

The 4-step  
plan for success  
in the  
international  
business  
market

# The Arthur Young International Business Guide

Charles F. Valentine

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# **THE ARTHUR YOUNG INTERNATIONAL BUSINESS GUIDE**

**CHARLES F. VALENTINE**

**Arthur Young International Management Consulting Group  
Washington, D.C.**



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## PREFACE

“Black Monday”—October 19, 1987—not only obliterated at least half a trillion dollars in stockholders’ wealth but also undermined widespread confidence in the U.S. economy. The reasons for the crash in confidence are as complex as those for the market crash. Economists agree, however, that one primary reason for the loss of investor confidence has been this country’s vast foreign trade deficit. During the past ten years, the United States has generally imported far more goods than we have exported, with consequent damage to our economic well-being.

*The Arthur Young International Business Guide* does not intend to address the overall issue of U.S. foreign trade deficits; still less will it try to solve the problem. Rather, this book concerns itself with the underlying issues. Specifically,

- a small minority of U.S. companies export their products and services, and
- many more companies could succeed overseas if they would only try.

For the past fourteen years, I have advised American businesses on their efforts to do business in the lucrative and constantly growing global marketplace. My clients have entered markets throughout the Caribbean, Latin America, the Middle East, and Asia, often with great success. Generally speaking, I’ve found that many U.S. companies are in a better position to beat their competitors overseas than management believes possible; however, I’ve also watched a lamentable number of companies go international for the wrong

reasons, without much forethought and sometimes without any preparation whatever. The results are predictably dismal. If only American executives would think more carefully about the new situations they encounter overseas, they might experience less disappointment—and make more money—in countries where consumers are in fact more than eager to buy American-made goods and services.

My intention in writing *The Arthur Young International Business Guide* is to provide an introductory guide to going international for small and medium-sized companies new to exports and the global marketplace. The process is complex. No single book can describe every step and substep in detail appropriate to every single company. Yet this book offers a systematic approach that, if followed closely, can assist your company in meeting the challenge of an international venture. Doing business abroad, despite its complexities, is neither as difficult nor as dangerous as many American corporate officers believe it to be.

The United States now faces a new economic reality. As American business people, we have a choice. We can limit ourselves to our large but mature domestic market, a market in which foreign competitors often beat us on our own turf. Or we can reach out to the huge, growing, often lucrative global marketplace where, if properly prepared, we can play the game and win. Our choice will determine our fate—certainly our fate as business people, and perhaps our fate as a nation as well.

## A NOTE REGARDING THE CASE STUDIES

All case studies in this book describe actual incidents that have occurred in actual U.S. companies entering the global marketplace. In some cases, I have referred to the companies by name. In others, however, I have changed the names of the companies or their representatives. But the cases themselves exemplify real business issues and how real companies have dealt with them.

CHARLES F. VALENTINE

*Washington, D.C.*  
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C. F. V.

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Consider for a moment this single fact: *Only 25,000 American companies sell their products and services abroad.*

Now reflect just briefly on the implications of this statistic. Since approximately 16.5 million firms exist in the United States, the percentage that exports is a remarkably small fraction of the total number. What about the millions of other companies? Are their products and services totally unappealing to customers in other countries? Highly improbable. Is marketing American services and goods overseas too much trouble to be worthwhile? Unlikely in an age when easy travel and instantaneous communications make the whole planet (in media theorist Marshall McLuhan's famous phrase) a global village. So why do only a small minority of American firms

bother doing business abroad? Why, in fact, do only 250 U.S. companies account for 70 to 80 percent of our exports?

Before we answer these questions, consider a second statistic: *The U.S. trade deficit was \$171.2 billion in 1987.*

Most American business people are aware of this dismal situation, and many express justified concern about its effects on the country's economic future. In his best-selling book *Iacocca* (Bantam, 1984), for instance, Chairman Lee Iacocca of Chrysler Corporation sounded the alarm: "Right now, we're in the midst of another major war with Japan. This time it's not a shooting war. . . . The current conflict is a trade war. But because our government refuses to see this war for what it really is, we're well on the road to defeat.

"Make no mistake: our economic struggle with the Japanese is critical to our future. We're up against a formidable competitor and . . . we'd be lucky to stay even with them" (p. 331).

However, blaming Japan misses the real point. The United States faces more than just one commercial adversary. "Japan, Inc." is only the most formidable of our competitors, and Japan-bashing is not the solution to our economic woes. Other nations pose dangers to American economic well-being as well. Germany, France, Italy, and other European countries are effective in their marketing efforts throughout the world. South Korea, Taiwan, and Singapore are entering global markets with consistent success. Brazil and Argentina are active and aggressive. The People's Republic of China—until recently a sleeping giant with little commercial muscle—now shows signs of rousing into a powerful long-term competitor. In short, Americans who sound the alarm against Japan are keeping their eyes on only one front.

The real tragedy is that these two problems—minimal American commercial activity abroad and U.S. trade deficits—are closely related. Worse yet, they are mostly our own fault. Although regulations, tariffs, and currency fluctuations unquestionably enter into the overall picture, the weak American role in global trade cannot be blamed solely on other countries' activities. Mark H. McCormack, in *What They Don't Teach You at Harvard Business School* (Bantam, 1984), describes how we run the risk of losing the battle by default: "You can count on your fingers the American companies which are maximizing their full potential in international markets.

"Of all the world's companies, American-run businesses are by far the most arrogant and chauvinistic. Most of their international divisions haven't taken the time to break down language and cultural barriers, preferring to declare them impenetrable" (p. 83).

