BusinessWeek

ON

BUSINESS TODAY

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Business Week on Business Today

Business Today, Sixth Edition

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PREFACE

Business Week is proud to team with *Business Today*, Sixth Edition, to help equip students for business in the 1990s. A leader in award-winning journalism, *Business Week* provides

- Uniquely insightful reporting,
- Unmatched coverage of the most important business issues and events of our time, and
- A writing style that is both lively and motivating.

And that's exactly what you'll find in this free collection of articles reprinted from *Business Week*, articles that add a real-world dimension to *Business Today*'s discussion of the fundamental principles.

Breadth versus depth: it's a tough tradeoff for anyone teaching an introduction to business course. How can instructors cover everything and still provide enough detail to make the subject of business seem real and interesting? Obviously, the fundamentals have to be emphasized. But at the same time, students should see how the basic concepts apply to specific situations in the workaday world.

One way to handle the problem is to provide supplemental materials that complement the textbook, and this free supplement is a valuable classroom resource. Editorial excellence is the driving force behind both *Business Week* and *Business Today*. Thus, the specially selected articles in this supplement are carefully keyed to each of the seven parts of *Business Today*. These articles dramatize the latest developments in business, and their in-depth coverage of current business topics help students relate their classroom studies to contemporary issues facing business and society.

Accompanying this supplement is a helpful Instructor's Guide with useful background information and learning activities for each article. The activities are designed to stimulate interest and to create a quality learning experience for students.

Business Today is noted for its up-to-date coverage of material. Such comprehensive research and careful attention to currency is uniquely complemented by this collection of outstanding *Business Week* articles, all from recent issues.

Business Week and *Business Today*—working together to bring a world of learning into your classroom.

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PART ONE

FOCUS ON BUSINESS TODAY

1 MADE IN THE U.S.A.
(February 29, 1988)

MADE IN THE

Exports are leading a major shift in the U. S. economy

America's exports are surging. And more than just grain and computers are heading abroad. Basic manufacturers, once considered a dying breed, are selling products that many thought wouldn't even be made in the U. S. any longer. Escalators to Taiwan. Machine tools to West Germany. Lumber to Japan. Shoes to Italy. Across many sectors of the economy, tough times have helped Americans relearn how to make the right products at the right prices.

But will the boomlet last? Skeptics argue that the rise in manufactured exports is a temporary phenomenon created only by the 50% drop in the dollar's value over the past three years. The moment the dollar strengthens, they say, the export drive will stall. In this view, U. S. manufacturers lack the will for a long-term fight abroad. "It's easier to win at home," says S. Bruce Smart, Commerce Dept. Under Secretary for international trade.

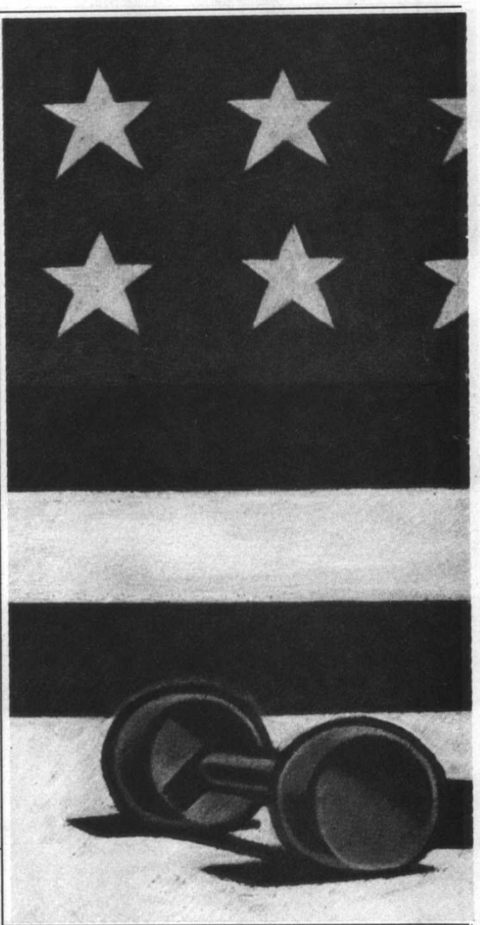
But evidence is mounting that America's new export strength will endure. That's because it's coming from what appears to be a major shift in the U. S. economy. The volume of exports is growing almost four times as fast as import volumes. Over the past 12 months, merchandise exports rose 19% while imports increased 5%. If U. S. consumers continue their belt-tightening and the economy slows, some economists forecast a startling turnaround in the $171 million trade deficit. "It's the major economic trend of this period," says New York economist Edward S. Hyman. "By the end of this year, the deficit will be under $100 billion. I think we'll have a surplus by 1991 or 1992."

