International business; Management series

Mark F. Murray

MANAGEMENT SERIES

International Business

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NOTICE TO READERS

MANAGEMENT SERIES

International Business

by Mark F. Murray, J.D.

Issued by the Management of an
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Foreword

This booklet is one of a series on management concepts and skills issued by the Management of an Accounting Practice Committee of the American Institute of Certified Public Accountants. Written for CPA firms' clients, these booklets are easy to read and have a practical emphasis throughout. They provide today's managers with a short course on management techniques that are used to operate successful businesses.

A portion of chapter 5 is adapted from the Guidance to Good Practice series published by the Institute of Chartered Accountants in England and Wales.

For further reference, a list of relevant resources is included in appendixes A and B.

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Chapter 1

Introduction

No longer constrained by national borders or traditional local, regional, or national markets, companies of all types and sizes are beginning to enter the dynamic arena of international business. Today many companies are adopting broader goals and a new attitude by pursuing international opportunities that were once considered remote but are now seen as realistic avenues to increase profits, gain international influence, and promote corporate growth.

International opportunities are no longer the exclusive domain of large companies with worldwide operations. Indeed, a global company—regardless of its size—is not necessarily committed to all geographic regions of the world. The keys to success in international business are to keep abreast of trade rules and market conditions in all geographic regions, analyze those opportunities that match most closely your own capabilities, concentrate on those opportunities and those regions that show the most promise, and make all decisions in a timely and well-considered fashion. Also required is a global perspective that keeps the businessperson aware that different approaches may be necessary to successfully accomplish international goals because of differences in customs, business practices, and beliefs. By following this strategy, smaller companies that are willing to invest the time and resources may find substantial rewards.

Further, the following factors allow small and medium-sized companies to compete effectively with large businesses and, in some cases, to enjoy special advantages:

- Government incentives
- Financing from the Small Business Administration (SBA), banks, and export-financing programs
- More direct access to information pertaining to trade rules and international markets
- Increased access to foreign markets, as a result of changing trade rules and new multilateral agreements
- State-of-the-art transportation and telecommunication technologies that enable companies to buy and sell products and services from virtually any country

Because of the real costs and risks associated with global ventures, your company must weigh the necessary commitment against the potential benefit. However, companies with well-defined objectives, commitment from management, and a global frame of mind can do more than simply meet the challenges, opportunities, and risks of the global marketplace—they can prosper.

Although the reasons a company has for participating in international business are individual and may range from unrealistic goals to sound business judgment, most are premised upon a desire to increase operating efficiency and profits and protect market share. Other motives for global expansion include—

- Foreign consumers' desire for U.S. products and services.
- Saturation of the domestic market with certain goods and services.
- Higher growth rates in overseas markets. Because of industrialization, previously

economically depressed countries now have increased buying power.

- Success of the competition abroad, particularly when selling imitations of your company's product (such as clothing and luxury items).

However, U.S. executives involved in international business are confronted with not only the problems that affect domestic executives but also with a host of complex financial, economic, political, and cultural challenges that make it more difficult, expensive, and time-consuming to implement global ventures. International managers need to move beyond their ability to plan, staff, motivate, and control domestic operations. They need to tailor management and marketing strategies to serve staff and consumers in foreign markets. Successful methods used to produce, advertise, and distribute products to domestic consumers and motivate and compensate domestic staff may not be successful in the international arena. The stakes are high, and failure to implement your international plans effectively could seriously jeopardize your entire investment and ability to compete. Moreover, your company's investment of time and resources may not be returned for a number of years. For these reasons, the international businessperson must scrutinize closely all aspects of global expansion.

ADVANTAGES OF INTERNATIONAL BUSINESS

For the committed U.S. company, international markets offer tremendous opportunities. Some of these are—

- Expansion of business beyond the 4 percent of the world's population living in the United States. With the more pronounced presence of foreign businesses in the domestic marketplace, U.S. executives are looking beyond national borders to market their goods and services. The issue becomes more important as other nations relax commercial trade barriers.
- Exposure to new and innovative manufacturing, management, and marketing strategies that are implemented successfully by businesspeople in foreign countries and can be applied to your own operations to enhance productivity. Otherwise, such technical and creative ideas may be used by competitors.
- Benefits, not only for your company, but for the economy of the United States as a whole. When companies hire greater numbers of employees to meet the demands of foreign consumers, they stimulate the domestic U.S. economy.
- Ability to supply and service international consumers more efficiently.
- Ability to draw on the unique experience of staff members who have worked in a foreign country (or countries).
- Incentives offered by the governments of the United States and the host countries—for example, tariff protection, low-interest loans, and tax exemptions.
- Improved production efficiency. Although the cost of raw materials increases as production expands to meet the demands of international consumers, fixed costs remain the same, ultimately resulting in decreased unit costs and more competitive pricing.
- Availability of low-cost raw materials, labor, capital, and production in host countries.
- Reliable sources of supplies and distribution networks closer to consumers.
- The possibility of extending the life of goods that may have reached their maturity in the domestic market. Companies then can reach a new group of international consumers.

Other advantages include expanded name recognition, increased sales, and product and service diversification.

DISADVANTAGES OF INTERNATIONAL BUSINESS

Some of the most common challenges faced by a company engaged in international business today include—

- The higher cost of doing business. Expanding internationally is an expensive undertaking that requires not only a substantial investment in time and resources but also patience. Other factors are time-consuming planning and investigation of financial, legal, production, and marketing issues. Long-distance travel is frequently required, and in some circumstances, increased sensitivity is necessary during the planning and negotiating stages. As noted previously, the return on a company's investment is rarely immediate.

- An increase in the amount of time needed to complete an international transaction, primarily because of differences in language, local laws and regulations, accounting and legal systems, business practices, currency, buying patterns, and culture.
- Communications failure that can result from limited electrical power and faulty communication systems.
- Additional shipping costs and delays that may be incurred because of transportation and weather problems.

Today, firms cannot overlook the fact that businesses of other countries continue to expand into markets formerly dominated by U.S. companies. Foreign firms have not restricted trade to their own domestic or regional markets. They consider the United States to be one of their most lucrative markets. Many U.S. companies now view foreign ventures as part of their total market and realize that to remain competitive, profitable enterprises, they must branch out into the vast and still growing global market.

Chapter 2

Creating a Foundation for Your International Venture

THE VALUE OF RESEARCH AND PLANNING

Too often worldwide business ventures fail because of defects in the research, planning, and implementation of the venture rather than in the technology and quality of products or services being offered.* Failure may jeopardize not only the success of the company's international venture, but also the continued success of its domestic operations.

Before plunging into the international market, assume a global perspective and allot the time and resources needed to educate yourself and your company about the local market, consumers, politics, laws, and business practices. Failure to acquire this knowledge is a common mistake made when planning an international operation, and one that usually is not made when entering domestic markets. Before attempting to develop an international plan, senior management first must have a working knowledge of international trade rules, agreements, associations, and alliances. These include North American Free Trade Agreement (NAFTA), European Community (EC), and Association of South East Asian Nations (ASEAN). Senior management also must understand the general components of global trade policy as embodied in the General Agreement on Tariffs and Trade (GATT). GATT's member nations represent substantially all participants in international commerce. The overriding body of laws and rules they have established serve global commerce in a manner similar to the Uniform Commercial Code (UCC) in domestic U.S. commerce.

Be sure to obtain expert counseling (see appendixes A and B) and develop an international operating and marketing plan before beginning your international venture. Accounting and law firms can be of assistance. Include in your plan clearly defined strategy and objectives, and try to anticipate likely problems. Utilize all available resources, both within and outside your company, to learn as much as possible about your host country. Investigate available public and private financing and determine qualification requirements (see chapter 5 and appendix A). Sources of valuable information include banks (particularly those with international departments), the U.S. Department of Commerce, foreign embassies and consulates, industrial and professional organizations, business schools, trade groups, and companies engaged in international business. Inform their staff experts of your plans and then meet with them to discuss the issue further. This step is a prime opportunity to make valuable contacts and to learn whether your company is prepared, from a financial and management perspective, to grow internationally.

Market Research

Perform market research to determine market opportunities, trends, competition, and prospective customers, and to ascertain whether the demand for your company's products justifies

* For ease of reading, the word *products* is used by itself throughout this book; however, much of the discussion applies equally to services.

international expansion. Remember, timing is very important when making your decision to go international. You will want to provide your products to consumers before your competitor enters the market.

Methods of market research can be direct or indirect. Direct research includes interviewing or surveying potential consumers to determine whether they will purchase your products and, if so, why. Indirect research includes collecting consumer and marketing data from compiled sources. Because of the expense and time associated with direct research, most companies rely on secondary data generated from indirect research. Such data can be obtained by—

- Interviewing experts at government agencies and in the private sector (see appendix A); entrepreneurs who have been successful in international ventures with a similar product; sponsors and speakers at seminars, trade shows, and workshops; international trade consultants; and staff members of trade and industry associations.
- Reading international trade publications (see appendix B).
- Reviewing international trade statistics available in local libraries or U.S. export-import statistics available from the National Trade Data Bank (NTDB). The NTDB can be accessed from many U.S. Department of Commerce district offices across the country.
- Keeping abreast of global events influencing the national market.

Selecting International Associates

Expend the extra effort to retain responsible, dedicated business professionals who would serve as effective partners, representatives, distributors, or foreign retailers in an *international operation.* This is the best protection against customer complaints and uncollected payments. A CPA or attorney experienced in international affairs can provide additional assistance. Too frequently, an executive visits a foreign country, meets with possible associates, and prematurely selects someone who is not qualified to represent the company internationally. Should the venture prove to be unsuccessful, either because foreign representatives have poor reputations or because they fail to carry out their responsibilities, the company can suffer from diminished productivity and a damaged reputation. As a result, the company is forced to choose between losing millions of dollars in revenue and lost opportunities or abandoning a venture that otherwise could have been successful.

At all times try to be selective and avoid outside associates of questionable reputation and abilities. More complex methods of international transportation and communication may make it necessary for associates to act independently more often than they would in domestic enterprises. The increasing prevalence of fraud perpetrated by management, financial troubles that affect enterprises of all sizes, and dishonest companies cloaking themselves in an image of integrity, make screening prospective international associates an invaluable part of your international plan. Companies should beware of the following when choosing international associates:

- *Present or impending financial or organizational difficulty.* Watch for companies with insufficient working capital, high turnover in key positions, management responsibilities that are vested in one person when conditions warrant that they be shared by several persons, and poor credit.
- *Involvement in suspicious transactions.* Be alert to any activity that is or appears to be illegal, such as bribery, kickbacks, unauthorized corporate transactions, illegal contributions, or artificially improved financial statements.
- *Unreasonableness and uncooperativeness.* Be wary of associates who fail to document underlying facts; have unrealistic expectations concerning the international venture; operate in an environment characterized by unfavorable tax laws and rulings; chronically change officers, directors, senior managers, accountants, and attorneys; provide vague, guarded responses to inquiries; threaten to terminate the venture; and request changes in agreements.
- *Incompatible personality.* Learn as much as possible about a prospect's corporate and individual personality to determine if it is compatible with your own corporate culture.
- *Frequent involvement in litigation.* Remember that companies rarely change.

