

## How can small and mid-sized companies go abroad? A recipe for successful international ventures

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Economic growth in Latin America and Asia has created new demand for the high-quality goods produced by American industry. With 95% of the world's consumers and almost 80% of the world's income located outside the United States, American companies looking to achieve sustainable long-term growth must seriously consider international markets.

We are often approached by firms explaining their desire to go abroad in order to increase market share, increase return on capital-intensive investments or take advantage of location advantages such as low labor costs or proximity to natural resources. However, making these decisions, what we often refer to as the "why" of going abroad, is only the first, and easiest, step necessary to take advantage of opportunities in international markets. The critical step, which is often insufficiently addressed, is the manner in which a firm seeks to realize these objectives: the "how" of going abroad.

A critical factor in determining the success or failure of a firm's attempt to take advantage of foreign markets is planning. Of the planning process, the most frequent mistakes are made by a firm choosing either the wrong market or the wrong mode of entry. Thus, determining the appropriate market and entry strategy should be the focus of the planning process.

The manner in which some companies seem to whimsically select the international market in which they enter is shocking. A sales manager of a company that produces synthetic beach huts could think that Venezuela is an excellent market, given that it has more miles of Caribbean coast, and therefore beaches, than all the islands of the Caribbean put together. However, such an interpretation fails to account for differences in consumption patterns. An assessment of this market would probably show that people there tend to be attached to their traditional beach huts made out of coconut tree leaf and would probably resist a novel variety.

While the sales manager's insight into the potential for selling beach huts in the Caribbean might indicate that it is time for his company to start the planning process for selling products abroad, to maximize the chances of the idea's success it is necessary to conduct a thorough assessment of both the company in question and to assess the potential markets.

Assessment of external markets should be conducted keeping in mind the various means of entry and the internal strengths and weakness of the company. For example, the presence of trade treaties can be either a threat or an opportunity depending on the specific product in question or whether entry is going to be achieved through exporting, licensing, forming alliances with local partners or greenfield investment.

This leads to the importance of deciding the best way to exploit the opportunities identified during the planning process. We have found that the most effective way of beginning international business is to begin with small to medium commitments. Low cost and low risk methods for international expansion exist and are often very profitable.

One of these methods is by exporting goods through local distributors. Ideally, a distributor should be exclusive, bear transportation and marketing cost and have good reputation. An exporting company should take special care in ensuring that its reputation is not harmed by the

actions of the distributors. Finding a distributor that has established itself local markets over time and has several points of distribution is often preferable to smaller or more product-specific outfits. For example, a fastener setting machine manufacturer, with an appetite for the Latin American market, looking for a distributor in Mexico would probably be better served by a Mexican sewing machines distributor able to access other Latin American countries than a firm focused solely on distributing fastener setting machines in Mexico. While finding established and large distributors is often preferable, it is also important that an exporter ensures the local company will dedicate sufficient attention and resources to their products. This is particularly important for smaller exporters.

To identify the best distributor requires that a firm identify its export objectives and then establish a search criteria for potential distributors based on factors such as experience, exclusivity, reputation, geographic coverage, means of transportation, terms of marketing arrangements, and any other factors deemed important. Once a shortlist of suitable distributors has been selected, it is important that a firm get to know the distributor through some scale of due diligence. At a minimum, a company will be familiar with the primary contact points for the local partner, the solvency of the local business, and the terms of the distribution arrangement.

However, exporting through distribution arrangements is just one of the options available to companies looking to sell their goods in international markets. Even within distribution arrangements, a firm has several options regarding the type of relationship it enters such as a one-shot operation, a continuing agreement, or cooperation of many companies. Some companies are interested in having direct control of the foreign trade. In such cases, a joint venture agreement with a local partner, incorporation of a joint venture corporation with a local partner and establishment of a wholly-owned subsidiary offer a range of vehicles that give a firm greater autonomy over its international operations. Compared to distribution agreements these options are typically more expensive, require physical commercial presence, and entail a greater degree of due diligence, but are nonetheless viable options, especially for firms with experience in international markets.

Regardless of the particular market and the manner in which a company chooses to enter a foreign market, knowledge of the local market is critical.

While there has been some convergence of business practices due to globalization, there are still, and always will be, differences between countries in the way business is conducted. For example, in Latin America most transactions need to be notarized. But to notarize a document in Latin America is a much different process than in the U.S. Even within the region, notarization of a document in Mexico is different than notarization of a document in Honduras. A firm's failure to understand the correct processes associated with such local regulations can ultimately prove costly, especially if an error were to lead to legal disputes.

In sum, the enormous purchasing power and trends of economic growth in emerging markets offer potential for American firms to grow. But success abroad requires a diligent assessment of options to develop strategies appropriate to both the firm and the market.

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