

## 2.7: What You Should Know Before Going Global

### Learning Objectives

1. Learn about the different ways that a business can export.
2. Understand the importance of an industry analysis.
3. Understand that it is important to carefully assess a business.
4. Learn about the marketing decisions that must be made.
5. Learn about the kinds of legal and political issues that will affect the exporting activities of a business.
6. Understand why the currency exchange rate is important to determining price.
7. Learn about the different sources of financing.

Although expanding into global markets offers many important benefits, not the least of which is increased profits, it will also introduce new complexities into the operations of a small business. There are several key decisions (see Figure 15.1) that will need to be made, including the following: Adapted from David L. Kurtz, *Contemporary Business* (Hoboken, NJ: John Wiley & Sons, 2011), 121.

- Determine which foreign market(s) to enter.
- Analyze the expenditures required to enter a new market and determine the source(s) of financing.
- Determine the best way to organize the overseas operation in concert with the US organization.
- Determine the extent to which, if any, the marketing mix will need to be adapted to the needs of the foreign market(s).
- Figure out the best way for the business to get paid.

These decisions, and others, will be based on an assessment of the ways to export, an analysis of the industry and the business, marketing and cultural factors, legal and political conditions, currency exchange issues, and sources of financing.

### Video Link 15.2

#### A Family Business Goes Global

A small business specializing in leather-care products gets a lesson in expanding beyond its old fashioned clientele.

[money.cnn.com/video/fsb/2008/09/10/fsb.pecard.makeover.fsb](http://money.cnn.com/video/fsb/2008/09/10/fsb.pecard.makeover.fsb)

Figure 15.1 Factors Affecting the Decision to Go Global



## Ways to Export

Small businesses can choose from two basic ways to export: directly or indirectly. 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html). There are advantages and disadvantages of each that should be understood before making a choice.

### Direct Exporting

In **direct exporting**, a small business exports directly to a customer who is interested in buying a particular product. The small business owner makes all the arrangements for shipping and distributing the product overseas, is responsible for the marketing research, and collects payment. This approach gives the owner greater control over the entire transaction and entitles him or her to higher profits—although these higher profits are accompanied by the need to invest significantly more resources and efforts (see Table 15.1). It also requires a significantly changed internal organizational structure, which entails more risk. 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html); Laurel Delaney, “Direct Exporting: Advantages and Disadvantages to Direct Exporting,” *About.com*, accessed February 7, 2012, [importexport.about.com/od/DevelopingSalesAndDistribution/a/Direct-Exporting-Advantages-And-Disadvantages-To-Direct-Exporting.htm](http://importexport.about.com/od/DevelopingSalesAndDistribution/a/Direct-Exporting-Advantages-And-Disadvantages-To-Direct-Exporting.htm); “The Advantages of Direct Exporting,” *vcShipping.com*, accessed February 7, 2012, [www.vcshipping.com/export/the-advantages-of-direct-exporting.html](http://www.vcshipping.com/export/the-advantages-of-direct-exporting.html).

Table 15.1 Advantages and Disadvantages of Direct Exporting

| Advantages  | Disadvantages  |
|---|--|
| Potential profits are greater because intermediaries are eliminated.  | It takes more time, energy, and money than an owner may be able to afford.   |
| The owner has a greater degree of control over all aspects of the transaction.  | It requires more “people power” to cultivate a customer base.  |
| The owner knows customers, and the customers know the owner. Customers feel more secure in doing business directly with the owner.  | Servicing the business will demand more responsibility from every level in the organization. The owner is held accountable for whatever happens. There is no buffer zone.  |
| Business trips are much more efficient and effective because an owner can meet directly with the customer responsible for selling the product.  | The owner may not be able to respond to customer communications as quickly as a local agent can.   |
| The owner knows whom to contact if something is not working. The owner gets slightly better protection for trademarks, patents, and copyrights.   | The owner must handle all the logistics of the transaction. If it is a technological product, the owner must be prepared to respond to technical questions and provide on-site start-up training and ongoing support services. |
| The owner is presented as fully committed and engaged in the export process and develops a better understanding of the marketplace. As a business develops in the foreign market, the owner has greater flexibility to improve or redirect marketing efforts. |  |

Source: Laurel Delaney, “Direct Exporting: Advantages and Disadvantages to Direct Exporting,” *About.com*, accessed February 7, 2012, <http://importexport.about.com/od/Dev...-Exporting.htm>.

### Indirect Exporting

**Indirect exporting** involves entering “into an agreement with an agent, distributor, or a traditional exporting house for the purpose of selling (or marketing and selling) the products in the target market.” Team Canada Inc., “10 Steps to Successful Exporting,” *About.com*, accessed February 7, 2012, [sbnifocanada.about.com/od/canadaexport/a/10exportsteps.htm](http://sbnifocanada.about.com/od/canadaexport/a/10exportsteps.htm). Many small businesses choose this option, at least at the outset. It is the simplest approach, particularly when a business does not have the necessary

human and financial resources to promote products in foreign markets in any other way (see Table 15.2). CBS Investment, “Advantages and Disadvantages of Direct and Indirect Exports,” *CBS Investment*, accessed February 7, 2012, [www.cbsinvestment.com/advantages-and-disadvantages-of-direct-and-indirect-exports/](http://www.cbsinvestment.com/advantages-and-disadvantages-of-direct-and-indirect-exports/); 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html). The easiest way to export indirectly is to sell to an intermediary in the United States because the business will normally not be responsible for collecting payment from the overseas customer or coordinating the shipping logistics. Laurel Delaney, *Start and Run a Profitable Exporting Business* (Vancouver, BC: Self-Counsel Press, 1998): chapter 8.

Table 15.2 Advantages and Disadvantages of Indirect Exporting

| Advantages   | Disadvantages  |
|--|--|
| Does not require a lot of organizational effort or staff workers.  | Not all types of goods lend themselves to indirect exporting (e.g., technically complex goods and services).   |
| The producer of the goods is subject to only small dangers and risk (e.g., a short-term drop in the exchange rate).  | The profits of a business will be lower, and control over foreign sales is lost.   |
| It is an almost risk-free way to begin. It demands minimal involvement in the export process. It allows the owner to continue to concentrate on its domestic business.                                       | A business very rarely knows who its customers are, thus losing the opportunity to tailor its offerings to their evolving needs.   |
| The business has limited liability for product marketing problems. There is always someone else at which to point the finger.  | When an owner visits, he or she is a step removed from the actual transaction and feels out of the loop.   |
| The owner learns on the fly about international marketing. Depending on the type of intermediary with which the owner is dealing, the owner does not have to be concerned with shipment and other logistics. | The intermediary might be offering products similar to a particular business's products, including directly competitive products, to the same customers instead of providing exclusive representation. |
| A business can field-test its products for export potential. In some instances, the local agent can field technical questions and provide necessary product support.   | The long-term outlook and goals for an export program can change rapidly, and if a business has put its product in someone else's hands, it is hard to redirect efforts accordingly.                   |

Source: CBS Investment, “Advantages and Disadvantages of Direct and Indirect Exports,” *CBS Investment*, accessed February 7, 2012, <http://www.cbsinvestment.com/advanta...irect-exports/>; Laurel Delaney, *Start and Run a Profitable Exporting Business* (Vancouver, BC: Self-Counsel Press, 1998), chapter 8.