The last time the U. S. ran a trade surplus in manufactured goods was 1981, when Jimmy Carter's depreciated dollar kicked off an export boom for Ronald Reagan. Something like that is happening now. Then, it took two years to see the evidence. This time, in part because it's more of a grass-roots shift, it's taken closer to three years to show up in official figures. Now that it has, the intensity of the surge could prove to be as surprising as the break in oil prices.

'SECOND-RATE.' To be sure, the boom is still embryonic, and the easy part is over. Taking advantage of the dollar's drop and tapping unused industrial capacity—without making painful choices on new investment—wasn't difficult for most companies. But making America a bigger exporter will require a restructuring of the U. S. economy and its approach to foreign sales. Many now think that's possible. "It has to be done," says Allied-Signal Chairman Edward L. Hennessy Jr., whose exports increased more than 10% in 1987. "Otherwise we're going to become a second-rate country. The standard of living will decline."

Much of the jump in exports so far is coming from a surprising quarter—companies with less than $400 million in annual sales (page **5**). True, it takes a lot of $10 million orders here and there to equal one $120 million Boeing 747. But the sheer number of small manufacturers—hundreds of thousands—makes them significant. Ultimately, the U. S. could find that its exports, like those of West Germany or Italy, depend more on small companies than on large.

Smaller companies alone, however, are not the complete answer. A sustained export drive will depend on America's larger multinationals (page **9**). Although they are deeply committed to



manufacturing offshore, even relatively small decisions to buy more American parts and build new U. S. factories can multiply production at home and have an impact on trade.

A third source of export growth is coming from the foreign industrial giants that have purchased ailing U. S. manufacturing assets or built their own (page **12**). Their shipment of goods abroad helps boost overall U. S. exports. The presence of foreign transplants also means that midsize U. S. companies that once felt safe at home must now look overseas for new customers. "Every

SPOT ILLUSTRATIONS BY RICHARD OSAKA

U.S.A.

manufacturer in North America is in the international market even if they don't attempt to sell abroad," says William P. Madar, chief executive of Nordson Corp., a successful Westlake (Ohio) exporter of industrial equipment. "There's no place to hide."

Each of these players has different reasons and different timetables for expanding U. S. manufacturing. One concern for the foreigners is the prospect of a more highly protected U. S. market. But all the players seem to be responding to a basic shift in the cost and desirability of making things in the U. S.

Because of the dollar's fall—but also because of a new labor climate—American workers are now paid less than their German and Japanese counterparts. Energy and raw materials are cheap, and manufacturing in the U. S. guarantees access to the world's largest market while at the same time providing an export base. "It's the best country in the world now in terms of manufacturing costs," says Hans W. Decker, president of U. S. operations for West Germany's Siemens. Adds Hewlett-Packard President John A. Young: "The U. S. is certainly a lot more attractive a place to manufacture. Just look at all the Japanese manufacturers setting up here."

Midsize U. S. companies have also discovered what the multinationals have known all along—that foreign orders are a quick way to leverage up earnings. Once a breakeven point is reached, nearly every dollar of sales goes to the bottom line. A second boost to earnings results when sales made in strong currencies such as Japanese yen and West German marks are converted to dollars.

Some big domestic companies such as American Telephone & Telegraph Co. also are starting export pushes to reap

DOUG FRASER

better economies of scale. "Every sale of things made here and sold there lowers the unit costs for everything I make," says J. A. Blanchard III, AT&T group vice-president for general business systems, who recently cracked Taiwan and Hong Kong with small-business telephones made in Shreveport, La.

For all these reasons, the shift toward making more goods in America reflects a number of factors beyond the cheap dollar. It may be part of a deeper trend that is likely to create long-term export growth:

■ Chrysler Corp., after selling its overseas operations eight years ago, will export $750 million worth of Jeeps and minivans this year to Europe and Asia. Although the company is still a net importer to the tune of $750 million, Michael N. Hammes, vice-president for international operations, figures that exports will outpace imports within three years. Says Hammes: "We've made a giant stride to get economically justifiable exchange rates. That gives us what we need to get started."