A screening process that includes the following procedures is likely to result in an international venture composed of reputable, well-managed, financially secure parties who are equally dedicated to a successful business relationship.

- Visit a potential associate's business premises to determine the condition of its management, finances, and internal controls. Some companies require that all prospective associates have their internal controls analyzed.
- Meet a prospect's accounting and tax personnel to determine its specific financial needs and the condition of its accounting records.
- Conduct a background check and contact references to determine the prospect's reputation for honesty, credit history and rating, financial stability (exercise care when analyzing credit and financial data—it is not always reliable), cooperativeness, litigation history, potential conflicts of interest, quality of management, competency of personnel, personality, and potential to be a source of new customers.
- After receiving any necessary authorization, contact a prospect's present and former accountant, as well as its attorney and bankers, credit bureaus, present and former business associates, and employees. Document all communications.

Remember that it is far less complicated to terminate a *potential* international alliance with a questionable party than it is to withdraw once an agreement has been reached.

The same review procedures should be performed annually, or whenever there is a substantive change in circumstances. Such changes include developments in an associate's financial condition or management and changes in laws. Since a party's circumstances can change remarkably over time, you must be made aware immediately of any existing associate that has become a high risk.

The screening process enables your company to get to know all aspects of its prospective associate. The more informed you are of foreign staff, business practices, culture, and customs, the less likely you are to be duped by foreign associates' excuse that "cultural differences" prevent them from assuming an agreed-upon job responsibility. Basically, what you are attempting to determine are the potential associate's qualifications, honesty, and reliability.

A newer company that may have experienced domestic success with its products may prematurely overestimate its international opportunities and expand without first developing the internal operational structure, financial base, and managerial skills to facilitate international growth. It is only by proceeding globally with a well-considered plan, characterized by thorough research, clear objectives, a defined strategy, and realistic goals that your company will succeed.

INTERNAL REVIEW AND ANALYSIS

During the initial planning stage, ask yourself the following questions:

- Why am I pursuing foreign markets? How will I benefit from the venture?
- Is international business consistent with other company objectives?
- Do I possess the resources—capital, staff, and management—to sustain international operations and am I willing to apply these resources to the international venture? Will top management become committed and remain committed to the enterprise?
- Do I have any personnel with international business experience or foreign language capabilities?
- How can I mobilize for international opportunities?
- Who will organize and oversee international operations? Who will be responsible for the success of these operations?
- Are my products suitable for manufacture or sale in another country?
- What effect will international sales have on my company's domestic sales?
- Have I identified the best markets for my goods?
- When do I expect to realize a return on my investment? When do I expect international operations to become self-sustaining?
- Are the potential benefits worth the costs? Would company resources be better applied to expanding domestic operations?

Once you decide to pursue international business, you must prove that your efforts will yield legitimate rewards. Some companies are so anxious to reap the benefits of international ventures that they fail to consider all the possible results of the decision. They base this potentially good decision on inaccurate or inappropriate assumptions. The following matters should be considered by any prospective international businessperson because they frequently have a profound effect on the success of the venture, particularly when operations are located in remote areas.

- *Labor costs.* Savings from hourly labor costs may be surpassed by longer production schedules or the cost of additional workers hired to compensate for the lack of expertise of the local work force (both skilled and unskilled). When examining bottom-line employee productivity closely scrutinize productivity statistics offered by government ministries and other international companies because they may be misleading.
- *Consumer demand.* Managers may have a false, although understandable, impression that there is a demand for the company's products. Because of a limited, sometimes one-time demand for the product, a company may establish overseas operations expecting the demand to continue or grow. This point illustrates the importance of thorough market research.

Companies that have succeeded in international ventures often exhibit the following characteristics. Look for and, if possible, cultivate these characteristics.

- Exceptional domestic demand for their product
- Demonstrated international demand for their product
- The decline in sales of a product, once successful domestically, due to the introduction of more technically advanced products (less developed countries may have no need for or be unable to afford state-of-the art products and, therefore, may be completely satisfied with a product considered old by U.S. consumers)
- A unique product that is difficult to duplicate abroad (competition may be slight or nonexistent, while demand may be high)
- Secure capitalization, operations, and management needed to sustain an international venture
- Strong relationships with creditors
- An ability to expand staff and facilities if necessary
- A global frame of mind and willingness to devote the necessary time and resources to an international venture
- Sufficient flexibility to accept changes, make adjustments to accommodate international business, and nurture growth
- The support of the CEO and other members of senior management to commit resources and provide direction
- Excess production capacity
- A sufficient number of personnel experienced or trained in international business

CREATING A PLAN

An international expansion plan should have the approval of senior management. During the planning process, there must be an analysis of research results and a discussion of unresolved questions. Some of the major issues that should be addressed during the planning process and settled include—

- The selection of product(s) for international sale and the extent, if any, of product modification.
- The country or countries targeted as new markets for international products.
- The business, legal, economic, and social conditions prevailing in targeted country or countries.
- Consumer profile: age, income level, need, and most effective marketing strategy.
- Risks and obstacles likely to arise and how they will be overcome, for example, differing business practices, culture, and religion; operational difficulties; competition; fulfillment; and pricing.
- The amount and cost of company resources to be allotted to international business and the impact of this diversion of resources on domestic operations.

- Methods to be used to modify the plan, if necessary, and measure results.

Experience has shown that too many companies have attempted to expand internationally without first resolving the foregoing elements and, as a result, have suffered disastrous consequences. If you take these factors into account, your plan will identify goals and objectives, establish time periods during which objectives should be accomplished, and create milestones so that achievements can be identified and measured.

By putting your plan in writing, you can more effectively—

- Assign responsibility to management and other persons involved in the plan.
- Keep the plan from being overlooked or having its importance diminished by vital parties.
- Measure successes and identify risks and failures.

A written plan also demonstrates to potential investors and lenders that your company is dedicated to the international venture and is willing to invest the time and resources necessary to guarantee success.

Your plan is likely to be a relatively short, straightforward, "living" document that will grow as you proceed with your venture. You should, therefore, never be reluctant to modify your plan to reflect changed circumstances or new insights.

EXTERNAL CONSIDERATIONS

As part of its investigation into the feasibility of undertaking international business, your company needs to consider not only its own internal operations but also the external or environmental conditions prevailing in the country targeted for expansion. Failure to do so may cause you to lose assets, damage your reputation, compromise your company's ability to market or service its products, and diminish or lose your investment. The environmental characteristics of a country where international expansion is directed are also vital factors when determining the degree of ease with which international operations can be created and maintained and the extent of control necessary.

Although information about many environmental factors can be gathered from secondary sources (see appendixes A and B), one of the most effective ways to learn about these factors, particularly those pertaining to culture, living standards, geography, and climate, is to travel to the country and personally meet your current or potential customers and associates.

For the most productive use of your time while travelling internationally, try to follow these suggestions:

- Keep your schedule flexible and confirm all important appointments before you leave the United States. A flexible schedule helps to accommodate new opportunities and minimize the effects of unexpected problems. A few well-planned appointments are more productive than an overly scheduled agenda. Having to go from one meeting to the next before business has been concluded reduces the productivity level of each meeting. Further, it is unlikely that a harried American executive hurrying through meetings with new customers or associates will make or leave a favorable impression.
- When preparing your itinerary, consider current work days, work hours, and holidays in the foreign country. The U.S. Department of Commerce's *Business America* magazine publishes annually a list of holidays observed by foreign countries. The local district office of the U.S. Department of Commerce can also provide U.S. executives going abroad with travel advisories so they can avoid potentially dangerous situations. Recorded advisories can be heard by calling the Citizens' Emergency Center of the U.S. Department of State at (202) 647-5225.
- Learn in advance the customs and regulations for each country you expect to visit. Business travelers planning to bring product samples into a foreign country may be required to pay import duties on them. In some countries, duties and customs procedures on sample products may be avoided by obtaining an ATA (Admission Temporary) Carnet. The ATA Carnet is a standardized international customs document used to obtain duty-free temporary admission of certain goods into countries that are signatories to the ATA Convention. Under

the ATA Convention, commercial and professional travelers may temporarily take commercial samples, tools of the trade, advertising materials, and cinematographic, audiovisual, medical, scientific, or other professional equipment into member countries without paying customs duties and taxes at the border of each country. The U.S. Council of International Business, at (212) 354-4480, can provide a listing of signatory countries.

- Carry business cards printed in English and in the language of the country being visited. This practice shows sensitivity and interest in your foreign customers and associates. Some international airlines can arrange this printing service.

Whether you consult secondary sources or travel to targeted countries in person, you should become as completely informed as possible about conditions in the host country. A list of predominant conditions is included in the Exhibit on pages 10 and 11.

When faced with unfavorable environmental factors, some companies have been successful in negotiating these considerations with the host country. Companies are in their best position to negotiate environmental factors *before* a final agreement is reached and when the host country is courting the company for business. Once operations have begun and the company has made an investment in the venture, the host country is less inclined to grant concessions or change any terms of the agreement.

Although it is not necessary to become "native" or as informed about a targeted country's environmental factors as its own residents, it is important to acquire, through reading, training, and travel (if possible), a basic knowledge of such factors. Lack of familiarity with these factors can weaken a company's position in the market, prevent it from accomplishing its objective, and ultimately lead to failure.

APPROACH TO OPERATIONS

The following steps are recommended for the company contemplating a global venture.

Step 1: Start small. Expand as the market for your goods expands, and be realistic about what to expect from your investment. Structure operations for orderly, gradual growth. Beginning on too grand a scale with expectations that success and tremendous profits will be realized immediately will result only in disappointment. (Usually, the results are termination of the venture and lost profit potential.) Also, try not to do too much too soon. Staff and other company resources may become overextended.

Step 2: Adapt your product, if necessary. Analyzing market research offers a prime opportunity to determine whether your product needs to be modified to accommodate consumer preferences, standard of living, culture, government regulations, safety and security codes, shipping, import restrictions, geography, and climate. (Information on government regulations imposed by foreign countries can be obtained by contacting the country desk officers of the U.S. Department of Commerce's International Economic Policy [IEP] Unit.) Your research analysis may show that changes in your product should include repackaging or adjusting voltage to comply with electrical standards. The Japanese desire for attractively packaged goods, for example, has caused several companies to redesign their packages. Make sure, however, that any product modifications are realistic, necessary, and justified by product demand. Always weigh adaptation costs against potential revenue.