## Industry Analysis

Before jumping into the global pond, it is a good idea to identify where an industry currently is and then look at the trends and directions that are predicted over the next three years. This will be true whether a business is only on the ground, only online, or both brick and click.

A business should try to determine how competitive an industry is in the global market. 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html). Try to get as good a picture of the market as possible because the better informed a business is, the better its chances of a successful global entry. Learn a product's potential in a given market, where the best prospects for success seem to be, and common business practices. “6 Steps to Begin Exporting,” *US Small Business Administration*, accessed February 7, 2012, [www.sba.gov/content/6-steps-begin-exporting](http://www.sba.gov/content/6-steps-begin-exporting).

A small business owner may be reticent about conducting market research before going global, particularly if domestic research efforts have been limited or nonexistent. However, the global market is a very different animal compared to the domestic market. It is even more important to conduct thorough market research to help identify possible risks in advance so that the appropriate steps can be taken to avoid mistakes. This ultimately portrays the business as forward-thinking, trustworthy, and credible. 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](http://www.mirror.co.uk/advice/money/2011/01/26/biz-bureau-gives-top-tips-on-going-global-with-your-business-115875-22875517).

- Several resources should be consulted. However, the best guide to exporting for the small business comes from the US government. “A Small Business Guide to Exporting: Part 1—Getting Started,” *AllBusiness.com*, accessed February 7, 2012, [www.allbusiness.com/economy-economic-indicators/money-currencies/11790828-1.html](http://www.allbusiness.com/economy-economic-indicators/money-currencies/11790828-1.html).
- The [SBA](#) is a great place to start to find information to help a business break into the global game. The information on exporting and importing is comprehensive and easily understood.
- The US government portal [Export.gov](#) provides online trade resources and one-on-one assistance for global businesses. Export.gov provides particularly helpful information on regulations, licenses, and trade data and analysis. Trade data can help a business identify the best countries to target for exports. A business can gauge the size of the market for a product or a service and develop a pricing strategy to become competitive. “Trade Data and Analysis,” *Export.gov*, March 3, 2011, accessed February 7, 2012, [export.gov/tradedata/index.asp](http://export.gov/tradedata/index.asp).
- The [US International Trade Commission](#) offers market information, trade leads, and overseas business contacts. Trade professionals are available to help a business every step of the way with information counseling that can reduce costs, risks, and the mystery of exporting. “Session 11: Global Expansion,” *My Own Business*, accessed February 7, 2012, [www.myownbusiness.org/global\\_expansion/index.html](http://www.myownbusiness.org/global_expansion/index.html).
- The [US Department of Commerce](#) provides trade opportunities for US business, export-related assistance, and market information. “Session 11: Global Expansion,” *My Own Business*, accessed February 7, 2012, [www.myownbusiness.org/global\\_expansion/index.html](http://www.myownbusiness.org/global_expansion/index.html).
- Information about protecting intellectual property abroad can be found at <http://www.stopfakes.gov>. This is important because counterfeiting and piracy cost the world economy approximately \$650 billion per year. “Session 11: Global Expansion,” *My Own Business*, accessed February 7, 2012, [www.myownbusiness.org/global\\_expansion/index.html](http://www.myownbusiness.org/global_expansion/index.html).

Other sources to be consulted include people in the same business or industry, industry-specific magazines, trade fairs, seminars, 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html). and export training and technical assistance that is available to small businesses through the states and the federal government. The [Federation of International Trade Associations](#) is a global trade portal that provides trade leads, market research, links to eight thousand import/export websites, and even travel services. [WorldBid.com](#) describes itself as the largest network of international trade marketplaces in the world, providing trade leads and new business contacts. “Session 11: Global Expansion,” *My Own Business*, accessed February 7, 2012, [www.myownbusiness.org/global\\_expansion/index.html](http://www.myownbusiness.org/global_expansion/index.html).

The Internet makes it possible to gather and view tremendous amounts of information. If a business is thinking seriously about going global, there is no better time to take advantage of this quick-and-easy access than now.

### Video Link 15.3

Knowing the Export Environment

Government experts identify challenges and debunk some myths.

[www.inc.com/exporting/exportsuccess.htm](http://www.inc.com/exporting/exportsuccess.htm)

### Business Assessment: Are You Ready?

It is important to honestly self-evaluate a business to determine whether it is really ready to go global or not...or at least not yet. “Is Your Small Business Ready to Go Global?,” *Small Business CEO*, February 7, 2011, accessed February 7, 2012, [www.smbceo.com/2011/02/07/global-business-2](http://www.smbceo.com/2011/02/07/global-business-2). If a business is thinking about expanding globally, it is probably already doing something right to have reached this point. However, that does not preclude the importance of assessing its strengths and its weaknesses to determine the approach that should be taken in the global market. 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html). This will be true no matter what role e-commerce plays in a business. Even a micromultinational business should assess its strengths and its weaknesses, although its instantaneous presence as a global business means that the assessment must be done at start-up and then must continue as products and services move from country to country.

There are several issues that should be addressed. The following are some of the questions that should be asked: 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html); “Starting an Export Business,” *Gaebler.com*, May

19, 2011, accessed February 7, 2012, [www.gaebler.com/Starting-an-Export-Business.htm](http://www.gaebler.com/Starting-an-Export-Business.htm); William M. Pride, Robert J. Hughes, and Jack R. Kapoor, *Business* (Boston: Houghton Mifflin, 2008), 96; “Is Your Small Business Ready to Go Global?,” *Small Business CEO*, February 7, 2011, accessed February 7, 2012, [www.smbceo.com/2011/02/07/global-business-2](http://www.smbceo.com/2011/02/07/global-business-2).

