



## Chapter 1

# Embarking on Your Global Adventure

*Navigating beyond the Borders of Your Organization and Your Home Country*

“The wave of the future is coming and there is no fighting it.”

—Anne Morrow Lindbergh



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**N**orth American Tool is a small manufacturer with 100 employees operating from two plants located in Illinois and Michigan. Seeking growth, its CEO made the decision to expand operations into the global marketplace. The decision was formed in unison with other members of the United States Cutting Tool Institute, a trade association. It started with a tooling show in Italy where U.S. companies were invited to gauge foreign interest in their products. North American Tool left the trade show with 800 sales leads and more than enough motivation to go global, but how?

Ultimately, the company formed a joint venture with three other U.S. companies and opened manufacturing and sales operations in the United Kingdom. Today, this company does business in 56 countries. When asked about the biggest internal challenge, Bernie Bowersock, North American Tool senior vice president, responded with one word: commitment. Once the commitment was made, however, many logistical challenges presented themselves: payment terms, shipping costs, brokerage fees, VAT and GST taxes, product terminology, product pricing, currency issues, and time zone differences for supplying quotes.

These problems were resolved through education and tapping into the appropriate resources for assistance. The biggest external challenge was following up on sales leads. This required visiting various markets, learning new cultures, and trying to find local representation. As North American Tool has developed more international expertise, each new launch has become easier and more successful.

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## Today's Economy Is Truly Global

The world has transformed from a collection of regional or national economies into a truly global economy through advances in technology, communication, the opening of new markets, trade agreements, lower tariffs, and improved transportation. By 2020, a whopping 95 percent of the world's consumer base will reside outside United States boundaries.

This transformation offers unprecedented opportunity for U.S. businesses to expand sales and partnerships into new world markets. Except for one thing: the vast divide that separates this rapidly expanding global economy from the average American business person: experience. It's a fact: Most U.S. business people have a net deficit of worldwide market experience and initiative when compared to business people in other parts of the world.

That said, U.S. businesses remain the international benchmark for productivity, quality, and innovation; however, the gap is rapidly closing. That's because new entrants to the global marketplace already possess the fundamental skills necessary to succeed in today's global economy: skills that are still foreign to many U.S. businesses. In contrast to America's inward-looking focus, other countries possess an inherent global approach and established tradition of connecting with the international marketplace. This is especially true for smaller countries that historically relied on global growth and expansion for survival.

"We've had the luxury in the United States to sometimes say we want to engage or that we do not want to engage. We're still the big kind of indispensable nation," commented Deere & Company Chairman and CEO Robert Lane.<sup>1</sup> While this coveted status is generally considered a strongpoint for the United States, it has contributed to a great weakness in terms of embracing the new world order. Many smaller countries have learned to start thinking globally well before they launch their business locally. On the other hand, U.S. businesses continue to wait until they achieve success at home before pursuing global markets. Mistakenly, this approach relegates the global marketplace to an afterthought that often leads to failure abroad. No longer can U.S. businesses afford to sit on the international sidelines and watch.

Brazil, Russia, India, China (the BRIC countries), Central Europe, and other smaller countries are making great strides in adapting, perfecting, and in some cases surpassing the treasured U.S. model of innovation in their economic institutions and traditions while competing for limited international talent needed to succeed. These nations are also investing significant resources into higher education—emphasizing mathematics, science, and engineering. They are building state-of-the-art infrastructures to compete effectively both today and into the future.

Likewise, to ensure our future, U.S. companies must begin to explore opportunities in the vibrant and growing global marketplace and to learn how to navigate the business world beyond our borders. Business plans must be created that discard the old strategies of cost-cutting and downsizing and instead embrace new methods and new solutions designed for today's new world order by integrating global strategies, tactics, and human capital. Savvy business leaders know that globalization is no longer a choice. It is a necessity. It is reality.

