

## Ahoj, 你好, Helló, أهلا, Daar, Powitanie, Buna ziua : Welcome to doing business abroad

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### SUMMARY

Surprisingly, internationalisation is off the SME agenda. This is despite the documented benefits experienced by the so called “Born Global” companies. These companies not only gain profitability as a result of internationalisation, they experience higher rates of growth and improved innovation.

Internationalisation offers your business larger product markets, improved productivity and an ability to diversify your organisation’s value chain potentially reducing risk to economic downturns.

It need not be a daunting exercise if you follow five simple steps that have been tried and tested by the author over 25 years in international development.

1. Set your quest and goals
2. Identify your value chain and offer suitable for internationalisation
3. Understand global production costs and your innovation inventory
4. Develop your strategic capability and operational plan that will allow you identify and target local champions and advocates to support your cause
5. Implement your plan ruthlessly through your local champion / manager and visit the targeted market frequently to monitor progress, build trust and develop team motivation and loyalty through social as well as business events.

One of the most important elements of internationalisation [more at [Welcome to doing business abroad](#) ]

### INTRODUCTION

Internationalisation and globalisation are part and parcel of today’s business economy, particularly with the progress made in liberalising world economies through the World Trade Organisation. The process and the effect of globalisation on every business is that they are already operating in an international competitive market, even if they choose not to compete as such. Yet the local effect is obvious and is seen every day in Business to Business and Business to Consumer environments that results in raising consumers’ expectation of your product or service together with price expectation. Therefore it important to base your competitive advantage on value not price.

One of the most important elements of internationalisation is the diversification of your value chain by localising in different markets and economic conditions which may well form part of a counter-cyclic marketing strategy [issue reference] you may develop. This can offer significant price and cost advantages while maintaining the perceived value of product in each market.

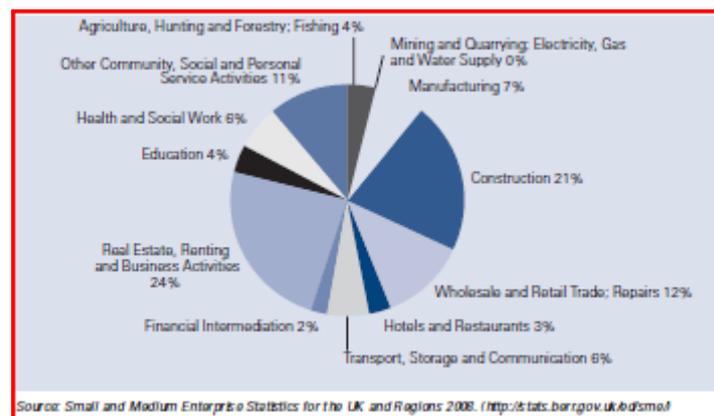
Globalisation reflects the impact of communications technology on access to information and products, making off-shoring production a more viable option for smaller businesses. The growing manufacturing base in China, and formerly in Hong Kong and Taiwan, demonstrates the power of off-shoring manufacturing requirements to cheaper production bases in order to develop the scales of economy open to business and thus better productivity.

Other internationalisation options offer your business to import competitive advantage through sourcing new products off-shore to import and sell in new markets. This option may complement any relationship you have with foreign companies by cross selling your products through them into new markets. Indeed a large number of businesses engaged in exporting also undertake importing activities as well.

The world population is now 6.9 billion people and despite around 3.8 people per million in developing economies living on under \$1 per day (range 37 to 0.014 people)<sup>1</sup> there is still relative disposable income to be targeted through the correct product offer.

However, only around 8% of EU SMEs (Small and Medium Sized businesses) undertake some form of international export activities. Even in the UK with its history of empire and trade now only accounts for 9%<sup>2</sup>. This is highly relevant to developing UK plc as over 90% of UK businesses are SMEs and they employ around 60% of the workforce and generate just over 50% of total business turnover.

One of the bi-products of exporting is that “Born Global” companies are usually more innovative and have faster growth curves and profitability.

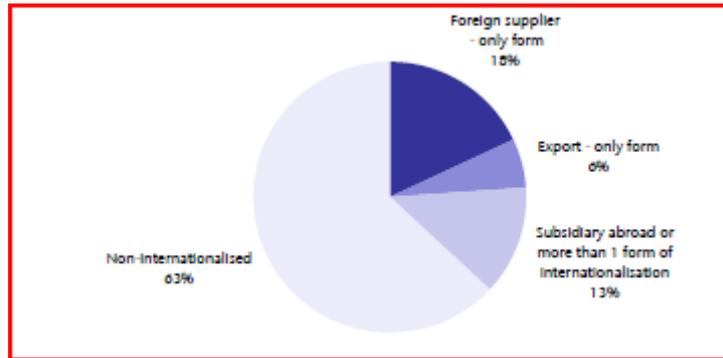


Larger numbers of companies are internationalised but the majority of businesses are not internationalised.

