

**Managing
Small Business**

Chapter 15
International Small Business

Preparing to Go International

- Information Required for an International Business Plan
 - Firm commitment to international trade
 - Expert pricing strategy
 - Reason for exporting
 - Attractive potential export markets and customers
 - Methods of entering foreign markets

2 Source: Hatten, Small Business Management, 4th Edition

Preparing to Go International (cont'd)

- Information Required for an International Business Plan (cont'd)
 - Exporting costs and projected revenues
 - Financing alternatives to allow you to export
 - Meet any legal requirements
 - Appropriate transportation method
 - Overseas partnership contacts and foreign investment capabilities

3 Source: Hatten, Small Business Management, 4th Edition

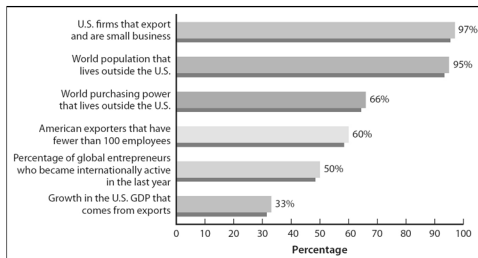
Preparing to Go International (cont'd)

- Take the Global Test
 - Take the “good reason” test.
 - Do you have the right stuff to pull this off?
 - Can you identify a market?
 - Are you flexible?
 - Can you find a good distributor?
 - Can you cope with all the complexity?
 - Can you brave the nonlegal barriers?
 - Willing to extend credit or deal with currency turmoil?
 - Ready to run a much different kind of company?
 - Do the rewards outweigh the costs?

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Source: Hatten, *Small Business Management*, 4th Edition

Figure 15.1: Small Business Globalization by the Numbers



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Source: Hatten, *Small Business Management*, 4th Edition
SOURCE: *AlBusiness.com*; *FocusMagazine*; *Going Global*, U.S. Department of Commerce, and SBA Office of Advocacy.

International Joint Venture Advantages

- Penetrating protected markets
- Entering heavily concentrated industries
- Lowering production costs
- Sharing risks and high R&D costs
- Preventing competitive alliances
- Maximizing marketing and distribution channels
- Gaining leverage over a supplier and strategic knowledge of a supplier's products

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Source: Hatten, *Small Business Management*, 4th Edition

Advantages of Exporting

- Increased total sales and profits
- Access to a share of the global market
- Reduced dependence on existing markets
- Enhanced domestic competitiveness
- Chance to exploit technology and know-how in places where they are needed
- Realization of the sales potential of existing products and extension of the product life cycle
- Stabilization of seasonal market fluctuations
- Opportunity to sell excess production capacity
- Chance to gain information about foreign competition

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Source: Hatten, Small Business Management, 4th Edition

Direct Exporting

- Advantages
 - Greater control over export process
 - Greater potential profit (no intermediaries)
 - Direct contact with foreign customers
- Disadvantages
 - Riskier
 - More expensive
 - More difficult

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Source: Hatten, Small Business Management, 4th Edition

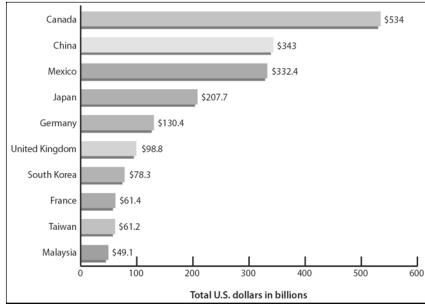
Exporting (cont'd)

- Identifying Potential Export Markets
 - Find countries with attractive, penetrable markets
 - Market Research Library
 - SBA Exporting Guide
 - CIA World Factbook
 - Define export markets that match your product
 - How does your product quality compare to foreign products?
 - Will your prices be competitive?
 - Can you segment customers?
 - Are there political risks in the country?
 - Will your products need modifications?
 - Will tariffs or nontariff barriers prevent entry into the market?