### *Getting in the Game*

The opportunities for global expansion are infinite, and the potential for exponential growth is alluring; however, attaining success demands a well-conceived global expansion plan that is grounded in accomplishing specific corporate goals through the careful formulation of business development strategies. Regardless of size or ownership structure, companies that take a proactive, strategic approach to evaluating and understanding both risks and costs will stay one step ahead of the competition and reap the benefits of a successful globalization initiative. It's a matter of developing the right strategy to win local markets and their consumer base by asking the right questions at the right time to the right people.

A company in the hospitality industry made the decision to expand internationally. With no tangible evidence of research, the company chose Latin America and Mexico as its target markets. With that decision made, the company launched into compiling a list of issues to tackle from each division (finance, sales, marketing, etc.). The questions compiled included queries such as "Should we open a local

bank account?” “What accounting system should we use?” “Does this culture respond better to mobile messaging?” While these questions may represent relevant inquiries at some point in the expansion process, attempting to answer them before investing in the development of an effective strategy almost always derails the entire process. The issues raised were more about the “how” as opposed to the “why” and “where.” It’s putting the cart before the horse.

Any decision to go global must start with developing a long-term action plan that aligns corporate vision, mission, and activities and leverages corporate strengths while identifying opportunities in desirable and compatible markets. It’s about strategy, not tactics. Realistically, before any tactical questions can be answered, it’s necessary to thoroughly examine individual markets and get the expertise necessary to understand the people and their culture. Unfortunately, due to a lack of international experience, U.S. business executives gravitate toward what they are most comfortable with: tactics—actions in a vacuum without a well-conceived conceptual framework. In the case of the hospitality company, the lack of strategic direction led to a market choice based on bad assumptions. Latin America is not a homogeneous country and Venezuela, for example, has little to no similarity with Mexico. Latin America is a conglomeration of vastly different countries, each with diverse markets that offer unique opportunities that must be understood at a local level before any tactical issues can be properly addressed.

This lack of strategic focus is a major contributor to the high failure rates of U.S. companies in the global marketplace. In fact, when KPMG’s Global Enterprise Institute surveyed U.S. middle-market companies in late 2007, it found that 58 percent of all businesses surveyed planned to increase their global presence over the next five years, and one-third planned to maintain their current global presence.<sup>2</sup> Interestingly, in the same survey, fewer than half of all respondents said their expansion efforts over the past two years had been successful; therefore, 50 percent were unsuccessful! With failure rates like these, what must be done differently to improve chances for future success in the global marketplace? And the new global economic normal will not make success any easier to achieve. If anything, the current crisis may make the United States even more vulnerable to globalization.

## Your Greatest Challenge May Be Mind-Set

As world leaders in innovation, it is important for U.S. businesses to look at the world from a fresh angle with a new perspective. “A global mind-set is the opposite of economic isolationism. We are part of the globe, and should stop looking inward, but look out,” commented Carlos Gutierrez, former Secretary of Commerce. It’s time for U.S. businesses to take the next step internationally through the development of a winning expansion strategy—a rational approach that eliminates surprises and gets it right the first time. After all, there is no challenge too great for a country that has proven itself over and over again. For example, Intel, the largest high-tech venture capital company in the world, historically made 90 percent of its investments in the United States and very little in China. The company now makes half of its investments in the United States and half in China and India. Intel Chairman of the Board, Dr. Craig R. Barrett, has commented:

Sometimes when we talk about China we focus our thoughts on low cost manufacturing. Do not think that China is not innovative. Do not think that they don’t have creative ideas. Do not think they’re not entrepreneurial. They are and they’re copying the best that we have and that is creating universities that look like ours and then an investment environment that is just like ours to create globally competitive startup companies.

Global expansion is the antidote for shrinking domestic markets. It offers unparalleled opportunity for growth, increased sales, diversified markets, and increased profit. Unfortunately, many U.S. businesses gaze with trepidation at the process and surrender to fear before making an earnest effort. The main problem is mind-set. But this problem also contributes to a lack of experience, talent, and confidence when navigating the global world.

