sales and customer service, and financial requirements and forecasts. “10 Steps to Successful Exporting,” *About.com*, accessed February 7, 2012, sbinfocanada.about.com/od/canadaexport/a/10exportsteps.htm. “Many companies launch their export activities haphazardly and are unsuccessful in their early efforts because of poor or no planning, which often leads them to abandon exporting altogether.” US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 18.

Video Link 15.12

Providing Good Customer Service

Small business owners talk about what they have learned by serving international customers.

www.inc.com/exporting/customerservice.htm

A business's first export plan should be simple, only a few pages because important market data and planning elements may not be easily available or completely unavailable. The plan should be written and seen as a flexible management document, not a static document that sits on a shelf somewhere gathering dust. Objectives need to be compared against actual results, just as a business would do with its marketing plan and its overall business plan. A business should be open to revising the plan as necessary as new information becomes available and experience is gained. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 18.

Video Link 15.13

Creating an Export Business Plan

Small business owners agree that developing a strategic plan is the first step toward exporting success.

www.inc.com/exporting/businessplan.htm

KEY TAKEAWAYS

- Before taking a business global, desire to pursue export markets for good rather than frivolous reasons.
- Management commitment must be present for successful global operations.
- A business must decide on some kind of structure to handle its global side. It should be dedicated to ensuring that export sales are adequately serviced.
- Getting internal buy-in is critical.
- A business will need to select the best market(s) to enter. Although Canada, Japan, and Mexico are the largest markets for US products, these countries may not be the best markets for specific products or services.
- Tariffs and nontariff trade barriers can pose serious constraints.
- A business must decide how to enter a foreign market. For example, it can choose direct and indirect exporting, strategic alliances, JVs, and direct foreign investment.
- Being paid in full and on time is of obvious importance, especially considering the difficulties a business will encounter in collecting an unpaid international debt. The most secure method of payment is cash in advance. The least secure is an open account.
- Learning and understanding the business etiquette of the country or countries to which a business is exporting is a very important part of building business relationships.
- A carefully researched export plan is a source of direction, and it will help a business act on—rather than react to—the challenges and risks it will encounter in global business.

EXERCISE

1. Go to the Coca-Cola website (www.coca-cola.com/en/index.html) and select one website from each of the following geographic areas: Latin America, Europe, Eurasia, Africa, and Asia Pacific. Compare the home pages of these sites to the US home page—even though you will not understand the language (unless you are bilingual). Look at the graphics, layout, and uses of color. What are the similarities? What are the differences? To what would you attribute the differences? How would these similarities and differences inform the design of a small business website for conducting global business?

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