■ Mead Corp., in the largest capital project in its history, is investing $500 million in a new mill in Alabama to make coated paperboard for consumer packaging. It is counting on selling $100 million worth a year in Japan within five years. "We have to be a major exporter," says Thomas H. Johnson, president of Mead's Coated Board Div.

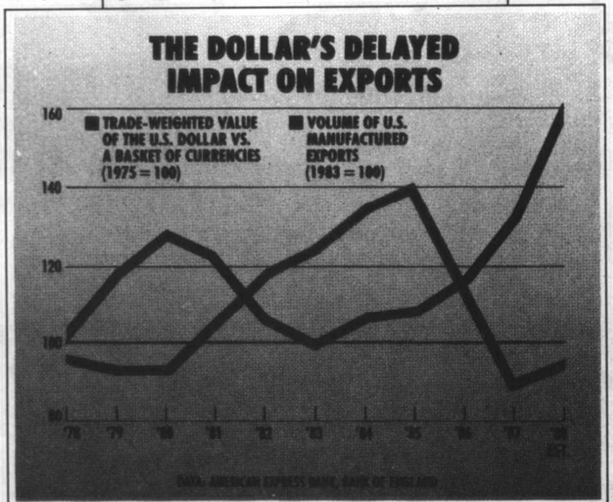
■ When Hewlett-Packard decided to beef up its line of computer terminals, it invested $12 million to revamp an existing Roseville (Calif.) plant rather than import Asian goods. Why? It can make higher profits by streamlining its product designs and manufacturing process at home.

One factor that makes cranking up America's export machine a difficult task is that entire industries—notably consumer electronics and watches—were shut down or transferred offshore during the bloody trade wars of the 1970s. "Once you kill [an industry], it's real hard for it to come back," says Jerry K. Pearlman, chairman of Zenith Electronics Corp., the last major U. S.-owned consumer-electronics company.

STEPPING STONE? Aside from rebuilding some lost infrastructure, Americans face a fight over distribution networks—the essential ingredient in getting a product into overseas markets. Addressing this and the other challenges will require changes in executive outlook and management style. "Outside of a few cases—Boeing, Caterpillar, where there's a whole different export mindset—very few U. S. companies have the experience and knowledge of how to go about exporting," says Stephen S. Cohen, director of the Berkeley Roundtable on the International Economy.

Not so countries that have "export-or-die" philosophies, which invariably put at least some of their top managers abroad. It is not unusual for the manager of a German company's U. S. operations to be on the board back home. But at many U. S. companies, international executives often face a career dead end. "I feel a little bit like a Green Beret out there," says AT&T international sales executive Richard Hunt Evans.

Even if American companies do all the right things, foreign competitors are not going to give up market share easily.



Nor are foreign governments likely to be as willing as Washington to allow deep import penetration. "Someone has to be willing to buy," says Richard W. Heimlich, vice-president for international strategy at Motorola Inc.

Unlike earlier eras, when Americans enjoyed favored access to booms in the Middle East or Latin America, there are few wide-open vistas. That means competing with entrenched Asian and European competitors in their home markets. The economies of Japan, Korea, and Taiwan are among the most appealing markets because they have expanding infrastructures and exploding consumer demand. One example: Sales of U. S. consumer goods to Taiwan jumped tremendously in 1987. Among the beneficiaries: Eastman Kodak, Avon, Whirlpool, Philip Morris, and Mars chocolates. Yet, for a broad variety of goods, the Asian markets remain notoriously difficult to crack.

West Germany, the largest market in Europe, is deliberately allowing its economy to grow slowly, and the Germans seem to have little hunger for imports. But Europe is still probably the region where U. S. exports are destined to have the greatest impact. The U. S. suffered a $24.3 billion merchandise trade deficit with the European Community in 1987, but that is narrowing rapidly, and nowhere is this more obvious than in Europe. "I am totally confident in saying that within two to three years we will be back in surplus," says David K. Diebold, commercial counselor at the U. S. embassy in London.

'AWESOME.' Some European executives are genuinely worried. "The weak dollar has made American rust-belt products very competitive," says John C. Cahill, chief executive of British conglomerate BTR PLC. "There is concern in Europe that if America turns up the wick, they could be awesome." Adds Alain Gomez, chairman of France's Thomson group: "There is no question that our American competition is much more dangerous with the dollar at 5.5 francs than it was a couple of years ago."