<sup>1</sup> [http://www.nationmaster.com/graph/eco\\_pop\\_und\\_1\\_a\\_day\\_percap-under-1-day-per-capita](http://www.nationmaster.com/graph/eco_pop_und_1_a_day_percap-under-1-day-per-capita)

<sup>2</sup> Cited in

[http://ec.europa.eu/enterprise/policies/sme/files/analysis/doc/smes\\_observatory\\_2003\\_report4\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/files/analysis/doc/smes_observatory_2003_report4_en.pdf)



The ability to internationalise does tend to be greater in larger businesses, most probably as a result of apparent complexities of working with foreign partners. But this does need to be the case.

From the Community Innovation Survey, the UK survey provides more extensive trend analysis.<sup>3</sup>

#### Percentage of Firms Exporting by Size Band <sup>2</sup>

Employment size	Percentage of Firms Exporting		
	2000 CIS 3	2004 CIS 4	2006 CIS 5
10-40	22.9%	22.9%	32.9%
50-240	42.6%	37.0%	43.7%
250+	51.5%	42.1%	46.1%
Total	26.1%	25.7%	30.6%

Source: Weighted data from CIS 3/4/5 from Harits, R., U, Q.C. (2009) Study of the Relationship between Exporting, Innovation and the Use of E-Commerce. Interim Report submitted to UKTI December 2009.

Even though these figures show higher percentages of internationalisation, they are the most consistent data with which to work. As the majority of businesses are micro businesses with less than 10 people employed and little internationalisation as a group, it is perhaps not surprising to see the variability in figures.

The information below shows that while manufacturing remains the predominant route to internationalise, services are a growing element of internationalising your business.

#### Incidence of Exporting in Manufacturing and Services <sup>2</sup>

Employment size	Manufacturing			Services		
	2000	2004	2006	2000	2004	2006
10-40	36.7	39.4	53.6	15.4	18.6	27.7
50-240	64.2	66.6	76.0	21.9	25.7	32.0
250+	72.5	72.9	80.7	25.3	28.9	32.6
Total	43.9	47.0	55.2	15.6	19.9	24.5

Source: Weighted data from CIS 3/4/5 from Harits, R., U, Q.C. (2009) Study of the Relationship between Exporting, Innovation and the Use of E-Commerce. Interim Report submitted to UKTI December 2009.

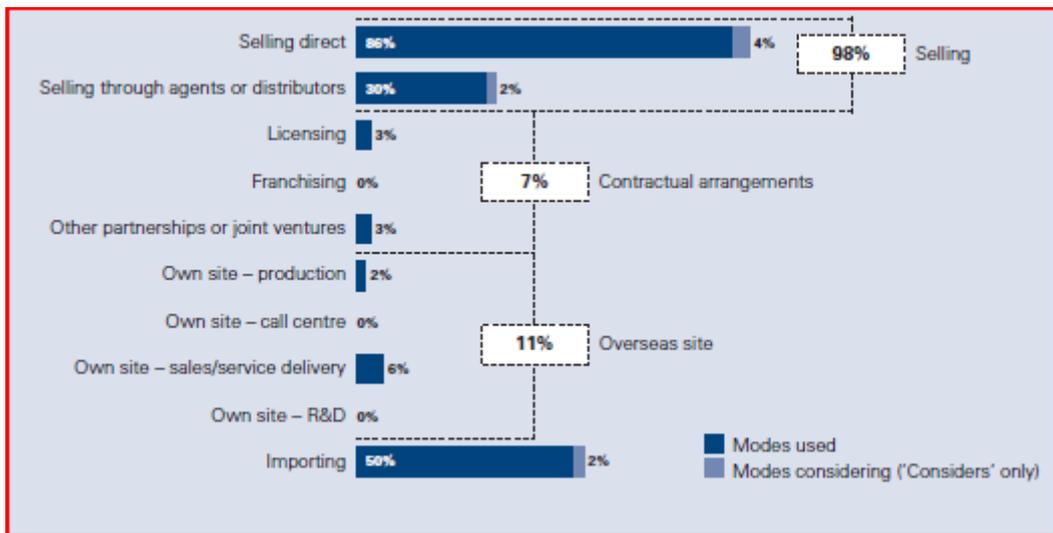
## FORMS OF INTERNATIONALISATION

<sup>3</sup> Annual Small Business Survey 2007/8, (2009), <http://www.bis.gov.uk/files/file50124.doc>

There are a variety of routes to consider when internationalising your business such as manufacturing or in offering services. To be successful you need to know your intellectual property and protect it from being copied, particularly those elements of know-how associated with your product.

In terms of internationalising your business it can be achieved through various routes:

- Importing new product
- Exporting product
- In country joint ventures and foreign direct investment
- Off-shore production
- Collaborative R&D



### WHY INTERNATIONALISE?

The answer is simple: you multiply your market opportunities. The USA business community has a large single market of 310 million potential clients right on its own doorstep. Therefore, it is not surprising that only around 1% of US businesses are exporters. In contrast the UK market is just 61 million in contrast to an EU 27 single market offering 501 million potential clients. So, you could multiply your profitability several times over if your product is competitive in European markets.