The additional cost and time of adapting a product to a specific market in terms of inventory, sales, and promotion can be avoided if, while being sensitive to each country's own requirements, you strive for as universal a version of the product as possible. Include adapters with the product to accommodate different voltages and print sales, instruction, service, and warranty information in the languages of all potential consumers, salespersons, and service personnel.

Each market has to be evaluated separately because a product that is a tremendous success in one country may be a dismal failure in another. Recognize that because of their uniqueness, some products may not be appropriate for all consumers.

Information on foreign standards and certification systems is available from the National Center for Standards and Certification Information, National Institute for Standards and Technology at (301) 975-4040.

Exhibit: Environmental Conditions

Business

- Forms of business organization allowed and formation procedures
- Extent of government involvement in business
- Types and locations of factories and other industrial plants
- Registration requirements
- Composition of industry (percentage of large, medium-sized, and small businesses)
- Existence and strength of competition
- Trends (nationalization versus privatization)
- Unemployment rate
- Types and amounts of available governmental assistance
- Sources of financing
- Laws governing the maintenance of books and records
- Relations among partners, officers, directors, and shareholders
- Liquidation and bankruptcy laws
- Consumer protection
- Regulatory agencies
- Pollution control
- Mergers and acquisitions
- Stock exchange
- Credit facilities
- Insurance requirements
- Office costs
- Depreciation methods
- Fiscal year
- Acceptable accounting methods
- Foreign exchange restrictions
- Tax system
- Tax incentives
- Patent and copyright issues
- Marketing
- Restrictions on local borrowing

Economy

- Rate of inflation
- National debt
- Gross domestic product
- Energy resources
- Types of industry
- Interest rates

Legal system

- Corporation laws
- Protection of courts
- Laws affecting foreign investments
- Licensing of new enterprises
- Antitrust laws
- Patent, trademark, and copyright issues
- Laws regulating prices of products and services
- Labor laws
- Arbitration and mediation of disputes
- Laws that do or may discriminate against foreign businesses
- Statutory reporting requirements

Labor

- Education, training, skill, and productivity of work force
- Labor supply
- Local management potential
- Labor-management relations
- Worker's compensation
- Work permits
- Unions
- Minimum wage
- Salaries, bonuses, fringe benefits, vacations and vacation pay, unemployment compensation, health insurance, overtime payments, and social security
- Discrimination
- Employee work ethic and motivation
- Days of the week worked
- Number of hours per day worked
- Saturday and Sunday closings
- Day and hour banks
- Business, embassy, and government office hours
- Lunch breaks
- Early closings
- Employment termination practices

Import–export

- Overseas trade relations
- International chambers of commerce
- Incentives
- Trade barriers (import duties and restrictions, compulsory licensing, quotas, tariffs, exchange controls that ban or restrict repatriation of profits to the parent company's country, restrictions on the use of ports)
- Labeling and processing requirements
- Customs
- Storage
- Required commercial documents (invoices, bills of lading)
- Insurance
- Free zones
- Vessel registration
- General trading companies
- Membership in international associations and regional free trade alliances (United Nations, Arab League, Organization of Petroleum Exporting Countries [OPEC], International Monetary Fund, General Agreement on Tariffs and Trade [GATT], North American Free Trade Agreement [NAFTA], European Free Trade Association [EFTA], Association of South East Asian Nations [ASEAN], and European Community [EC])

Culture

- Business manners and methods
- Language (primary and secondary, percentage of the population that speaks each language)
- Religion
- Humor
- Local social and business etiquette and customs (behavior concerning eating, drinking, dress, smoking, addressing others, use of titles)
- Negotiating style
- Gift giving
- Greetings
- Significance of gestures
- Meanings of colors and numbers

Living standards

- Housing (availability, location, and cost)
- Cost of living
- Educational, medical, religious, recreational, and cultural institutions
- Social welfare services
- Print and broadcast media (availability in English)
- Utilities (availability, reliability, contact with major international centers)
- Food and beverages
- Transportation systems (air, roads, highways, ports, rivers, rails, public transportation, rental vehicles, requirements for obtaining a temporary driver's license)
- Telecommunications systems (telephone, telex, and fax)
- Credit and banking facilities; insurance companies

Other considerations

- Availability of legal and accounting services
- Climate (temperature, rainfall, snow, and humidity)
- Cost of local raw materials
- Currency (exchange rate and stability)
- Dates and numbers
- Energy
- Geography
- Government
- History
- International time
- Natural resources
- Political system and its stability
- Population (composition and movement)
- Visa requirements
- Weights and measures (metric system)

Step 3: Obtain support from the CEO. Support from the CEO and other members of senior management will be necessary when you confront obstacles and when you need resources to implement and maintain the international venture. Involve senior management in all major decisions pertaining to the venture and select a group of advisors, including attorneys and financial and marketing experts, to advise the company on such matters as international employment, trade restrictions, and promotions. Make sure you continuously monitor results.

Step 4: Staff international operations with care. Select as your expatriate staff those most capable of managing international operations. Employee selection is vital to your success because regardless of the value of your company's product to international consumers and the sincerity of your intentions to expand globally, your company's long-term success can be totally vitiated or substantially diminished if its foreign staff is not uniquely qualified and prepared. The following list includes some characteristics international companies look for in their expatriate staff members:

- Ability to meet work permit requirements
- Technical ability and knowledge of the host country
- International perspective, cultural sensitivity, and ability to understand the logic and general state of mind of those in the host country
- Strong interpersonal skills and ability to interact effectively with members of the host country's political, business, and social community (some companies make a serious error in judgment when they do not commit their best employees to international operations)
- Experience in international matters, language-learning ability, and cross-cultural skills
- Genuine interest in international business and foreign cultures (employee's past performance and activities, such as an expressed interest in projects with an international flavor, enrollment in courses in international business, and international travel, may be effective indicators of a sincere interest)
- Willingness and ability to relocate (consider the ability of an employee's family to adapt to the host country)

Compensate expatriate staff fairly and have a comparable or better position available for returning employees; otherwise, your company may encounter difficulty attracting applicants for international assignments and keeping them when they return.

Have a formal training program in place within the company or enroll staff being assigned to international assignments in a training program. In addition to educating employees in the operational aspects of international business, such a program can inform employees of important environmental factors (see page 8), thereby minimizing culture shock and attendant stress. Training programs can be conducted by other employees within your company who have had international assignments or by international consulting firms and universities.

An international company must keep in mind that the more prepared employees are for international assignments, the more productive they will be and the less likely they will be to request a return to domestic operations.

Step 5: Assign responsibility to a member of your staff. Appoint one member of your staff to assume responsibility for investigating the international venture and being accountable for results. Although expertise in international business is not required, a working knowledge of the subject will enable the person to be more effective. Goals and deadlines must be complied with to make the venture successful, and when results are not immediate, this can be a daunting task. Companies may operate under the assumption that international expansion is a project for "management"; however, when a company entrusts responsibility to everyone, or at least to several people, it often becomes no one's responsibility. An international business plan will quickly become ineffective if not given the attention it deserves. Some qualities to look for in candidates for this position include strong communication skills, a knowledge of the company and international matters (not necessarily an expert), negotiating ability, and a knowledge of the host country's culture and business practices.

OVERSEEING INTERNATIONAL OPERATIONS

Once you have begun your venture and selected your international associate—

- Have senior management continue to monitor the new venture and keep abreast of changes in the international market and the effectiveness of expatriate and local staff.
- Limit the initial term of the venture to two to three years so that you can review results and determine whether it is in your best interest to continue. Long-term contracts are not recommended; if the venture is not successful, it can result in long-term losses. Premise the continuation of the relationship on the local company's performance—if agreed-upon results are not achieved, the contract can be terminated upon ninety days notice.
- Be aware of your foreign associate's abilities and limitations. Provide associates with sufficient responsibility so that everyone can profit from the arrangement in proportion to his or her contribution; however, do not assign anyone more responsibility than he or she can handle.
- If you are unable to have your own manager stationed at the local office to observe employee performance and operations and to meet with customers, periodically send a manager to the office to perform these responsibilities. This practice, supplemented with monthly status reports, keeps the main office informed, on an ongoing basis, of operations and the extent of customer satisfaction. It also sends a message to the local office that the venture is a high priority that is being monitored closely. This practice can be applied to the local office by having managers in the host country visit headquarters.
- Be patient when dealing with operational aspects of your international venture. Foreign companies often do not operate with the sense of urgency that is characteristic of American companies. They expect relationships, including professional ones, to develop gradually. Only after the relationship has matured will progress be made.
- When communicating with international offices, remember that foreign staff may not be well trained in English. Do not be critical of errors in grammar, word choice, or tone. Be as complimentary of the communication as possible and keep any necessary criticism constructive. It will do much to enhance relations between domestic and foreign staff. Also, use a local interpreter whenever available, even if you are fluent in the language, because he or she understands local customs and nuances.
- Maintain your global perspective and continue to support successful international operations even when domestic operations continue to grow. Your international venture is not of secondary status and should not receive your attention only when domestic operations slow down. Treat domestic and international ventures equally. Some companies provide special discounts, warranties, and other sales inducements to domestic consumers but fail to make similar offers to their foreign counterparts.
- Have efficient, available servicing for your product—it will do much to enhance your local reputation.

Chapter 3

Methods of International Operations

A company may engage in international business by participating in a joint venture with a foreign company or by exporting directly or indirectly to a foreign country. This chapter briefly examines these forms of international business. When choosing among the strategies outlined on the following pages, you should select the one that maximizes profits yet remains within your company's means, offers the least risk, and adheres to company objectives.

JOINT VENTURE

An international joint venture is a collaboration between companies in two or more countries to produce goods or provide services. The companies participating in the joint venture share ownership, rights, expenses, responsibilities, and profits. A participating partner can hold a minority, majority, or equal share of the venture's equity. The joint venture is an effective means of addressing the inevitable international factors associated with any global enterprise and can be established through the creation of a new business or through the purchase of an existing local company.

There are advantages and disadvantages to entering international business through a joint venture. Both should be considered carefully before any partner is selected and before any decision is reached.

Advantages of a Joint Venture

You may be able to lower the expense that would have been incurred if the company had financed the venture alone. Each partner's own investment and risk exposure is reduced by the other's participation. This is an advantage for companies with limited resources because they could not participate in international business otherwise. For example, an American company can exchange technical and managerial expertise for the host country's capital and labor.