American Express Bank's chief economist, Richard O'Brien, warns that for years Europe has relied on the U. S. to absorb its imports. "Europe has to face the fact that they haven't got this external stimulus, and they'll have to stimulate their own economies if they want their growth to continue," says O'Brien.

But even if the U. S. makes tremendous strides in Europe, it is likely to be at least somewhat on the basis of parts, components, and capital goods from low-cost countries in Latin America or Asia. Thus, even as American businesses narrow the trade gap with Europe, Japan, or Canada, they could lose ground elsewhere. Also key to U. S. export hopes will be opening markets such as the Soviet Union and China, maintaining growth in the developing world, and easing the Latin American debt problem.

American executives may never develop the export orientation of smaller trading nations. But because of the size of the U. S. economy, even small gains can have a tremendous impact. Japan's exports, after all, amount to only 11% of its economy—the same as the U. S. If American exports went to 13%, for instance, that would add $70 billion to the trade balance. The export machine is geared up. Now the other half of the challenge is making sure someone out there is prepared to buy a surge of goods "Made in the U. S. A."

By William J. Holstein in New York, with Steven J. Dryden in Washington, Gail Schares in Frankfurt, Ted Holden in Tokyo Jonathan B. Levine in San Francisco

PAUL GRANGE

THE LONG ARM OF SMALL BUSINESS

Why little companies are leading the export boom

Franklin A. Jacobs, owner of a $34 million furniture company called Falcon Products Inc. in St. Louis, was on a swing through Europe late last year when he came to a startling conclusion: "I discovered that my products were a lot better and a helluva lot cheaper" than what his European competitors could offer.

That's when Jacobs caught export fever. He rented a sprawling exhibition space at the U. S. embassy in London and shipped over a container load of his chairs, tables, booths, and other restaurant equipment. Now he has distributors lined up for the Netherlands and Scandinavia and orders for $200,000 worth of goods. "My products are not high-tech, and, my God, a lot of people around the world are making furniture," says Jacobs. "But what we have is priced properly, and it will beat them on quality."

It is a decidedly modest beginning. But owners of unglamorous small and midsize businesses such as Jacobs' are the Yankee traders of the late-1980s export boom. Many are tiptoeing into foreign markets for the first time. Others are trying to increase the percentage of their sales that comes from exports. The stakes are high, because America's largest companies have already shifted much of their production overseas—and are committed to keeping it there (page 9). These multinationals are importers as much as exporters. So if the U. S. is going to narrow its trade gap, the effort will hinge on the under-$400 million companies that still make things in America and sell them abroad.

CARPETS TO COMPUTERS. The latest evidence is encouraging. Midsize exporters are proving you don't have to be big to sell well. American goods are cheap. Quality is still a big concern, but U. S. products are improving quickly. And manufacturers don't need a fancy sales strategy. Small exporters are discovering they are suddenly competitive in everything from carpets and saw blades to computer workstations and microwave systems. "People are realizing that small businesses can be part of the [trade] solution," says Sheryl J. Swed, director of international trade at the Small Business Administration in Washington.

The weak dollar, of course, provides the advantage. Prices of U. S.-made goods are falling so fast that many foreigners are knocking on the doors of small U. S. manufacturers, asking them

▼MEASURING UP Ohio's Andrew Bohnengel opened "an entire world" for his tape company by adopting the metric standard

▲TOKYO, OREGON Adolph Hertrich ships 70% of his lumber to Japan—and built a guest house to suit clients

◀KICKING BACK John Stollenwerk finds customers for his Wisconsin-made men's shoes in Italy

PHOTOGRAPHS BY (CLOCKWISE FROM LEFT) JEROME MAGID, RICK RAPPAPORT, GIACCONE/MARKA to bid on overseas business for the first time. But the dollar's shift is only part of the picture. U. S. companies have been struggling for a decade to become more efficient and flexible in the face of foreign competition. Now that effort is paying off as producers realize that renewed competitiveness at home translates into potential business overseas.

Charting the export explosion among small companies is difficult, since the U. S. government does not collect data on the size of companies exporting goods. But there's no doubt the rush is on. "We've had three times the number of people looking for help as last year, and they're all new players," declares Simon C. Fireman, an Export-Import Bank director. Fireman, who chairs a new interagency task force on trade, predicts that the U. S. will add thousands of exporters by mid-1989. "We've only scratched the surface," he says.