Some of the drivers are:

Top three:

- Access to know-how and technology
- High current production costs in domestic market
- Access to larger markets

Some of the others:

- Increasing legislative restrictions

<sup>4</sup> <http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/10-804-bis-economics-paper-05>

- Increasing production capacity
- Access to capital
- Access to labour

## BARRIERS TO INTERNATIONALISATION

With so many SMEs not engaging in any form of internationalisation, there must be some perceived reasons for not taking up the challenge.

The majority of SMEs just don't consider the opportunity while the four most often cited reasons are:

- High costs of internationalisation
- Price of products and services
- Insufficient skills to undertake the process
- Financial risks

Therefore even where some 30% of managers state that there are no internal barriers, the implication of the results is an absence of motivation or experience of the managers or owners of the business combined with a significant absence of strategic planning process in most SMEs.

## STRATEGIES FOR INTERNATIONALISATION

In preparing for an internationalisation project it is essential to prepare. Spending time at this stage will save an enormous level of frustration, delays and cash in the future. Pay particular attention to in-country teams as these will be your representatives and advocates when you are not present. You must drive the business opportunity forward through a combination of trust, motivation, loyalty and a disciplined approach to managing the team and project performance.

### STEP 1:

Implement a strategic planning process for your business, using the GOAL process [issue reference] to ensure that the focus and direction of your company is clear and communicated to your stakeholders effectively. If you have a process in place, review it and consider why it does not include an internationalisation process or the limitations of the current strategy.

It is important to talk through the options with your advisers and remember internationalising your business is itself a specialised subject area. Ensure that the advice you seek is relevant, unbiased and implementable within the context of your business strategy.

- Seek professional advice
- Find a mentor who is already involved in exporting to guide you through the process
- Identify potential business clusters to help you access and develop internationalising expertise cost effectively

### STEP 2 :

As discussed in previous issues in this publication VALUE [issue reference] is the competitive advantage in international markets not price.

- Understand what your added value is and the benefits to your clients.
- Go through your market research to compare competitive offers and determine your “WIN” strategy
- Clearly quantify the opportunity and prioritise your objective, perhaps using our GOAL analysis techniques [issue reference].
- Identify dominant local players and how to approach the market to minimise head-to-head challenges.

#### STEP 3:

With any new product adventure you will need to be clear on the value chain of your product and understand where it can be reduced without reducing the value of your product while improving your profit.

- Be aware of global production costs
- What is your innovative capability both to create and absorb technology?
- How are you going to capitalise the venture?

#### STEP 4:

No strategy should be implemented randomly. Therefore manage the process of internationalisation as you would any major financial project within your company.

- Identify local champions essential to your success
- Appoint a senior champion to lead the project
- Assemble the team required to provide the expertise to deliver the plan, including as appropriate UK government representatives in the target market to make introductions at the correct levels.
- Allocate a budget to the project and monitor progress against this budget

#### STEP 5:

Implementation is key and it is important to identify an in-country champion for your internationalisation. This is a critical step to ensure that you are culturally prepared for doing business in your chosen market. The local manager will also be in a position to promote the project on an on-going process, develop local network and recruit key advocates to support your project in country.

- Make sufficient visits to the target market to become familiar with its dynamics at first hand
- Organise a number of in-country seminars and events to raise your profile and introduce your requirements. Avoid too many general exhibitions and government missions as they will only provide limited commercial options, unless your product or services offer mass market appeal.
- Spend time with your local contacts both on a business level as well as a social level to build loyalty, trust and motivation
- Monitor progress and make changes ruthlessly

WHAT BENEFITS MIGHT YOU EXPECT TO ACCRUE

- **Exporting firms make a large contribution to UK productivity growth**
- **Exporting stimulates firm level productivity growth**
- **Exporting stimulates increased R&D**
- **Productivity effects of innovation are enhanced by exporting**
- **Exporting tends to improve financial performance**
- **Exporting increases the probability of survival**
- **Innovative firms benefit more from exporting**

## SUMMARY

The process of internationalisation can be a rewarding process for your business beyond simple turnover improvements. Your team will grow in maturity and experience. You will gain a greater appreciation of risk & reward strategies.

The author's experience of internationalising companies and products over some 25 years has refined the essential stages of any internationalisation programme:

- a clear quest
- a programme to identify key local champions and run your own seminars and exhibitions to position your offer into the market precisely and uniquely.
- develop screening models for opportunities to hone motivation and aptitude to adapt for the common competitive good. This assists in building trust
- a skills development programme based on the participants' needs at the time they need the solution to build diversified local competencies and comparative advantage
- opportunities to learn by doing and build absorptive capacity and know-how through knowledge networks to test initial assumption of the programme.
- opportunities to exchange experience and knowledge with partner to exploit skills, know-how, equipment and facilities
- access to resources to support the development of a combined activity

Bon voyage,