Penetrating and developing an international market requires an entrepreneurial philosophy and drive—the same kind of philosophy and drive behind every successful startup business. Following that logic, America—the birthplace of the modern entrepreneurial spirit—should perform well in the global business. Also, with its multi-cultural

diversity, theoretically it should improve its chances for global success. Yet American businesses fail at a rate of three to four times the rate of other countries in their ability to expand globally. Even worse, the majority of U.S. businesses never make an attempt. Of all the obstacles to success abroad, the greatest hurdle is simply mind-set. Our entrepreneurial drive, vision, and expertise just don't compensate for our lack of global perspective, drive, and success.

Fueled by our rugged individualistic and isolationist heritage, it's no surprise that collaboration across international borders requires a significant level of reconditioning. The United States must move beyond the "us-against-them" approach and recognize that a prosperous world translates to more business for U.S. companies—a win-win situation for all. This attitude is necessary for the United States to maintain its long-standing and valued leadership in the world. Fortunately, with a large dose of commitment, mind-set can be corrected, and this challenge can be overcome. How quickly depends on how serious American companies are about joining the global marketplace. As proven in previous decades, when American business embraces challenge, it finds success.

While it is tempting for U.S. businesses of all sizes to focus and dwell on the many overwhelming issues of the day, such as weak economic growth at home, an uncertain credit crisis, a shrinking pool of skill and talent, and increased foreign competition, the fact remains, these issues are not within the control of corporate management. Instead, corporate leadership must take one large step back and look into the global marketplace to discover new opportunities and new avenues to generate future growth. While larger corporations have more resources to invest in exploiting these new opportunities, smaller companies are more agile and can more readily adapt to change. In order to determine if your organization needs a mind-set adjustment, let me raise the following questions:

1. Do you realize that your business is already competing globally with international businesses at your doorstep?
2. Have you tried to access consumers outside the United States? Remember, they will soon represent 95 percent of the world's consumers!

3. Have you identified one market outside the United States that would desire your product or service?
4. Are you willing to collaborate with businesspeople from another country?
5. Can you look at global opportunities without being paralyzed and distracted by uncertainty and fear?
6. Are you aware of what it may require of your company, in terms of resources, to go global?

These questions and many others must be addressed honestly and openly in the context of strategic planning sessions for the executive leadership team to assess the willingness and commitment to exploring global opportunities.

## Ten Steps in Planning Your Global Expansion

Going global begins with leaders who think proactively, sense and foresee emerging trends, and act upon them without fear. Next, it requires a product development strategy that is carefully planned all the way through distribution and delivery of the product. Each step in the process, from design to delivery, needs to be made in the context of the target market's local interest and culture, not that of the United States. For example, in many countries the delivery infrastructure Americans are accustomed to (UPS, FedEx, or the U.S. Postal Service) for every town and city may not exist: Products may be delivered strapped to the backs of bicyclists. Therefore, make no assumptions, *think locally*, and utilize every available local resource. To get started, consider the following steps, which will be explored in more depth throughout this book:

1. *Make a commitment.* Entering the global marketplace requires a tremendous dedication of resources, capital, time, and leadership. It has to become a priority.
2. *Assemble your team.* Avoid costly mistakes by starting with the right team of experts. Seek assistance from known experts in international business development, trade associations for contacts, attorneys for your protection, accountants to help you assess your

financial aspects, marketing for promotion activities, and global growth experts to help you identify, assess, and implement your strategy. Tap into their wealth of experience, talent, and information because few American companies have the in-house skills necessary to launch a global strategy.