Currently, only 39,000 American manufacturers—about 1 in 10—are exporting. The generally recognized estimate is that the top 250 U. S. multinationals account for 85% of exports, but that figure is misleading. It measures only gross exports and ignores the billions of dollars worth of goods that multinationals import into the U. S. "To reestablish a balance of trade, the impetus for export sales must come from manufacturing. And it has to be manufacturing of the midsize companies," says William P. Madar, president of Nordson Corp., a $200 million-a-year maker of industrial equipment. Charles F. Valentine, partner in charge of international trade advice at Arthur Young, agrees: "The majority of the impact [on the deficit] will come from the small and medium-size companies."

The new players will capitalize on their ability to develop products quickly and sell them in niches that larger companies overlook. These companies are predominantly privately held, and they tend to be run from the top. Often it is the chairman or president who gets the company started overseas—and who puts his personal or family fortune on the line.

ABU DHABI OR BUST. Many midsize companies haven't been sure how to tackle the red tape, language barriers, cultural differences, and distribution challenges that face novice exporters. But increasingly, they feel they must establish a broader international reach—or perish. "If you're going to survive in a globally competitive market, you've got to think globally," says Thomas D. Sege, chairman of Varian Associates Inc., which builds medical, electronic testing, and chipmaking equipment. "If we don't, we'll jeopardize our position in the U. S. There isn't much choice." The Palo Alto (Calif.) company's overseas sales are growing at more than twice the pace of its domestic business.

Some small companies must export to survive. When the Gulf Coast oil industry collapsed in 1983, it looked like the end for Bilco Tools Inc. Based in Houma, La., the $2 million producer of custom-designed oil-field equipment held only $18,000 in receivables against $1 million in debt. "I was virtually out of business," recalls William E. Coyle, the company's 38-year-old president. Desperate, Coyle drained $2,000 from his savings to buy an around-the-world plane ticket to search for prospects. "My attitude was I'd rather face the unknown than face my bank board and be unable to pay them," says Coyle. The trip paid off. Coyle landed an order from a company in Abu Dhabi after discovering its manager was a graduate of Louisiana State University. He also made connections in Singapore and Indonesia. Now about one-third of the company's sales are overseas. "The secret," says Coyle, "is to offer something nobody else can."

The cheap dollar is also helping overcome some of the small exporters' apprehensions, particularly in Europe. At an annual trade show in London in November, where the American embassy introduces U. S. companies to British agents and distributors, a record 78 U. S. high-tech outfits showed up. Alexander H. Good, director-general of the Commerce Dept's U. S. & Foreign Commercial Service, says medium-size high-tech companies are exporting with more vigor than many other sectors because they have experience buying components from Japan, Taiwan, and Korea.

Take Mentor Graphics Corp., a seven-year-old company in Beaverton, Ore., that specializes in computer-aided engineering. Of $222 million in sales last year, nearly half were exports. The company buys U. S.-made computers, adds its own software, and packages them in Amsterdam for some of Europe's biggest high-tech companies: Airbus, Philips, and Siemens. Mentor expects export growth of at least 20% this year. Jean-

SOME SECTORS ENJOY EXPORT SURPLUSES...

Ten key industries in U.S. foreign trade, their estimated trade balance, and some of the companies in each category