You may be able to minimize cultural problems as well as social and political discrimination against foreign enterprises. A company's success in the international market is undermined too frequently by local prejudices and restrictions. A local partner can ease entry into foreign markets by—

- Providing knowledge of the local economy and politics.
- Using contacts with banks, government officials, customers, and suppliers to acquire licenses, permits, and supplies.
- Providing local managerial and marketing abilities, sales channels, manufacturing facilities, and personnel, thereby encouraging the acceptance of the company's products and services by consumers and local middlemen.

You may be able to expand the market for your goods and services. Some countries restrict government contracts and purchasing to local companies; however, by associating yourself with a local company, you may become "local" and tap into other markets.

Disadvantages of a Joint Venture

Most likely you will have to divide the profits with your partners, which could result in your having to accommodate their interests. Balance the best interests of your company with those of the host country; they are not always the same. Such compromises may diminish your company's role in the management and control of the venture.

Your independence and autonomy may be threatened. Your local partners could sell or otherwise transfer a portion of or the entire interest in the venture to an undesirable investor. Moreover, the partner may make conflicting demands, whether for cultural, religious, economic, political, personal, or business reasons, regarding staffing, management, control, or direction of the venture.

You may find that one company believes that it is contributing more to the venture than another, or that another partner's benefits from the venture are disproportionate to his or her contribution. The situation can worsen if a substantial initial contribution is diluted as the venture grows.

Deciding on Terms and Conditions of a Joint Venture

Once you have agreed on a joint venture, selected partners, agreed on the purpose of the venture, and how it fits into your strategic and long-range plans, the partners should determine their specific duties, contributions, and benefits. All issues, including the more sensitive ones concerning profit allocation and management responsibilities, should be addressed at the beginning of the venture. Potential conflicts do not vanish; rather they fester and ultimately emerge, too often in an even more complex state. Some of the more important issues for joint venturers to address include:

- Name, term, and purpose of the joint venture
- Names and addresses of partners
- Equity contributions
- Partners' rights and duties, including voting authority
- Admission of new partners
- Names and addresses of officers and directors
- Conditions under which equity contributions can be increased
- Allocations of profits and losses
- Restriction on transferability of interest (for example, each partner has right of first refusal or right to liquidate venture if conflicts arise)
- Restrictions on the sale of joint venture products to other countries
- Partner disability, death, replacement, and expulsion
- Modification of agreements among partners
- Dispute resolution procedures, such as mediation and arbitration
- Termination provisions

For the foreign partner with 50 percent or less ownership in the joint venture, control is crucial. A partner in this situation can enhance its position by negotiating with the local partner for increased management authority and by using as bargaining tools technological or staff strengths on which the local partner is dependent.

Drafting a Joint Venture Agreement

All terms of the joint venture should then be incorporated into a written joint venture agreement created with the assistance of counsel. This approach should mitigate some of the disadvantages previously discussed. Ensure that all aspects of the joint venture comply with antitrust laws, and that the agreement is drafted in clear, unambiguous language that explicitly states the rights and responsibilities of the parties.

Your joint venture agreement must be reviewed periodically and adapted to the changing financial and personal needs of the partners. It is vital that partners monitor the direction of the joint venture on an ongoing basis so that existing and potential problems can be identified and resolved. Regular examination of, and necessary modifications to, your agreement will enable your joint venture to continue to prosper.

There is no universal rule that determines the timing and frequency of reviews of a joint venture agreement. They depend on the particular needs of your company. However, one approach taken by many companies is to phrase agreement provisions so that they are able to accommodate changes in circumstances without requiring a revision of the entire agreement. A joint venture that operates along these lines saves partners' time and results in a more practical agreement.

EXPORTING

Most manufacturers enter international business as exporters; however, the way a company chooses to export its products will have an impact on its marketing strategy. Goods can be exported to other countries either directly or indirectly. The primary distinction pertains to the extent of a company's involvement in the export process and the use of domestic export middlemen.

Direct Exporting

When exporting directly, a company conducts its own export operations by using its own foreign sales operations, foreign agents, distributors, or other channels not involving domestic export middlemen. The company is responsible for all phases of the operation, from market research and financing, to sales promotion and collections. Direct exporting is the most expensive, time-consuming approach to exporting goods; however, when successful, it is the most effective way to realize profits and growth. Other advantages include greater control over the exporting process—particularly pricing, advertising, and distribution; protection of patents and trademarks; and assurance that the company's products will be promoted properly. Supporting direct exporting responsibilities may require some internal organizational changes, and does demand a substantial commitment of company staff, time, and resources. It can be done successfully by small, medium-sized, and large companies when they are sufficiently committed to the right project.

Indirect Exporting

This approach is a good beginning for a company new to exporting or for one that is unable or unwilling to commit the resources to direct exporting. Its primary advantage is that it can initiate a company into the world of international business with minimal start-up costs and low risk. The export intermediary is the party responsible for identifying foreign buyers, shipping goods, and receiving payment. The three forms of indirect exporting are—

1. The company passively fills orders from domestic buyers who subsequently export the product to foreign consumers. From the original seller's point of view, these sales are indistinguishable from domestic sales, and in some cases the company may not know that its goods are being exported. The domestic buyer recognizes the potential foreign market and assumes the risk and exporting responsibilities. However, many companies become interested in export details when they become aware that their products are being exported.
2. The company seeks out domestic buyers—usually other U.S. companies, foreign corporations, foreign trading companies, foreign government agencies, or foreign distributors and retailers—to purchase its product for export to foreign consumers. Although the company knows its product is being exported by a domestic buyer and has taken steps to locate the buyer, the domestic buyer still assumes the risk and responsibility for exporting.
3. The company retains the services of a domestic intermediary, such as an export management company (EMC), an export trading company (ETC, often used interchangeably with EMC), and an international consultant, to identify foreign consumers for their products through their expertise and global contacts. The domestic company, as the actual exporter, retains control over the exporting operations. The most frequently used export middleman is the EMC. Although the use of representatives may be costly, their specialized knowledge of products and established networks of foreign distributors make them a valuable asset to companies wanting to export their products indirectly. Further information on EMCs can be obtained from the U.S. Department of Commerce, trade publications, and EMC associations.

The major drawback to indirect exporting is the company's lack of total control over foreign sales. To minimize this problem, exercise care when selecting middlemen, maintain frequent contact with them, and request status reports. Resolve any questions or comments before entering into an agreement and include all terms and conditions in your agreement. Some middlemen may not comply with all agreed-upon terms and conditions if such terms and conditions are not made part of the agreement.

Making Your Exporting Decision

The two approaches to exporting are not mutually exclusive, and the choice of one approach over the other is not irreversible. A company may directly export to more easily accessible countries, such as Canada and Mexico, and use indirect channels for more complex exporting activities, such as Eastern Europe, South America, Russia, and India. Also, after gaining experience in exporting and determining the product's desirability to foreign consumers through expertise with indirect exporting channels, a company can begin direct exporting activities. This may result in entry into new markets, expanded product lines, and greater profits.

Companies should also remember that the choice of exporting channels may need to be changed to reflect changes in the market, public policy, channel systems, and competition. Continually monitor the performance of export operations so that you can detect the point at which new channel arrangements become more profitable.

Assistance in exporting can be obtained by contacting the Department of Commerce, state trade offices, international banks, and freight forwarders.

The importation of certain merchandise may be prohibited or restricted to protect the economy and security of the United States, to protect consumer health, and to preserve domestic plant and animal life. Foreign exporters and U.S. importers should consult with U.S. Customs for guidance on this issue.

Chapter 4

Exporting Issues

PRODUCT DISTRIBUTION

Once your company decides on an approach to exporting and makes any necessary internal organizational changes to accommodate it, you must decide on the channels of product distribution. The most common international distribution channels are—

- *Sales representatives.* Sales representatives act much like the manufacturer's domestic representatives by marketing the product to potential consumers through the use of promotional materials and samples. Although representatives act for the manufacturer in the target market, they do not assume title to the product or risk in export operations. The representatives forward orders to the manufacturer, who ships directly to the foreign buyer. The representatives sell the product on a commission basis and are usually under contract for a defined period. Contracts are renewable by mutual agreement.

  Firms in the United States and abroad are avoiding the term sales *agents* and using the term sales *representatives* in its place. Although in export operations their responsibilities are similar, the term *agents* is too often misconstrued to impute more authority to the agents than is intended, such as the authority to make commitments on behalf of the company they represent.
- *Distributors.* Distributors purchase the manufacturer's products, usually at a discount, for resale to other middlemen or final buyers. Distributors generally assume support and service responsibilities for the product. Unlike the representatives, distributors acquire ownership of the product and are compensated according to the profit margin on resale of the goods.
- *Foreign retailers.* Foreign retailers can purchase products directly from the company. With the growing number of retail chains in foreign countries, particularly in Canada and Japan, and a heightened demand for American products, direct sales to foreign retailers are becoming increasingly prevalent. Purchasers generally are made aware of American products by catalogs, commercials, and other promotional efforts.

Foreign representatives, distributors, and retailers can be identified at domestic and international trade shows, during business trips, by banks, or through publications directed at exporters (see appendix B). When choosing among representatives, distributors, and retailers determine—

- Current status and history, including reputation, sales volume, territory, and long-term objectives.
- Details concerning staff, physical facilities, and other resources.
- Sales organization.
- Customer profiles and product lines.
- Experience with similar product lines.
- Other U.S. companies that are represented.
- Post-sales service.

- Methods used to attract buyers and introduce new products.
- Financial stability. Obtain trade and bank references and at least two business and credit reports. Reports are available from banks and the U.S. Department of Commerce's World Traders Data Report (WTDR) program. Foreign credit reporting services are listed in *The Exporter's Guide to Foreign Sources for Credit Information*, published by Trade Data Reports, Inc., New York, N.Y.

Once your company has interviewed and selected its foreign representatives, distributors, and retailers, it negotiates a written foreign sales contract that clearly sets forth the rights and obligations of all parties. The U.S. Department of Commerce district office can advise companies that are in the process of negotiating and preparing such contracts.

In addition to these channels, your company can reach international consumers by selling its products directly to end users in other countries. Sales of this nature usually occur when the buyers are foreign governments, businesses, hospitals, banks, or other institutions. International buyers can be identified in the Department of Commerce's Export Contact List Service (ECLS), as well as at trade shows and in publications. When selling directly to a foreign consumer, keep in mind that in the absence of an agreement to the contrary, the U.S. company is responsible for shipping, collection, and service costs. These considerations should be factored into the price of the product.