3. *Leverage a competitive advantage.* Discover core competencies that can be developed into sustainable competitive advantages and identify unique attributes that can differentiate your product/service from the competition. For example, how could your current product/service be modified to meet a need or create a need in a target market?
4. *Perform a thorough market readiness assessment.* Do your homework! Perform the research necessary to identify target markets and learn to think locally, or acquire this expertise, if needed. A detailed assessment will get your expansion right the first time around and avoid costly financial and opportunity losses.
5. *Calculate risk and look at risk analysis as an opportunity.* Never use risk as an excuse to shun the global marketplace. Learn to identify risk, calculate risk, and plan accordingly.
6. *Choose the right partners.* You don't have to go it alone. Greater success can be accomplished by collaborating with local businesses through innovation, mergers and acquisitions (M&A) or business clusters, and many other forms that suit your needs, plans, and global trends.
7. *Investigate the options and models for global expansion.* The opportunities to grow a business abroad are unlimited. Choose the model that is right for your goals and objectives.
8. *Establish realistic goals—everything takes longer than expected.* Do not underestimate the time and expense of launching products into the global marketplace. Also, be prepared both financially and emotionally for business to take much longer than you anticipate. Set measurable goals for establishing relationships, networks, and channels of distribution, but plan for delays in the process.
9. *Know the culture.* Consider language, negotiation styles, gender issues, and local business practices. Remember, there is no “one way” to do business. Adopt appropriate policies and strategies to

cope with different cultures. These sensitivities can make or break a deal.

10. *Stay focused and be fast, flexible, innovative, motivated and enjoy the adventure!*

In the end, your thoughts on these steps will navigate your business through the labyrinth of decisions that must be made in order to expand globally and do it well the first time. These steps will also maximize the success of any global venture by building a virtual link connecting your company's unique mission, vision, values, goals, and objectives with well-suited opportunities in the global marketplace. But you must embrace your thoughts on these steps and allow them to mimic a homing device always pointing to the "right" destination and ensuring a safe arrival, on-time and within budget.

## Determining the "Right" Opportunity

Even though a preponderance of evidence and research suggests that cross-border engagement is a critical path for U.S. businesses, going global for the sake of going global is a recipe for failure. Instead, it is important to seek out the "right" opportunity by allowing overall corporate goals and objectives to guide the decision-making process. By pursuing global opportunities that correlate directly with your company's overall strategic plan, your entrance into the global marketplace will reflect a long-term commitment that is more likely to generate value and future success. But you need to ask the right questions and seek the right advice in order to get on the right track to success. If you don't know what you don't know (and you don't), it may be difficult to move in the right direction without surrounding yourself with experts who have hands-on experience in the global arena.

A few common goals for going global include expanding customer base, lowering manufacturing costs, and creating a competitive advantage in the marketplace. Although these common goals are shared by many businesses, accomplishing these goals may require very different strategies for each individual business. While pursuing identical goals, each business needs to identify the unique global expansion

opportunity for its product(s) or service(s). This process requires both an internal and external assessment.

Internally, companies have to consider their strengths, weaknesses, motivations, and resources—both financial and human. Externally, the analyses should include a panoramic view of all reasonably viable markets with an in-depth understanding of their local culture, the competition, standard of living, infrastructure, business practices, legal environment, and political stability. At some critical point in this assessment process, an advantageous alignment should be revealed that pairs up a business's goals and objectives with unique qualities and opportunities for one or two global markets.

## Where in the World Should You Go?

You know you should make a move, and you think your product or service could perform well in a foreign market, but how do you decide where you should target your efforts and what efforts are necessary? From the G-7, to the BRIC, to the Next 11 (N-11), the search is ongoing for markets that promise growth and new opportunities for businesses around the globe. To that end, Goldman Sachs and others have conducted extensive analyses of market conditions in countries far off the traditional radar screen. However, what companies need to pay close attention to when selecting a new target market isn't just one country's market performance over another. Rather, the right target market has everything to do with aligning your company's unique product/services, goals, vision, and global strategy with the most suitable country and then region.