- Why is a business successful in the domestic market? What is its growth rate? What are its strengths?
- What products have export potential? Do the products fill a niche that is exclusive to the US market? Are they packaged in a way that can be understood by non-English-speaking consumers? Do they violate any cultural taboos or contain ingredients that will prohibit their sale in a foreign market? Identify the key selling features of the products, identify the needs that they satisfy, and identify any selling constraints.
- What are the competitive advantages of a particular business's products over other domestic and international businesses?
- What competitive products are sold abroad and by whom?
- Does the product require complementary goods and technologies? If so, who will provide them?
- How will the business provide customer service?
- Can production handle a wider demographic? Can the business increase output without sacrificing quality?
- Does the business have the money to market globally?
- Is the entire business (including all staff) committed to a global effort?

If a product is an industrial good, a business will want to know things such as what firms will likely use it, whether its use or life might be affected by climate, and whether geography will present transportation problems that will affect purchase. In the case of a consumer good, a business will want to know who will consume it; how frequently it will be purchased; whether it will be restricted abroad; whether climate or geography will negatively impact accessibility for purchase; and—perhaps most importantly—whether it conflicts with traditions, taboos, habits, or the beliefs of customers abroad. 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](http://borderbuster.blogspot.com/2011/01/how-to-on-expanding-your-business.html).

A helpful tool to assess readiness is the export questionnaire available at [www.export.gov/begin/assessment.asp](http://www.export.gov/begin/assessment.asp). This questionnaire highlights characteristics common to successful exporters and identifies areas that need to be strengthened to improve export activities.

#### Video Link 15.4

Where Will Your Next Customer Come From?

Small businesses looking to grow should look beyond US borders to find new customers.

[www.sba.gov/content/where-will-your-next-customer-come](http://www.sba.gov/content/where-will-your-next-customer-come)

### Marketing

Just as it is necessary to offer a different marketing mix (see Figure 15.2) for different target markets, it will generally be necessary to adapt the marketing mix to the global market in general and different countries in particular. A business's unique **value proposition** (the set of benefits offered to customers to satisfy their needs and wants consisting of some combination of products, services, information, and experiences) Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 13, is what will differentiate one marketplace offering from the competition. Given the more diversified competition in the global marketplace, identifying the value proposition is even more critical—and most likely more difficult—than in the domestic market. Jennifer LeClaire, “How to Take Your Small Business Global,” *E-Commerce Times*, June 20, 2006, accessed February 7, 2012, [www.ecommercetimes.com/story/50910.html%20?wlc=1305842348](http://www.ecommercetimes.com/story/50910.html%20?wlc=1305842348).

Figure 15.2 The Marketing Mix



## Product

The ideal situation is when a product developed for the US market can be sold in a foreign country without any changes. Although some kinds of products can be introduced with no changes (e.g., cameras, consumer electronics, and many machine tools), Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 611. most products usually have to be altered in some way to meet conditions in a foreign market. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 49. From a small business perspective, the owner will want to market products that do not require drastic changes to be accepted. Relatively minor packaging changes, such as size or the language on the package, can be made inexpensively, but more drastic changes should be avoided. If a product must be changed drastically to market it globally, conduct an in-depth cost analysis to determine whether the additional costs will outweigh the anticipated benefits. “All About Global Marketing,” *BusinessKnowledgeSource.com*, accessed February 7, 2012, [www.businessknowledge.com/marketing/all\\_about\\_global\\_marketing\\_032164.html](http://www.businessknowledge.com/marketing/all_about_global_marketing_032164.html). If a product is a food or a beverage, for example, is the business prepared to make the changes necessary to appeal to widely varying tastes? Arundhati Parmar, “Dependent Variables: Sound Global Strategies Rely on Certain Factors,” *Marketing News*, September 2002, 2.

Products need to be adapted for many reasons, including the following: Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 341, 351, 353; “Global Linguistic Analysis,” *Strategic Name Development*, accessed February 7, 2012, [www.namedevelopment.com/global-linguistic-analysis.html](http://www.namedevelopment.com/global-linguistic-analysis.html).

- Different physical or mandated requirements must be met (e.g., electrical goods will need to be rewired for different voltage systems).
- The legal, economic, political, technological, and climatic requirements of the local marketplace vary (e.g., varying laws will set specific packaging sizes and safety and quality standards).
- The product or the company name must translate flawlessly to the new target market so that it does not convey an unintended, perhaps very negative, meaning. One of the most well-known examples of a translation blunder is the Chevy Nova. In Spanish,



“nova” means “no go.”

- The package label may need to be changed. Imagine the horror of a well-known baby food producer that introduced small jars of baby food in Africa when it found out that the consumers inferred from the baby picture on the jars that the jars contained ground-up babies. This shows us that even big companies can make big mistakes.
- A change in flavor or fragrance may be necessary to bring a product in line with what is expected in a culture. The pine and hints of ammonia or chlorine scents that are popular in the United States were flops in Japan because many Japanese sleep on the floor on futons. With their heads so close to the floor, a citrus scent is more pleasing.

The less economically developed a market happens to be, the greater may be the need for product adaptation. Research has found that only one in ten products can be marketed in developing countries without some kind of product adaptation. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 341.

## Cultural Differences

It is important to know that cultural and social differences are intertwined with the perceived value and importance that a market places on a product. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 343. “A product is more than a physical item: It is a bundle of satisfactions (or *utilities*) that the buyer receives. These include its form, taste, color, odor, and texture; how it functions in use; the package; the label; the warranty; the manufacturer’s and retailer’s servicing; the confidence or prestige enjoyed by the brand; the manufacturer’s reputation; the country of origin; and any other symbolic utility received from the possession or use of the goods. In short, the market relates to more than a product’s physical form and primary function.” C. K. Prahalad, *The Fortune at the Bottom of the Pyramid* (Philadelphia: Wharton School Publishing, 2005), as cited in Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 343.

The values, customs, rituals, language, and taboos within a culture will determine the acceptability of a product or a service. Cultural sensitivity is particularly important in cyberspace. Website visitors may come from anywhere in the world. Icons and gestures that seem friendly to US visitors may shock people from other cultures. For example, a high-five hand gesture would be insulting to a visitor from Greece. David L. Kurtz, *Contemporary Business* (Hoboken, NJ: John Wiley & Sons, 2011), 109. Knives and scissors should not be given as gifts in South America because they symbolize the severing of a friendship. David L. Kurtz, *Contemporary Business* (Hoboken, NJ: John Wiley & Sons, 2011), 109.

The **psychological attributes** of a product (features that have little to do with the primary function of the product but add value to customer satisfaction, e.g., color, size, design, brand name, and price) Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 343. can also vary across cultures, and the meaning and the value assigned to those attributes can be positive or negative. It may be necessary to adapt the nonphysical features of the product to maximize the positive meanings and eliminate the negative ones. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 343. When Coca-Cola, the number one global brand, introduced Diet Coke to Japan, it found that Japanese women do not like to admit to dieting. Further, the idea of diet was associated with medicine and sickness. Coca-Cola ended up changing the name to Coke Light. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 343. This happened in Europe as well, so if a product is associated with weight loss, a business must be very careful with its marketing.

