International Growth:
Successful Export Strategies for Manufacturing CEOs

Final Report February 2006

Prepared by Stone & Associates

**For the National Institute of Standards and Technology
Manufacturing Extension Partnership**

In Partnership with the US Commercial Service, US Export Assistance Centers

Sponsored, in part, by Federal Express Corporation

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Project Objective: Provide Strategic Guidance to CEOs

Background

- Considerable information available on the specific “how-tos” and tactics of exporting, but limited knowledge about CEO/executive decision-making and strategy

Project Objective

- Conduct research on CEO/executive decision-making, strategy and planning related to international sales
- Develop a seminar program, based on the research results, to help CEOs accelerate their companies’ growth in international markets

Success Models: Two Sets of Characteristics Differentiate Successful Exporters

COMMITMENT & MINDSET

CEOs in Successful exporters are committed to international business. They dedicate staff and resources to international, are patient with profitability, and set international plans and sales targets. They proactively and aggressively pursue international business, rather than taking a reactive, opportunistic approach.

BEST PRACTICES

Partners: Successful exporters use multiple channels – distributors, rep/agents – in addition to going direct. They see partner selection as critical and have learned to go about it systematically.

Relationships: They leverage US customer relationships to generate foreign sales, and recognize the importance of understanding cultural differences and developing strong personal relationships.

Planning: They select markets based on demand and country business/political climate, and also on less obvious factors such as connections in specific markets and competitive situation and strategic advantages.

Payment: They leverage multiple payment methods to minimize credit and reduce risk.

Export Potential & Growth Strategy: Successful Exporters Grow Globally By Leveraging Strategic Advantages

Regional Business or Commodities:
Export Potential Mainly North America

Successful Global Exporters Grow Based on Strategic Advantages

- Product Advantage or Specialized Capabilities
- Niche Focus
- Quality Advantage / High-End Focus
- Service Advantage
- Foreign Manufacturing

Successful global exporters recognize these advantages, build strategy around them, and maintain them through investments.

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Deliverables

- Research results documented in report, white papers
- Seminar program for CEOs/executives

Benefits

- Help CEOs accelerate growth in international markets
- Nurture development of exporting companies with strategic perspective
- Define model of Successful exporters and CEOs

Sponsors

- The project was primarily funded by the Manufacturing Extension Partnership program (MEP) of the National Institute of Standards and Technology.
- The research and seminar program roll-out is being conducted in partnership with the US Commercial Service, US Export Assistance Centers.
- Additional support was provided by the Federal Express Corporation.
- 12 US Export Assistance Centers and 24 MEP Centers are actively participating in the research and seminar roll-out.

Participating US Export Assistance & MEP Centers

US Commercial Service — Participating US Export Assistance Centers

Baltimore, MD	Cincinnati, OH	Newport Beach, CA	San Jose, CA
Buffalo, NY	Dallas-Ft. Worth, TX	Omaha, NE	Seattle, WA
Chicago, IL	Memphis, TN	Philadelphia, PA	Westchester, NY

Participating Manufacturing Extension Partnership Centers

California Manufacturing Technology Center (CMTC)
Catalyst Connection
Center for Economic Development (CEG)
Central New York Technology Development Center (CNYTDC)
Chicago Manufacturing Center (CMC)
Cleveland Advanced Manufacturing Program (CAMP)
Corporation for Manufacturing Excellence (MANEX)
Georgia Tech's Economic Development Institute/MEP
Hawaii Manufacturing Extension Partnership
High Tech Rochester
Hudson Valley Technology Development Center (HVTDC)
Illinois Manufacturing Extension Center (IMEC)
Industrial & Technology Assistance Corporation (ITAC)
Insyte Consulting
Manufacturing-Works (Wyoming)
Maryland Technology Extension Service (MTES)
Michigan Manufacturing Technology Center (MMTC)
Nebraska Department of Economic Development
Rhode Island Manufacturing Extension Services (RIMES)
TechHelp (Idaho)
TechSolve (Ohio)
Texas Manufacturing Assistance Center (TMAC)
Vermont Manufacturing Extension Center (VMEC)
Washington Manufacturing Services

Study Work Tasks

- **75 Interviews with small and mid-sized manufacturing companies**
  - 59 In-depth interviews/case studies with exporters (30-90 minutes)
  - 16 Interviews with non-exporters
  - Firms recruited through US Export Assistance Centers, MEP Centers and the MEP Market Research Panel of Executives
  - Respondents: Mainly CEOs/Presidents, as well as other executives
  - Sample purposefully included successful exporters, as well as moderate exporters and non-exporters for comparison
    - Allows for identification of true success factors

- **Interviews with 12 US Export Assistance Centers**

- **Extensive secondary research**
  - Reviewed dozens of articles from business publications on export and international business
  - Reviewed nearly 50 export related websites
  - Reviewed government statistics and reports on exports, particularly by small and mid-sized firms
  - Reviewed several basic guides to exporting produced by the Department of Commerce, SBA, The Export Institute and other sources

Company Research was Based on Stone & Associates In-depth Strategic Interview Approach

- **Interview guide – structured discussions**
- **In-depth, open-ended responses – in CEO's own language**
- **Strategic overview of company's international business**
- **No pre-determined answers (post-interview categorization)**
- **Designed to gain insights vs. confirm existing hypotheses**
- **Richer information than simple survey formats**
- **Topics:**
  - Export/international sales performance
  - History of international business expansion
  - International growth strategies, planning process
  - International business practices
  - Lessons learned

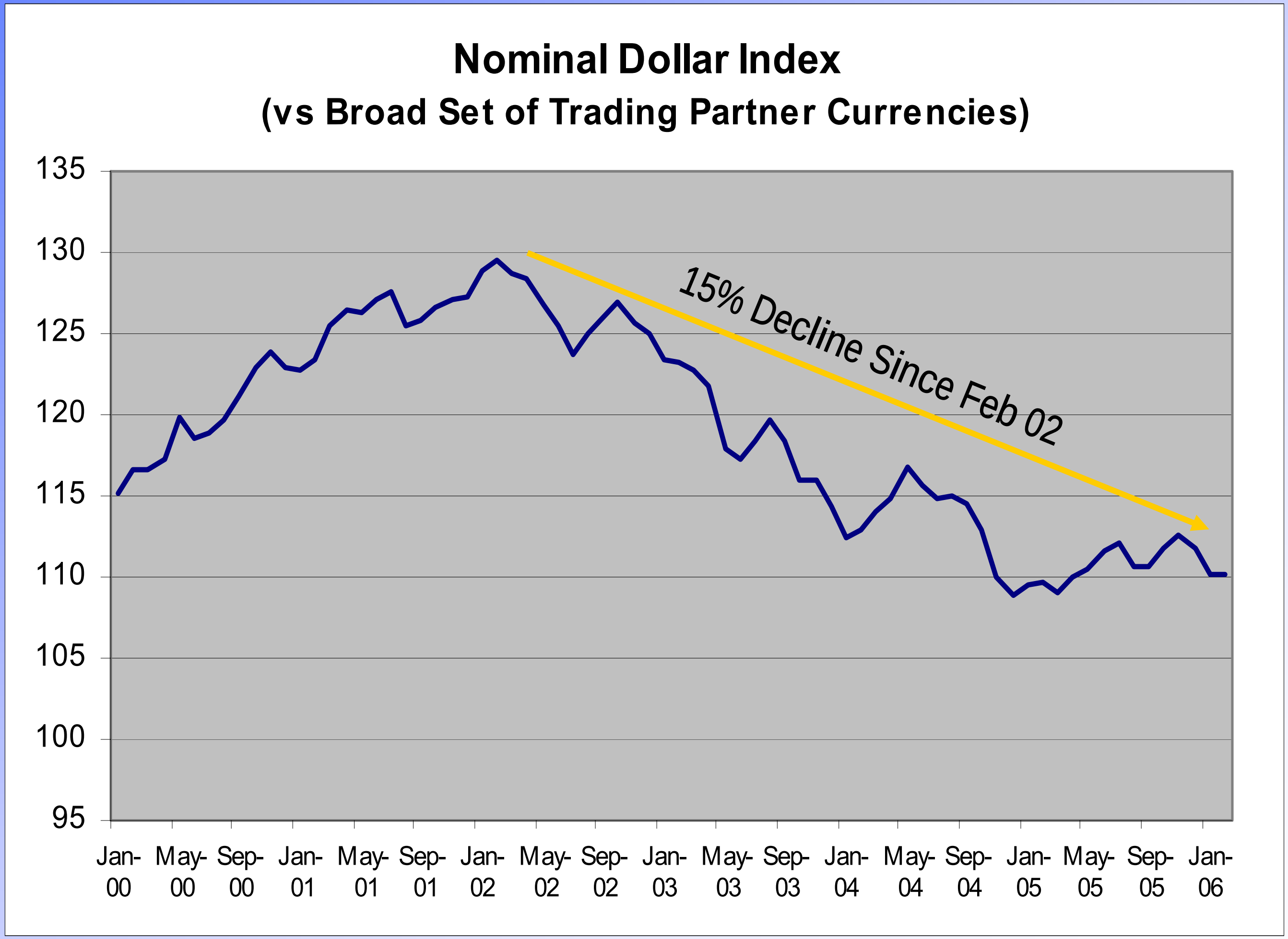
Growth Opportunities For Manufacturers Are Increasingly International

- **Manufacturing customers are migrating to low-cost countries**
- **Domestic markets are declining and fiercely competitive**
- **Billions of consumers have joined the world economy in recent decades – particularly in China, India and other emerging economies**
- **The dollar has declined creating export opportunities for US-based manufacturers**

Example – The International Imperative

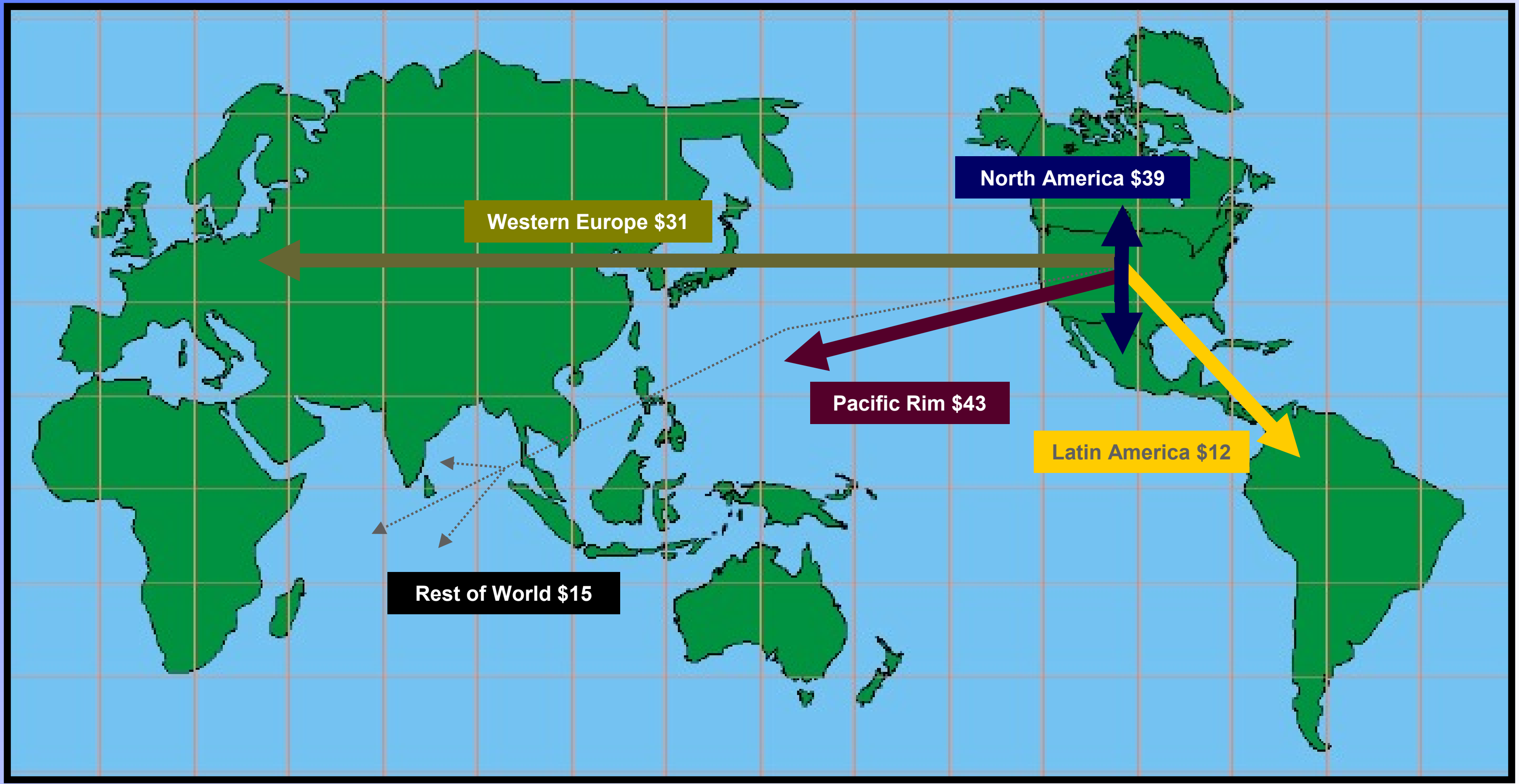
"Once a week, Jay Williams pulls up a spreadsheet on his personal computer and prints it out. It's a list of the major construction sites around the world for plants that make volatile gases like chlorine. His small company, Fetterolf, makes custom valves to regulate gas flows in those plants, so the list is a compilation of the places where Williams needs to do business. The list underscores why exports to China now account for about 40 percent of the Skippack, Pa.-based company's $12 million in annual revenue. 'There are 20 projects in China where they're building in valves like ours,' says Williams…'In the United States, there are just three projects and four in Europe. We need to follow the construction money, so it's self-evident that we need to be in China.'" (From "The China Riddle," *Chief Executive*, March 2005)

The Decline of the Dollar Has Created Export Opportunities for US Firms



Source: Federal Reserve

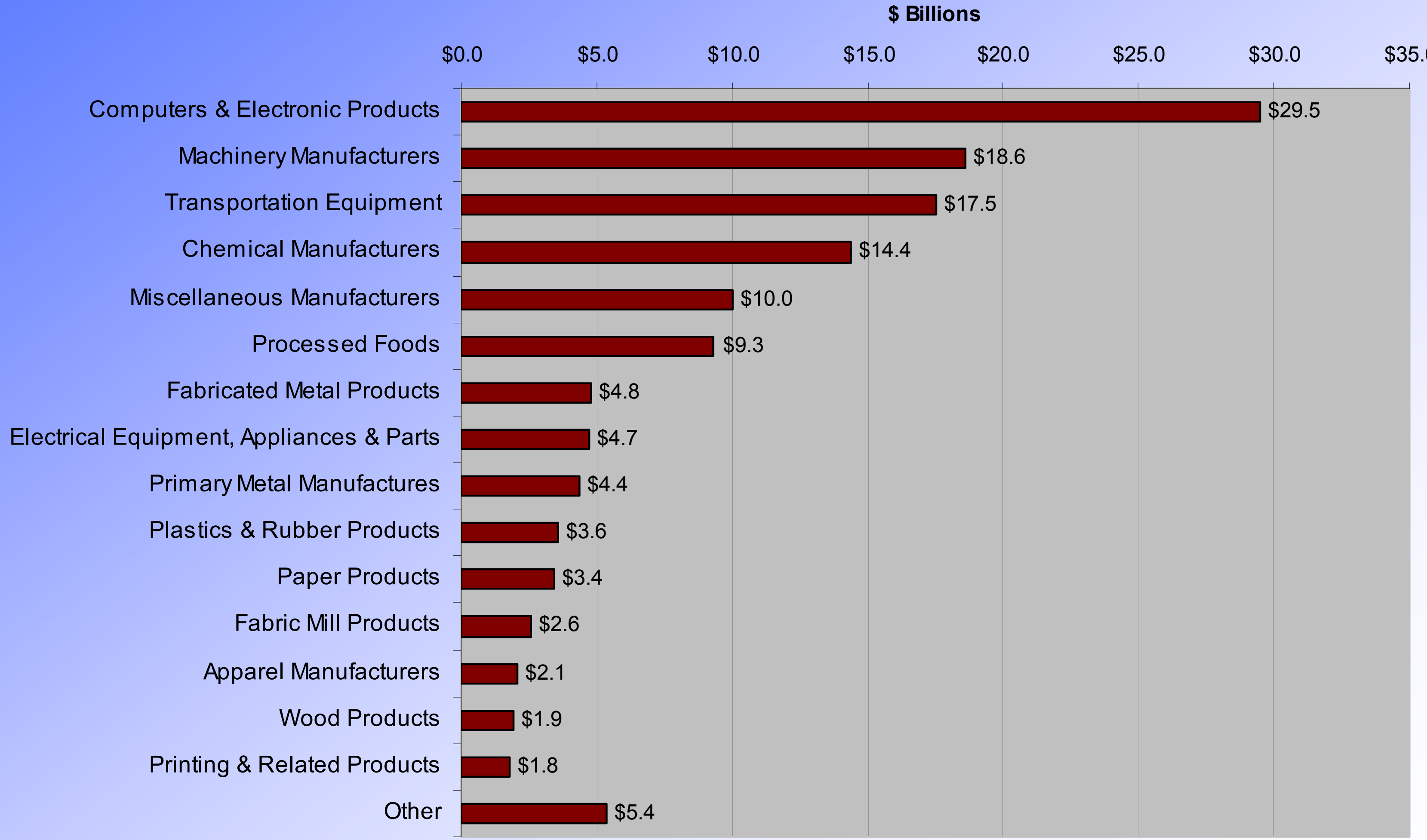
Exports of US Small & Mid-Sized Firms by Region ($ Billions)



2003 data; includes exporters with less than 500 employees; Source: A Profile of U.S. Exporting Companies, 2002-2003, U.S. Census Bureau

US Manufactured Exports By Small & Mid-Size Firms — Top Industries

2002 data; exporting firms with less than 500 employees, including manufacturers, wholesalers, brokers.