What factors are important when choosing a target market? Everything from income, urbanization, language, culture, purchasing power, regional/local trends, and many more considerations. As such, this process involves taking the abundance of available data from a growing number of market possibilities and filtering that information to identify the best possible target market for your particular business. At a minimum, the value of this process comes from a changed mind-set and a willingness to scan the world for opportunities beyond those traditionally considered—beyond the G-7, beyond the BRIC,

and even beyond the N-11 when appropriate. It's about exploring all the possibilities and planning for tomorrow's success today.

### *The N-11 and Beyond*

Goldman Sachs introduced the concept of N-11 (Next 11) in late 2005. The goal was to identify emerging markets with the future potential of the BRIC countries. The BRIC countries were originally identified by Goldman Sachs in 2003 as the four fastest-growing developing economies in the world. Today, these markets are both well-known and well-exploited by business people worldwide. Despite the recent global economic downturn, each BRIC country has posted consistent economic growth since 2001. In 2010, for example, economic growth registered 4.8 percent, 4.9 percent, 7.3 percent, and 10.2 percent for Brazil, Russia, India, and China, respectively, and these BRIC markets are looking for growth in 2011 to be 4.5 percent for Brazil, 4.2 percent for Russia, 7.6 percent for India, and 9.3 percent for China.<sup>3</sup>

To illustrate the collective success of these BRIC countries, consider the fact that they now contribute 45 percent of total world growth compared to 20 percent from the G-7, and 11 percent from the N-11. Downstream, this success is shared with every business that embraced opportunities early, assessed the risk, did the strategic planning, and took action, yesterday. It's time for U.S. businesspeople to open their eyes and look at the world through a new lens and see what opportunities must be explored today to ensure success tomorrow.

These N-11 economies represent the next big growth stories or the markets "worth keeping an eye on." Specifically, the N-11 includes Bangladesh, Egypt, Indonesia, Iran, South Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey, and Vietnam. While these markets are culturally, geographically, and economically diverse, each one is positioned for success by population size, resource-wealth, and sub-regional dominance. For example, each N-11 country has a large population coupled with high population growth rates that far exceed those of more developed economies. Between 1980 and 2008, population growth was highest in Pakistan at 110.8 percent and lowest in South Korea at 28.4 percent. Large populations indicate greater consumer

market potential while high growth rates mean that this market will expand rapidly and provide more potential customers.

Is a growing population an important market trait for every business? Of course not. Population growth is only critical for businesses looking to establish that market as a consumer base. Alternatively, many businesses expand globally to access skilled labor, more economical manufacturing, proximity to other (future) markets, improved distribution channels, or myriad other reasons. Not to mention that the recent unrest in the Middle East may change the balance, time frame, and the way we should plan for doing business with these countries. Again, the right market for any global expansion has more to do with matching the goals and vision of one organization with the unique characteristics of one (or more) potential market(s).

Looking back 20 years, the options were far fewer, which made the decision process much simpler. Today, the choices are seemingly endless and the information overwhelming. The key is to ask the right questions, focus on actionable data, interpret the data as it may apply to your company, make an informed decision, and then align your expansion strategy to leverage your organization's strengths and create a long-term competitive advantage. While the regions represented by the N-11 have a long way to go before challenging the overall economies of the BRIC nations, they do represent a good starting point for any expansion analysis being conducted today.

### *Future Prospects*

Since the initial report by Goldman Sachs, the Philippines and Indonesia have performed better than most of the N-11 economies. Bangladesh, Egypt (until very recently), South Korea, Turkey, Nigeria, and Vietnam have performed in line with original projections. Meanwhile, Iran, Pakistan, and Mexico have largely disappointed the analysts. The differing levels of performance have everything to do with country-specific factors. For example, Mexico's struggles are indicative of their dependency on the U.S. economy, which experienced decelerating growth in 2007. By contrast, Vietnam's growth was fueled by an increase in tourism and a diverse export market.