## The Package

The package for a product includes its design, colors, labeling, trademarks, brand name, size, product information, and the actual packaging materials. There are many reasons why a package may have to be adapted for a particular country. There may be laws that stipulate a specific type of bottle or can, package sizes, measurement units, extraheavy packaging, and the use of particular words on the label. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 352. In some cases, the expense of package adaptation may be cost prohibitive for entering a market. Consider the following examples: Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 352–53.

- In Japan, a poorly packaged product is seen as an indicator of product quality.
- Prices are required to be printed on the labels in Venezuela, but putting prices on labels or in any way suggesting the retail price in Chile is illegal.
- A soft-drink company from the United States incorporated six-point stars as decoration on its package labels. But it had inadvertently offended some of its Arab customers who interpreted the stars as symbolizing pro-Israeli sentiment.
- Soft drinks are sold in smaller sizes in Japan to accommodate the smaller Japanese hand.
- Descriptive words such as giant or jumbo on a package or a label may be illegal in some countries.

The message here is clear. Before going global with a product, examine the packaging so that each element is in compliance with appropriate laws and regulations so that nothing will offend prospective customers.

### Global Packaging

Canada's oldest candymaker, [Ganong Brothers](#), is located about one mile from Maine. The company chairman, David Ganong, can see the US border from his office window. You would think it would be easy for Ganong Brothers to sell to the US market. Not so. In Canada, nutritional labels read 5 mg, with a space between the number and the unit of measurement. Ganong's jellybeans cannot get into America unless the label reads 5mg, without the space. This difference, as well as differences in Canada's nutritional guidelines, means that Ganong must produce and package its US products separately, which reduces its efficiency. Small differences can and do have a significant effect on cross-border trade. This may be the reason why there is not as much trade between the United States and Canada as you would think. Ryan Underwood, "Creating a Smart Export Strategy," *Inc.*, May 3, 2011, accessed February 7, 2012, [www.inc.com/magazine/20110501/author-pankaj-ghemawat-on-global-expansion-for-small-exporters.html](http://www.inc.com/magazine/20110501/author-pankaj-ghemawat-on-global-expansion-for-small-exporters.html). This notwithstanding, however, Canada remains the number one exporting destination for US small businesses. "Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports," *US International Trade Commission*, January 2010, accessed February 7, 2012, [www.usitc.gov/publications/332/pub4125.pdf](http://www.usitc.gov/publications/332/pub4125.pdf).

### The Business Website

As part of product preparations, a business will need to make its website ready for international business. Remember that the website is a very cost-effective way to sell a product or a service across borders. Here are four ways to ready the website: Anita Campbell, "How to Make Your Website Ready for International Business," *Small Business Trends*, October 29, 2010, accessed February 7, 2012, [smallbiztrends.com/2010/10/website-ready-international-business.html](http://smallbiztrends.com/2010/10/website-ready-international-business.html).

1. **Internationalize website content.** A business must account for language differences, and cultural differences may require different graphics and different colors. One way to deal with the additional costs is to translate text or provide country-specific sites only for the country or countries where the most products are sold. One organization that provides resources to help businesses localize their products and resources is the [Globalization and Localization Association](#).
2. **Calculate the buyer's costs and estimate shipping.** Shipping internationally will take longer, is more complicated, and will be more expensive than shipping domestically. Fortunately, there are shipping management software packages available that will automatically figure the costs and delivery times for overseas orders, giving a close estimate. Large shipping carriers, such as UPS and FedEx, offer such software; other companies include E4X Inc., eCustoms, and Kewill Systems Plc. Paul Demery, "Anchors Aweigh," *Internet Retailer*, January 31, 2008, accessed February 7, 2012, [www.internetretailer.com/2008/01/31/anchors-aweigh](http://www.internetretailer.com/2008/01/31/anchors-aweigh).
3. **Optimize site and search marketing for international web visitors.** With the increase in cross-border selling, websites can be optimized for visitors from specific countries, and techniques can be used to attract international visitors through search engines and search ads. This is a growing specialty among search marketers. A business should definitely check out the cost of hiring such a marketer as a consultant. It would be well worth the investment.
4. **Comply with government export regulations.** A business does not need government approval to sell most goods and services across international borders. There are, of course, notable exceptions. For example, the US government restricts defense or military goods, and agricultural, plant, and food items may have restrictions or special labeling requirements. Such restrictions should be addressed on the website. It may be necessary to restrict the sale of certain products to certain countries only.

### Video Link 15.5

Finding Your First Customer

To find the first customer, visit the selected country.

[www.inc.com/exporting/findingfirst.htm](http://www.inc.com/exporting/findingfirst.htm)

### Translation Blunders in Global Marketing

We often hear it said that something was lost in the translation. Here are some global marketing examples of translation blunders. Something important to note is that most of these blunders were committed by the "big guys," companies that are extremely marketing-savvy—proof positive that no one is immune from this kind of error.

- When Coca-Cola was first translated phonetically into Chinese, the result was a phrase that meant "bite the wax tadpole." When Coca-Cola discovered the error, the company was able to find a close phonetic equivalent that could be loosely translated as



“happiness in the mouth.”“Translation Problems in Global Marketing,” *My Opera*, November 14, 2006, accessed February 7, 2012, [my.opera.com/kitkreuger/blog/2006/11/14/translation-problems-in-global-marketing](http://my.opera.com/kitkreuger/blog/2006/11/14/translation-problems-in-global-marketing).

- When Pope John Paul II visited Miami in 1987, an ambitious entrepreneur wanted to sell t-shirts with the logo, “I saw the Pope” in Spanish. The entrepreneur forgot that the definite article in Spanish has two genders. Instead of printing “El Papa” (“the Pope”), he printed “La Papa” (“the potato”). Needless to say, there was no market for t-shirts that read “I saw the potato.”“Translation Problems in Global Marketing,” *My Opera*, November 14, 2006, accessed February 7, 2012, [my.opera.com/kitkreuger/blog/2006/11/14/translation-problems-in-global-marketing](http://my.opera.com/kitkreuger/blog/2006/11/14/translation-problems-in-global-marketing).
- Sunbeam got into trouble when it did not change the name of its Mist-Stick curling iron when marketing it in Germany. As it turned out, “mist” is German slang for manure. Not surprisingly, German women did not want to use a manure stick in their hair. Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 613.
- A proposed new soap called “Dainty” in English came out as “aloof” in Flemish (Belgium), “dimwitted” in Farsi (Iran), and “crazy person” in Korean. The product was dropped. The company either did not have the resources to research a new name or did not want to take the time and incur the costs to do so.
- Kellogg’s Bran Buds sounded like “burned farmer” in Swedish. John Freivalds, “What’s in a Name?,” *Business Library*, April 1996, accessed February 7, 2012, [findarticles.com/p/articles/mi\\_m4422/is\\_n4\\_v13/ai\\_18512264](http://findarticles.com/p/articles/mi_m4422/is_n4_v13/ai_18512264).