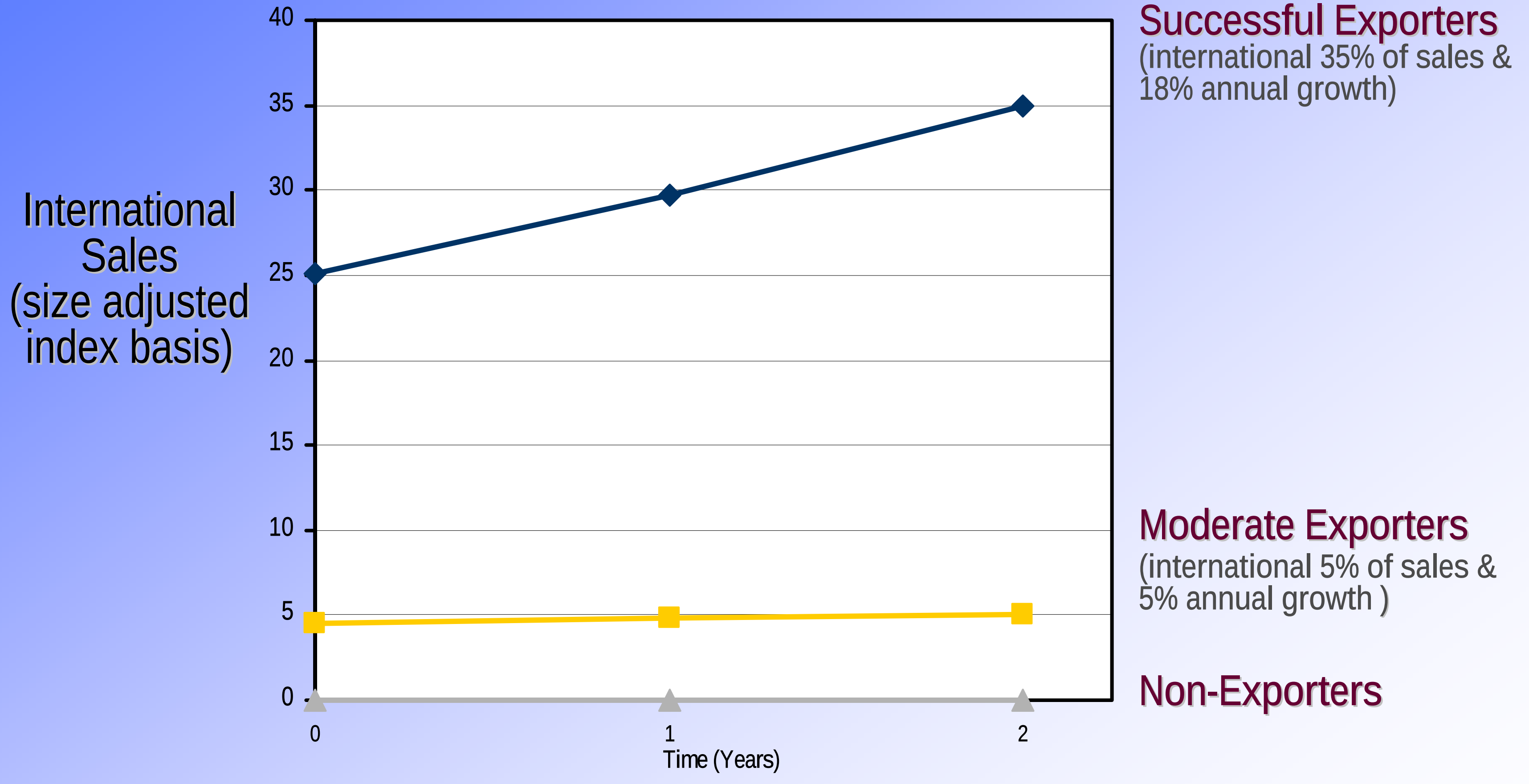
Source: Small and Medium-Sized Exporting Companies: A Statistical Handbook, International Trade Admin., June 2005

Companies Interviewed Were Initially Divided Into Three Groups Based on Export Performance

Total Interviews (75)

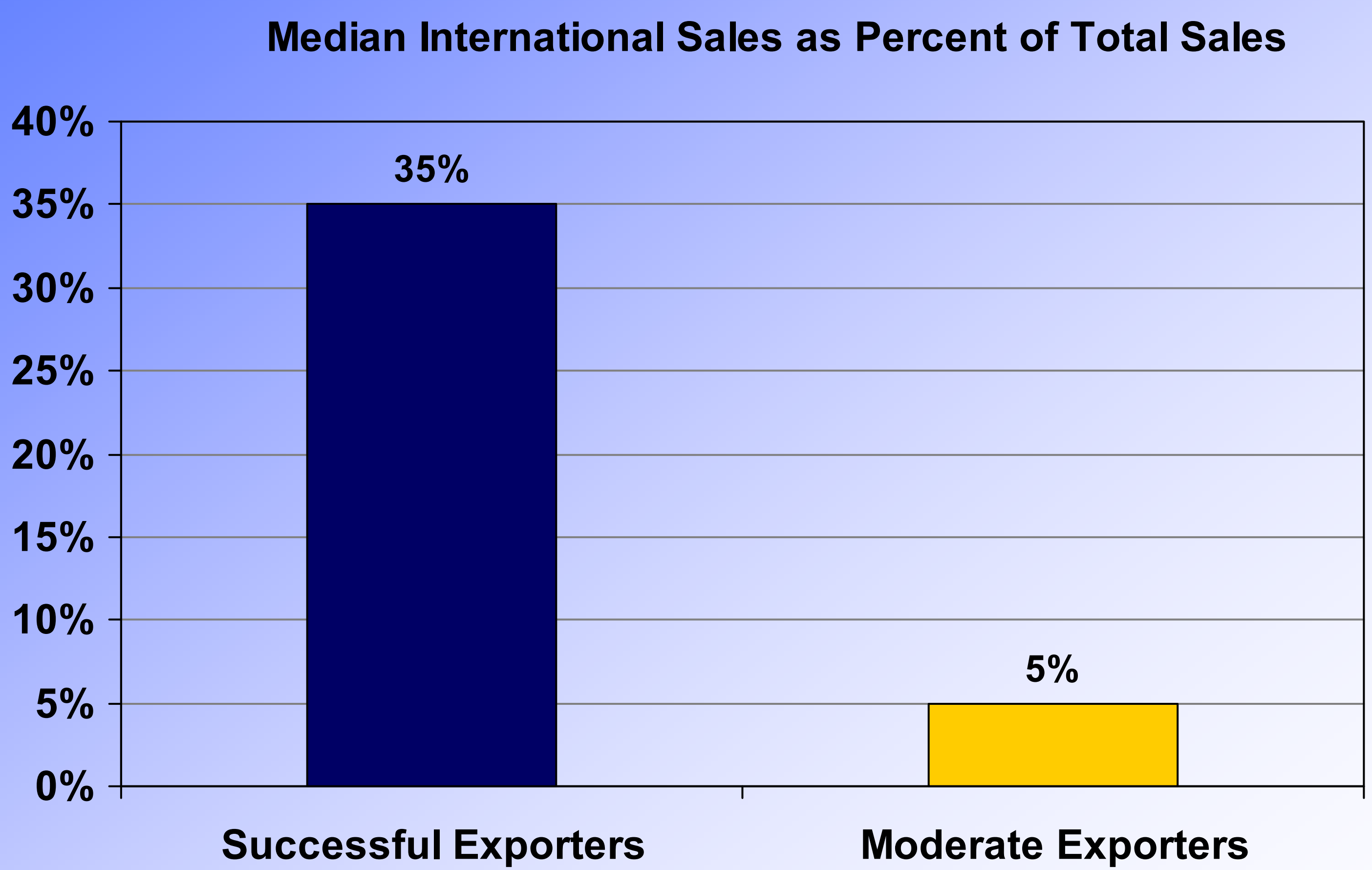
Successful Exporters ≥ 10% (30 firms)	• International sales are at least 10% of sales • *And* international sales growth is at least 10% for one of last two years
Moderate Exporters < 10% (29 firms)	• Some international sales, but below successful criteria
Non-Exporters 0% (16 firms)	• No exports

Firms Categorized as "Successful" Have a Much Higher Level of International Performance



Note: Based on median data from firms interviewed for most recent two years.

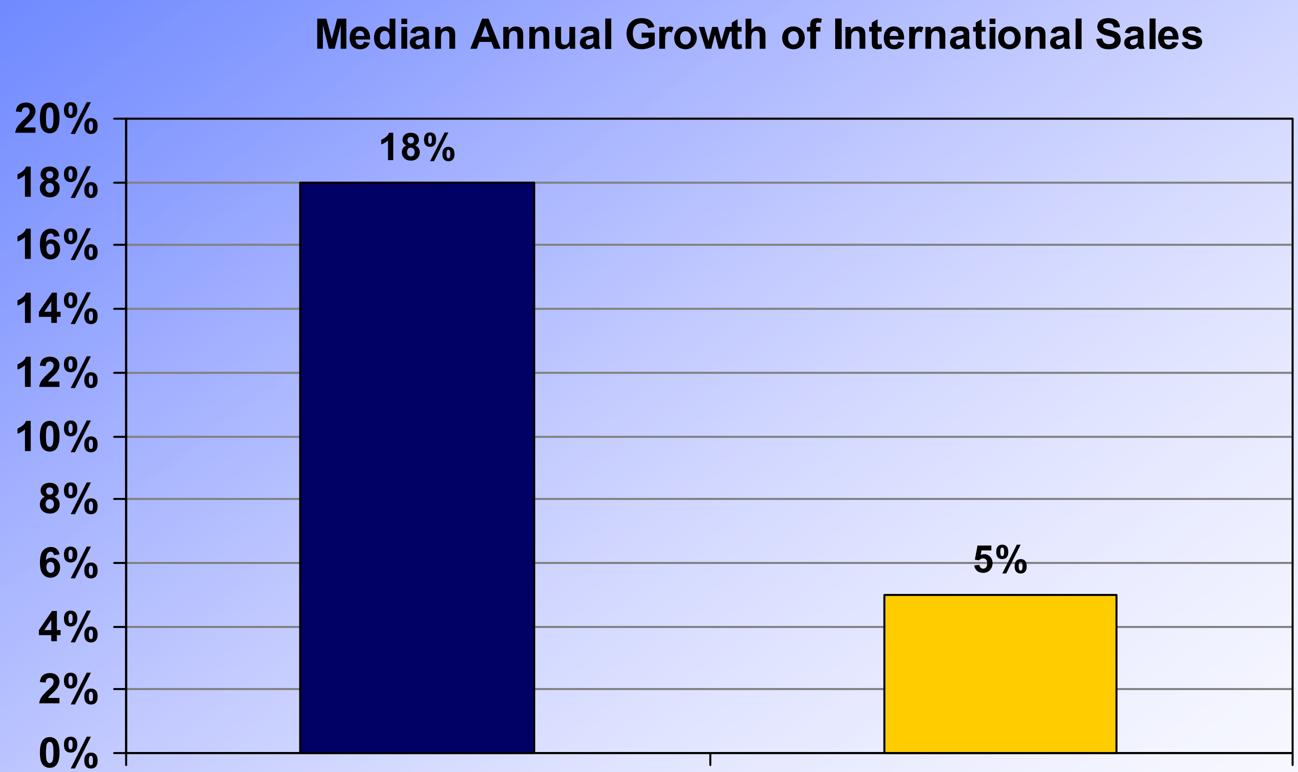
For Successful Exporters, International Represents a Larger Share of Sales



Successful Exporters	Moderate Exporters
Range: 10-80%	Range: 2-41%
Average: 36%	Average: 12%
n = 29	n = 28

International Sales Growth is Also Significantly Higher for Successful Exporters

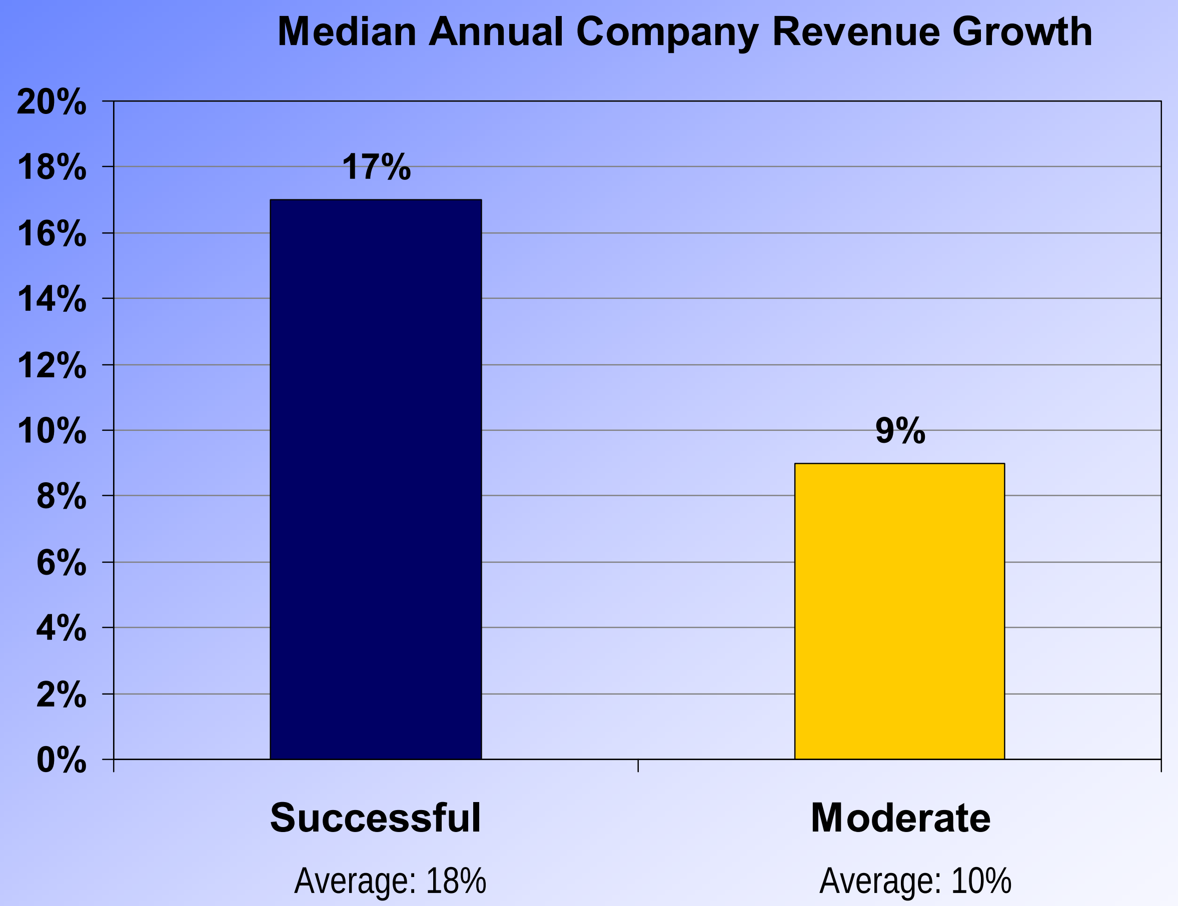
These numbers understate the relative performance of Successful firms, since growth for Moderate exporters is calculated on a smaller base of international sales.



Successful Exporters
Range: 8-100%
Average: 31%
n = 27

Moderate Exporters
Range: (5)-100%
Average: 14%
n = 25

Finally, Successful Exporters Enjoy Significantly Higher Overall Company Revenue Growth



Key Questions For Manufacturing CEOs That Want To Increase International Sales

Success Models

What do Successful exporters do differently than Moderate exporters? How does a Moderate exporter become a Successful exporter?

Export Potential & Growth Strategy

Which manufacturers have the potential to grow through global exports and which have potential in North America only? How do viable global exporters leverage strategic advantages to grow?

This report will address these two sets of key questions.

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Success Models Section Overview: What Are The Key Characteristics of Successful Firms?