Across the board, the N-11 experienced sharper contractions during the economic crisis; however, they've since posted stronger rebounds as well. Interestingly, seven of the N-11 (Bangladesh, Egypt, Indonesia, Iran, Nigeria, Philippines, and Vietnam) contributed more to world growth from 2007 to 2008 than collectively from 2000 to 2006.

Nevertheless, these countries face extraordinary challenges and a difficult economic environment that could prevent them from following the BRIC growth path. Consider infrastructure. From roads, telecommunications, and transportation to legal policies, accounting rules, and government regulations, these countries are very early in the development phase. Another important factor for success is human capital. Many of these countries lack the skills necessary to reach their potential.

Ultimately, the success of any N-11 country will depend on more than just population, population growth, and access to natural resources. It will require the international business community to identify potential and pursue opportunity. That means finding ways to *grow with* these economies. Established economies must believe in the potential, invest in their progress, and participate in the development of these emerging economies. Success will also require stable governments that are pro-business, open to trade, and willing to invest in education.

Although today may not be the day for all companies to begin conducting business with Nigeria, Vietnam, Bangladesh, or any other N-11, today is the day to put these countries on the strategic radar screen. Investigate the strengths and weaknesses of these emerging economies and understand how they might synchronize with your long-term strategic goals. Start building relationships. Alternatively, ask how you might modify long-term goals to take advantage of these opportunities. The N-11 dream can become a reality for those businesses willing to begin today, think strategically, do the homework, and be patient.

## Balancing Risk and Reward

As you consider where to go, the spotlight of a global expansion program should stay focused on opportunities for growth, increasing profit, enlarging market share, and gaining further competitive advantage. It's

important to complete a detailed risk analysis assessment. Ed Morris of Clifton Gunderson LLP explains:<sup>4</sup>

The analysis should answer the questions: What is the ROI (return on the investment) for international expansion and will that ROI be sufficient to reward the company for the associated risks? For example, if a company invests \$1,000,000 in plant and equipment domestically and receives a return of \$200,000 in additional profits; but could have invested \$1,000,000 in a foreign country and received \$250,000 in additional profits that additional \$50,000 reward is probably not worth the additional risks associated with global expansion. On the other hand, if the global expansion generated \$400,000 of additional profits it is probably worth the additional risks.

Specifically, a thorough risk assessment is composed of the following components:

- *Operational risks*—*transportation, distribution, supply chain, information technology, and personnel*. Each of these operational functions can look different and offer unique challenges from one market to the next. In the Middle East, for example, businesses must consider longer customs waiting periods and political instability that affect insurance rates and delivery times.
- *Financial risks*—*taxation, transfer pricing, repatriation of profits, foreign exchange, credit, and cash flow*. All too often, firms in the process of international expansion find themselves with little working capital to meet daily operating needs and capitalize on opportunities internationally. There are firms that will assist with the most basic benefit of increasing working capital, with their extensive global experience that can navigate the challenges of cross-border business transactions.
- *Strategic risks*—*local competition and cultural differences*. The role of local brand loyalty cannot be underplayed in many foreign markets. Also, culturally, many international consumers are very consumed and easily impressed about social status and the allure of using certain brands of cars, clothing, telephones, and accessories. For this

reason, collaboration with established local businesses is often an advantageous market-entry strategy.

- *Legal risks—contracting, regulatory, compliance.* In addition to political instability, some foreign markets experience a significant amount of legal instability. Regulations, local or national, can change overnight, requiring immediate action. Lately, there were quite a few companies in that region that their ownership agreements and licenses were voided by the new governments, and there was practically nothing they could do about it.

Again, the purpose of a risk assessment is to understand the market's specific risks, not to provide justification for rejecting a global initiative. For example, consider a U.S. business that wants to increase its presence in Western Europe. In this case, the risk assessment must include the likelihood of strikes and work slow-downs. While Italy's *lo sciopero* (planned strikes) can bring transportation to a halt during the summer season and disrupt any business, Italy may still be a good market choice. But the decision must be based on a calculated risk and acceptance of that risk.