AFTER-SALES SERVICE

The success of your international venture will require more than quality products and competitive pricing. It is equally dependent on after-sales service. A well-considered, efficiently implemented service plan fosters growth; however, a plan that is poorly conceived or maintained can diminish the success of your venture. For example, by deciding not to provide purchasers with quality after-sales service and directing its resources exclusively to entering into as many foreign markets as possible, a company may realize short-term growth and success. However, subsequent efforts to expand within the same markets may be less successful because purchasers will recall the company's failure to provide expected levels of service.

Companies may ask themselves "What does product service consist of?" It includes courteous sales and customer service staff who are knowledgeable of the product, prompt delivery, a comprehensive user manual, any necessary follow-up product demonstration, and timely maintenance, repair, and replacement procedures. The company should weigh the advantages and disadvantages of situating after-sales servicing in the host country or sending personnel to the host country for after-sales servicing as conditions warrant.

After-sales servicing should be included in the sales contract. Past product performance and service history usually can be used as a guide when determining service and warranty requirements. A warranty on your product may make the product stand out among the competition.

PREPARATION FOR SHIPMENT

As a result of your market research and through discussions with contacts in the targeted country, you should know what products can be sold in that country and have made any necessary product modifications. You are now ready to prepare the product for shipment.

When shipping goods to another country, you need to take basic precautions. Ensure that the product is packed and labeled so that it arrives at the correct destination on time and in good condition. Also be sure the product is documented so that it satisfies both United States and foreign requirements and is insured to protect against damage, loss, delay, or theft in transit.

Freight Forwarders

Due to the complexity of import regulations of foreign countries, U.S. export regulations, methods of shipping, and documents necessary for international shipping, an international freight forwarder can serve a valuable purpose. With training and experience in these matters, freight forwarders can assist you in all aspects of international shipping—from advising you of shipping costs and reviewing the letter of credit and commercial invoices, to recommending the correct product packaging and reserving space on an airplane or ship. Moreover, as a legitimate export cost, monies paid to freight forwarders should be calculated into the price of your product and charged to the customer. In addition to freight forwarders, export packing, shipping, and insurance companies have valuable expertise in this field.

Shipping Methods

A freight forwarder can be of assistance when you decide how to ship goods internationally. Whatever means of travel is selected, the company should reserve space on the carrier at least two weeks before the goods are scheduled to be shipped.

Air transportation to and within other countries has increased tremendously. The benefits of speed, lower insurance costs, less complex packing and documentation requirements, and lowered chance of theft or breakage can be used to offset the higher expense of air shipment. Ocean transportation is less expensive than air transportation; however, delivery to foreign markets takes longer and there is an increased likelihood of damage or theft. Surface transportation is usually the least expensive method, although it is not always a viable option in rural areas or in developing countries.

When selecting methods of transportation, remember that the least expensive may not ultimately be the most economical—as is the case with goods that are perishable and require a faster, more expensive shipping method.

Before shipping goods to another country, you should obtain any specifics concerning the destination of the goods. Some buyers want goods shipped to free trade zones or free ports where no import duties are levied.

Packing

Packing requirements are usually developed by the buyer. Goods that are shipped in international traffic are loaded onto the carrier with nets, conveyors, chutes, or other indelicate methods that place added stress on the container. Pressure from other cargo in the hold of the ship, as well as variances in the capabilities of overseas handling, storage, and security facilities, exacerbates the problem. Cargo is frequently dragged, pushed, or dropped during unloading or in transit to its final destination. Salt air, fluctuating temperatures, adverse weather conditions, and moisture can make boxes, crates, and other containers that are suitable for domestic shipping unsuitable for international cargo.

The following are some recommendations for properly packing your goods for shipment.

- Use strong containers and have them properly filled and sealed. Both packages and fillers should be moisture resistant.
- Evenly distribute the contents for maximum bracing.
- Apply shrink-wrapping, seals, and binding to all packages to deter theft. Avoid marking boxes with a description of the contents and place packing lists in a sealed envelope on the outside of the container. However, you should develop a packing list format that allows you to readily identify lost or stolen goods if full shipment is not received.
- Because freight charges are usually determined by the weight of the cargo or volume (whichever generates the most revenue for the carrier), consider shipping items in lightweight, reinforced packages. When practical, shipping goods unassembled makes for an easier delivery along narrow roads and through elevators, hallways, and doorways.

Although all goods shipped internationally require secure packing, air shipments tend to be less taxing on cargo than ocean shipments. Freight forwarders, marine insurance companies, or a professional firm can advise you on how to package your product for shipment outside the United States.

Labeling

In addition to developing packing requirements, the buyer usually creates labeling requirements; however, many countries have specific label requirements. Correct labeling allows the receiver to identify cargo easily, ensures proper handling while the goods are in transit, and meets shipping regulations. Before applying your new label markings, remove any old markings. Apply markings in waterproof ink and on three sides of the container—the top and the two ends or the two sides. Before shipping your goods internationally, include the following markings:

- Shipper's mark
- Country of origin
- Number of packages and size of containers (in inches and centimeters)
- Weight (in pounds and kilograms)
- Handling marks (international pictorial symbols)
- Cautionary markings and special handling instructions, for example, *this side up* or *fragile*. Have them printed in English and in the language of the country of destination.
- Port of entry
- Notice of hazardous materials (universal symbols adopted by the International Maritime Organization)

When packaging products for distribution, verify that colors, logos, and other elements found on labels, although domestically acceptable, convey only their intended message and are not offensive to others. Market research can prevent this from becoming an unexpected obstacle to success.

Documentation

The number and variety of documents involved in international business can be a formidable obstacle to the newcomer. The required number of documents must be prepared clearly, precisely, and promptly. Failure to do so may delay the shipment and payment or result in the seizure of goods by customs. Suppliers of goods must also comply with the import documentation requirements of each country to which they are shipping. Make sure your company's traffic department and freight forwarder realize the importance of timely and accurate documentation.

In spite of efforts to simplify the necessary paperwork required in international shipping, preparing documentation properly is a detailed and time-consuming process. Fortunately, manufacturers can avail themselves of the services of freight forwarders to prepare most documents and of banks to assist them with international payments. With assistance from forwarders and banks, the novice can quickly learn how to maneuver his or her way through the sea of paperwork that characterizes international shipping. However, all documents produced by freight forwarders, banks, and other parties should still be double-checked by the exporter because the exporter is ultimately responsible for their accuracy.

Foreign consulates and embassies in the United States, industry specialists and country desk officers at the U.S. Department of Commerce, customers abroad, freight forwarders, and The National Council on International Trade Documentation (Alexandria, VA) can be of assistance. Available resources include Croner's *Reference Book for World Traders*, the Bureau of National Affairs' *Export Shipping Manual*, Dun & Bradstreet's *Exporter's Encyclopedia* and *Shipping Digest*, and *The Air Cargo Tariff Guidebook* (Air Cargo Tarif, Schiphol Airport, Netherlands).

Documents generated as part of international shipping include—

- *Commercial invoice.* Intrinsic to an international trade transaction, the commercial invoice is a bill for goods from the buyer to the seller. The buyer needs the commercial invoice to prove ownership of the goods and to arrange payment. The invoice incorporates all essential elements of the shipment into one document and includes the following information:
  - Name and address of the buyer and seller
  - Description of goods (including quantity)
  - Price (per unit and total)
  - Delivery and payment terms
  - Other charges (freight and handling) and additional fees
  - Number of shipping containers
  - Names of carriers
  - Ports of export and import

  To protect their interests, exporters should make the invoice as complete and accurate as possible. Failure to do so may result in delays and penalties when the shipment is processed by customs. Although invoices for domestic and international transactions serve as bills for goods, specifically design your invoice for international trade so that it reflects those aspects unique to foreign sales.

- *Bill of lading.* Probably the most important document in international shipment, the bill of lading is a contract between the owner of the goods and the carrier. In addition to serving as a receipt for goods delivered to the carrier and as a contract for its services, the bill of lading determines who has lawful possession of the goods. Bills of lading come in two forms: a straight bill of lading that is nonnegotiable and a negotiable bill of lading that can be bought, sold, or traded while goods are being transported. In most situations, the customer must have either the original or a copy of the bill of lading to prove ownership and to take possession of the goods.
- *Dock receipt and warehouse receipt.* These receipts transfer responsibility when goods are moved by the domestic carrier to the port of embarkation and left with the international carrier for shipping.
- *Export packing list.* This document identifies the type of package, for example, crate, box, or carton, and the material contained in each package. It enables the shipper or forwarding agent to determine the total weight and volume of the shipment and is used to ensure that the correct cargo is shipped. The export packing list, which is more detailed than a domestic packing list, indicates the individual weights and measurements in the U.S. and metric systems for each package. The packing list should be attached to the outside of the package with *Packing List Enclosed* written in waterproof ink on the envelope.

Other documents used in international shipping include certificate of origin, export license, inspection certificate, and insurance certificate.

Insurance

Because insurance coverage is substantially different for goods shipped internationally than for goods shipped domestically, you should consult with your international insurance carrier or freight forwarder before selecting insurance coverage and limits. If you have no international carrier, your domestic agent or broker can direct you to an insurance carrier and work with advisors in the foreign country to obtain comprehensive coverage. Because of long distances, severe weather conditions, multiple custody, and rough handling by carriers, goods in international trade should be insured against loss, damage, theft, and delay in transit. Product liability exposure must also be considered. Insurance coverage is also available for losses resulting from failure to be paid due to currency inconvertibility, war, or nationalization of property.

There is no definitive rule regarding which party is responsible for insurance coverage; rather, it is usually agreed on by all parties and made a term of the sale. However, to be certain that the goods have been insured to the extent advised, request from the party responsible for purchasing insurance documentation that verifies that the agreed-upon coverage, in fact, has been purchased. Damage to cargo that is not sufficiently covered by insurance may cause a tremendous financial loss.

PRICING

International managers encounter some difficulty when determining a price for their products. In addition to involving the factors that play a role in domestic pricing, international pricing is made more complex by additional production, distribution, and advertising costs and currency fluctuations. The calculation of the correct price is crucial to the success of your venture because it has an immediate impact on revenue. Underpricing or overpricing can result in insufficient revenue to pay expenses. This can detrimentally affect your company's ability to realize other goals and objectives.

The major costs unique to international goods that should be considered when making price determinations include the following:

- Import-export costs
- Telephone and transportation
- Warehousing
- Postage and special handling
- Additional costs of financing
- Product modification
- Incentives
- Collection costs

International companies with a history of transacting business with the same country (or countries) may develop a multiplier system that can calculate the approximate sales price of goods to customers in that country. Per capita income is also an effective tool in determining the ability of a region to pay for a product. Some companies engage in comparative shopping and compare prices paid for similar products in the host country.