- **Two sets of characteristics differentiate Successful exporters from Moderate exporters:**
  - **COMMITMENT and MINDSET—Proactive**
    - COMMITMENT—They are willing to invest and dedicate resources to international business
    - MINDSET—They actively/proactively want to develop international business
  - **BEST PRACTICES** —They adopt best practices, learned over time
- **This section describes these success factors in detail**
- **Another factor – strategic advantages – which also determines export potential and success, is discussed in the next section**

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CEOs/Executives in Each Category Have Fundamentally Different Attitudes

Successful Exporters Proactive	**100% of firms at this level are proactive:** • **Committed to investing in and actively pursuing international growth** • **Have a Mindset ready to seize international opportunities and grow aggressively**
Moderate Exporters Mainly Opportunistic & Reactive	• **Most (72%) are opportunistic and reactive, responding to inquiries or selling to foreign locations of US customers** – For some of the analysis in this report, the "Opportunistic" portion of Moderate performers, will be separately broken out to show dramatic differences in behavior from Successful firms
Non-Exporters Don't See Opportunity	• **Don't see international as a viable opportunity**

CEOs/Executives in Each Category Have Fundamentally Different Attitudes—Examples

Successful Exporters
Proactive

Moderate Exporters
Mainly Opportunistic

Non-Exporters
Don't See Opportunity

- **Successful Proactive Exporter**
  - "We became more aggressive in expanding internationally when I bought the company. We needed to grow, and international seemed to be the most promising market. Exports are a key source of growth in the company's strategy. One of the biggest reasons we are successful is we have made the commitment to be an international company." (#32)
- **Moderate Opportunistic Exporter**
  - "Most of our international shipments were responding to US customer requirements. We made no real decision to exploit foreign markets." (#42)
- **Non-exporter**
  - "We are a local company, we don't export. We first need to expand elsewhere in the U.S. Exporting or international business would be fairly far off in the future." (#69)

Successful Companies Commit To & Invest In International Business

COMMITMENT SUMMARY

- The CEO is committed to international business
- The CEO is willing to dedicate staff to international business
- Successful companies are more patient with profitability in foreign markets than Moderate exporters
- Successful companies have international plans and set international sales targets
- CEO’s of Successful companies place more value on regularly visiting foreign partners and customers

In Successful Companies, the CEO is Committed To International Business

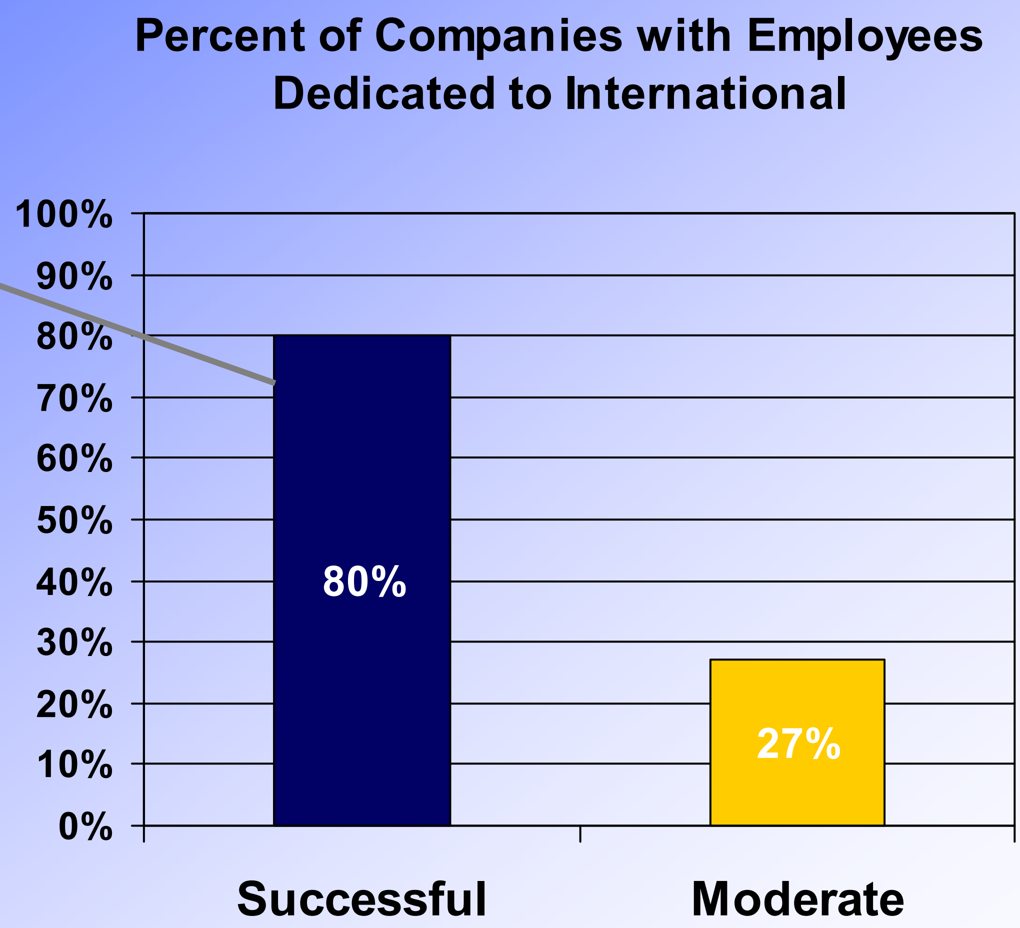
Examples

"One of the biggest reasons we are successful is that we made the commitment to be an international company in terms of learning, setting up financing, etc. I made international a stated priority and put it in the plan. You have to make the commitment and investment, including little things like training employees on metric measurements and how to package in metric units vs. lbs. If someone has to go to Hong Kong, do you have someone who can go and is willing to go? I once went overseas for one meeting that turned out to be a waste. If not committed to international, that might cause you to give up. But we were committed, so we simply saw it as a minor setback." (#32)

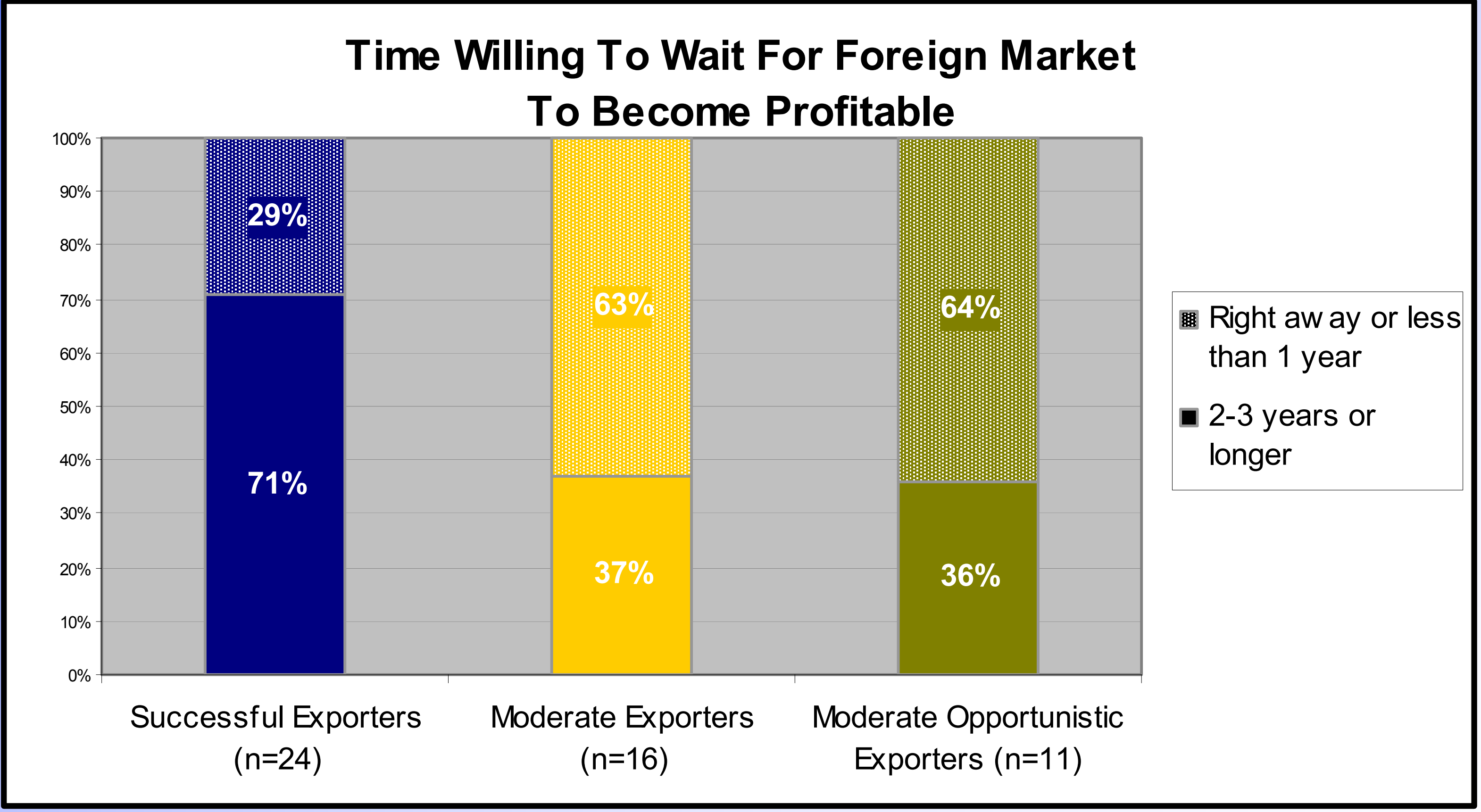
President's vision drove international sales: "People look at the US and say this is a big enough market for them. I think you have to look for other markets as well even if you are a small company." (#37)

In Successful Companies, the CEO Dedicates Resources To International Business

Most of this 80% have an international sales or business manager



Successful Exporters Exhibit Patience With Profitability in Foreign Markets



Successful Companies Exhibit Patience With Profitability in Foreign Markets (cont.)

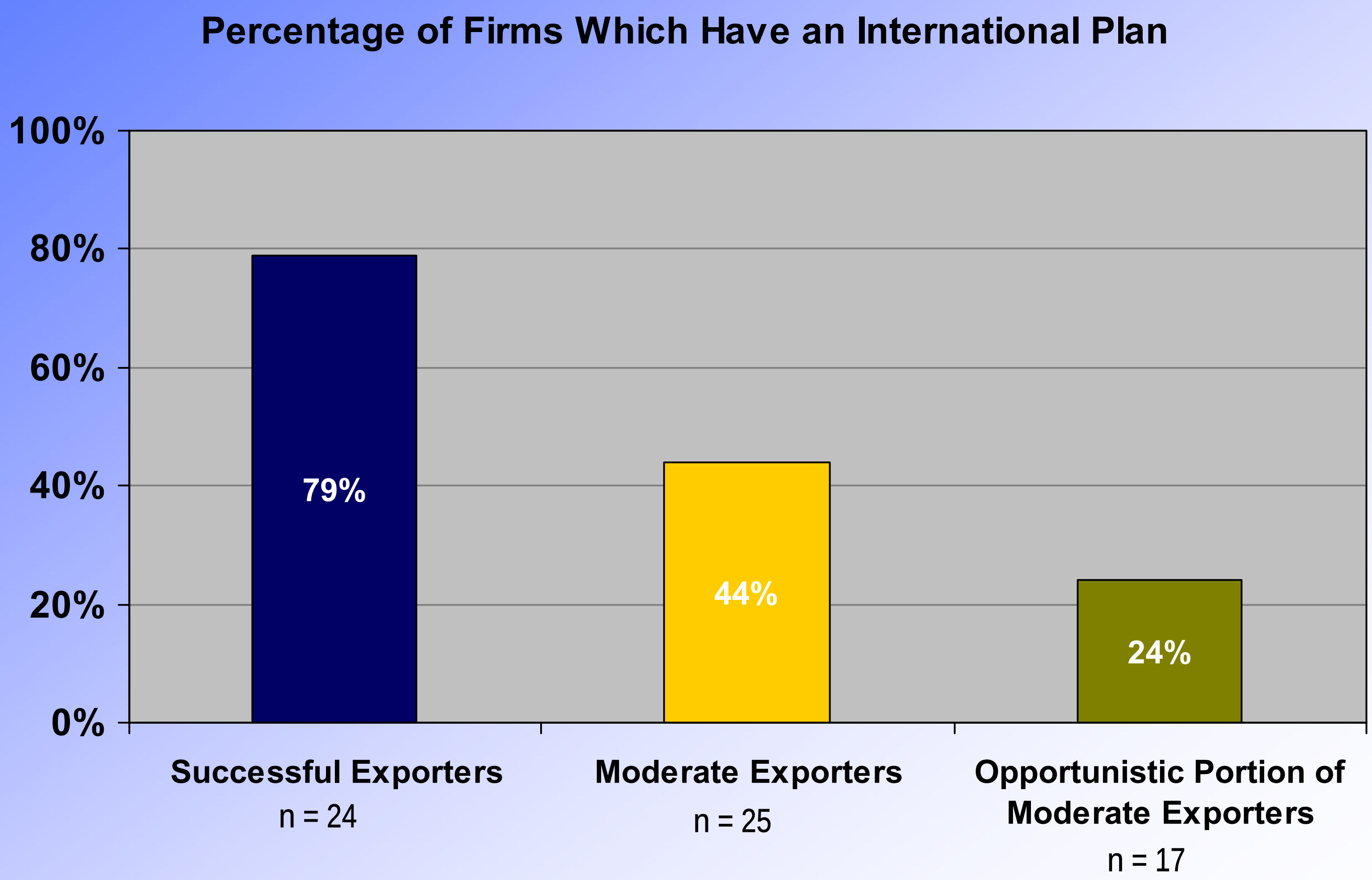
Examples

"It depends on the investment, but we have waited 10 years. (#41)"

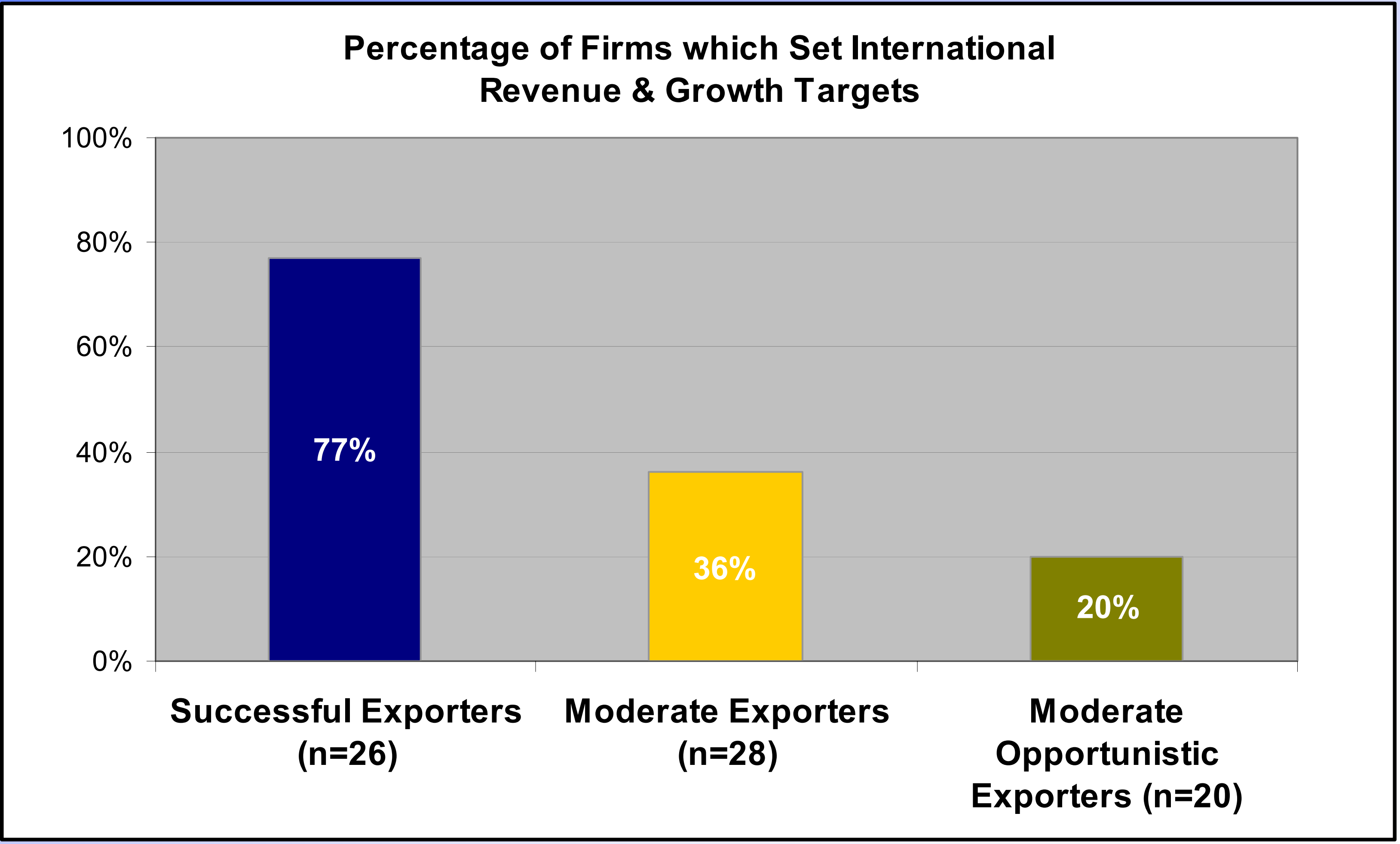
"Now we would wait three years; in the early years we were not as patient. (#35)"