Given that misunderstanding foreign languages can destroy a brand, it is worth the investment to hire someone who is proficient in the native language in the intended market—including the use of slang. This will help a small business avoid a fatal mistake because it does not have the resources of the big companies to fix the mistakes. Jeffrey Gangemi, “Avoiding Faux Pas When Exporting,” *Bloomberg BusinessWeek*, June 27, 2007, accessed February 7, 2012, [www.BloombergBusinessWeek.com/smallbiz/content/jun2007/sb20070627\\_897013.htm?campaign\\_id=rss\\_smlbz](http://www.BloombergBusinessWeek.com/smallbiz/content/jun2007/sb20070627_897013.htm?campaign_id=rss_smlbz). This concern must be extended to the web presence as well because the website is an integral part of the product.

## Price

Pricing for the global market is not an easy thing to do. Many factors must be taken into account, the first of which are traditional price considerations: fixed and variable costs, competition, company objectives, proposed positioning strategies, the target group, and willingness to pay. “The International Marketing Mix,” *Learn Marketing*, accessed February 7, 2012, [www.learnmarketing.net/internationalmarketingmix.htm](http://www.learnmarketing.net/internationalmarketingmix.htm). Add to these factors things such as the additional costs that are incurred due to taxes, tariffs, transportation, retailer margin, and currency fluctuation risks; John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 40; Philip Kotler and Kevin Lane Keller, *Marketing Management* (Upper Saddle River, NJ: Pearson Prentice Hall, 2009), 616. the nature of the product or industry, the location of production facility, and the distribution system; Eric Mitchell, “The Pricing Advisor,” *The Pricing Advisor Newsletter*, accessed February 7, 2012, [members.pricingsociety.com/articles/Pricing-for-Global-Markets.pdf](http://members.pricingsociety.com/articles/Pricing-for-Global-Markets.pdf). the psychological effects of price; the rest of the marketing mix; and the price transparency created by the Internet “The International Marketing Mix,” *Learn Marketing*, accessed February 7, 2012, [www.learnmarketing.net/internationalmarketingmix.htm](http://www.learnmarketing.net/internationalmarketingmix.htm). and a business can begin to appreciate the challenges of global price setting. About the only thing that can be seen as a certainty is that a small business should expect the price of its product or service to be different, usually higher, in a foreign market. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 50. The specifics of that difference need to be worked out carefully, with thorough analysis.

Setting the right price for a product or a service is critical to success. It will be a challenge to navigate the pricing waters of each different country—to learn why, for example, a product sells for \$16 in the United States but \$23 in Britain.

## Place

As challenging as distribution may be for a small business in the domestic market, it is even more so for the global market. No matter the product, it has to go through a **distribution process**—the physical handling and distribution of goods, the passage of ownership or title, and the buying and selling negotiations between producers and middlemen and middlemen and customers. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 396. It would make sense to be able to take advantage of existing transportation systems, retailers, and suppliers to sell goods and provide services. Unfortunately, adequate distribution systems do not exist in all countries, so a business will need to develop ways to get products to customers in as cost-effective a manner as possible. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 50.

### Video Link 15.6

#### Getting Your Product from Here to There

Small businesses rely on freight forwarding and shipping experts to move products around the world.

[www.inc.com/exporting/heretothere.htm](http://www.inc.com/exporting/heretothere.htm)

Before deciding on a channel or channels of distribution, a business needs information. The following are some basic questions as a starting point:

- Is the selected market dominated by major retailers or is the retail sector made up of small independent retailers? “The International Marketing Mix,” *Learn Marketing*, accessed February 7, 2012, [www.learnmarketing.net/internationalmarketingmix.htm](http://www.learnmarketing.net/internationalmarketingmix.htm).
- How many intermediaries will be involved? In Japan, for example, a product must go through approximately five different types of wholesalers before it reaches the final consumer. “The International Marketing Mix,” *Learn Marketing*, accessed February 7, 2012, [www.learnmarketing.net/internationalmarketingmix.htm](http://www.learnmarketing.net/internationalmarketingmix.htm).
- Can we use the manufacturer, wholesaler, retailer, or consumer channel or can we export directly to a retailer?
- Should we work with a foreign partner? Unless a business plans to establish a retail operation on foreign soil, it will need to establish business-to-business (B2B) sales relationships. Then products can be sold directly to foreign retailers or foreign distributors who will sell to those retailers. A foreign partner can provide valuable insights about local import regulations, product marketability, and local customs. The US Department of Commerce website contains directories of foreign buyers. Ryan Underwood, “Creating a Smart Export Strategy,” *Inc.*, May 3, 2011, accessed February 7, 2012, [www.inc.com/magazine/20110501/author-pankaj-ghemawat-on-global-expansion-for-small-exporters.html](http://www.inc.com/magazine/20110501/author-pankaj-ghemawat-on-global-expansion-for-small-exporters.html). Small businesses excel at forming strategic partnerships. Laurel Delaney, “Global Guru: Shaking Things Up. Making Things Happen,” *Change This*, October 2004, accessed February 7, 2012, [changethis.com/manifesto/6.03.GlobalGuru/pdf/6.03.GlobalGuru.pdf](http://changethis.com/manifesto/6.03.GlobalGuru/pdf/6.03.GlobalGuru.pdf).
- Where can we attend a trade show or a trade mission? Going to these events can help a business find distribution channels.
- Is the Internet commonly used to distribute my product?

### Video Link 15.7

#### Understanding Partnerships and Distributors

Partnerships help many thriving US businesses overseas.

[www.inc.com/exporting/partnerships.htm](http://www.inc.com/exporting/partnerships.htm)

### Video Link 15.8

#### Identifying Marketing Channels/Activities

How research and planning inform business growth.

[www.inc.com/exporting/marketingchannels.htm](http://www.inc.com/exporting/marketingchannels.htm)

In the final analysis, the behavior of distribution channel members will be the result of the interaction between cultural, economic, political, legal, and marketing environments. A small business that is looking to go global—or is already there—will encounter channel structures that range from a minimally developed marketing infrastructure, such as in emerging markets, to highly complex, multilayered systems, such as in Japan. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 396.