An issue that will arise when your company is making price decisions is whether to adopt one price worldwide or a separate price for each country. The most obvious advantage to a uniform price is that it is the least complex, and price quotations and lists can be provided readily to foreign customers and representatives. However, the major disadvantage of a uniform system is that the company may lose either revenue or sales in markets where the price is too low or too high. The major advantage of having a different price for each country is that the prices can be adjusted to consider the income levels and consumer sophistication of the local market, as well as the extent of consumer demand for competing products. The disadvantage of pricing by country is that it requires a sophisticated knowledge of local markets and a level of control over operations that is usually possessed only by large companies. Moreover, when your goods are sold at a higher price in one market, the potential exists that the local partner paying less for the product may make unauthorized sales in markets where the prices are higher.

When making price quotations, it is recommended that they be in a currency at a fixed exchange rate or in a currency that is least likely to be devalued before payment is received; therefore, quote from countries with low inflation rates.

Exercise care and sensitivity when making price changes. Honor former prices for sales made before the price change became effective. Price increases usually result from increases in production, marketing, and transportation costs, while decreases usually result from operational efficiency, incentives, and currency fluctuation.

PRICE QUOTATIONS

In sales agreements, it is important that the parties understand all delivery terms. This point is especially important in international business because terms have different meanings from those in domestic transactions. To avoid a lost sale or a loss on a sale, the exporter must know the meaning of sales terms before preparing a price quotation and must use terms correctly. Price quotations are generally *ex named point of origin* (ex factory, ex warehouse), *f.o.b.* (free on board) at a named port of export, *f.a.s.* (free alongside) at a named U.S. port of export, and *c.i.f.* (cost, insurance, freight) to a named overseas port of import.

Ex Named Point of Origin

An *ex named point of origin* quotation applies only at the named point of origin. The exporter or seller agrees only to place the goods at the buyer's disposal at the specified place at the stipulated time. The importer or buyer assumes all other charges.

F.O.B.

Under an *f.o.b.* quotation, the exporter or seller quotes a price that covers all costs up to and including those of placing the goods on board a specified carrier at a specified time. The importer or buyer assumes all costs and risks of delivering the merchandise to its final foreign destination.

F.A.S.

An *f.a.s.* quotation includes charges for delivery of the goods alongside a designated vessel at the port or on a dock specified by the buyer. The importer or buyer is responsible for loading, ocean transportation, and insurance costs.

C.I.F.

Under a *c.i.f.* quotation, the exporter's or seller's price includes the price for the goods, insurance, and all transportation charges to the point of destination named in the contract.

C.F.R.

An additional term sometimes used in international trade is *c.f.r.* (cost and freight) to a named overseas port of import. Under this quotation, the price includes transportation costs to the named point of destination. The importer or buyer is responsible for insurance costs.

Considerations

C.i.f. and *c.f.r.* quotations generally are used for ocean shipments. Exporters should use *c.i.f.* quotations whenever possible because they inform the buyer of the total cost of transporting the product to a port in or near the target country. International freight forwarders can assist the exporter in calculating *c.i.f.* price quotations.

Incoterms 1990, issued by ICC Publishing Corporation, Inc. New York, N.Y., (212) 206-1150, contains a comprehensive list of exporting terms and their definitions.

Chapter 5

Financial Issues

PAYMENT ARRANGEMENTS

The exporter runs the risk of nonpayment when the importer defaults on payment and when inconvertibility results from exchange restrictions imposed by the host government. Therefore the exporter must confirm not only the importer's financial stability but also the convertibility of the importer's currency. With the prevailing risk of nonpayment, the exporter can choose from several basic methods of receiving payment for goods sold internationally.

When deciding on the most appropriate method of payment, or receipt of payment, assess the following factors:

- Degree of control necessary over the goods until payment is received
- Amount of time and effort you are willing to spend administering a payment tracking system
- Extent of the company's representation in foreign countries where it has customers
- Sophistication of your customers and the countries in which you do business

When possible, negotiate the sales contract in U.S. dollars. Having the purchase price and payment currency stated in U.S. dollars places the exposure to foreign currency risk on your vendor.

Selecting the best way to pay or receive funds between foreign countries can reduce the risk of currency fluctuation and accelerate the receipt of funds. Foreign collections are generally more costly and time-consuming than domestic collections. These costs and delays should be factored into pricing decisions and cash-flow forecasts.

As is the case with domestic sales, the exporter's choice of payment method depends a great deal on the exporter's faith in the buyer's willingness and ability to pay. An international banker or the U.S. Department of Commerce district office can assist you in assessing collection risks, selecting the best payment method, and choosing the currency of payment.

Ranked in the order of most to least secure, the most common methods of payment are—

Cash in Advance. As the most secure method, demanding cash in advance relieves the exporter of collection problems and, if a wire transfer is used, allows for the immediate use of the money. Expect reluctance on the part of some buyers to pay by this method.

Letter of Credit. When arranging payment by a letter of credit, the importer has its bank inform a bank in the exporter's country that it will pay a specific sum of money upon presentation of certain documents by the exporter that are identified in the letter of credit. Only the documents and not the goods themselves are examined. Specific documents usually include an invoice, a bill of lading, insurance policies, and other proof of delivery. Letter of credit payments are, therefore, premised on a bank's guarantee that payment will be made when the exporter has complied with the terms of the letter of credit. Absolute compliance is required and payment can be withheld until all deficiencies are remedied. Letter of credit documentation problems usually arise when the terms and conditions of the letter of credit do not agree with the terms of the sale as specified in the sales contract. Other problems relate to shipping dates, inspection procedures, time required for presentation of documents, signature of the consul or other authorities, and confirmation requirements.

A letter of credit may be irrevocable (in which case it can be changed only when both parties agree) or revokable (in which case it can be changed by any one party). An irrevocable letter of credit is recommended. Letters of credit may also be *at sight* (require immediate payment upon presentation of documents) or *time* or *date* letter of credit (in which case payment is due in the future).

The primary advantages of letters of credit are that the exporter can receive payment while goods are in transit and can transact business with importers with whom it otherwise would not because of uncertainties concerning the foreign country's credit standing. An advantage for the buyer is that it receives documentation that the shipment is in order before it becomes obligated to pay.

Draft. A draft is an alternative to a letter of credit. Also referred to as a *bill of exchange*, a draft is similar to a foreign buyer's check and, like checks used as payments in domestic transactions, it carries the risk that it may not be honored. The exporter draws its draft against the importer and includes it with the negotiable documents, for example, the bill of lading or the invoice, through its bank for collection. Only after paying the draft, or accepting it for later payment when the exporter extends credit, can the importer obtain the bill of lading and the goods.

As with the letter of credit, drafts require that documents be presented before payment is made. Moreover, drafts come in two forms: *sight* drafts that are paid when presented for payment, and *time* or *date* drafts that are paid at a later date, usually after the buyer receives the goods. *Sight* drafts generally are used when the seller wants to retain title to the goods until they reach their destination and payment for them has been made.

Once accepted, drafts can be sold at a discount so that funds can be obtained immediately.

Open Account. Payment under an open account occurs when the exporter bills the buyer, who pays under agreed-upon terms. Because of the high risk associated with this "customer-controlled" payment method, open account sales should be reserved for the exporter's nonforeign affiliates and well-established buyers with stable payment records. Collection efforts in foreign countries can be extremely costly, time-consuming, and frustrating. If you have no choice but to sell on open account, include the following in your payment instructions:

- Due date
- Amount due
- Currency in which invoice is to be paid
- Payment by wire transfer of funds
- Collecting bank's name, abbreviated address, Society for Worldwide Interbank Financial Telecommunications (SWIFT) identification number, and telex or fax numbers

Avoid putting your company's address near the payment instruction on the face of your invoice. It may give your customer the mistaken impression that you want to be paid by check.

Some U.S. exporters who sell directly to end-users accept Visa and Mastercard for payment of goods; however, this payment method is usually reserved for sales of low dollar value.

EFFECTING PAYMENT

Most customers who purchase goods from foreign vendors are usually savvy cash managers. They know how to delay payment, from paying in local currency to sending their payment check through international mail. For this reason, the best type of foreign payment is wire transfer of funds into your bank account upon the buyer's receipt of goods. If conditions warrant, pay the wire charges yourself (usually \$10 to \$15). Wire transfers are recommended when funds must reach the seller by a specific date and when the invoice amount justifies the expense. When sending payment to another country by wire transfer, the importer requests its bank to instruct its foreign correspondent bank to credit an account identified by the seller. Use of a leading international bank with a strong foreign branch and correspondent network facilitates the wire transfer of funds. Characteristics to look for in an international bank are discussed on page 29.

If your company has not yet formulated a cutoff point for demanding payment by wire (usually between \$5,000 and \$10,000), establish one. Any sale above the cutoff amount must be paid by wire as part of costs paid by the seller. To determine the cost-effective cutoff point for payments made using wire transfers, follow this equation:

$$\left(\text{Communications cost} - \text{Check collection charges}\right) \times \frac{365}{\text{Number of days payment accelerated}} \times \frac{1}{\text{Cost of capital}} = \text{Wire payment cutoff point}$$

For example, a wire payment cutoff point is found to be \$3,650 by the following computation:

$$(\$30 - \$10) \times \frac{365}{20} \times \frac{1}{.10} = \$3{,}650$$

Therefore, every sale over \$3,650 should be paid by wire transfer. Observe that the cost of capital in this example was 10 percent. For companies with a higher cost of capital, the cutoff point is lower. Obviously, invoices do not have to be very large to justify the small charges to have the funds wired. If you are uncertain which invoices demand a wire, err on the side of safety and demand payment by wire transfer.

If you have no choice but to receive foreign-denominated checks, have them sent to a lockbox at your international bank. Valuable time is lost when checks denominated in foreign currencies are sent directly to your offices. If instead checks are sent directly to the international department of your bank, the collections process begins immediately upon receipt. You may have the bank forward the payment information to you for purposes of crediting the customer's receivables account.

FOREIGN COLLECTION PROBLEMS

In international trade transactions, collection problems are more easily avoided than rectified after they occur. Significant costs are associated with foreign business and debt collection. The legal and banking costs to draft foreign sales contracts and letters of credit, process foreign transfers, and pursue delinquent foreign customers across international borders can be staggering, and there is no guarantee that efforts will be successful. Another danger is foreign exchange exposure. While you are waiting for payment, the foreign exchange rate may shift against you; indeed, your foreign customer may be withholding payment while awaiting an improved currency exchange rate.