"Sometimes it will take three or four years, we evaluate each project every six months now. How is it going now in this area? What does the future hold? How can we improve? (#48)"

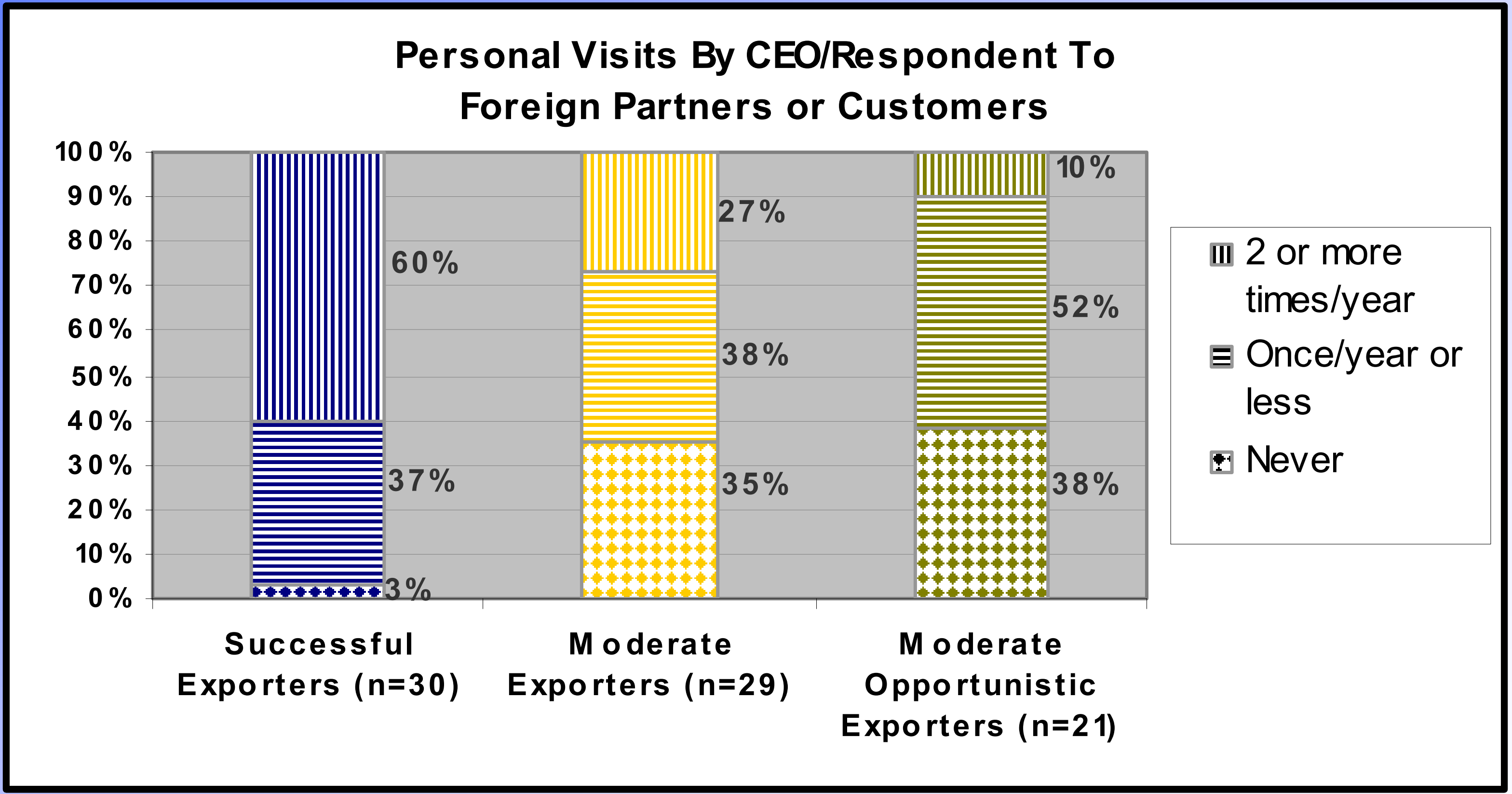
Successful Companies Establish International Plans



Successful Companies Set International Sales & Growth Targets



CEOs/Executives of Successful Companies Regularly Visit Foreign Partners & Customers



Interview Example: "The formula for success for a small exporter is: must be willing to travel for 30 hours, deplane with the enthusiasm of a cheerleader, act with the dignity of an ambassador, stay at 3rd rate hotels, eat food you're unsure about, be complementary about the host country and don't talk politics and religion." (#55)

Study Findings are Consistent with Perceptions of U.S. Export Assistance Centers

- **Interviews with US Export Assistance Centers indicate that the most important characteristic of successful exporting companies and CEOs was commitment:**
  - Willingness to commit resources to international business
  - Willingness to hire or dedicate staff to international sales and business development
  - An active, involved and passionate CEO
  - Willingness to get on a plane and make contacts in foreign markets
  - Emphasis on communicating the company's goals, getting everyone on board, and sharing a common vision of the company as a global player
  - Long-term vision, and patience

Comments from US Export Assistance Centers

"The secret to success is commitment."

"If the CEO has drive, interest and commitment then the company can succeed. You need resources, training, you can't do it halfway."

"You need a commitment to grow the business. Need to be willing to spend money, hire additional people for export."

"CEO needs to make a commitment. Can't expect to just jump in. Must commit time and money. Be willing to travel and go over and shake hands."

The Successful Exporter Mindset: Seize Opportunities & Grow Aggressively

MINDSET SUMMARY

Successful exporters actively pursue international business vs. simply responding to inquiries or following US customers

Successful Firms Seized Opportunities as their Export Business Expanded

- Ready to pursue markets as they shift overseas
- Predisposed to pursue international as part of business
- Ready to leverage business connections in international markets
- Rapid expansion from one or few markets to many markets

Successful Firms Pursue Exports as a Key Source of Growth

- See international as a key source of growth
- Identify specific target markets, and actively find partners to pursue those markets

Successful Firms Proactively Decide To Export

Drivers of Firms Initial Decision to Export				
Driver (multiple responses per company)		Successful Exporters	All Moderate Exporters	Opportunistic Moderate Exporters
More Proactive Behaviors	Pursued their markets overseas – followed shifts in demand to foreign countries	53%	8%	5%
	CEO/Management mindset oriented to pursue international and leveraged personal relationships/connections in specific markets	30%	8%	5%
More Reactive Behaviors	Followed existing US/NA customers to foreign locations	17%	42%	43%
	Reactive response to customer inquiries	20%	50%	52%
	Total Companies	**30**	**26**	**21**

Successful Proactive Examples – Initial Decision To Export

- **Pursued their markets overseas – followed shifts in demand to foreign countries:**
  - "We started exporting in 1991 – that was the year the whole customer industry moved overseas." (#48)
  - "We started in 1986 in Europe because there was a market there. The American market was almost 10 years behind in accepting (our) technology." (#22)

- **CEO/Management mindset oriented to pursue international and leveraged personal relationships/connections in specific markets:**
  - "We started with our first sales to Asia in 1993. I was the VP of International for another company, with many worldwide contacts. I came to this company with a mindset of international." (#35)

Successful Firms Were Proactive in Expanding To Multiple Markets

Drivers of Expansion into Multiple Foreign Markets				
Drivers (multiple responses per company)		Successful Exporters	Moderate Exporters	Opportunistic Moderate Exporters
More Proactive Behaviors	Pursued their markets overseas – followed shifts in demand to foreign countries	73%	31%	14%
	CEO/Management mindset oriented to pursue international and leveraged personal relationships/connections in specific markets	37%	14%	0%
More Reactive Behaviors	Followed existing US/NA customers to foreign locations	27%	31%	38%
	Reactive response to customer inquiries	20%	24%	29%
	Total Companies	**30**	**29**	**21**

Successful Proactive Examples – Expansion Into Multiple Foreign Markets

- **Pursued their markets overseas – followed shifts in demand to foreign countries:**
  - "20 years ago we signed up a person responsible for international. Then things took off – we went where we needed to go. He goes where the market is." (#55)
  - "We expanded into multiple markets simultaneously, around 1990. (The company) made a fully concerted effort to address international." The company specifically went after and identified countries that had a population of automobiles that needed their product. (#17)

- **CEO/Management mindset oriented to go international and leverage personal relationships/connections in specific markets:**
  - "We expanded (into Latin America) 10 years ago. I thought we were under-represented… I felt the future was bright." (#10)
  - "We expanded our exports (beyond initial market) right away. We went to the Philippines and then Japan. I had previous knowledge of the potential there." (#35)

For Some Successful Exporters, Aggressive International Expansion Was Driven By a Proactive CEO or Management Team Taking Charge

Examples

"I came to this company with a mindset of international." After arrival, company expanded into two large Asian markets. (#35)

Company had been exporting for 10 years before CEO joined, but with little success. When he joined he developed a new export model that led to sales in multiple export markets. (#53)

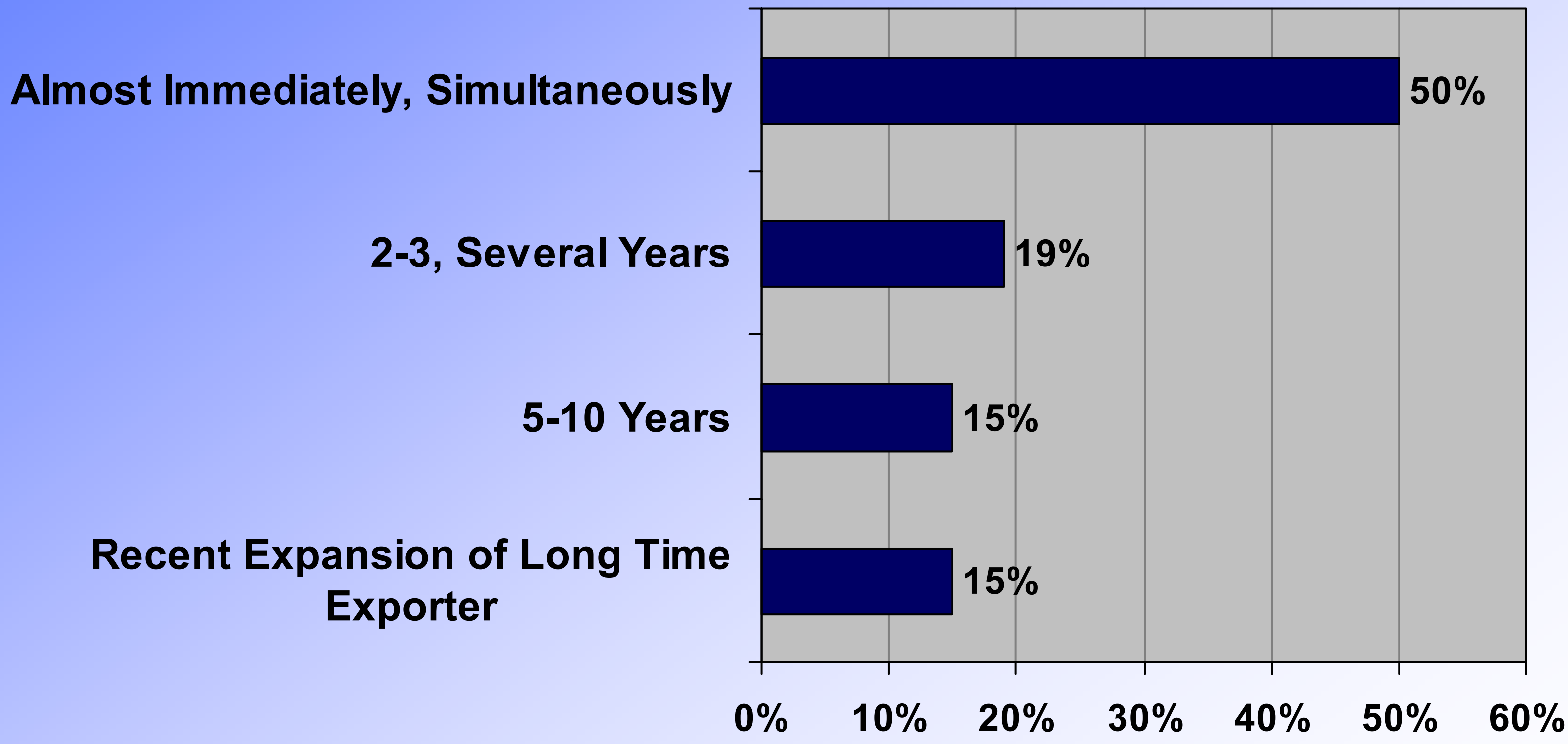
Exports doubled and number of export markets tripled when CEO joined company, even though company had been exporting previous to his arrival. (#2)

"I came to this company with an export background. I always expected to export because of my experience." (#41)

Current owner had been with the company for 33 years. When he bought it in 1990 he began an aggressive expansion in to export markets. (#32)

Most Successful Companies Quickly Expand To Multiple Foreign Markets

Length of Time From Initial Export To Concerted Expansion to Multiple Markets



n = 26

Most Successful Companies Quickly Expand To Multiple Foreign Markets (cont.)

Examples

"We started exporting to Europe. Europe was followed by Australia, New Zealand, Japan and, later, China." (#22)

"We simultaneously went into a variety of markets -- Europe, Canada, South Africa, India. We are hiring an individual to live in and cover Singapore to Asiana, Indonesia, India, Australia, New Zealand. We'll also have offices in Shanghai." (#34)

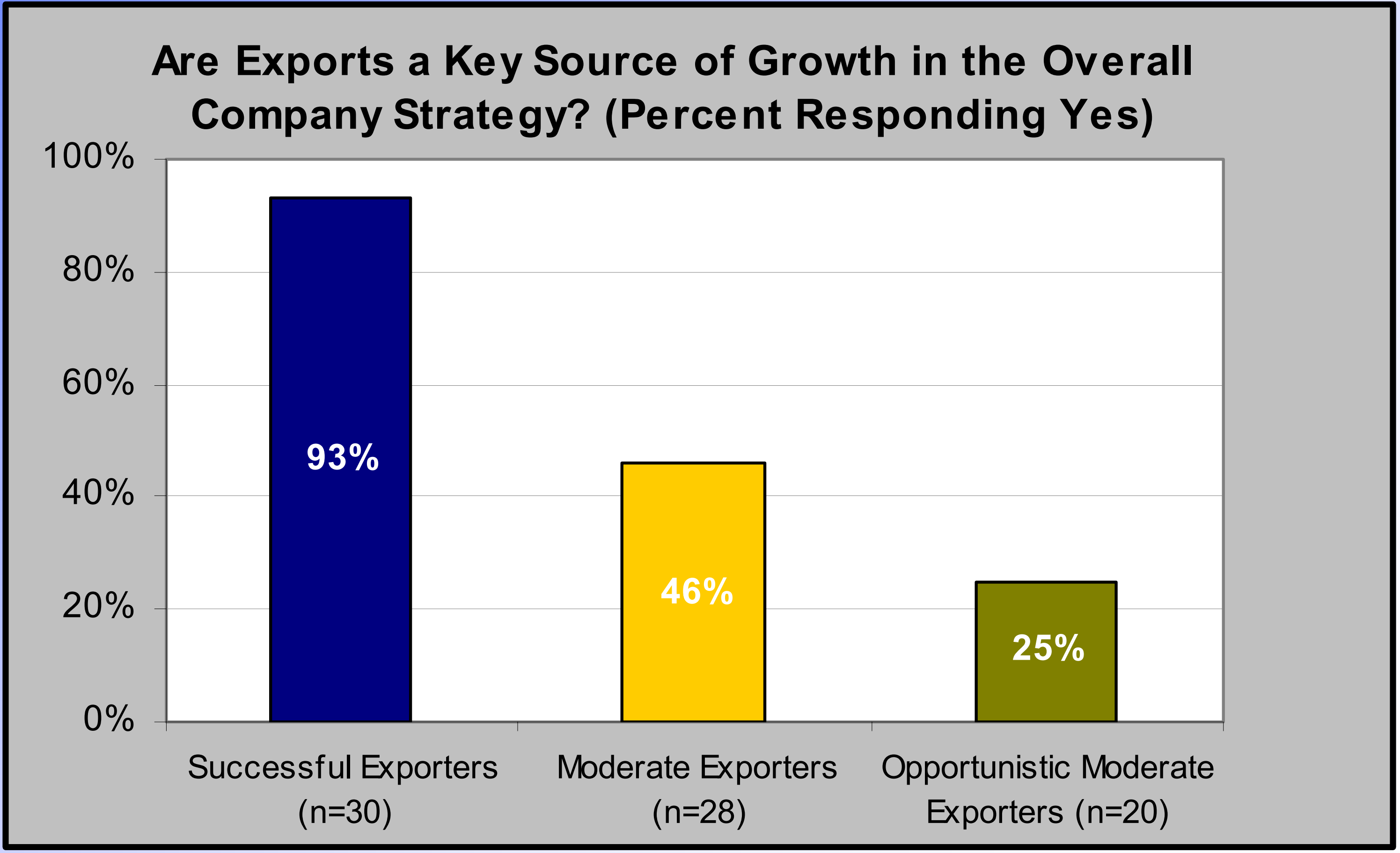
"We started in Scotland and the North Sea. We went to Canada shortly thereafter and then two years later to South America, then Singapore. We got success in China (as well)." (#48)

"We started in the European markets first. Now we are in 150 countries. Our newest customers are in Brazil, Bahrain and India." (#54)

"We started in Europe and shortly thereafter entered Asia (Malaysia and Singapore)." (#40)

Successful Firms See International as Key Source of Growth

- 93% of Successful exporters see exports as a key source of growth in the overall company's strategy



Successful Companies Actively Target Specific Markets

Examples

"We want to be in a position to support the power generation industry in China." (#12)

"The growth will come from China – it has such potential." (#22)

"Right away we went to the Philippines and then Japan. I had previous knowledge of the potential there." (#35)

"We did a study, a spreadsheet formula for estimating potential, per capita income, cultural factors, climate. From that we developed a list of countries in order of attractiveness, and now we go after the ones on the top that we don't already sell to." (#2)

"We (worked with) Minnesota Trade Office, identified countries interested in. Identified Japan, Korea and Scandinavia and started shipping to those locations. We target these new countries with similar products." (#20)

Successful Companies Proactively Look For (or Set up) Distributors Aimed at Specific New Markets

Examples

"In the late 1980's there was a movement to close European markets. This prompted us to establish a presence in the UK. We created a distributor. The distributor later became a wholly-owned subsidiary and still exists today." (#22)

"Japanese OEMs only want to buy from a Japanese company. They want to deal with someone they know. That is why we partner with a Korean company and we are planning for a warehouse in Japan." (#6)

"We bought a company in Canada and then entered into an agreement with an affiliate in the UK. Later we bought the company in the UK and started selling in Europe." (#15)

"We want to get a better understanding of the Asian market. We need to establish a presence there. Probably in a few months we will set up a distributor there to help understand the market." (#27)

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What Are The Best Practices of Successful Firms?