AEROSPACE

1988 surplus:
$13.2 billion

▶ Boeing's exports total $6.3 billion

▶ Pratt & Whitney's exports are now $1.67 billion

▶ McDonnell Douglas' 1987 exports, including military sales, are up 15.6%

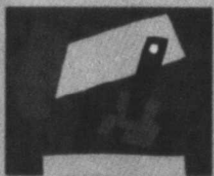
COMPUTER EQUIPMENT

1988 surplus:
$2.8 billion

▶ Hewlett-Packard's exports are up 14%

▶ Sun Microsystems' exports have quadrupled to $177 million

▶ Mentor Graphics' exports are up 37% to $110 million



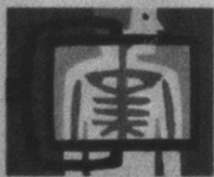
OILFIELD MACHINERY

1988 surplus:
$2.2 billion

▶ Dresser Industries expects surge of compressor exports

▶ National-Oilwell sells drilling rigs to India and Yugoslavia

▶ Baker Hughes' exports total 9% of sales



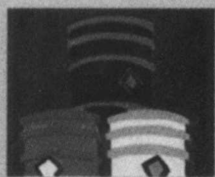
MEDICAL EQUIPMENT

1988 surplus:
$1 billion

▶ Bard's exports of cardiovascular products to Japan up sharply

▶ PyMaH's exports to Asia, Europe, elsewhere reach 45% of total sales

▶ Stryker sees 30% hike in exports of power surgical instruments



CHEMICALS

1988 surplus:
$10 billion

▶ Allied-Signal's exports of industrial fibers up 30%

▶ Union Carbide had record exports of U.S.-made products to Asia in 1987

▶ Loctite forecasts 25% increase in exports to $25 million

DATA: COMMERCE DEPT., BW

ILLUSTRATIONS BY RICHARD OSAKA

Claude Caraes, Mentor's vice-president for Europe, says that prices have dropped 20% a year because of improvements in technology and another 20% because of the dollar's drop. "Customers know we are producing in dollars, so they want the lower price," says Caraes. "The effect is that the market is growing a lot faster."

ARGYLES ABROAD. Another hot area for U.S. exporters in Europe is clothing and apparel. Italy is the biggest export market for Allen-Edmonds, the Port Washington (Wis.) maker of expensive men's shoes, says John J. Stollenwerk, the company's 47-year-old president. One New York entrepreneur, who noticed that argyle socks were selling for $8 to $12 in Paris, came in with socks at half those prices and sold $1 million worth last year. And at a recent apparel show in Paris, U. S. companies displaying their wares abroad for the first time sold out their capacity. "More and more," says Commerce's Good, "we're getting sophisticated U. S. businessmen who understand how the world works."

Although most new exporters are targeting Europe, some of America's smaller companies are expanding sales in the tougher markets of Asia, as well. Nordson, of Westlake, Ohio, whose equipment is used to apply sealants, coatings, and adhesives, has been building its presence in Japan for 20 years and has 140 Japanese employees. The result: It sold about $33 million worth of equipment in Japan in 1987 to such tough customers as Hitachi Ltd.

Another small company that rules a niche in Japan is PyMaH Corp., of Somerville, N. J., a privately held maker of medical equipment. "We export more [blood-pressure equipment] to Japan than anybody else," says President Paul M. Hanafin. "We have a nice little niche, and we make money on that niche."

A long-term commitment is paying off in China for Dorr-Oliver Inc., of Stamford, Conn. The privately owned maker of food-processing equipment broke into the Chinese market by repeatedly sending managers there for a month or two and "being extremely patient" for the market to develop, says marketing manager John J. Murphy. The company has won a strong foothold for its technology in China and sales of some $11.5 million in Asia in 1987. Overall, about 31% of its $150 million in sales were from exports.

> Since many multinationals import as much as they export, trade progress hinges on small-business sales abroad

Most small exporters say that achieving this level of shipments takes at least four to five years. For neophytes, the challenge is figuring out how to get started. "It requires patience, commitment, and a willingness to lose money at first," cautions Robert N. Lukat, general manager of Atlanta Saw Co., a $6 million company that sells 60% of its meat-cutting blades abroad. "If you don't have that, you'd be better off going to Las Vegas and throwing dice."

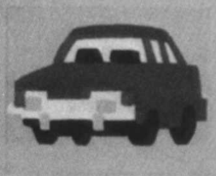
The largest hurdles, of course, are trade barriers, both real and imagined. Although most U. S. exporters complain bitterly about Washington's poor track record in helping open foreign markets, many of them have quietly unraveled the mysteries of doing business overseas on their own. "It's just a question of getting experienced people who know what to do," shrugs Bruce D. Fraser, vice-president for international operations at Panelfold Inc., a Miami exporter of folding doors and partitions.

GOING METRIC. Red tape aside, an important—and often overlooked—key to exporting successfully is learning to cater to overseas markets. Critics say many novice exporters fail because they are astoundingly provincial. For example, some companies may neglect such basics as writing brochures in the local language or converting electrical equipment to operate at foreign voltages.

By contrast, some small U. S. companies have become very successful by customizing products for foreign markets. Adolph Hertrich, who owns a small lumber mill in Boring, Ore., switched to metric sizing for his lumber and mastered Japan's complicated grading system. He even stacks his Japan-bound wood to suit the market there—with only vertical grain surfaces exposed. He generates 70% of his sales in Japan.