Companies can purchase insurance coverage to protect themselves against credit risk; however, the company usually must first exhaust all possible ways of obtaining payment before the insurance company will pay the claim. The international company can derive optimum benefits from its ventures by performing credit checks and by using other methods that have been discussed to determine a customer's financial stability and payment record. Nonetheless, exporters may at some point encounter customers who default on payments. When this occurs, efforts to obtain payment can be time-consuming and expensive. Some companies can receive payment by contacting the customer directly and discussing the overdue balance.

Attention to the following points reduces some of the downward pressure on profits that results from having foreign customers.

- Compute the added cost, due to longer collection times, foreign currency exposure, and incidentals (such as letters of credit, bills of lading, export duties, and wire transfers of payments) before you sell to a foreign buyer. Include these costs in the price of your product.
- Identify the foreign payment collection process. Assign responsibilities and monitor performance. Travel to collect payment when necessary.
- Know how your international bank functions.
- Establish beginning dates for tracing late payments.

- Know what documentation is required, who produces it, and how it works. Faulty documentation can bring the payment process to a standstill.
- Beware of seemingly benign requests by customers. For example, the desire of your customer to change from a letter of credit to a draft can significantly affect working capital. This change benefits you only if the impact on working capital is less than the savings from letter-of-credit charges plus negotiation and amendment fees, acceptance fees, and confirmation charges.
- Judge the risk of doing business in particular foreign countries. Even though your customer may be stable, the country may not be. Consider such issues as the stability of the country's currency and economy as well as its political and business climates.

EXPORT FINANCING

With the intense competition in the international market, companies that are able to offer favorable payment terms can sometimes have the advantage in attracting foreign consumers and making sales. Therefore, companies should be aware of available financing options. However, overextending credit periods to remain competitive can increase the risk of default. Balance competitiveness with cost.

When extending credit to foreign buyers, companies generally adhere to the same commercial terms applied when transacting business with domestic customers. Give serious consideration to your credit policy because it can set a precedent for future sales. Although exceptions exist, commercial terms usually range from 30 to 180 days for mass-produced items, such as consumer goods, component parts, and chemicals, while custom-made or more expensive goods may require longer payment periods. Companies usually waive interest charges on short-term credit sales, that is, those of less than 180 days.

Some of the options available for financing export transactions include commercial loans, factoring, forfaiting, and export intermediaries.

Commercial Loans

The same type of commercial loans that finance domestic activities are often sought to finance export sales until payment is received. An exporter, therefore, can approach its local commercial bank. If the exporter already has a loan for domestic transactions, the bank may be more likely to provide the loan because it is aware of the company's ability to perform. However, the bank may hold title while goods are in transit. If the company's commercial bank has no international department, the bank can refer the company to a bank with international capabilities. Before applying for a loan for exporting activities, obtain the largest possible cash down payment from the customer. A bank considering an export financing loan must be convinced of the customer's credit history.

Factoring

When factoring, the exporter transfers title to its foreign accounts receivable to a factoring house that specializes in foreign trade payments and financing accounts receivables, for cash at a discount from face value. In many cases the factoring house advances up to 80 percent of the amount due. Factoring is often done without recourse to the exporter; however, the exporter should still verify specific arrangements.

Forfaiting

Forfaiting is the selling, at a discount, of longer term accounts receivable or promissory notes of the foreign buyer. Forfaiting houses purchase the instruments at a discount from the exporter and are active in the United States market. Because forfaiting may be done either with or without recourse to the exporter, the specific arrangements should be verified by the exporter.

Other Methods

Additional methods of financing export transactions include using export intermediaries, such as ETCs and EMCs, accepting periodic payments for goods as they are produced, and asking foreign buyers to make a down payment, thereby reducing financing. Assistance is also available from the Ex-Im Bank in Washington, DC, the federal government's general trade finance agency; the United States Department of Agriculture (USDA) for agricultural exports; the Small Business Administration (SBA) for small exporters; the Trade and Development Program

(TDP) for project-planning activities; and the Overseas Private Investment Corporation (OPIC) for developing nations and Eastern Europe. The importer's own government may also have programs in place to finance international activities.

TECHNIQUES FOR MANAGING FOREIGN CURRENCY RISK

One significant risk associated with international business is foreign exchange risk, which occurs when a company sustains a financial gain or loss in terms of its domestic currency due to changes in the value of its foreign assets or liabilities. The change results from the chance that the foreign currency would be relatively worth more or less than the domestic currency at specific times in the future. Any company that transacts business in more than one currency and has assets and liabilities in another country must anticipate foreign exchange risk. Resultant losses are unpredictable, but not unusual and can reach millions of dollars.

How can companies limit or reduce exposure to currency movement? To avoid exchange rate exposure, the international company must adhere to a risk management system. The following guidelines are recommended:

- *Matching foreign sales and purchases.* This limits foreign exchange exposure by balancing sales and purchases in the same currency. This approach reduces the need to hedge currency risk using the foreign exchange market. For example, if your monthly sales to England are approximately $500,000 and you receive payment in British pounds, you would purchase approximately $500,000 worth of services and materials and pay in British pounds.
- *Asset/liability management.* This creates equal and opposite deposits or borrowing in a particular currency to match assets and liabilities to limit foreign exchange exposure. This can be done, for example, by financing the acquisition of an asset purchased in a foreign country using a local currency loan. For example, if you have $1 million in Mexican pesos deposited in a Mexican bank, you may borrow $1 million in pesos to purchase equipment for your plant.
- *Netting.* Large companies that do significant buy-and-sell transactions in foreign countries will net the total received or owed in that currency from their country cash concentration account. Transfer values, then, reflect only the net balance in that country. The corporate cash manager in the United States deals only with a net transaction amount, often only once a week.
- *Hedging.* Hedging techniques attempt to reduce foreign exchange exposure to a predetermined level. Forward currency contracts are commonly used as hedging devices. These contracts enable you to buy or sell a specified amount of foreign currency at a certain time for an agreed-upon rate. Forward currency contracts are used to lock in profit or fix prices on goods purchased.

  Problems arise when companies speculate in foreign currency futures. They become familiar with the country, learn how to trade in currencies, and create a relationship with a broker. The worst thing that can happen to such novice traders is to make a profit on their first few trades. Often, they then increase their exposure until eventually all their foreign trade profits have been lost. Unless it is your business, it is best to leave speculating to the professionals.
- *Option.* This is similar to a forward currency contract, except that performance is not required. Instead, you have the *option* of exercising it if necessary.
- *Insurance.* Businesses can insure themselves against foreign currency risks. Your company should plan and evaluate its foreign exchange risk insurance program as effectively as it does any of its other insurance programs.

Controlling foreign exchange exposure can be difficult and requires guidance. Use a specialist to assist you in creating guidelines and procedures. Most companies dealing with foreign customers who are sophisticated enough to effectively limit currency exposure document their policies and procedures for this function. This approach solidifies the line of authority and accountability. The company's goals and the exposure it is willing to undertake are evident because a documented mechanism to monitor the performance of those responsible for foreign exchange control is in place and working.

Risk management policies should include the following:

- Objectives of the currency risk management function
- Responsibilities of those assigned to execute the function
- Authorized levels of risk and specific methods for control
- Management reports required, what they contain, and to whom they are submitted
- Internal control procedures to ensure that trading activities are accomplished in accordance with management guidelines and policy

THE BANK'S ROLE IN INTERNATIONAL BUSINESS

When choosing your international bank, look for the following characteristics:

- Significant international banking experience
- Extensive foreign correspondent network (learn where correspondent banks are located)
- Ability to provide buyer credit reports (determine the price for reports) and generate information on electronic payments to your system, usually to a personal computer
- Membership in SWIFT and Clearing House Interbank Payment System (CHIPS). Using an international computer network, SWIFT accelerates the receipt of foreign trade payments.
- Ability to confirm letters of credit, process drafts, and collect payments (determine charge for this service)
- Ability to provide information on consolidated cash transactions and separate this same data into the detail you require for your own accounting system. This is especially important if your company ships from several locations or sells internationally from many divisions.
- Commitment to international customer service (interviewing bank representatives is recommended)

Companies that deal extensively with foreign buyers often establish local collection facilities in the countries of concern. In general, this can be most useful if you have no alternative but to accept your customer's foreign-denominated check drawn on a foreign bank. The working capital manager establishes a bank-serviced lockbox (or network of lockboxes) in the foreign country. Customers send their payments directly to the lockbox. The foreign bank collects the checks through that country's banking system, converts the local currency to U.S. dollars, and wires the funds to the company's cash-concentration bank in the United States.

If you must accept foreign-denominated checks, verify your bank's capacity to service these items. Talk with your bank's international department. They are skilled at international collections and have the necessary expertise to secure payment. Your international bank should have an extensive network of foreign correspondent banks. These banks allow your international bank to settle directly with them and eliminate the need to engage an intermediary bank that only slows the process.

Companies that do not receive a sufficient number of foreign-denominated checks can have their domestic bank "purchase" the foreign checks with recourse. This enables the checks to be converted immediately into U.S. dollars and to clear their foreign correspondent banks. The arrangement provides "good" funds on the same or the next day after deposit of the foreign check.

If negotiations for full payment are unsuccessful and the amount owed is substantial, the services of an attorney or bank may be necessary. In some cases, it may be advisable to compromise the amount owed if it would result in retaining an otherwise valuable customer from whom profitable sales will continue to be made. Arbitration is another viable alternative if both parties agree to it. For information on international arbitration, contact the vice president for arbitration, United States Council of the International Chamber of Commerce at (212) 354–4480, or the American Arbitration Association at (212) 484–4000.

Appendix A

Sources of Further Information

Companies considering international expansion can obtain assistance and counseling at little or no cost from the following federal, state, and local government agencies and from the private sector. These organizations have specially trained and experienced staff who can provide invaluable assistance to international companies.

DEPARTMENT OF COMMERCE

By contacting the nearest U.S. Department of Commerce district office, companies can obtain information on subjects ranging from the export potential of their products and financing international ventures, to documentation requirements and potential international representatives and partners. The district office can provide direct counseling or refer companies to the appropriate organization.

The Department of Commerce's International Trade Administration (ITA) has a subdivision, U.S. and Foreign and Commercial Service (US & FCS), that maintains a network of international trade specialists in the United States and commercial officers in foreign cities to assist American companies when they do business abroad. U.S.-based regional directors for the US & FCS can be contacted at the following telephone numbers:

- Africa, Near East, and South Asia, (202) 482-4836
- East Asia and Pacific, (202) 482-2422
- Europe, (202) 482-1599
- Western Hemisphere, (202) 482-3922
- Fax (European & Western Hemisphere), (202) 482-3159
- Fax (all others), (202) 482-5179

Most district offices maintain libraries that contain publications listing foreign business contacts, foreign trade statistics, and market research studies.