BEST PRACTICES SUMMARY

Partners

- Successful Exporters use multiple channels – distributors, rep/agents – in addition to going direct
- They see partner selection as critical, and do so systematically
- They do not rely solely on partners for market intelligence, marketing/selling and lead generation

Relationships

- They leverage US customer relationships to generate international sales
- They recognize the importance of understanding different cultures and the development of personal relationships

What Are The Best Practices of Successful Firms? (cont.)

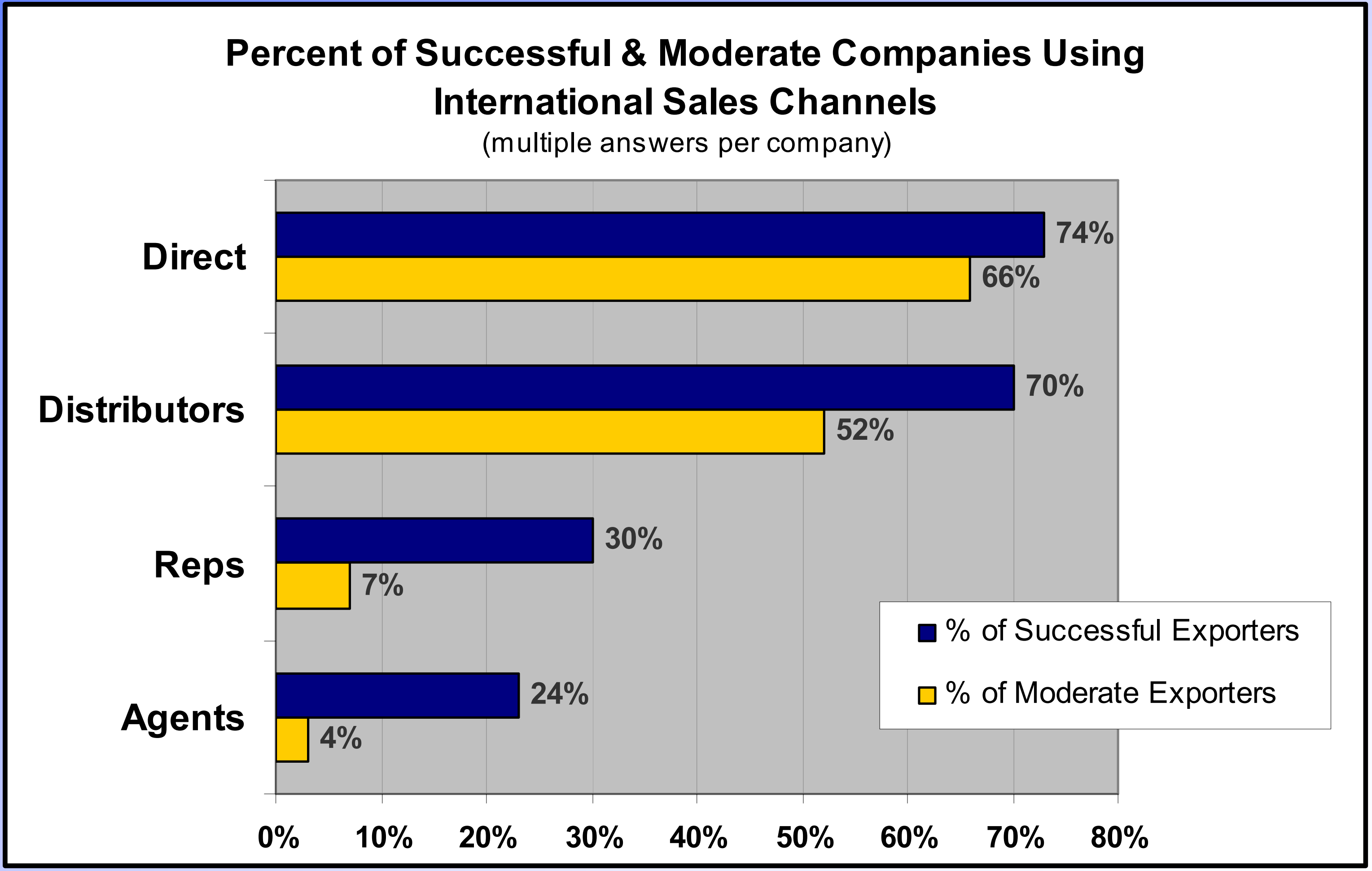
Planning

- They do their homework on foreign markets, but emphasize getting information on the ground (in country)
- They select markets based on obvious factors such as demand and country business and political climate, and less obvious factors such as connections in specific markets and competitive situation/strategic advantages

Payment

- They utilize multiple payment methods and approaches, more than Moderate exporters, to minimize credit and reduce risk

Successful Firms More Frequently Use Multiple Channels – Distributors, Rep/Agents – in Addition To Going Direct



Successful Firms See Partner Selection as Critical

Examples

"Picking the right people to do business with is critical to success; finding quality people, proud to work with and have as a friend. How do we find them? My existing distributors are good references." (#2)

"We try to pick people in the region that will help us understand the culture, and positively affect the product offering. Small companies need to develop good relationships in international markets." (#4)

"Find someone local who is familiar with local market and customs." (#18)

"Our success depends on our distributors so we need to always improve our choices." (#10)

Successful Firms Are Systematic in Partner Selection

"Have to go over and talk to customers/partners. You need to identify candidates, meet, interview, and be systematic about selection vs. 'taking whoever" shows up." (#32)

- **Meet with potential partners/distributors in country:**
  - Of the 30 Successful exporters, half of them feel that traveling to the country to meet potential partners/distributors is highly important
- **Request references and obtain credit checks:**
  - 44% of Successful firms conducted formal reference checks from customers and did independent research such as credit checks during the selection process
- **Tip: several Successful firms leveraged referrals from suppliers of complementary products:**
  - "My source of referrals is companies that supply the distributor in other complementary (non-competitive) product categories." (#17)
- **Other Factors to Consider when Selecting a Foreign Rep or Distributor:**
  - See the set of questions in the *Basic Guide to Exporting* prepared by the U.S. Department of Commerce and Unz & Co. The *Guide* is available online at www.unzco.com.

Key Criteria in Partner Selection

Obvious evaluation criteria:

- Financial health and creditworthiness
- Specific capabilities, e.g.; field sales force, warehouse capability, technical competence

Less obvious:

- Find partners that **match core values** – in particular a philosophy of long-term growth vs. "making a quick buck":
  - "Get to know the owners early on, not just senior management people, and understand whether their values are similar to yours. It will take time to develop. Can't expect it to happen overnight…With our partner, neither one of us went in expecting to make a buck real quick. In our partners we looked for a high percentage of reinvestment, placed a lot of emphasis on employee development and training, and on honesty and integrity in business development." (#4)
  - "Find knowledgeable and reputable partners to work with. We have a pretty good model of what we are looking for now. We must sit down and talk with people who are like-minded, listen for "hustlers." It's just like hiring employees; we talk to enough people until we find someone we are comfortable with." (#28)
- Find partners that have **established customer relationships in markets you want to penetrate**:
  - All of our (international) business goes through reps and distributors. Most of our sales are in auto. We have selected rep firms that sell other products to OEMs and Tier Ones that are already networked into these firms." (#4)
  - "We want distributors who are already established in the industries we are pursuing." (#8)

Successful Exporters Avoid Reliance Solely on Partners For Market Intelligence

Examples

"Once we are there, we rely on them heavily, but we give them direction such as 'you need to find out more about this industry or that one.'" (#8)

"We use our distributors or agents to do the research in the market, but we read trade publications and travel extensively." (#47)

"General market information is our responsibility. Customer information is the distributor's responsibility." (#24)

Successful Firms Avoid Reliance Solely on Their Partners For Marketing & Lead Generation

- 61% rely on foreign partners to generate business and handle marketing, but provide marketing support, such as marketing materials, sales training
- 13% do not rely on the distributors/partners at all – they take complete responsibility for generating new business themselves

Examples

"One of the most important things for us is to keep our thumb on the business. You have to visit customers. You have to get involved in their distribution, be part of their business plan. If you aren't you will end up in the back seat. Their sales go up when we visit. We had a situation where if we hadn't gone to visit a certain distributor, we would have lost the whole market due to the way he was pricing our product." (#24)

"To be successful, have to be there in country to support reps, show them not just in it to make money on this sale, but really support them over time. Will be there in 6 months." (#20)

Many Exporters Leverage US Customer Relationships To Generate International Sales

- **For 31% of Moderate and Successful exporters, leveraging relationships with US customers was key to expanding export business:**
  - Selling to US customers foreign operations
  - In many cases, the purchase decision was made in the US, but product was shipped to a foreign market

Examples

"It seemed natural to export to us, many times we followed our customers overseas (e.g.; GE, Westinghouse)." (#12)

"Customers in this industry buy in the US, but send product to Asia and Europe. By following one large customer. right away we were at 50% international." (#40)

"International expansion happened in the last 5 years, focused more on Mexico, Central America and South America, and further into Europe. We had specific knowledge about key customers setting up operations in Mexico." (#27)

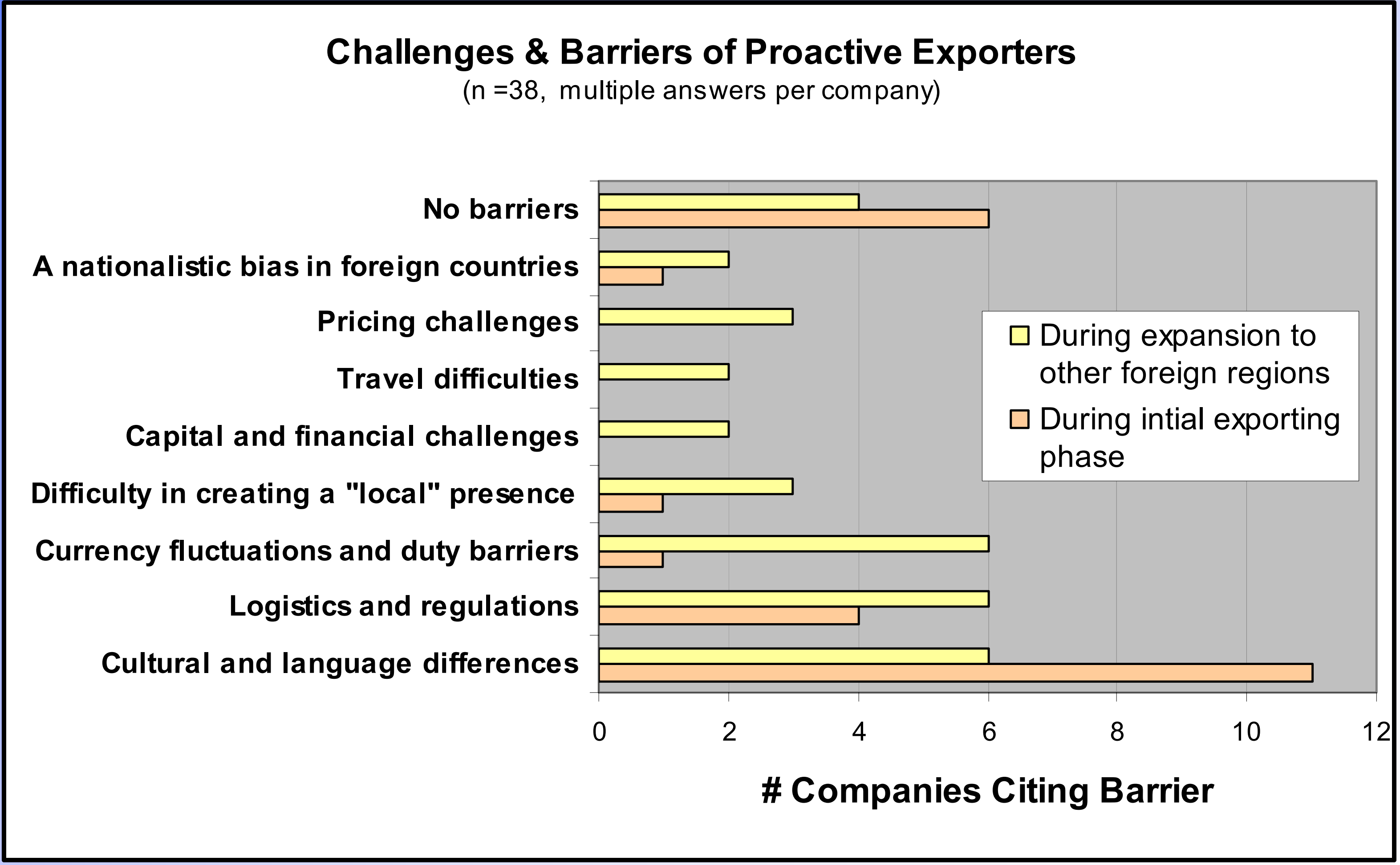
"For us, exports are primarily international shipments, with the sale made to a US company." (#42)

Successful Exporters Recognize the Importance of Understanding Cultural Differences & Developing Personal Relationships

- **Successful exporters overwhelmingly spoke of the need to understand varying cultures and business practices throughout the globe:**
  - “You need to forget about being an American company. You need to learn the customs of the countries you are dealing with. It is very difficult to walk in and expect them to conform to your way of doing business.” (#12)
  - “I learned a long time ago to stop thinking we, as an American company, make the best equipment, and that our way of doing things is the right way. We have to adapt to their ways, their size, safety standards (or lack of). This is key to being successful.” (#20)

- **They also talked about the importance of building personal relationships and face-to-face encounters with partners/customers:**
  - “International is about relationships, more so than in the US. Spend your time meeting with people, getting comfortable with them and them with you, and building strong relationships. You also have to check references and reputation as well.” (#47)
  - “We are relationship oriented and depend as much on personal relationships as on the financial picture (in selecting partners).” (#35)
  - “Small companies need to develop good relationships in international markets.” (#4)

Barriers To Exporting: Cultural & Language Differences Lead the List



Cultural & Language Barriers – Examples

"In the Far East language becomes difficult. We must concentrate on communicating, we have to write everything down. It's hard to have phone conversations, and difficult and time consuming to write everything down to be clear." (#3)

"We jumped to conclusions about these markets that turned out to be untrue. We assumed that initial lack of interest in our product was lack of demand, but rather it was lack of familiarity. They were not familiar with catalog business, because no one was selling that way in Mexico, so we assumed there was not much of a market, but we hung in there and distributed and talked to people and it started to take hold." (#27)

Successful Firms Do Their Homework, But Emphasize Getting Information on the Ground (in country)

Desk Research

- Secondary research:
  - o Trade journals
  - o Tradeshows
  - o Associations
  - o Commercial Service
- Country data/business climate (per capita income, growth, political situation, etc.)