If McCormack's statements are true—and the evidence continues to accumulate in his favor—then American businesses are choosing to pass up opportunities of truly historic proportions. To be sure, doing business abroad is complex. It presents difficulties that often differ from those that companies have learned to address in the domestic arena. However, American firms that refuse to consider the possibility of international ventures are ignoring three fundamental facts:

- The international marketplace is vast.
- Many nations are succeeding in markets where Americans once excelled.
- Financially sound companies stand to gain much from well-chosen, well-planned international ventures.

By ignoring these facts, American companies not only forfeit lucrative overseas markets but also thwart their domestic efforts. Foreign firms have not restricted themselves to local markets; on the contrary, companies of many nations regard the United States as their most profitable territory. U.S. firms, too, must widen their scope of activities to survive and prosper. The new business reality of the 1980s and 1990s is that international trade, far from being a luxury available to only a few firms, is crucial for most American companies *simply to compete effectively at home*.

Will U.S. companies take advantage of the opportunities awaiting them in the global marketplace? Or will they decide that the challenge is too great, thereby relinquishing sales and profits to other countries?

Iacocca describes the possible consequences of the situation: "I don't know when we're going to wake up, but I hope it's soon. Otherwise, within a few years our economic arsenal is going to consist of little more than drive-in banks, hamburger joints, and video-game arcades" (p. 339).

## A NEW MAP TO THE NEW BUSINESS LANDSCAPE

The purpose of *The Arthur Young International Business Guide* is not to rectify the current U.S. trade deficit and its attendant economic ills. These problems are obviously beyond the scope of a single book. Moreover, the general issues of international trade are not the present focus. The overall trade situation is significant to us here, however, because of what it implies about how Americans do business overseas, or more often how we *don't* do business overseas. Because for the most part, American companies don't bother to compete outside the domestic marketplace.

This brings us full circle to the earlier statistic that only 25,000 American firms export their products or services. What accounts for such a low proportion of U.S. companies in the international marketplace?

The reason is *not* a lack of interest. Thousands of American business executives want to do business abroad. (In 1986 alone, for example, the U.S. Department of Commerce received 170,000 requests from American companies for information on how to export their products and services.) Most American business people have grasped the promise of international trade:

- *Many domestic markets have reached maturity.* If American companies are to expand, they must look overseas.
- *The United States accounts for only 4 percent of the world's population.* The other 96 percent of the world's people form a vast market as yet untapped by U.S. firms.
- *Foreign consumers are often ready—even eager—to buy American-made goods.* The label "Made in the U.S.A." gives many products special appeal overseas.

Yet despite their awareness of how promising overseas trade is, many executives hesitate to proceed with international ventures. Doing business abroad sometimes seems too complex, too confusing, too risky. Despite all the information available, few sources of facts and advice address the full range of the American business

person's needs during the course of going international. The sporadic, often confusing array of data addressing issues of international trade often has tended to make the option of doing business abroad seem excessively risky. Many executives therefore hedge their bets and stick to domestic ventures.

As a result, the ultimate reason for America's poor showing in the world marketplace is that most corporate officers have not understood the specific tasks necessary for success overseas. American business people have lacked a map to guide them through the international business landscape.

*The Arthur Young International Business Guide* now provides that map.

## THE FOUR STEPS

This book offers a systematic approach to determining whether your small or medium-sized company should consider undertaking an international venture, and—in case the answer is yes—the book also provides an overview of the tasks necessary for planning and executing the venture itself. The Arthur Young approach consists of four steps:

1. Testing the waters
2. Learning the language
3. Mapping out a strategy
4. Beating the competition at its own game

After an initial chapter that provides a brief sketch of the global marketplace, each of the four steps of this approach is explained in detail.

### Step 1: Testing the Waters

The first step is to test the waters—that is, to evaluate your company's financial and organizational readiness for international ventures. Step 1 explains how to

- determine your company's state of readiness,
- acquire preliminary background information about foreign markets,
- establish possible target markets,
- identify potential windows of opportunity,
- confirm market readiness by seeking an "instant gratification" sale,
- acquire financial assistance for further research, and
- develop an initial focus.

### **Step 2: Learning the Language**

International trade uses a language of current international conditions and business practices that differs from the language most Americans understand. Since foreign business competitors will be anticipating your company's arrival in their territory, you must learn their rules to have any chance for success.

Step 2 therefore provides information on how to

- develop an international perspective,
- identify and overcome obstacles,
- conduct market research,
- analyze risks,
- evaluate corporate tax issues, and
- explore available government funding programs and alternative schemes for financing.

### **Step 3: Mapping Out a Strategy**

The key to entering foreign markets is an intelligent, well-considered strategy that addresses market analysis, risk analysis, legal and financial considerations, and timing. Step 3 provides the information you need to develop a market entry strategy for your international venture.



Initial discussions answer these questions:

- What is strategy?
- What are the differences between strategy and strategic management?
- Why is strategy necessary?
- What issues should a strategy address?
- What period of time should a strategy cover?
- Who should plan and implement a strategy?

After clarifying these issues, Step 3 provides a framework that can easily be adapted to your company's needs as you undertake the process of strategic management.

#### **Step 4: Beating Them at Their Own Game**

The final step of going international is to develop a capability for aggressive competition overseas. By selecting imaginative, adaptable expatriate staff members, training your personnel in cross-cultural issues, following several time-honored tips for success, and avoiding common pitfalls, your company can become self-sufficient in its international venture.

A final chapter provides case studies of three U.S. companies that have achieved excellence and profits overseas.

A compendium of appendixes offers a wide variety of technical information to assist you in locating resources, making decisions, and proceeding with your plans.

#### **NEW CHALLENGES, NEW REWARDS**

The challenges are clear: new ways of thinking about markets and territories, new ways of strategizing about your company's future.