When deciding to enter the global marketplace, a determination must be made as to whether the current channel structure in the selected country (or countries) will meet the business’s needs or whether some additional arrangements will be needed. The means of distribution will necessarily be a country-by-country decision. No matter the arrangement, however, figure on the costs being greater than in the United States.

### Promotion

It is understandable that a small business owner may want to use the same integrated marketing communications (IMC) programs used in the home market to inform customers in foreign markets and persuade them to buy. This “one voice” approach offers the advantage of enabling a business or a product to gain broader recognition in the global marketplace; it also helps reduce costs, minimize redundancies in personnel, and maximize the speed of implementation. John M. Ivancevich and Thomas N. Duening,

*Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 50; “Global Marketing,” *SmallBusiness.com*, accessed February 7, 2012, [smallbusiness.com/wiki/Global\\_marketing](http://smallbusiness.com/wiki/Global_marketing). However, things are not that easy. Cultural, social, language, and legal differences from country to country will usually make it necessary to modify IMC messages to not offend current or prospective customers. Modification is more of a challenge for the small business because the resources needed to make the changes are more limited.

A business communicates with its customers through some combination of its website, advertising, publicity, public relations, sales promotion, sales personnel, e-mail, and social media. The actual mix will be a function of the selected country or countries. For example, in some less-developed countries, the major portion of the promotional effort in rural and less-accessible parts of the market is sales promotion; in other markets, product sampling works especially well when the product concept is new or has a very small market share. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 468. In Saudi Arabia, there is an appreciation for fancy packaging, and point-of-sale advertising elicits the best reaction. Marian Katz, “No Women, No Alcohol; Learn Saudi Taboos before Placing Ads,” *Abstracts, Business International*, 1986, accessed June 1, 2012, [www.faqs.org/abstracts/Business-international/No-women-no-alcohol-learn-Saudi-taboos-before-placing-ads.html](http://www.faqs.org/abstracts/Business-international/No-women-no-alcohol-learn-Saudi-taboos-before-placing-ads.html). However, the appropriateness of IMC activities for a small business will depend on the product being marketed, the industry in which it is competing, and the country in which it hopes to sell the product.

Of all the four Ps, decisions involving advertising are thought to be those most often affected by cultural differences in foreign markets. Consumers respond in terms of their culture, style, feelings, value systems, attitudes, beliefs, and perceptions. Because advertising’s function is to interpret or translate the qualities of products and services in terms of consumer needs, wants, desires, and aspirations, emotional appeals, symbols, persuasive approaches, and other characteristics in an advertisement must coincide with cultural norms if the ad is to be effective. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 473.

Examples abound of international advertising mistakes that have offended different cultures. Three are presented here. Although they are linked to large corporations, there are lessons to be learned by small businesses. No business is immune from making mistakes from time to time.

- Burger King ran in-store ads for three restaurants in Spain that depicted the Hindu goddess Lakshmi on top of a ham sandwich. The caption read, “a snack that is sacred.” Many Hindus are vegetarian and were offended by the ad. Burger King pulled it. Emily Bryson York, “Burger King’s MO: Offend, Earn Media, Apologize, Repeat,” *Ad Age Global*, July 8, 2009, accessed February 7, 2012, [adage.com/article/global-news/advertising-burger-king-draws-ire-hindus-ad/137801](http://adage.com/article/global-news/advertising-burger-king-draws-ire-hindus-ad/137801).
- Burger King ran a campaign in Europe for the Texican Whopper that featured a lanky American cowboy; a short, round Mexican draped in a cape resembling Mexico’s flag; and the caption, “the taste of Texas with a little spicy Mexican.” There was an immediate uproar, with the Mexican ambassador to Spain objecting publicly. Shaun Rein, “Learn from Burger King’s Advertising Fiasco,” *Forbes*, April 20, 2009, accessed February 7, 2012, [www.forbes.com/2009/04/20/advertising-global-mistakes-leadership-managing-marketing.html](http://www.forbes.com/2009/04/20/advertising-global-mistakes-leadership-managing-marketing.html).
- During a time when Fiat was trying to take advantage of auto sales growth in China, it released an ad in Italy in which actor Richard Gere drove a Lancia Delta from Hollywood to Tibet. The ad did not air in China, but it caused an online uproar nonetheless. Richard Gere is hated in China because he is an outspoken supporter of the Dalai Lama. His selection as the Fiat spokesperson was a major faux pas by Fiat. Shaun Rein, “Learn from Burger King’s Advertising Fiasco,” *Forbes*, April 20, 2009, accessed February 7, 2012, [www.forbes.com/2009/04/20/advertising-global-mistakes-leadership-managing-marketing.html](http://www.forbes.com/2009/04/20/advertising-global-mistakes-leadership-managing-marketing.html).

The reality of international advertising is that its cost and the effort required to prepare and place the ads correctly may be prohibitive for most small businesses, therefore pushing the emphasis on other elements of the IMC mix. However, a business will not know that for sure until it does the proper research before making a decision. Consider the characteristics of the target market, how the market uses media in that country, and which media are actually available. Some countries do not have commercial television, and some do not have advertising in newspapers. There will be newspaper and magazine circulation differences from country to country; in countries with a low literacy rate, radio and television advertising (if available) will be more effective than print media. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 50.

Fortunately, small businesses that want to go global can look to social media for assistance. The social web is a low-cost way to catapult a small business brand into the global arena. Susan Gunelius, “Building Your Brand with Social Media,” *Reuters*, January 4, 2011, accessed February 7, 2012, [www.reuters.com/article/2011/01/05/idUS16245956220110105](http://www.reuters.com/article/2011/01/05/idUS16245956220110105). Facebook, the most popular

social networking site in the world, has developed a self-serve advertising tool that has created the greatest interest among small businesses that might not have had the means to launch a global advertising campaign before. This would be a good place to start—along with a map of the world’s most popular media applications country by country and culture by culture, which is available at [www.appappeal.com/the-most-popular-app-per-country/social-networking](http://www.appappeal.com/the-most-popular-app-per-country/social-networking).

No matter the mix of the IMC program, and no matter whether a business is business-to-consumer (B2C) or B2B, the way a business communicates internationally will be a major determinant of success. Each IMC component is a communication channel in its own right. A business must consider the appropriateness of each message in each channel. For example, is the message adequate? Does it contain correct cultural interpretations? Are the colors and graphics right? In the case of advertising, have the media been chosen that match the behavior of the intended audience? Have you correctly assessed the needs and wants or the thinking processes of the target market? Adapted from Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 479.