In Country Contacts

- Talk to potential customers, distributors, reps/agents
- Tradeshows
- Foreign Commercial Service
- Commercial Service Gold Key, International Partner Search

Sources of Market Information For Successful Exporters

Source of Information	No. Companies (multiple response per company)	%	Comment
Doing your homework – reading, Internet research, tradeshows, networking	20	70%	7 (24 %) companies specifically mentioned tradeshows
Establishing a contact in the area/spending time there	14	48%	This includes developing distributor relationships and relying on them for information
Talking to customers	13	45%	As distinct from distributors or sales agents (although customers in some cases were distributors)
Number of companies responding	**29**	**100%**	

Successful Firms — Factors in Market Selection

- **#1: Demand for their product in foreign markets**
  - Many Successful companies started to export or expanded exports as they saw demand shift overseas
  - While it looks different for each company, some form of market research or customer intelligence efforts are required to assess demand:
    - Specialized packaging components manufacturer which has simultaneously expanded into a variety of international markets: "We have been successful at following end-use customers to see where they are setting up new operations. Now we have become known as an international player. We get recommendations, heads ups about the next entity that is opening up. We also have good marketing data. We track customers' operational plans and follow developments in specific industries." (#34)
    - Sporting goods manufacturer: "We did a study, and developed a formula for estimating potential, which included examining per capita income, cultural factors, climates. From that we developed a list of countries in order of attractiveness, and go after the ones on the top of the list we're not already selling to." (#2)
    - Specialty alloys manufacturer: With a small number of players in their niche globally, foreign opportunities are easy to identify because they are seeking specific customers: large non-wire copper/brass producers. (#32)
    - Manufacturer of equipment for rebuilders: "We work with OPIC, EBRD (European Bank for Reconstruction & Development), World Bank to see where they're pumping money into rail, aviation, agriculture. Get trade magazines to see new things funded. Use government agencies and networking to see if opportunities are real, immediate. There are trade magazines for every type of rebuilder and industry. We get 136 magazines each month." (#53)
    - Manufacturer of equipment for recycling solid waste: "We quickly found that environmental concerns around the world started with water pollution first, then looked at solid waste and air. So I followed water pollution as a leading indicator. If people are actively selling water pollution products, the next concern is solid waste and recycling." (#20)

Successful Firms — Factors in Market Selection (cont.)

#2: Overall business, political and regulatory climate

- 30% of Successful companies indicated they gather information on the business and/or political climates of the countries they are considering entering
- Examples:
  - “You need to study the currency situation.” (#35)
  - “We need to track the regulatory requirements.” (#37)
  - “We need to understand how to do business in a country.” (#24)
  - “We gather very basic information – do they have gas, do they have buildings, it is cold and can they pay.” (#41)
  - “We avoid markets where there is corruption.” (#15)

#3: Existing connections in specific markets

- “Our sales guys knew people in Australia.” (#34)
- “We expanded into Germany and Italy – we had personal connections there.” (#41)

Successful Firms — Factors in Market Selection (cont.)

❑ #4: Competitive situation and strategic advantages

"We started exporting to Mexico in the early 80's when a Mexican competitor went out of business and created an opportunity. In 1990, we became more aggressive internationally and entered into Asia. The European market was very competitive, and Asia had the most opportunities, it was less competitive and growing. Then, five years ago we aggressively expanded into Europe when a European competitor went out of business." (#32)

"The amount of time and attention we give to a market beforehand depends on the upside potential; we want to enter markets where there is a lot of growth potential. For example, Italy is a huge market for our product but it is mature and for us to be successful we would have to go in and take business from our competitors. This is not attractive to us - we would rather enter new and growing markets." (#8)

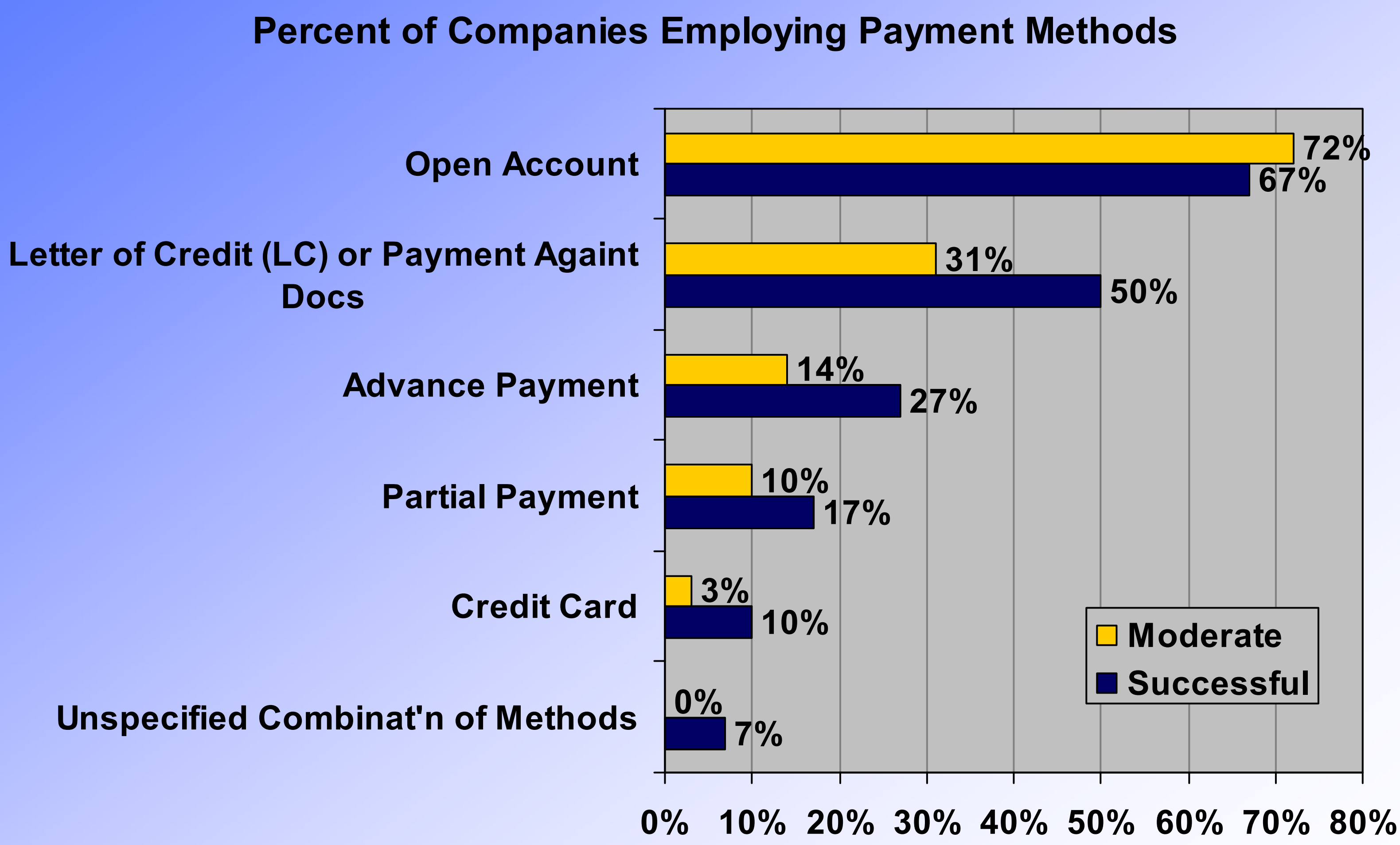
"We saw an opportunity in Japan. We realized there was no competition there, so we could go in and be the first one in." (#20)

"Starting in 2000, we repositioned the company for growth. We were at the low end initially, cheap products at cheap prices. I became President of the company that year, and started to enforce quality, and we went from low end to premium. Competition had destroyed prices. I repositioned the company to get away from that price competitive environment. We focused on premium, advanced technology opportunities in the Western hemisphere, where there's plenty of opportunity." (#58)

Cost Effective Model For Market Research & Planning From a Success Story

"We set up an international internship program with local universities. This model works and is cost effective. The interns usually come from foreign countries. We first send them to learn from the state and USEACs, then give them market research/planning assignments for specific regions, e.g. ask them to look at specific industries in Poland, because we know something is going on there. They come back with a business plan. Interns often work on foreign markets where they are from, speak the language, use their own country experience. Then we ask the intern: 'How does a potential customer find us?' They go to the USEAC, state, chamber and say 'Here is the plan for this industry, please help us.' And this works, international numbers show it. Had we not done international, we would not be in business." (#53)

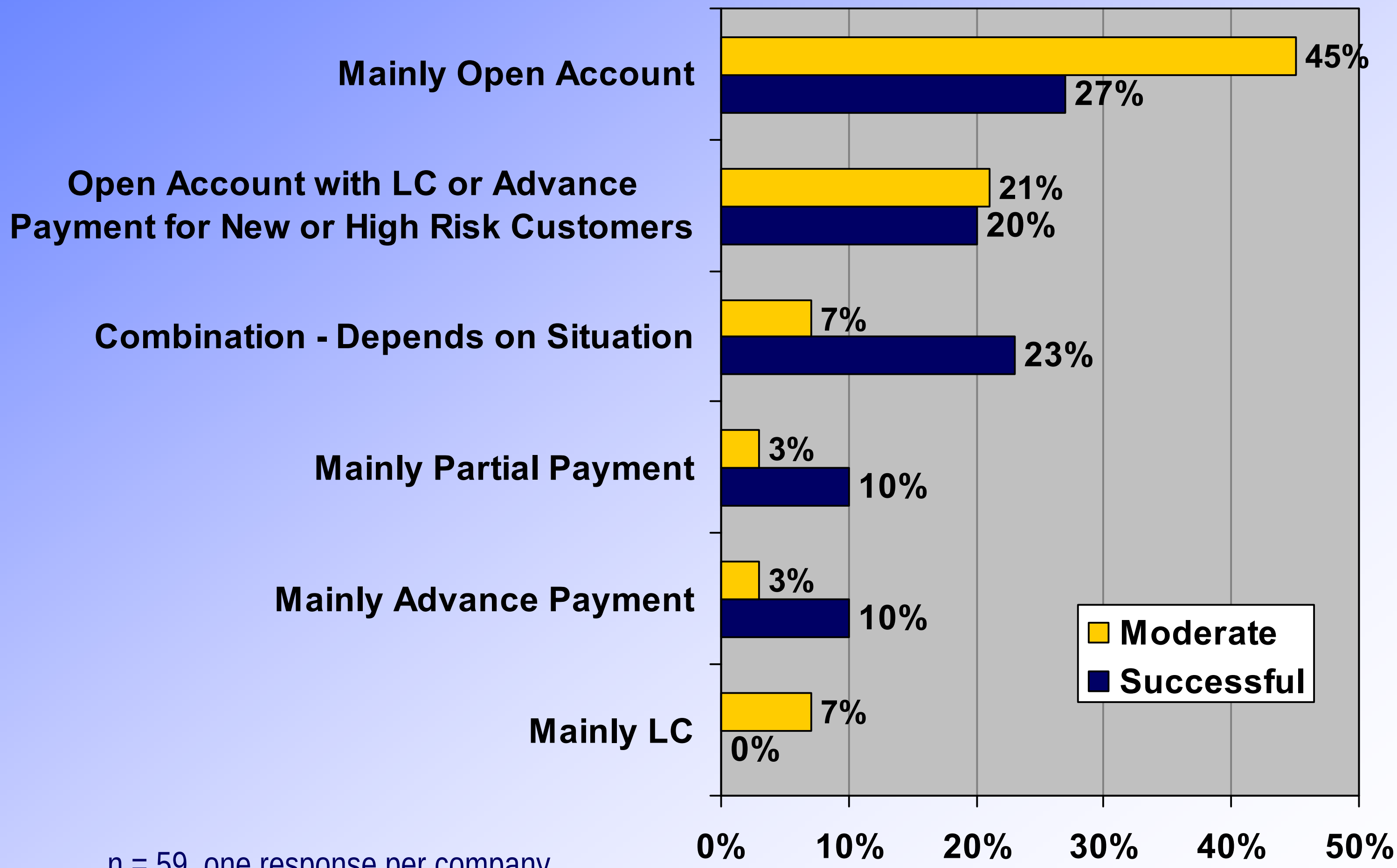
Successful Firms Employ Multiple Payment Methods To Minimize Credit & Reduce Risk



n = 59, multiple responses per company

Successful Firms Employ Payment Strategies That Avoid Reliance on Open Account

Percent of Companies By Payment Strategy/Approach



n = 59, one response per company

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Section Overview: Successful Exporters Leverage Strategic Advantages to Grow Globally

- **There is a larger driver of success, beyond success models discussed in the 1st section, which we refer to as "strategic advantages."**

- **A company's strategic advantages are based on:**
  - What type of business/products/markets they compete in
  - Their strategies and ways of competing within these businesses

- **The business a company is in and their strategic advantages also determine whether they have export potential at all, or beyond North America.**

- **Successful global exporters recognize their strategic advantages, build strategy around, and maintain them through investments.**

Exporters Face Immediate Cost Disadvantages

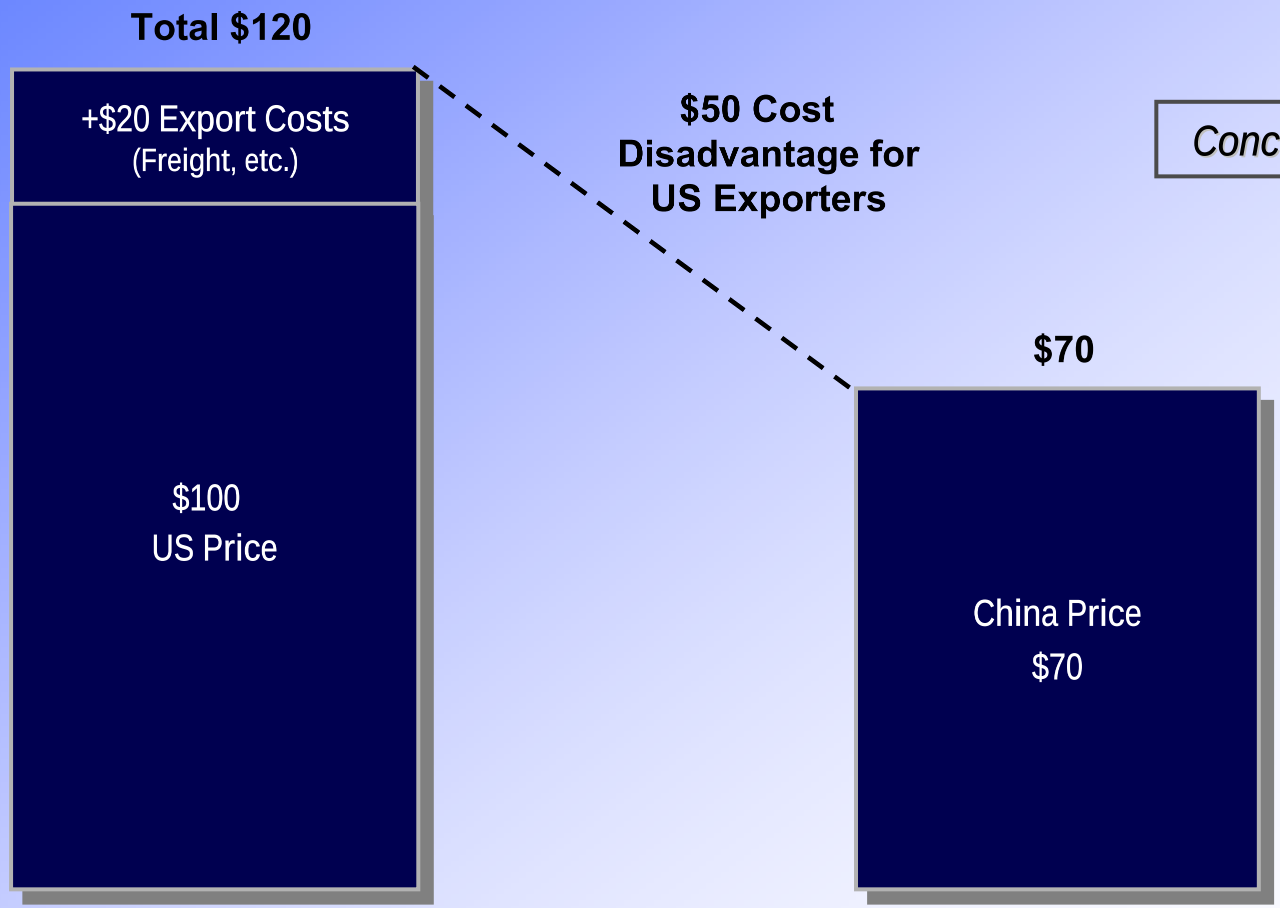
- **Higher costs of international sales, including transportation and logistics, and additional international sales and marketing costs**
  - "It costs more to do business internationally, we have to get more for our machine. Average cost for a sates call in the US is $200 vs. $1600 internationally. There can be as high as a 10% adder for international." (#55)

- **Higher costs of manufacturing in the US when compared to lower cost countries**
  - When competing against China, US made products can be at a 30-50% or product cost disadvantage – particularly in commodity products

Note: This page incorporates results from a previous study completed in 2004 by Stone & Associates for MEP on competing against China and low cost countries.