Bureau of the Census, at (301) 482-4811, provides census export statistics to companies who want to identify potential export markets for their products. The statistics indicate where specific products are being exported by quantity and country. Census Bureau reports are available at most public libraries.

Exporter Counseling Division, at (202) 482-4811, provides assistance in complying with export controls and regulations.

Minority Business Development Agency (MBDA), at (202) 482-3237, identifies minority business enterprises (MBEs) in selected industries and provides information on market and product needs worldwide. MBDA also provides counseling through the Minority Business Development Center network to help MBEs prepare international marketing plans and promotional material and to identify financial resources.

National Center for Standards and Certification Information and National Institute for Standards and Technology (NIST), at (301) 975-4040, 4038, 4036, provide information about foreign standards and certification systems. NIST operates a General Agreement on Tariffs and Trade (GATT) Hotline, (301) 975-4041, with a recording that reports on the latest notifications of proposed foreign regulations that may affect trade. Information can also be provided by the nongovernmental American National Standards Institute, at (212) 642-4900.

Office of Export Trading Company Affairs (OETCA), at (202) 482-5131, informs businesses of the benefits of export intermediaries through conferences, presentations before trade associations and civic organizations, and publications. OETCA also maintains the Contact Facilitation Service (CFS) database that lists U.S. producers of goods and services and of organizations that provide trade facilitation services. The CFS database is published annually in a directory titled *The Export Yellow Pages*, which is available at no charge from local Department of Commerce district offices. By obtaining CFS registration forms, companies can register in the database free of charge and be listed in subsequent editions of *The Export Yellow Pages*.

National Institute of Standards and Technology, at (301) 975-3690, provides companies with guidance on matters relating to U.S. transition to the metric system.

Trade Adjustment Assistance, at (202) 482-3373, helps companies that have been affected adversely by imported products adjust to international competition.

Trade Promotion Coordinating Committee (TPCC), at 1-800-USA-TRADE, holds export conferences, coordinates trade events, and operates an export information center that can help exporters find the federal program that is best for them.

DEPARTMENT OF STATE

The Department of State provides commercial service and trade contacts in eighty-four embassies and numerous consular posts. Their addresses and telephone numbers are published in a directory titled *Key Officers of Foreign Service Posts*, available from the U.S. Government Printing Office at (202) 783-3238.

Bureau of Economic and Business Affairs, at (202) 647-1942, formulates and implements policies regarding foreign economic matters, trade promotion, and international business services. It also coordinates regional economic policy with other bureaus. Regional bureaus oversee U.S. foreign affairs in specific regions. Bureau commercial coordinators can be reached at the following telephone numbers:

- Bureau of African Affairs, (202) 647-3503
- Bureau of East Asian and Pacific Affairs, (202) 647-4835
- Bureau of Near Eastern Affairs, (202) 647-9550
- Bureau of European and Canadian Affairs, (202) 647-3932
- Bureau of South Asian Affairs, (202) 736-4253
- Bureau of International Communications and Information Policy, (202) 647-5832

U.S. businesses can benefit from the joint services of the Departments of Commerce and State. Companies interested in creating an international market for their products or expanding sales abroad should first seek assistance from their nearest Department of Commerce district office, which has access to the worldwide network of State and Commerce officials serving in U.S. missions abroad and in Washington, DC.

SMALL BUSINESS ADMINISTRATION

The Small Business Administration (SBA) provides counseling to potential and current small businesses. These no-cost services include legal advice, export training, and export counseling services. For information on any publications and programs offered by the SBA, contact the nearest SBA field office or the Small Business Administration, Office of International Trade, at (202) 205-6600 or 1-800-827-5722.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture offers services to U.S. exporters of agricultural products and promotes U.S. farm products in foreign markets. It also hosts trade fair exhibits, offers financing programs, and issues publications. For further information contact the director of the High-Value Product Services Division, Foreign Agricultural Service, at (202) 720-3935.

CITY, COUNTY, AND STATE GOVERNMENTS

Nearly every state and major city government has an export financing program. State economic development agencies, departments of commerce, and other departments of state governments often provide international companies with education in international business and organize trade shows and trips abroad. Some states provide further assistance from county and city economic development agencies. Companies interested in the role of state development agencies in promoting and supporting international business can contact the National Association of State Development Agencies at (202) 898-1302.

SMALL BUSINESS FOUNDATION OF AMERICA

The Small Business Foundation of America's Export Opportunity Hotline, 1-800-243-7232 (inside Massachusetts, 1-800-244-7232) provides answers to your export questions, information on trade-related events, and referrals to appropriate sources of trade assistance.

COMMERCIAL BANKS

Commercial banks with international banking departments can provide assistance in matters of financing, currency exchange, letters of credit, drafts, transfer of funds, credit checks of potential representatives and purchasers, and collection from foreign buyers. The larger international banks supply credit information on foreign companies and issue reports on economic conditions.

INTERNATIONAL TRADE CONSULTANTS

International trade consultants are knowledgeable about foreign government regulations and laws. They can advise and assist a company in matters of international marketing, selecting a joint venture partner, training personnel traveling on business, and conducting feasibility studies for the location and construction of manufacturing facilities and the establishment of foreign branches.

CHAMBERS OF COMMERCE

Chambers of commerce sponsor workshops and seminars designed for international companies. They also develop trade promotion programs, provide contacts with foreign companies and distributors, and organize transportation routings and shipment consolidations. The United States has many Chambers of Commerce located throughout the world. All industrialized countries and many developing nations maintain Chambers of Commerce in the United States.

WORLD TRADE CENTERS ASSOCIATION (WTCA) AND INTERNATIONAL TRADE CLUBS

World Trade Centers and international clubs are composed of area businesspeople with representative firms engaged in international business, i.e., banks, forwarders, customs brokers, and government agencies. They conduct educational programs on international business and organize promotional events to stimulate interest in world trade. By participating in a local association, a company can receive valuable advice on world markets and benefit from the shared experience of others currently involved in international business. Membership in a local world trade club can also entitle businesspeople to benefits in affiliated clubs from foreign countries, such as services, discounts, and contacts. You can contact the WTCA Headquarters at (212) 432-2640.

EMBASSIES AND CONSULATES

International companies may also seek assistance from economic and commercial officers in U.S. embassies and consulates who can provide lists of potential distributors and local freight forwarders, and in-depth briefings. They can also arrange introductions to appropriate firms, individuals, and foreign government officials. Addresses of U.S. embassies and consulates are included in *Key Officers of Foreign Service Posts*, available from the U.S. Government Printing Office at (202) 783-3238.

Appendix B

Suggestions for Further Reading

BOOKS

Axtell, Roger E. *Do's and Taboos Around the World.* New York: John Wiley & Sons, 1990.

Axtell, Roger E. *Do's and Taboos of Hosting International Visitors.* New York: John Wiley & Sons, 1990.

Botsford, Linda. *Export Shipping Manual.* Rockville, MD: Bureau of National Affairs, Inc., updated weekly.

Braganti, Nancy L. and Elizabeth Divine. *The Traveler's Guide to European Customs and Manners.* New York: Simon and Schuster, 1992.

Copeland, Lennie and Lewis Griggs. *Going International.* New York: Random House, 1985.

Diamond, Walter H. and Dorothy B. *Tax-Free Trade Zones of the World.* New York: Matthew Bender & Co., 1992.

Ewert, Donald E. *A Guide to Export Documentation.* Dayton, OH: International Trade Institute, 1992.

Ewert, Donald E. *A Guide to International Shipping.* Dayton, OH: International Trade Institute, Inc., 1992.

Ewert, Donald E. *Glossary of International Terms.* Dayton, OH: International Trade Institute, Inc., 1992.

Exporter's Guide to Federal Resources for Small Businesses. Washington, DC: Small Business Administration, updated annually.

Hendon, Donald W. and Rebecca A. *World Class Negotiating: Dealmaking in the Global Marketplace.* New York: John Wiley & Sons, 1990.

Jagoe, John R. *Export Sales and Marketing Manual.* Minneapolis, MN: Export USA Publications, updated quarterly.

Principal International Business. Parsippany, NJ: Dun & Bradstreet, updated annually.

Rennie, John C. *Exportise.* Washington DC: The Small Business Foundation of America, 1990.

Stern, Stuart. *FINDEX: The Directory of Market Research Reports, Studies and Surveys.* Bethesda, MD: Cambridge Information Group, 1991.

UN Statistical Yearbook. Economic and social data for 220 countries and territories, New York: United Nations, 1992.

U.S. Department of Commerce. *A Basic Guide To Exporting.* Washington, DC: U.S. Department of Commerce, 1992.

U.S. Department of Commerce. *Importing into the United States.* Washington, DC: U.S. Department of Commerce, 1991.

Watson, Thomas S. *Cultural Flexibility.* Washington, DC: The Heritage Foundation, 1992.

Wells, L. Fargo and Karin B. Dulat. *Exporting: From Start to Finance.* Blue Ridge Summit, PA: TAB Books Inc., 1991.

Worldcasts. An eight-volume annual series of 60,000 abstracted forecasts for products and markets outside the U.S. (150 countries). Cleveland, OH: Predicasts, updated annually.

PERIODICALS

Business America. Washington, DC: Government Printing Office, biweekly.

Export Today. Washington, DC: Trade Communications, Inc., monthly.

Financial Times. London, England, 1-800-628-8088, daily.

Foreign Trade Magazine. McLean, VA, monthly.

Global Trade Magazine. Philadelphia, PA: North American Publishing Company, monthly.

International Business Magazine. Harrison, NY: American International Publishing Corporation, monthly.

International Herald Tribune. Neuilly-sur-Seine, France, 1-800-882-2884, daily.

Journal of Commerce. New York: Knight-Ridder Business Information Service, daily.

Overseas Business Reports. Washington, DC: U.S. Government Printing Office, irregularly.

The Economist. London, England, 1-800-456-6086, weekly.

The Exporter. New York, NY: Trade Data Reports, Inc., monthly.

U.S. Industrial Outlook. Washington, DC: Government Printing Office, annual.

World Factbook. Washington, DC: U.S. Government Printing Office, annual.

VIDEO

Watson, Thomas S. *The General Agreement on Tariffs and Trade.* White Plains, NY: Center for Video Education, 1991.

Watson, Thomas S. *Overview of International Opportunities.* White Plains, NY: Center for Video Education, 1992.

Watson, Thomas S. *Overview of International Trade Policy.* White Plains, NY: Center for Video Education, 1992.

Other books in the Management Series include:

Management of Working Capital
Managing Business Risk
Financing Your Business
Making the Most of Marketing