GOING GLOBAL—CASE STUDIES

By Alan S. Gutterman[1]

When describing a "global" company, many people continue to thinks of a giant multinational corporation with operations in every major metropolitan area around the world. However, for the reasons described above global companies now come in many shapes and forms. Consider the following and see if one of these situations doesn't fit your company or your client:

- A processed food business in San Francisco specializing in favorite local dishes decides to export its products to Hong Kong to tap into the Asian population and the general popularity of Chinese culinary delicacies.
- A manufacturer of popular dolls in Minnesota contracts with local distributors in Scandinavia for promotion and sale of the dolls in that region. The manufacturer is able to capitalize on the favorable demographics and opportunities for using its own promotional assets (e.g., TV commercials) in the new markets.
- A producer of an animated television series in New York localizes the content for distribution in Japan. Or vice versa!
- A local dressmaker in the Carolinas uses parts imported from China.

The list goes on and on. The point is that most companies are already linked to the global economy, even if they don't spend a whole lot of time thinking about it.

Small Businesses

Every town has its small businesses. Most sell within a rather limited area. The customers of a laundry usually live within a few blocks; groceries are neighborhood oriented; even large furniture stores only cater to those in the metropolitan area. Increasingly, however, in towns around the US, small businesses are turning to foreign markets as a means of increasing sales. At times, international sales are conscious decisions based on considerable thought and analysis. At other times, companies accidentally and suddenly without much forethought find that they are doing business globally.

One real world example illustrates how a small local business can suddenly "go global." Dining Plates was a small manufacturer of dental plates that employed less than 50 people.[2] The company started its international marketing by experiment – at a marketing meeting, a junior member suggested the company run an ad in a foreign trade journal she had picked up on vacation and see if there was any interest in its product. Essentially the same as its US ads, the only difference was that the ad was translated into an appropriate language. To its surprise over

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[1] The material in this report appears in *Going Global: A Guide to Building an International Business* written by Alan S. Gutterman and Robert L. Brown and is presented with permission of Thomson Reuters/West. Copyright 2009 Thomson Reuters/West. For more information or to order call 1-800-762-5272. Alan Gutterman is the Founder/Principal of Gutterman Law & Business (*www.alangutterman.com*), which publishes the Emerging Companies Blog and the Business Counselor Blog, and a Partner of The General Counsel LLC (*www.thegeneralcounsel.net*).

[2] Although the name of the firm has been changed, the facts and profits are authentic.

the next year, it received several inquiries. These inquiries led to sales. In less than two and a half years, nearly 10% of its orders came from overseas.

Soon, the company found that it was faced with a dilemma. Competitors had heard about and became impressed with its foreign sales and were attempting to attract foreign customers. Dining Plates either had to fight back or begin to lose customers. With its high profit from the usually large foreign orders, there was little question as to which course it would take. The real question was how. What would be the most effective method of not only retaining customers but of expanding sales? As internal discussions continued over the proper means, recognition grew that the true potential for growth was overseas – where similar manufacturers were less technologically developed and less experienced in marketing.

A formal decision was finally made. Dining Plates would broaden its international sales through indirect marketing. An overseas agent would be sought. If this proved profitable during the next year or two, the company would consider establishing a joint venture or subsidiary overseas. The results since then were favorable and, in fact, favorable enough for the company to launch plans for full involvement in attractive foreign markets through creation of its own sales offices.

The success of Dining Plates has an important lesson. It demonstrates that small companies can be involved in international sales and make a profit. In a sense, that is the theme of this publication – any company regardless of its size can trade abroad as long as it has a marketable product. And, in many cases, companies may wake up and unexpectedly discover that they are global companies.

One reason for companies finding themselves doing business overseas without realizing they were developing an international presence is that the process can be an easy one – surprisingly, often more so for a smaller company than a larger one. Since the company is small and will have less impact on the economy in a foreign market, it will more often be left alone by the local government and will be less susceptible to pressures from labor unions in foreign countries. Moreover, smaller companies are often able to adapt more quickly to new opportunities and organize and re-direct internal resources through quicker communications and less formal procedures. As the President of one small computer firm describing his company's experience stated, "The little fellow – with careful research, planning and perhaps some unorthodox moves – can successfully enter Europe especially for technology intensive companies."[3]

On the other hand, of course, consideration must be given to the fact doing business in remote locations carries a higher risk for smaller companies. A minor mistake can mean disaster to a small company, but only a small loss to a larger company. If a small business makes a misstep in a new foreign, it may not be able to support even a minor drain on available financial resources and the distractions caused by the overseas project may cause the firm to fall behind local competitors that have elected to focus solely on their own backyards. However, these are problems encountered in any new undertaking of a small company, and unless the small company wishes to maintain its present size, it must pursue growth areas at home and abroad.

[3] James K. Sweeney, "A Small Company Enters the European Market," Harvard Business Review, p. 126 (September-October 1970). Harvard Business Review.

Emerging Growth Companies

So-called "emerging growth companies" are generally involved in innovative industries and markets and have been formed and funded to rapidly develop new technologies and related products that can quickly lead to rapid growth. In the US and other areas, emerging growth companies are the favorite targets for venture capitalists; however, while the potential returns are high, the risk of failure is substantial. Emerging growth companies must confront significant risks during the early stages of development, even when operations are limited to strictly domestic markets. However, many companies find that expanding into foreign markets can actually increase their changes of success, even while they are still struggling to gain a foothold in their home market. For example, young businesses with limited financial resources may benefit from using low-cost manufacturers in foreign countries to produce goods that can be sold at attractive prices in the company's own domestic market. A new company may also seek out foreign markets that have not been identified by larger competitors and build significant market share as a barrier to entry. The success of the product or service in a smaller foreign market can then be used as a base for entering larger markets.

Surveys of growth-oriented firms in the United Kingdom confirm that entry into foreign markets for manufacturing and/or distribution is an important element of their business strategy. In fact, many of those companies begin their pursuit of international customers within the first year following formation of the firm. In the US, venture capitalists are now demanding that the business plans developed and presented by potential entrepreneurs include a thorough discussion of the role that globalization will play in the projected growth and development of the business. In this context, internationalization is not limited to product markets and emerging growth companies must identify opportunities for cost savings and operational efficiencies by sending operational activities to locations outside of the US. This trend is not, however, without controversy as it means that many regions in the US, including Silicon Valley, are likely to find that new emerging companies no longer provide the same engine for local job growth.

Large Multinational Companies

For many years, international business activities were perceived to be the exclusive preserve of larger companies that had the capital, managerial and technological resources necessary to overcome the risk of conducting substantial amounts of commerce outside of the US. While the vignettes above illustrate that smaller firms can, and often do, successfully launch foreign operations, particularly in the sales area, large multinational companies remain the models for best practices and innovative new uses of foreign resources. In fact, many large companies have established autonomous business units in key foreign markets around the world. Each of these units includes most, if not all, the functional areas necessary for product development, sales, marketing and manufacturing geared to the specific requirements of the local market. When using this type of organizational structure, the responsibilities of the headquarters office may be limited to overall strategic planning and acting as a controller of the activities of the country-specific business units to make sure that there is no unnecessary overlap and that each business unit has access to products and business tools successfully developed by other units. Larger companies are also quicker to use foreign markets to achieve cost savings and efficiencies that can be exploited in the US, such as relying on manufacturing and administrative support provided by personnel in foreign countries.