Converting to the metric system also turned the Bohnengel family, owners of Perfect Measuring Tape Co. in Toledo, Ohio, into bigger exporters. When Canada adopted metric standards in 1977-78, the company had to convert if it wanted to keep selling its disposable paper measuring tape to Canada's textile companies. "We converted a machine primarily to supply our Canadian customers," says President Andrew C. Bohnengel. "Once we were able to do that, we found an

...BUT OTHERS REMAIN HUGE LOSERS



CARS & TRUCKS

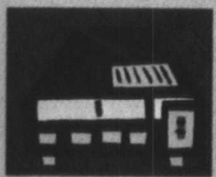
1987 deficit: **$42 billion** 1988 deficit: **$45 billion**

- GM imports $910 million worth of autos from Japan
- Ford doubles imports of Korean-made cars to $225 million
- Chrysler is a net importer of $750 million

TEXTILES & APPAREL

1987 deficit: **$23.4 billion** 1988 deficit: **$25 billion**

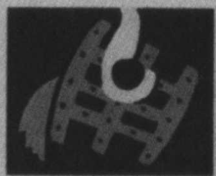
- The Gap boosts imports from Hong Kong by 6%
- May Department Stores increases imports from Hong Kong by 10%
- Reebok's imports of shoes jumped 52% in 1987



ELECTRONICS

1987 deficit: **$1.9 billion** 1988 deficit: **$2.0 billion**

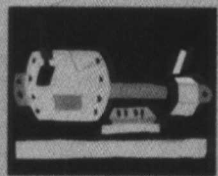
- GE imports $100 million worth of microwaves from Korea
- Motorola buys silicon for DRAM semiconductor chips from Japan for eventual U.S. sale
- Zenith imports VCRs and camcorders from Asia



STEEL

1987 deficit: **$18.6 billion** 1988 deficit: **$18.7 billion**

- USX's U.S. Steel subsidiary exports less than 1% of its total sales
- Allegheny Ludlum exported 3% of its 1987 sales, vs. 9% in 1979
- Armco's Advanced Materials unit sells just 5% of its specialty steel abroad



MACHINE TOOLS

1987 deficit: **$1.4 billion** 1988 deficit: **1.1 billion**

- South Bend Lathe imports a range of machines from Spain and Asia
- Hitachi Seiki imports half of $50 million to $60 million in equipment it sells here
- Cross & Trecker exported 8.8% of its 1987 sales, down from 19.1% in 1981

entire world out there." Today, the company ships 28% of its tape overseas in markets as disparate as Australia and Zimbabwe.

Aside from specialization, a major challenge is distribution. Many U. S. exporters get off the ground with the help of established foreign distributors. "They are so much more sophisticated than we are, it's pathetic," says Eugene R. Yost, president of Pittsburgh-based Black Box Corp., a $75 million company that sells computer communications equipment through mail-order catalogs. Black Box broke into foreign markets by using independent distributors. But it soon realized its middlemen represent competing brands—and often push the most profitable line regardless of who makes it. That cost the company sales. Black Box's solution: jointly owned sales companies. The arrangement gives Black Box more control over sales and a piece of the profits from distribution.

Some exporters advise setting up wholly owned sales subsidiaries from the start—and staffing them with native executives. That helps communicate to would-be customers that a company is there to stay. Mentor Graphics spent a year establishing its European subsidiary. "One of your biggest challenges," advises President Gerard H. Langeler, "is to convince them you're not a typical American company."

Indeed, smaller U. S. companies have jumped into foreign markets in the past simply to dump excess domestic production—and leaped out again when sales picked up at home. That track record makes some foreign buyers understandably skittish about the motives of America's newest crop of exporters. "We need to establish credibility in world markets," says Albert O. Hicks, president of the American Chamber of Commerce in West Germany and founder of an export advisory service in Alexandria, Va. Too many U. S. companies, he says, "fold their tents and go away" when an initial sale blitz fizzles.

CONTINENTAL DRIFT. Companies that tough it out eventually face a more fundamental question: when to shift production abroad. That step becomes all but inevitable as business grows in a foreign market, according to Amir Mahini, director of international business research at McKinsey & Co. In a study of fast-growing exporters with average sales of $360 million, Mahini concludes that foreign investment is "largely driven by market needs, not cost economies."

MARTEL/RAPHO

AN AMERICAN JEEP IN PARIS While the stronger franc makes U.S. goods attractive, large corporations have overlooked rich—if unglamorous—niche markets

That's precisely why Digital Microwave Corp. in San Jose, Calif., is setting up a plant in Britain only four years after going into business making small-dish microwave communications systems. The $40 million company, which exports 60% of its production, estimates that costs will be about 5% higher in Britain but figures it's more important to be near its burgeoning European market. "You get to a certain point where you have to cross over the water if you want to keep growing," says William E. Gibson, the company's chief executive.