Focus the risk assessment process by examining key areas that have caused businesses the most difficulty. In a study conducted by Grant Thornton,<sup>5</sup> respondents were asked to list the three biggest barriers they experienced in cross-border transactions. The five most commonly mentioned areas of difficulty were:

- *Cultural issues (39 percent).* Spend time getting to know local customs and practices.
- *Regulatory environment (35 percent).* Be prepared for unexpected legal and/or regulatory changes and understand the provisions of the Foreign Corrupt Practices Act (FCPA).
- *Legal environment (35 percent).* Make no assumptions based on geography. Every legal system is really very different.
- *Intellectual property protection (31 percent).* The ability to protect intellectual property varies greatly from country to country.
- *Due diligence (27 percent).* Do your homework with an emphasis on getting actionable data and utilize experts to assist in relating market information to specific business issues.

### *The Opacity Index: A Tool to Measure Risk*

One tool that can assist businesses in evaluating potential risks in various countries is the Opacity Index<sup>6</sup> created by the Milken Institute. The Milken Institute is an independent economic think tank whose mission is to improve the lives and economic conditions of diverse populations in the United States and around the world by helping business and public policy leaders identify and implement innovative ideas for creating broad-based prosperity. Drawing on a decade of research, the Milken Institute has created a tool that offers businesses new ways to anticipate, analyze, and manage hidden global business risks.

The Opacity Index is a measure of five components identified by the acronym CLEAR:

C—Corruption

L—Legal system inadequacies

E—Economic enforcement policies

A—Accounting standards and corporate governance

R—Regulation

It is a broad measure of the effectiveness of a country's economic and financial institutions as well as overall risk. To place the tool into perspective, the 48 countries covered in the index account for 65 percent of the earth's land mass, 77 percent of the world's population (in 2007), 94 percent of 2007 world GDP, 93 percent of world financial assets, and 99 percent of world equity trading volume.

Higher opacity scores represent a more opaque business environment. For example, the most recent Opacity Index for the year 2007–2008 (available at [www.milkeninstitute.org/pdf/2008OpacityIndex](http://www.milkeninstitute.org/pdf/2008OpacityIndex)) ranks the top three countries (i.e., lowest opacity scores) as Finland, Hong Kong, and Singapore. The bottom three countries (i.e., highest opacity scores) are Venezuela, Lebanon, and Nigeria. In countries with high opacity scores, the effect is like another tax—a tax that is not easily calculated.

The understanding of how one country compares to another along these five dimensions is a useful tool for businesses that wish to expand globally. Essentially, it measures “the lack of clear, accurate formal, clear-cut practices in the broad arena where business, finance and

government meets.” The index also allows countries to monitor improvements and progress towards eliminating fraud and corruption.

## Knowing the Costs

In addition to patience, planning, and preparation, global expansion requires a substantial investment in financial and human capital. The consequence of underestimating either of these can be disastrous. Instead, it is important to perform extensive research and interpret it accurately. Ideally, this research should eliminate surprises and aid businesses in anticipating potential problems and ensuring that they are equipped with both the money and talent to succeed. In the study conducted by Grant Thornton, 56 percent of all respondents noted that meeting objectives took longer than expected. In other words, meeting objectives required more financial resources than expected.

Once an opportunity is identified and the risk analysis is complete, it is critical to perform a thorough analysis of all costs. For example:

- *Opportunity cost.* What is the cost of not expanding globally? It could be higher materials costs, loss of competitive advantage, or shrinking customer base. Alternatively, what is the opportunity cost of going global? It may require eliminating existing domestic operations or terminating a domestic product line.
- *Human capital.* Employing the right talent (abroad and at home) to support the expansion and get things done is essential to success. Can existing employees support the needed infrastructure and deliver? Do they need training? Will new positions need to be created? Remember, employees abroad will represent the business and have the potential to build or destroy the corporate reputation.
- *Transportation and distribution.* This can represent a significant portion of total overhead expense and requires a cost benefit analysis to determine what level of control is acceptable and for what price. More control will always cost more, and additional money is not always an option.
- *Supply chain and global sourcing.* U.S. companies have never had so many choices when it comes to global purchasing opportunities. The decision to manufacture or outsource, and the overall coordination

of a globally dispersed supply chain are key strategic areas that require consideration and expertise.