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Source: Hatten, Small Business Management, 4th Edition

Figure 15.2: Top Ten Trade Partners of the United States



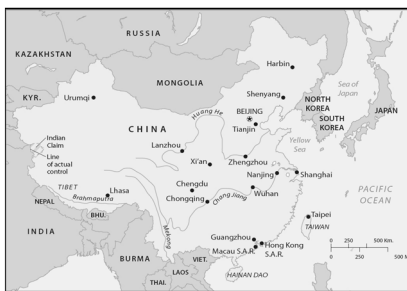
10 SOURCE: www.census.gov/foreign-trade/statistics/country/top/index.html Source: Hatten, Small Business Management, 4th Edition

Figure 15.3: Canada at a Glance



11 Source: Hatten, Small Business Management, 4th Edition

Figure 15.4: China at a Glance



12 Source: Hatten, Small Business Management, 4th Edition

Figure 15.5: Mexico at a Glance



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Source: Hatten, Small Business Management, 4th Edition

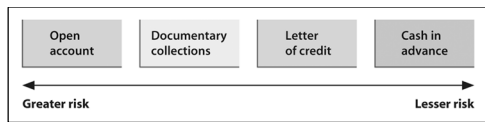
Importing

- Importing
 - Major focus is on identifying markets making products for which there is a domestic demand.
- Factors in Choosing a Foreign Supplier
 - Reliability in having products available
 - Consistency of product or service quality
 - Delivery time needed to get products to market

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Source: Hatten, Small Business Management, 4th Edition

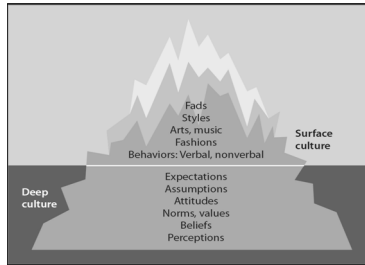
Figure 15.6: International Payment Terms, by Risk to Seller



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Source: Hatten, Small Business Management, 4th Edition

Figure 15.7: The Cultural Iceberg



Source: Hatten, *Small Business Management*, 4th Edition

16 Source: Kevin Walsh, "How to Negotiate European Style," *Journal of European Business*, July/August 1993, 45-47.

International Trading Regions

- Regional Trade Groupings
 - Agreements to create economic and political ties among nations usually located within a close geographical area.
- Advantages of Trade Agreements
 - Reduce trade barriers within the region.
 - Standardize barriers with countries outside the region.
 - Increase competition, forcing inefficient national companies or monopolies to come up to speed.

Source: Hatten, *Small Business Management*, 4th Edition

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Table 15.1: Major Regional Trade Associations

Association	Countries
North American Free Trade Agreement (NAFTA)	Canada, Mexico, United States
European Union (EU)	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom
MERCOSUR	Argentina, Brazil, Paraguay, Uruguay, Venezuela; Bolivia, Chile, Columbia, Ecuador, and Peru are associate members
Association of Southeast Asian Nations (ASEAN)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam

Source: Hatten, *Small Business Management*, 4th Edition

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International Trading Regions (cont'd)

- North American Free Trade Agreement (NAFTA)
 - Joined Canada, Mexico, and the United States in a free trade area to eliminate tariffs and nontariff barriers between the United States, Canada, and Mexico
 - Products qualify for tariff elimination if they originate in one of the three countries.

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Source: Hatten, Small Business Management, 4th Edition

Article 401 of NAFTA

- Primary Ways for Goods to Qualify under NAFTA
 - Goods wholly obtained or produced in a NAFTA country
 - Goods made up entirely of components and materials that qualify
 - Goods that are specifically cited in an article of the agreement (Very few products are cited.)
 - Goods that are covered under specific rules of origin for that product, as listed in NAFTA Annex 401 (This is the most common way to qualify.)

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Source: Hatten, Small Business Management, 4th Edition

Trading Agreements

- General Agreement on Tariffs and Trade (GATT)
 - Was the first global tariff agreement (1947).
 - Has grown to include 134 member countries that represent over 90 percent of world trade.
 - Has gone through eight "rounds" of negotiations or meeting sites.
 - Created a safer, more stable environment in which to do business.

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Source: Hatten, Small Business Management, 4th Edition

ISO 9000

- International Standards Organization (ISO)
- Established quality standards to show that manufacturers' methods of product development and means of achieving quality standards ensure quality.
- Intent of ISO standards is to minimize the need for on-site visits by vendors to make sure their suppliers are producing quality products.
- Has developed 13,000 international standards:
 - ISO 9000 standards relate to quality.
 - ISO 14000 standards relate to environmental issues.

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Source: Hatten, Small Business Management,
4th Edition