If Digital Microwave is like most companies, however, its exports from the U. S. will continue to grow. The McKinsey study says most small and midsize companies that set up foreign production merely shift their exports from finished goods to parts and components to be assembled overseas. Relatively few of them shift entire lines of production abroad, as some larger American multinationals have.

Coordinating foreign staffs, distributorships, marketing and sales subsidiaries, and even plants is bound to be a greater burden on a small company than on a multibillion-dollar giant. But the difference is that these problems get higher-level management attention at small companies, usually from a chief executive. "They realized at the outset that you cannot view international [operations] as separate from your organization," says McKinsey's Mahini.

The McKinsey study, sponsored by a group of midsize international companies called the American Business Conference, also says that new exporters can find profits faster by focusing on markets and starting small. It concludes that successful exporters don't need deep pockets as much as a substantial amount of top management's time and commitment to get started.

IGNORING ANALYSTS. That kind of dedication may come easier to an under-$400 million company, especially since many are closely held or privately owned. For one thing, they can make the decision to go international more quickly. And without Wall Street's reaction to worry about, they are freer than many multinationals to take a longer view. Says PyMaH's Hanafin: "We don't have to worry about the analysts telling us how much I have to show as a profit so our shares will go up. We invest our money in long-range things."

The key question is whether the export success of a minority of America's 300,000 manufacturers will encourage others to follow. Just as the U. S. has depended on smaller companies for job creation in recent years, it may also look to them for growth in manufactured exports. Arthur Young's Valentine predicts the number of smaller U. S. companies that export will double in five years—and begin to have a "significant impact" on the balance of trade. "The number of companies that are interested in exporting is unbelievable," he adds. "It's like a bandwagon." On that bandwagon ride America's export hopes.

By William J. Hampton in Detroit, with Zachary Schiller in Cleveland, Resa King in Stamford, Rick Melcher in London, Frank Comes in Paris, and bureau reports

GEORGE MITCHELL

HELP WANTED FROM THE MULTINATIONALS

They'll have to stop importing more than they export

The U. S. trade deficit is not the most important thing in my life—running an effective business is.
—Dennis M. Bishop, head of GE in Taiwan

When it comes to the yawning trade deficit, America's multinational corporations are as much a part of the problem as they are part of the solution. Sure, these multinationals are the country's biggest exporters. But they're also the nation's biggest importers, often bringing more into the U. S. than they ship out. The Big Three auto makers alone will be net importers of about $6 billion in 1988.

From the 1960s into the early 1980s, when the multinationals began their big push into offshore manufacturing, the major controversy they faced was over the loss of U. S. jobs. Now the spotlight is increasingly shifting toward their impact on trade. Do the multinationals have a role to play in spurring U. S. exports and narrowing the trade gap? The answer is yes—but, some say, they'll need to be persuaded.

DEEP ROOTS. The plain truth is that U. S. multinationals have a major stake in keeping much of their production overseas. They manufacture and sell nearly three times as much abroad as they make in and export from the U. S., and by now they have set down deep roots abroad. The view that U. S. multinationals will quickly move big portions of their operations back to the U. S. because of the drop in the dollar is mistaken. "Currency fluctuation is one of a number of criteria we use to make manufacturing decisions but certainly not the most important," says Eugene L. Schotanus, a senior vice-president at farm-equipment manufacturer Deere & Co. "Our commitment to international markets has not changed as a knee-jerk reaction to the dollar depreciation."

Even so, the enormous size of the multinationals means that a series of small decisions by America's biggest companies to buy more parts and add new capacity at home can have a significant long-term impact on future U. S. trade patterns. While America must look to its smaller companies for a quick boost in exports, a sustained export drive that can turn the deficit around will depend on the nation's largest manufacturers producing more at home, too.

Slowly, some are beginning to do just that. The 19% increase in merchandise exports during 1987 is due in part to a number of moves made by the multinationals over the past three years. Motorola Inc. recently decided to build a cellular phone plant in Illinois because it is now cheaper to produce in the U. S. than overseas. NCR Corp., which used to make all of its personal computers in Germany, is now manufacturing some of them in Clemson, S. C. NCR will also export its homegrown computers, giving the trade problem a double assist. Westinghouse Electric Corp.'s exports last year rose 10%, to $1.2 billion. Caterpillar Inc.'s are up 13.5% since 1985, and the big chemi-