- *Taxes, insurance, and other costs.* On a local and national level these “other” operating costs must be clearly identified and budgeted.

Both the risk assessment and the cost analysis require global expertise and knowledge that many U.S. businesses do not possess. Consequently, it may be necessary to rely on global expansion experts who can oversee and coordinate each component of the global expansion plan, within the appropriate context and, therefore, like in a puzzle, get all the parts to fit. Gaining an expert’s perspective on globalization can eliminate both surprises and costly mistakes.

## Staying One Step Ahead

Long-term success requires a strategic focus based on a long-term commitment. For example, if an organization’s long-term goal is to penetrate Eastern Europe and the Middle East, establishing a presence in Turkey may be an ideal first step. It is well-positioned geographically since it is located on two continents (Europe and Asia), and it is relatively inexpensive to conduct business. Plus, Turkey offers political stability and gets along with neighboring countries. By establishing relationships in Turkey first, future advances toward Eastern Europe and the Middle East can be accomplished without having to reestablish a local presence.

Another strategy is to identify and act on future trends. For example, consider the burgeoning middle class in China and India. Imagine each one with a middle class equal to the entire population of the United States! A recent survey by the American Chamber of Commerce in China reports that 80 percent of respondents cited a desire to serve customers in China and elsewhere in Asia as their reason for having a presence in China. Only 16 percent indicated they were in China to export products back to the United States. Any U.S. business already on the ground in China with years of experience conducting business in that region is ahead of this trend and uniquely positioned to leverage their existing business relationships.

## Pearls of Wisdom

Henry Ford once said, “No one can guarantee the future. The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them and make our plans with confidence.” Here is a list of key points to keep in mind from this chapter when embarking on your global adventure:

- Going global is no longer a choice. It is mandatory for a business to survive and thrive. Organizations and their members need to adopt a global mind-set.
- Ninety-five percent of the world’s consumers will reside outside the United States by the year 2020. Developing a well-conceived expansion plan grounded in solid goals through sound business strategy is key.
- The global marketplace is an antidote for shrinking domestic markets.
- Today, U.S. businesses fail at a disproportionate rate when attempting expansions abroad. Understand that high failure rates abroad illustrate a lack of planning, *not* a lack of worthwhile opportunities.
- There are 10 key steps to utilize in order to separate success from failure.
- Goals and objectives must be the overall drivers of global decisions. Learn to identify the right international opportunity for your organizations. Don’t just follow the competition.
- Structure drives process. Process drives strategy. Actionable strategy drives successful execution.
- There are many emerging economies to consider and put on the radar screen. Try to stay one step ahead by tuning in to future trends.
- It’s important to integrate the calculated risks into your strategic operations. Investigate available resources to familiarize yourself with emerging markets: The Opacity Index, Ease of Doing Business Index, and other strategies are useful to this end.
- It’s critical to identify all associated costs to eliminate potential surprises. Your analysis should consider opportunity costs, human capital, transportation and distribution, supply chain, taxes, insurance, and other significant costs that may have to do with not embarking on the opportunities.

No question about it, the decision to go global is an important step for companies to make if they want to survive, strive, and thrive. But once the decision is made, no action can be completed and executed without having the right people in place—at headquarters, as well as in the countries or regions being targeted.

Talent acquisition, retention, development, and management are critical to the success of global expansion initiatives, and we discuss these things in detail in Chapter 2.