Exporters Face Immediate Cost Disadvantages (cont.)

Conceptual



Only Some Businesses Overcome These Cost Disadvantages To Be Viable For Export

Which Manufacturers Can Export Globally? Which Must Stay Closer to Home?

- **As a result of these immediate cost disadvantages, commodity products are generally not viable for export outside of North America (and possibly not even to Canada and Mexico):**
  - Because competition is intense and price-driven, these cost disadvantages are difficult for US-based manufacturers to overcome in global markets

- **In addition, some businesses are inherently regional in nature and manufacturing needs tends to be located close to the customer. These businesses may have the potential to export in North America, but generally not to other global markets:**
  - The need to be close to the customer is driven by:
    - Logistics requirements
      - Short lead time
      - High mix/variation
      - Customization
      - JIT/Kan ban
      - Freight economics (e.g. high freight cost compared to product value)
      - Low volume-short runs
    - Engineering or customer interaction driven
      - Intensive design/engineering interaction or frequent design modifications
      - Fashion-sensitive (work closely with designers, architects)

Note: This page incorporates results from a previous study completed in 2004 by Stone & Associates for MEP on competing against China and low cost countries.

Exporters with Strategic Advantages Have Global Potential (beyond North America)

Regional Business or Commodities: Export Potential Mainly North America

- 7 Moderate exporters interviewed mainly serving NA
- 16 Non-exporters interviewed

Businesses With Strategic Advantages: Export Globally

- 30 Successful exporters interviewed
- 22 Moderate exporters interviewed

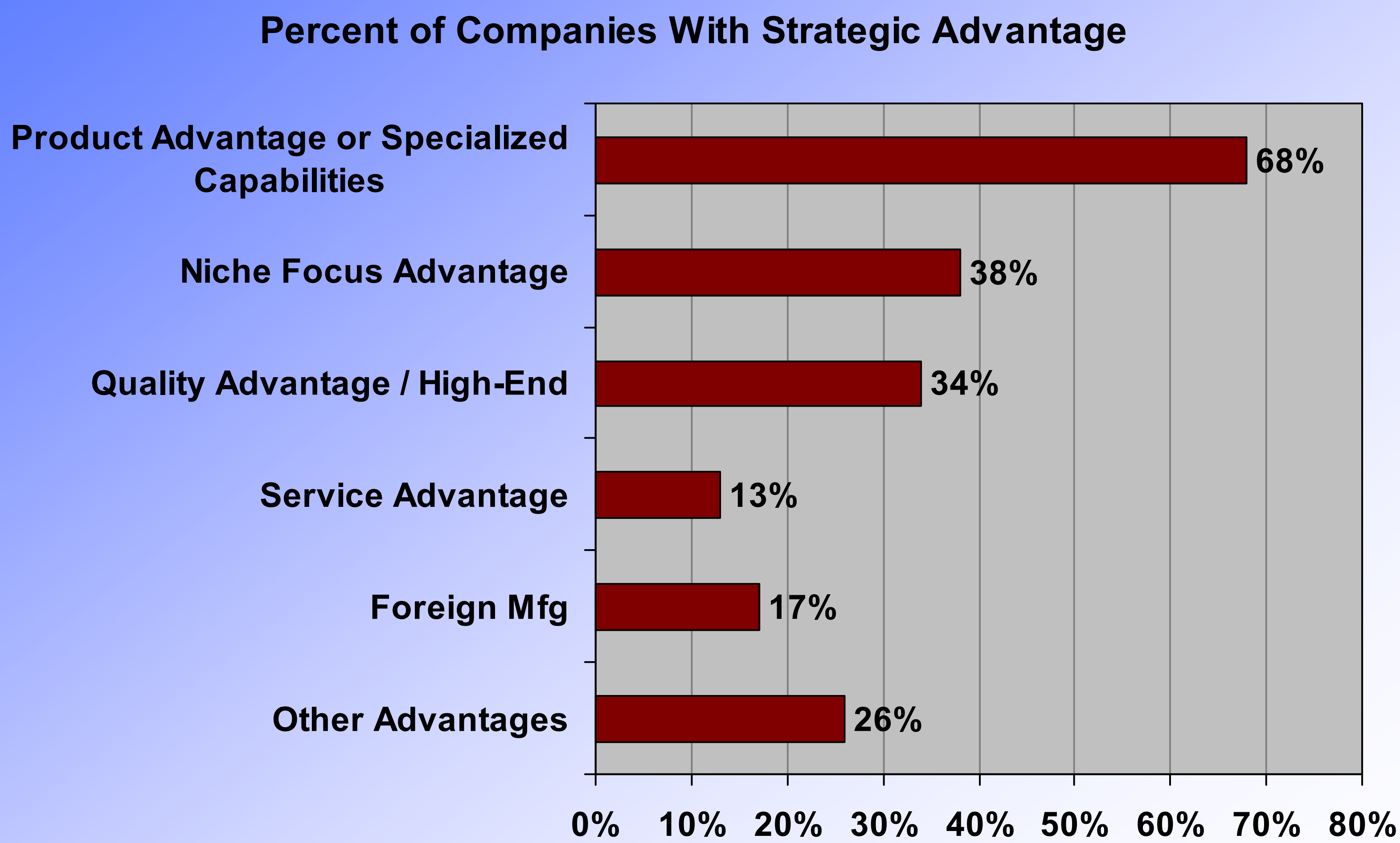
Some Exporters Have Global Potential, Others Are Limited To North America

<table>
<tr><th>Segment</th><th># Companies Interviewed</th><th>Current Scope of Exports</th><th>Potential Scope of Exports</th><th>Export Viability</th></tr>
<tr><td>Successful Exporters</td><td>30</td><td>Global</td><td>Global</td><td rowspan="2">Strategic advantages which allow for global exporting</td></tr>
<tr><td rowspan="2">Moderate Exporters</td><td>22</td><td>Global</td><td>Global</td></tr>
<tr><td>7</td><td>Mainly North America</td><td>Mainly North America</td><td rowspan="2">Regional businesses which must be close to the customer or commodities; potential mainly within North America (or none)</td></tr>
<tr><td>Non-Exporters</td><td>16</td><td>None</td><td>North America</td></tr>
<tr><td>Total</td><td>75</td><td></td><td></td><td></td></tr>
</table>

Global Exporters Have Strategic Advantages That Overcome Cost Disadvantages of Exporting

Strategic Advantage	Explanation
Product Advantage or Specialized Capabilities	❑ Technological advantage, unique or innovative products ❑ Specialized or unique capabilities, technical skills, complex products
Niche Focus	❑ Smaller market ❑ Fewer competitors ❑ Easily identified target customers
Quality Advantage or Focus on High-End/Quality End of the Market	❑ Includes leveraging “Made in USA” quality image
Service Advantage	❑ Better technical support or response time
Foreign Manufacturing	❑ Eliminates many of the cost disadvantages of US manufacture ❑ Supports better service

Strategic Advantages of Globally Exporting Companies Interviewed



Successful and Some Moderate Companies, n=47 (excludes 5 comps with inadequate information), multiple advantages per company

How Do Strategic Advantages Overcome Cost Disadvantages?

- **Strategic advantages—based on product and quality differentiation, specialized capabilities, or niche focus—allow exporters to:**
  - Avoid competing only on cost, and instead compete on higher value:
    - Product performance, functionality or quality
    - Adapting to specific customer needs (niche focus)
    - Service performance (lead time, reliable delivery) or technical support
  - Achieve price premiums vs. competition
  - Create barriers (technology, patent, skills) so that fewer competitors can play
    - Sometimes a niche strategy focuses on a market that is too small to be of interest for competitors to invest
  - Make it difficult for low-cost countries to compete at all
  - Provide cost advantages, in some cases, due to unique process capabilities or the ability to adapt to the needs of a specific niche

- **The exception is the "Foreign Manufacturing" strategy, which eliminates cost disadvantages by producing directly in foreign markets and low-cost countries**

Product Advantage or Specialized Capabilities

Strategy

- **Competitive advantage based on:**
  - Technology, unique or innovative products
  - Specialized or unique capabilities, technical skills, complex products
- **Low-cost country competitors may be unable to compete**
- **High price/price premium offsets cost penalties of export and US manufacture**
- **Often linked to niche strategy (special product or capabilities targeted at niche market)**

Examples

- Patented dental device: No direct competition from China/offshore because of major performance difference compared to conventional devices, which require a significant and expensive dental procedure. This company's device requires only a one-hour procedure. (#24)
- Electronic subsystem for test equipment: "Even if (competitors) have our technical information, it is hard to produce (our product). A number of companies have tried to reverse engineer it, but it's too hard to do this. Every once in a while, companies look at this market and fall on their face." (#23)
- Molds: "We proved our molds run 20% faster than competitors." (#14)
- Packaging products: Avoid commodity business through product innovation. "Our secret weapon is that we have quadrupled investment in R&D, and six months ago we hired a full-time patent attorney. We're knocking out new products left and right, inventing our own future." (#34)

Niche Focus

Strategy

- Smaller market
- Fewer competitors
- Easily identified target customers
- Less intense competition and less incentive for major players to invest
- Focus on customer needs keeps other players out
- Easier to focus sales and marketing efforts
- Easier to identify and respond to competitors
- Often linked to product advantage

Examples

- Electronics component supplier: "There are not so many of (our type of company) around. Ours is still sort of a niche of low-volume work, that we make better than others. Our products are more complex. The Far East doesn't touch that stuff now. They could make it, but won't go after the smaller business. It's hard for them to do non-standard, low-volume stuff in their high volume plants." (#3)
- Specialty metals: Small number of players in their niche globally. Easy to identify their copper/brass producing customers. Entered major new markets as competitors went out of business. Compete against other small companies, and believe they are the biggest player in their niche. (#32)
- Recycling equipment manufacturer: "I try to offer the best price I can and still live with the margin. We try to set the market price by country to be at a reasonable level so competitors stay away, but we can grow. " (#20)

Quality Advantage or High-End Focus

Strategy

- **Building strategy around high quality or high-end of the market where quality is critical**
- **Includes leveraging "Made in USA" quality image**
- **Low-cost countries may be unable to make the products**
- **High price/price premium offsets cost penalties of export and US manufacture**

Examples

- Material handling equipment: "No one builds better quality. We are the ones everyone is trying to copy." (#55)
- Equipment components: "In global markets, we must be differentiated from the competition, not on cost, but on quality. When our product becomes a commodity, that's when we close the doors and go to Mexico." (#22)
- Auto aftermarket products: "Some don't care about quality, but we are top quality. Local competitors can make this product at half the cost. But we get a premium for quality and the 'Made in USA' image." (#17)

Service Advantage

Strategy

- **Providing exceptional technical support or delivery**

Examples

- Oil drilling equipment: "Our biggest competitive advantage is the many locations from which we can supply service and technical field support. New projects require very large orders for equipment, just as in the domestic market, and we have the service and tech support." (#48)
- Industrial hardware: "We have the broadest range of material in stock; we warehouse and can get materials to customers in one day. We are trying to duplicate that overseas." (#15)

Foreign Manufacturing

Strategy

- **Serve international sales through foreign manufacturing**
- **Eliminates many of the cost penalties of US manufacture**
- **Allows for better service**

Examples

- Automotive supplier: Has established a JV in Europe, and just established a JV in China. Establishing the manufacturing facility in Europe helped to provide a service advantage over their U.S. competitor. The JV developed based on a relationship they had with a company in Europe for 20 years, marketing each other's complementary products. Their model for future growth is to manufacture locally in foreign markets, set up design and engineering resources in the same locale, in the same time zone, and speaking the same language so they can interact with customers. (#4)
- Mining equipment supplier: 25% of the business is international and over 60% is made outside of the U.S. Product is manufactured overseas in South Africa, Australia and Latin America. (#25)

Findings from Interviews on Strategic Advantages were Consistent with Previous Research by MEP

Excerpt from MEP Research Study on "Successful Global Competitors"

"Virtually every successful SME in our sample charges a higher price for its product than did its competitors. These companies were able to do so because their product was judged to be worth a higher price by its customers, based on superior quality, technology or service. Their recognized brand name and reputation allowed them to command a price premium."

Source: *Report on Identification and Analysis of Small Manufacturers that are Successful Global Competitors*, Prepared by Susman et al, for the NIST Manufacturing Extension Partnership, 2004

Successful Exporters Leverage Strategic Advantages To Grow Internationally

- **Successful exporters build around the strategic advantages that make their business globally viable in the first place**
- **Strategic advantages are at the heart of good growth strategy for domestic and international markets**
- **Successful firms:**
  - Recognize and consciously build strategic advantages
  - Enter new markets that match advantages or competitive strengths
  - Invest to maintain their edge – in new products and capabilities
  - Know their market niche, and respond to competitor moves
  - Protect intellectual property and recognize that know-how is most defensible
- **Moderate firms that want to become success stories also need to recognize their advantage, build strategy around it and maintain it**

Successful Exporters Recognize and Build Strategic Advantages—Examples

Product Advantages or Specialized Capabilities

- Packaging products: "Our secret weapon is that we have quadrupled investment in R&D, and six months ago we hired a full-time patent attorney. We're knocking out new products left and right, inventing our own future."

Service Advantage

- Oil drilling equipment company invested in service infrastructure: "Our biggest competitive advantage is the many locations from which we can supply service and technical field support. New projects require very large orders for equipment, just as in the domestic market, and we have the service and tech support."

Successful Firms Enter New Markets That Match Their Advantage

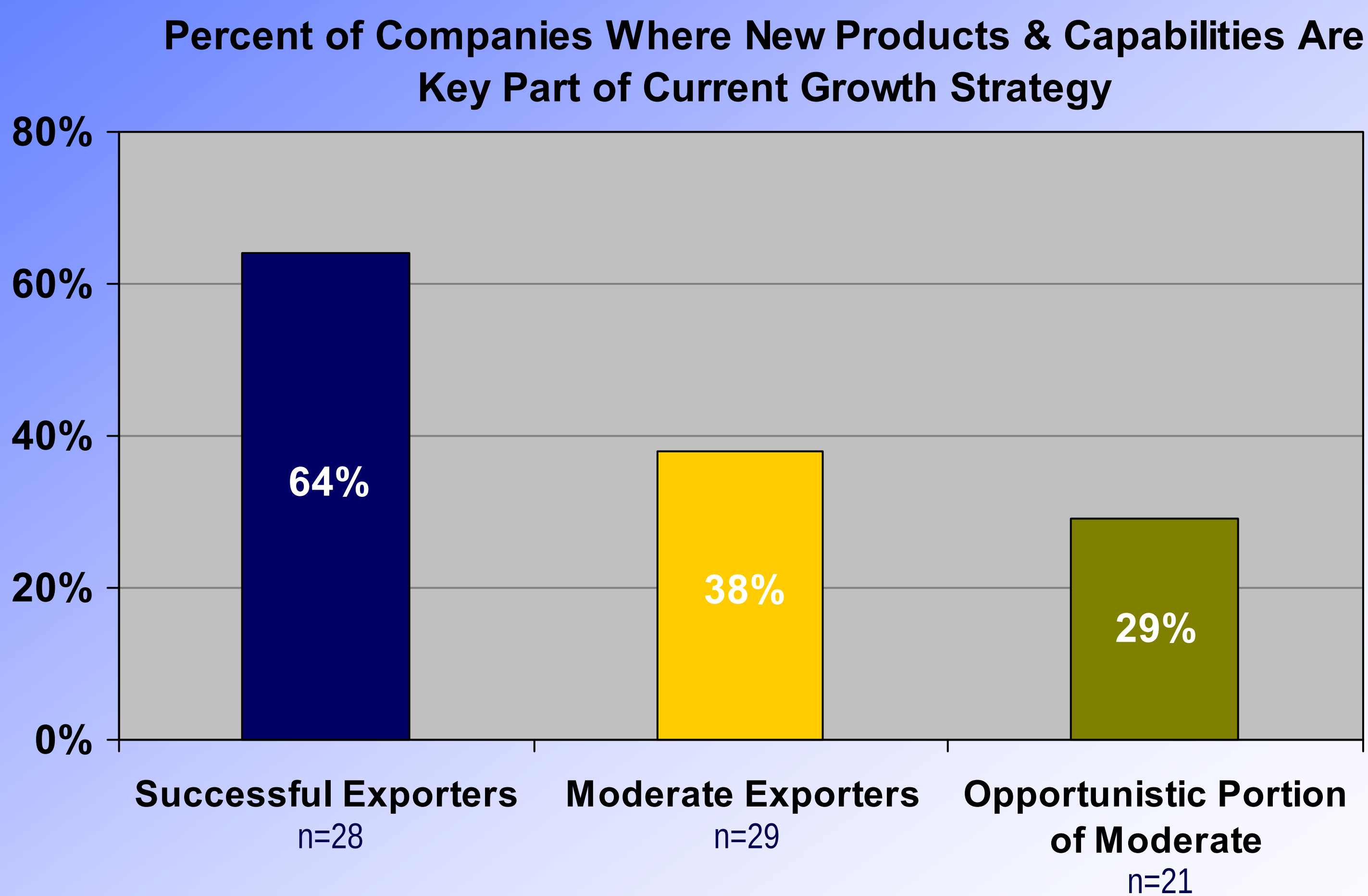
Examples

"Pick the markets where technology is more important than price." (#47)

"We started exporting three years ago when foreign competition from Australia and South Africa dumped product on the US market and we couldn't move our bulk product here. So we looked outside for markets, like Japan. As Hawaiians we have an advantage in Asia." (#19)

"Starting in 2000, we repositioned the company for growth. We were at the low end initially, cheap products at cheap prices. When I became President in 2000, I started to enforce quality, and we went from low end to premium. Competition had destroyed prices. I repositioned the company to get away from that price competitive environment. We focused on premium, advanced technology opportunities in the Western hemisphere, where there's plenty of opportunity." (#58)

Successful Companies Invest in New Products & Capabilities To Maintain & Defend Their Position



The importance of product innovation is understated for all three segments, since many of these companies owe their current position to past innovation – even though it is not a key part of their current growth strategy.