Careful consideration of these and other communication issues will not guarantee success, but it should help reduce the chances of making a major marketing blunder.

## Legal and Political Issues

It is impossible for any small business to know all the laws that pertain to exporting from the United States. Thus it is important to consult an attorney who is knowledgeable about the legal implications of globalization: international trade laws, tax laws, local regulations, “Small Business Globalization: Should You Pursue Global Markets?,” *more-for-small business.com*, accessed February 7, 2012, [www.more-for-small-business.com/small-business-globalization-should-you-pursue-global-markets.html](http://www.more-for-small-business.com/small-business-globalization-should-you-pursue-global-markets.html). international border restrictions, customs rules, and duties and taxes. Paul Demery, “Anchors Aweigh,” *Internet Retailer*, January 31, 2008, accessed February 7, 2012, [www.internetretailer.com/2008/01/31/anchors-aweigh](http://www.internetretailer.com/2008/01/31/anchors-aweigh).

To varying degrees, each small business must be concerned with the following. However, this list is not exhaustive; it is a sampling only.

- The Foreign Corrupt Practices Act makes it illegal for companies to pay bribes to foreign officials, candidates, or political parties. The challenge for all US businesses is that bribery is a common business practice in many countries, even though it is illegal. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 203. Interestingly, private business bribes are tax deductible in Germany as long as the German businessperson discloses both his or her identity and the recipient of the bribe(s). Although it is supposedly rarely used, it is available. Joshua Ritchie, “The 5 Most Bizarre Tax Deductions around the World,” *Mint Software Inc.*, December 15, 2009, accessed June 1, 2012, <http://www.mint.com/blog/trends/the-...und-the-world/>.
- Specific licenses and permits are required or additional paperwork must be completed if the following specific products are exported or imported: agricultural products, automobiles (not a likely product for a small business), chemicals, defense products, food and beverage products, industrial goods, and pharmaceutical and biotechnology products. “Exporting/Importing Specific Products,” *US Small Business Administration*, accessed February 7, 2012, [www.sba.gov/content/exportingimporting-specific-products](http://www.sba.gov/content/exportingimporting-specific-products).
- There is heightened sensitivity since September 11, 2001, about exporting products that could even remotely be used in a military or a terrorist capacity. “For Entrepreneurs: Starting an Export Business,” *Gaebler.com*, May 19, 2011, accessed February 7, 2012, [www.gaebler.com/Starting-an-Export-Business.htm](http://www.gaebler.com/Starting-an-Export-Business.htm).
- Brand names, trademarks, products, processes, designs, and formulas are among the more valuable assets a small business can possess. These need to be protected—domestically and internationally. US officials estimate that \$300 billion of intellectual property assets are ripped off every year. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 193.
- There are commercial laws within countries related to marketing, environmental issues, and antitrust.

## Video Link 15.9

Understanding Legal Considerations

Important legal considerations for small businesses that want to go global.

[www.inc.com/exporting/legal.htm](http://www.inc.com/exporting/legal.htm)

In addition to legal considerations, no small business can conduct global business without understanding the influence of the political environments in which it will be operating. Philip R. Cateora and John L. Graham, *International Marketing* (New York:

McGraw-Hill Irwin, 2007), 158. Every nation has the sovereign right to grant or withhold permission to do business within its political boundaries and control where its citizens do business, so the political environment of countries is necessarily a critical concern to any small business. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 158. Political issues include the stability of government policies (a stable and friendly government being the ideal), the forms of government (with some being more open to foreign commerce than others), political parties and their influence on economic policy, the degree of nationalism (the greater the nationalism, the greater the bias against foreign business and investments may be), fear and/or animosity that is targeted toward a specific country, and trade disputes. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 159-165. One or all these things create political risk that must be assessed. The most severe political risk is confiscation, the seizing of a company's assets without payment. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 166.

## Currency Exchange Issues

The **exchange rate** is the rate at which one country's currency can be exchanged for the currency of another country. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 39. For example, assume that on a particular day, \$1 exchanged for 0.75643 euros and 49.795 Indian rupees. "Euro," *X-rates.com*, accessed March 5, 2012, [www.x-rates.com/d/EUR/table.html](http://www.x-rates.com/d/EUR/table.html); "Indian Rupee," *X-Rates*, accessed March 5, 2012, [www.x-rates.com/d/INR/table.html](http://www.x-rates.com/d/INR/table.html). These exchange rates then changed the next day, when \$1 exchanged for 0.6891 euros and 49.845 Indian rupees, meaning that the value of the US dollar *increased* in value with respect to the euro and *decreased* in value against the Indian rupee. Currency exchange rates change daily, and they are important because currency fluctuations can present additional problems for the small business looking to go global. The appreciation and depreciation of a currency will have an effect on the prices of goods and services. For example, as the dollar declines in value against the euro, the price of goods and services from the European Union for US customers will increase, likely reducing their purchases. John M. Ivancevich and Thomas N. Duening, *Business: Principles, Guidelines, and Practices* (Mason, OH: Atomic Dog Publishing, 2007), 39. The following are other implications of exchange rate fluctuations: Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 537; David L. Kurtz, *Contemporary Business* (Hoboken, NJ: John Wiley & Sons, 2011), 113.

- Inattention to exchange rates in long-term contracts could result in large unintended discounts.
- Rapid and unexpected currency fluctuations can make pricing in local currencies very difficult.
- Shifts in exchange rates can influence the attractiveness of various business decisions, not the least of which is whether doing business in a particular country is worthwhile.

Different strategies may be needed when the dollar is weak versus when it is strong. For example, when the US dollar is weak, a business should stress price benefits. When the dollar is strong, a business can engage in nonprice competition by improving quality, delivery, and after-sale services. Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 538. To navigate these challenging currency exchange waters, it will be necessary to tap into accounting and finance expertise.

## Sources of Financing

How a business finances an export project is often a critical factor in its success. Financing decisions extend to working capital and export transactions. Working capital is needed to finance operations before and after a sale, and money is needed to sustain a business until it is paid for the goods and services that have been provided (export transactions). The [International Trade Association](#) in the US Department of Commerce identifies the following factors as important to consider when making financing decisions. US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 193–94.

- **The need for financing to make the sale.** Offering favorable payment terms can make a product more competitive.
- **The length of time the product is being financed.** The term of the loan required determines how long a business will have to wait before the buyer pays for the product, which will influence the choice of how to finance the transaction.
- **The cost of different methods of financing.** Interest rates and fees will vary, and a business should probably expect to assume some of the financing costs. Before providing an invoice to the buyer, a business must understand how these costs will affect price and profit.
- **The risks associated with financing the transaction.** The riskier the transaction, the more difficult and costly it will be for a business to finance it because there will likely be a higher chance for default. The level of risk will be influenced by several



things, not the least of which is the political and economic stability of the buyer's country. In risky situations, the financing provider may require the most secure method of payment—a letter of credit or export credit insurance.