Successful Companies Invest in New Products & Capabilities To Maintain & Defend Their Position (cont.)

- **In contrast to Successful companies, Opportunistic exporters usually don't have an international growth strategy at all**

- **But to the extent that they do, it often involves selling <u>existing</u> products into new markets (rather than developing new products):**
  - Growth "will come from existing markets, existing products. (#30)"
  - "Most growth will come from existing products in new markets. (#16)"
  - Growth will come from "existing products in new markets. (#1)"
  - Growth will come from "existing products in new markets, we are focusing on Eastern Europe, Hungary, Ukraine, Slovakia and Mexico. (#18)"

Successful Firms Know Their Market Niche & Follow Competitor Moves

Examples of Firms With Niche Focus

Specialty alloy supplier: “We started exporting to Mexico in the early 80’s when a Mexican competitor went out of business and created an opportunity. In 1990, we became more aggressive internationally and entered into Asia. The European market was very competitive, and Asia had the most opportunities, it was less competitive and growing. Then, five years ago we aggressively expanded into Europe when a European competitor went out of business. With a small number of players in our niche globally, it’s easy to identify the opportunities.” (#32)

Lesson about partners in Europe: Important to “know who the competition is and decide whether you want to compete or collaborate. There are a lot of competitors in commodities that want us to buy them, but that is the antithesis of where I want to be -- commodities lead to high-volume with low gross margin.” (#34)

“Try to offer the best price I can and still live with the margin, try to set a market price for a country to be at a reasonable level so competitors stay away, but so I can grow.” (#20)

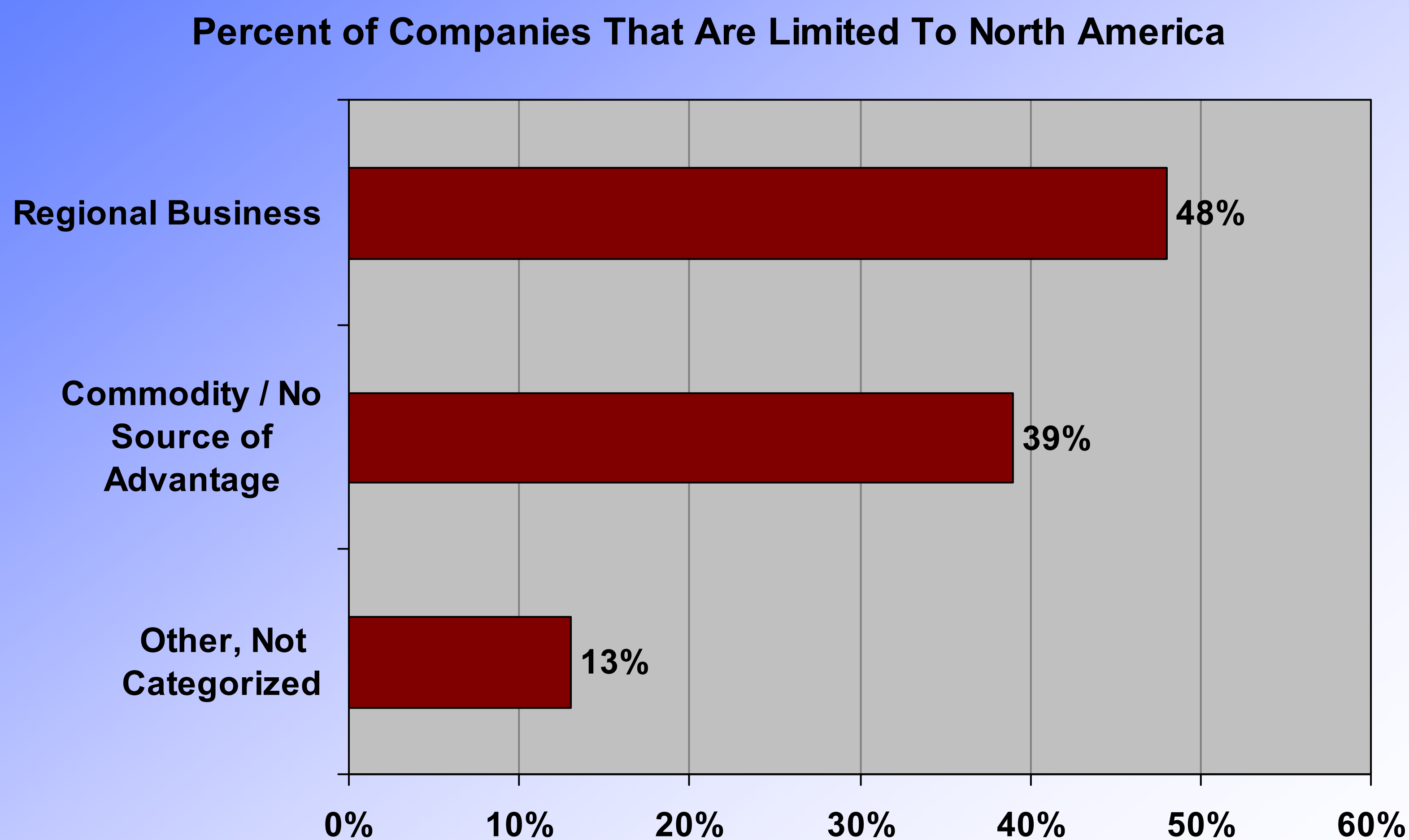
Intellectual Property: Difficult To Copy "Know-How" is More Defensible Than Patents

- **Often key intellectual property (IP) is process know-how rather than design:**
  - While not always patentable, process know-how is often difficult to copy
  - Example: "Don't have patents to protect. Rather that people don't have access to our technical information. Even if they did have our technical information, it's hard to produce our product, a lot of black magic is involved. A number of companies have tried to reverse engineer it, but it's too hard." (#23)
- **Companies use patents, but they are expensive and generally applied for only in large foreign markets:**
  - Example: "If it is a big market we get a patent, otherwise the effort is too much for small markets. Defending it also adds cost." (#38)

Other Tips About Protecting Intellectual Property (IP)

- **Be clear with partners/customers about what IP you own:**
  - Example: “You need to inform people, be up front with them about what you own.” (#40)
  - And of course the partner selection process helps screen out partners that might put IP at risk
- **Ultimately there may be little that can be done to protect IP:**
  - Example: “Not an issue, not rocket science, anyone can copy, don't worry too much, just offer best quality and price and compete head-to-head.” (#20)
  - Some companies mentioned reliance on “inherent” advantages, such as focusing on small, niche markets where there is limited interest in copying the product
- **Be particularly wary of China:**
  - Limit exposure of key technology
  - Example: “For China, we won't bring over the most sensitive technologies at first.” (#4)
- **If possible, set up “trips” in the product in case someone tries to reverse engineer it**
  - “When we export to China, on the label it warns ‘if you open this case without a factory authorized technician, all internal operational devices will melt down.’ It's not true, but it scares them, and there are some trips set up in the system.” (#53)

Some Companies Can Only Export Within North America: Factors That Restrict Global Export Potential



Non-exporters and Some Moderate exporters, n=23, one response per company

Restricted To North America — Examples

- **Regional business examples:**
  - “We don’t export and have no intention to. Our model is based on being close to customers. We do small quantities that are customized with quick turnaround. Sure, this shields us from offshore competition, but it also limits our ability to export.” (#68)
  - “We do not export, because we focus on customization. The lead time issue protects us against imports, and makes it hard for us to export, so we focus domestically. Also we have all the business we need right now.” (#67)

- **Commodity examples:**
  - Foam components for auto, medical and other markets: 7% of sales are international, but all to Canada, Mexico and the Caribbean. They also face competition from Mexico. (#31)
  - Local machine shop: “We don’t export at all.” (#62)

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Recap of Success Models—Proactive Approach

COMMITMENT of CEOs of Successful Exporters

- Committed to international business
- Willing to dedicate staff to international business, in particular an international Sales Manager or VP
- More patient with profitability in foreign markets than Moderate exporters; often willing to wait several years
- Ready to establish international plans and set international sales targets/metrics
- Place more value on regularly visiting foreign partners and customers

MINDSET of Successful Exporters

- Actively pursue international business (vs. reactive, opportunistic attitude)
- Ready to follow the market/demand overseas and oriented toward seeing international as part of the business
- Ready to leverage connections in international markets
- Ready to expand rapidly to multiple markets
- See international as a key source of growth
- Identify specific target markets and proactively recruit partners to serve them

Recap of Success Models—Best Practices

BEST PRACTICES of Successful Exporters

Partners

- Use multiple channels – distributors, reps/agents – in addition to going direct
- See partner selection as critical and have learned that it should be systematic (vs. working with whoever calls them)
- Don't rely solely on partners for market intelligence, marketing and lead generation

Relationships

- Leverage US customer relationships to generate international sales
- Recognize the importance of cultural differences and the development of personal relationships

Planning

- Do their homework on foreign markets, but emphasize getting information on the ground (in-country)
- Select markets based on demand and country economic/political climate, and less obvious factors such as connections in specific markets and competitive situation and strategic advantages

Payment

- Leverage multiple payment methods and approaches to minimize credit and risk

Recap of Export Potential & Growth Strategy: Some Exporters Are Global, While Others Are Viable Only in No. America

Regional Business or Commodities: Export Potential Mainly North America

Successful Global Exporters Grow Based on Strategic Advantages

- Product Advantage or Specialized Capabilities
- Niche Focus
- Quality Advantage / High-End Focus
- Service Advantage
- Foreign Manufacturing

Successful global exporters recognize their advantages, build strategy around them, and maintain them through investment.

Applying the Research To Achieve International Growth—Moderate Exporters

- If you are Moderate exporter that has some global sales beyond North America, but have approached international business opportunistically, then you have a major opportunity to become proactive and apply the strategic choices (success models) of successful companies.
- Exporters that have generated some sales outside of North America opportunistically (i.e. "without really trying") probably have strategic advantages that can be leveraged for further growth.
- If these reactive exporters can commit to and actively pursue international business, they should be able to significantly increase international sales
- This will require adopting the "Success Models" discussed in the first section of this report:
  - Mindset and Commitment
  - Best practices
- In addition it will require identifying and developing plans around their strategic advantages.

Applying the Research To Achieve International Growth – Successful

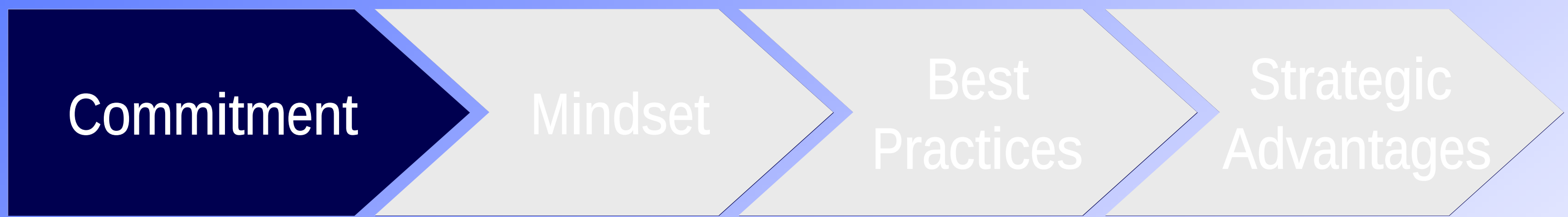
- If you are already Successful, the opportunity is to adopt additional best practices identified in this report

- And to recognize and fully exploit your strategic advantages

Applying the Success Model to Your Company

Commitment → Mindset → Best Practices → Strategic Advantages

Success Model—Commitment



Commit Resources to International

- Communicate intention to grow internationally to your team
- Dedicate staff to international business (particularly an experienced international sales or business manager)
- Set realistic profitability expectations (be willing to wait several years)
- Create international plans and set sales targets
- Arrange regular CEO and Executive visits to foreign customers/partners

Success Model—Mindset

Commitment → **Mindset** → Best Practices → Strategic Advantages

Mindset: Aggressively Pursue International Growth

- Actively pursue international business (vs opportunistic approach)
- See the market as global, and be ready to follow demand overseas
- Seize opportunities to leverage existing industry connections in foreign markets
- Go after specific target markets
- Don’t be too cautious about expanding to multiple countries

Success Model—Best Practices

Apply Best Practices

- Search for partners systematically – don't take whoever "walks in the door"
- Select partners interested in long-term growth, not a "quick buck", and that help you penetrate target industries
- Don't rely solely on partners for marketing and leads – provide support and take a hands on approach
- Do homework on different cultures, and invest in personal relationships
- Do homework on foreign markets using "on the ground" sources
- Be thoughtful about market selection; consider demand, business climate, connections, competitive situation
- Leverage US customer relationships; identify other buyers within global operations
- Don't use only open account – use other payment methods to minimize risk/credit

Success Model—Strategic Advantages

Commitment → Mindset → Best Practices → **Strategic Advantages**

Identify and Exploit Strategic Advantages

- Recognize strategic advantages – what sets you apart in the eyes of the customer
- Exploit and maintain existing advantages
  - Invest in new products, services and capabilities to maintain these advantages
  - Enter markets that match your strengths – consider competitive position
  - Monitor competitors in your niche – find “pockets” where competition is limited
- Find/create/build new advantages – don’t accept the status quo
  - Create product advantages where there were none before
  - Carve out niches
  - Enter new markets where you have an edge

Assessment: What are Your Strategic Advantages?

- **Why do customers buy from you versus competitors?**
  - How is the "deal" you offer (value at a given price) better than competitors?
  - What are the key factors that drive customer purchase decisions? Which ones cause them to buy from you?
- **What are your unique or special capabilities?**
  - What do customers need that you give them better than anyone?
  - What do customers say you do better than competitors?
  - What are the customers and markets that care about these capabilities?
- **In what markets or customer segments are you strong?**
  - Where do you have a price premium vs competitors?
  - Where do you make the most money?
  - Where do you have the highest market share and/or growth rate?
  - Why?
- **Do you have a product or capability advantage?**
  - Is your product offering unique?
  - Does your product perform or function better than competitors (save them money or time, improve their productivity or performance, enhance their experience)?
  - Do you have important patents that provide an edge versus competition?
  - Do you have a reputation for technical competence that causes customers to work with you?
  - Do you have a reputation for being the most innovative in your industry?
  - Do you have specialized process capabilities that competitors cannot easily duplicate?
- **Have you carved out a "protected" niche?**
  - Is your business targeted at a niche with few competitors?
  - Have you adapted your products or services to a specific clientele, in away that provides them exceptional value?
  - What are the barriers to competitors getting into this niche?
- **Do you have a quality advantage?**
  - Does your product have higher quality than competitors? (fewer defects, higher reliability, longer life, high-end quality image)
- **Do you have a service advantage?**
  - Do you offer better service than competitors (on-time delivery, fill rate, technical support)?
  - Do you provide better value added services than competitors (design & engineering services, inventory management)?
  - Do you customize products for individual customers more effectively than competitors?

Applying the Research to Achieve International Growth – Regional & Commodities

If you don't have clear strategic advantages (commodity)…

- Difficult to survive and grow in a commodity business
- Work to identify strategic advantages and build on them:
  - From the customer's point of view, in what ways do you offer a better deal than competitors?
- Invest to build advantages if you don't have clear strategic advantages today
  - New products and capabilities, new markets
- Look for export opportunities in North America where export-related cost disadvantages are minimal

If you are a regional business…

- Focus on North American markets
- Build strategy around service capabilities:
  - Short lead time/quick response
  - Reliable delivery
  - Customization, variation
  - Design and engineering support, technical skills

Final Words: Be Aggressive About Expanding International Sales Now Before Windows of Opportunity Close

- **The dollar may increase in value**
- **Establish a position as the "incumbent" supplier before international competitors do**
- **International growth reduces risk:**
  - "International is a nice balancing of risks, having sales come from many different countries shields from a downturn in one area and currency fluctuations… if have all your eggs in the US and have recession, you end up in worse shape." (#2)