- **The need for preshipment financing and postshipment working capital.** Working capital could experience unexpected and severe strains with the production of an unusually large order or a surge of orders. Inadequate working capital can limit exporting growth—even during normal periods.

## Where to Go

Small businesses have reported that problems with access to financing for their exporting operations are a major barrier to exporting. The difficulties they experience in obtaining both trade finance and working capital often prevent small businesses from financing purchases by foreign buyers. This encourages foreign buyers to choose suppliers that are able to extend credit. Small businesses must also face the perception of lending institutions that they are a higher risk than larger companies coupled with a lack of familiarity with exporting by community banks. “Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports,” *US International Trade Commission*, January 2010, accessed February 7, 2012, [www.usitc.gov/publications/332/pub4125.pdf](http://www.usitc.gov/publications/332/pub4125.pdf).

Despite any anticipated difficulties, small businesses need to find export financing. They can look for financing in several places. The first place to look is internally. Does it already have the funds to finance global efforts? If the answer is yes, then all is well. This was the case for Center Rock, the small business featured at the beginning of this chapter. If the answer is no, which will most likely be the case, it will be necessary to look for external financing. A range of options is available for small businesses to consider (see Table 15.3). As you will see, most financing sources are available from the government. A small business must become familiar with the financing, insurance, and grant programs that are available to help it finance transactions and carry out export operations. “6 Steps to Begin Exporting,” *US Small Business Administration*, accessed February 7, 2012, [www.sba.gov/content/6-steps-begin-exporting](http://www.sba.gov/content/6-steps-begin-exporting).

Table 15.3 Sources of Export Financing for the Small Business

| Source   | Information  |
|--|--|
| Extending credit to foreign buyers working with commercial banks | Liberal financing can enhance export competitiveness, but extending credit must be weighed carefully. Some commercial bank services used to finance domestic business, including revolving lines of credit for working capital, are often needed to finance export sales until payment is received. However, commercial banks prefer to establish an ongoing business relationship instead of financing solely on the basis of an individual order. Most US banks do not lend against export orders, export receivables, or letters of credit. |
| Export Express 7(a) Loan Programs                                | Offered by the SBA, this streamlined program helps small businesses develop or expand their export markets. A business may be able to obtain SBA-backed financing for loans and lines of credit up to \$500,000.   |
| Export Working Capital Program (EWCP) 7(a) Loan Programs         | This SBA loan program targets small businesses that are able to generate export sales but need additional working capital to support these sales. The SBA provides lenders guarantees of up to 90 percent on export loans to ensure that qualified exporters do not lose viable export sales due to a lack of working capital.   |
| International Trade Loan Program 7(a) Loan Programs              | Loans are available for businesses that plan to start or continue exporting or have been adversely affected by competition from imports. The loan proceeds must enable the borrower to be in a better position to compete. The program offers borrowers a maximum SBA-guaranteed portion of \$1.75 million.  |



| Source                      | Information   |
|-----------------------------|---|
| Export-Import Bank          | An independent federal agency that provides working capital loan guarantees, export-credit insurance, and other forms of financing for US exporters of all sizes. The funds are aimed at offsetting the added risks of doing business abroad, from complex trade rules to unpaid bills.   |
| Using export intermediaries | Many export intermediaries, for example, trading companies and export management companies, can help finance export sales. The intermediaries may provide short-term financing or may purchase the goods to be exported directly from the manufacturer, thus eliminating any risks to the manufacturer that are associated with the export transaction as well as the need for financing. |

Source: “Export Financing,” *US Small Business Administration*, accessed February 7, 2012, [www.sba.gov/content/export-financing-0](http://www.sba.gov/content/export-financing-0); US Department of Commerce, *A Basic Guide to Exporting*, 10th ed. (Washington, DC: International Trade Association, 2008), 194, 197; “More Small Businesses Seek Export Financing,” *Wall Street Journal*, May 20, 2011, accessed February 7, 2012, <http://blogs.wsj.com/in-charge/2011/...port-financing>.

### Video Link 15.10

#### Financing

Some of the ways small businesses can finance their exporting projects.

[www.inc.com/exporting/financing.htm](http://www.inc.com/exporting/financing.htm)

### KEY TAKEAWAYS

- Expanding into global markets introduces new complexities into small business operations.
- The decision to go global should be based on an assessment of the ways to export, an analysis of the industry and a particular company, marketing and cultural factors, legal and political conditions, currency exchange rates, and sources of financing.
- There are two basic ways to export: direct or indirect. In direct exporting, a small business exports directly to a customer who is interested in buying the product. Indirect exporting involves using a middleman for marketing and selling the product in the target market.
- Industry analysis involves looking at where an industry currently is and the trends and directions predicted over the next three years so that a business can try to determine how competitive an industry is in the global market.
- It is important to honestly self-evaluate a business to determine whether it is ready to go global or not.
- It will generally be necessary to adapt the marketing mix to the global market in general and different countries in particular.
- Legal issues include international trade laws, tax laws, and local regulations.
- No small business can conduct global business without understanding the influence of the political environments in which it will be operating.
- Currency exchange rates are important because currency fluctuations can present additional problems for a small business that is looking to go global. In particular, the appreciation and depreciation of a currency will have an effect on the prices of goods and services.
- How a business finances an export project is often a critical factor in its success.
- Working capital is needed before and after the sale, and money is needed until the goods and services that have been provided have been paid for.
- Many—perhaps most—of the sources for small business exporting activity are governmental.

### EXERCISES

1. Comment on the following: a small business owner firmly believes that because a product is successful in Chicago, Illinois, it will be successful in Tokyo or Berlin. Adapted from Philip R. Cateora and John L. Graham, *International Marketing* (New York: McGraw-Hill Irwin, 2007), 367. Be as specific as you can in your comments.
2. There has been tremendous growth in online business, which has introduced new elements to the legal climate of global business. Patents, brand names, copyrights, and trademarks are difficult to monitor because there are no boundaries with the

Internet. What steps could a small business take to protect its trademarks and brands in this environment? Prepare at least five suggestions. David L. Kurtz, *Contemporary Business* (Hoboken, NJ: John Wiley & Sons, 2011), 133.

3. Find a local small business that exports its products. Talk to the owner about his or her experiences. Ask questions such as the following: What convinced you to export? How did you decide on the product(s) to export? Did you have to adapt your product(s) in any way? What were the greatest barriers you had to face?

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