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CREATING A SALES PRESENCE IN THE GLOBAL MARKETPLACE

EDITORIAL | GLEN BALZER

GLEN BALZER

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Companies operating only in their home market or in a limited number of global markets understandably worry about entering a foreign market. **Risks are many and opportunities for problems are enormous.** There is an additional risk of taking the corporate eye off the core business and revenue stream. What should a company planning to enter a foreign market do in order to both protect itself from failure and improve its chances for success? Let's take a look.

For starters, a company can create an eight-step plan that includes the following:

- Properly setting expectations.
- Developing a bank of resources.
- Studying local market norms.
- Hiring a country manager.
- Selecting a manufacturers' representative.
- Negotiating a representative agreement.
- Preparing for fraud and scandal.
- Incorporating lessons from competitors.

Expectations

When a company begins discussion about creating a sales presence in a foreign market, each member of the executive team probably has a different reason for expanding internationally. Sales may seek greater total available market. Manufacturing may prize greater volume across which to spread its fixed cost. Marketing might wish greater market share. Research and development might crave better visibility into the foreign market. Finance may welcome the opportunity to reduce financial risk by spreading revenue across uncorrelated markets. Engineering may seek the opportunity to create an alliance with a foreign customer or competitor. If the project is to succeed, the executive team must develop and agree to a shared purpose.

Various groups must buy into the foreign market expansion, since those groups will be required to provide resources for the project. Ensure that all groups are prepared to offer resources. More important, confirm that all groups actually buy into the project. For best results, ensure that each group responsible for applying resources in the foreign market actually feels as though it owns its respective piece of the project.

Identify the resources each group will provide to the foreign market effort. Ensure that all groups providing resources include costs associated with the resources in their budgets. Top management must not only proclaim support for foreign expansion, but it must demonstrate that support frequently. Have the head of the foreign team present to various forums when he or she comes to headquarters. Ensure that members of the executive team visit the operation when traveling in the new market area.

Resources

When a company begins to plan its move into a foreign market, it can draw resources from several quarters. Divide resources into two broad groups: data and network. First, use data to develop the expansion plan. How large is the market and how fast is it growing? Does the marketplace use manufacturers' representatives, a direct sales force, or a hybrid blend of reps and direct sales? How eagerly do customers accept new entrants, particularly foreign entrants? How does a company contact and interview potential reps?

Second, develop a network. When a company enters a foreign market, it begins with no established network. Develop and constantly nurture the network. The objective of the network is to have someone to call when faced with a dilemma, unforeseen challenge, or scandal. Industry trade associations such as MANA are an excellent source of resources. Association staff and member companies both domestically and in the foreign market can provide insight into the foreign sales operation in its start-up phase.

Embassies around the world often have staff devoted to helping companies expand sales. Embassy staff can provide data on the size and composition of the foreign market. They gather data on the manufacturing capabilities of indigenous competitors, and the presence and plans of foreign companies. They organize trade missions and trade fairs.

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Commercial staff in embassies can help arrange introductions to customers, potential sales partners and staff.

Early steps when establishing a presence abroad include initiating relationships with a bank, accountant, and attorney. Be sure to develop the human side as well as the functional side of those relationships. Meet the executives of the bank. Include them in your network. In some markets, bankers can arrange introductions to customers that otherwise would be difficult or take an unbearably long time to set up. Attorneys will certainly assist your company by filing all the necessary documents with which your company can legally operate in the foreign market. However, they can also answer a myriad of questions you may have during the start-up phase. Those answers and guidance can only come about if you take the time to develop personal relationships.

Involving Reps

While you interview reps, consider including both the partners you select and those you reject in your long-term network. If you interview 10 reps and select one, your network will be more valuable in the future if you create a relationship with several as opposed to only the rep with which you establish a formal relationship. A rep with whom you have no formal partnership is likely to provide you with more and different feedback about your company, sales activities, and new market than a representative that feels obliged to protect its franchise.

Reps in foreign markets often form associations. Developing and nurturing relationships here can afford your company access to information unavailable elsewhere. Through such an association, you will have easy access to most other reps. That access becomes very important when you must make a change in your representative network.

American Chambers of Commerce operate in most foreign markets. Two examples are the American Chamber of Commerce in Argentina and the American Chamber of Commerce in Bulgaria. In smaller markets, the chamber may operate primarily as a social organization. In larger markets, you will discover a sophisticated network of committees that address many industry sectors. Since the chambers are composed of all industries in which American companies operate, it represents a particularly good window through which to spot changes occurring in the market.

Irrespective of whether your company plans to relocate a manager from headquarters or hire a local country manager, establishing a relationship with one or two executive recruiters is very wise. A recruiter, particularly one of international scope, is very familiar with problems that arise in foreign companies. Such a resource can help should you choose to recruit a foreign national as country manager. That resource can also provide counsel when difficult issues arise.

Market Norms

All markets have unique characteristics and few are identical to a company's home market. Prior to entering a foreign market, a supplier must study and develop an understanding of the norms there. Understand how the new foreign market differs from the home market. Do direct sales teams sell goods or services? Do sales flow through reps? If reps are used, is it customary to use a sole rep, or multiple reps?

Companies may enjoy payment on invoices within 30 to 45 days of shipment of goods in some markets. Achieving 45 days' sales outstanding may be manageable in some markets, but not in others. It is important to understand the DSO standard in the foreign market, and to measure the sales operation against local norms.

Management in the Foreign Market

An early decision in the foreign sales effort is selection of the country or office manager. Within the industry, do companies usually fill the top post with an expatriate from headquarters, or hire a foreign national in the local market? Both solutions work and both have problems. An expatriate from headquarters can quickly instill confidence in the operation among staff at headquarters. However, an expatriate will need time to learn customs unique to the local market. During the learning curve, an expatriate will make errors. Some may be costly. An expatriate experienced with the company culture can quickly train foreign staff and the rep about how the company operates.

Hiring a foreign national for the top job is the alternative to an expatriate. A well-qualified local manager brings knowledge of customers and market customs to the operation. Since a local GM has neither relationships with the company's executive team nor knowledge of the product line, it is important to have a newly hired manager spend time at headquarters soon after joining the company.

Representative Selection

After deciding to enter a foreign market, determine the shape of the sales organization. Opening with a direct sales organization is probably the most difficult, most expensive and riskiest alternative. Opening with a rep is generally less difficult, less costly, and poses less risk. Prior to interviewing reps, develop criteria for selection. The most frequent cause for changing representatives is inadequate due diligence when evaluating candidates. Since the company entering a foreign market is only beginning to learn about that market, it is important to keep options open. Ensure that someone with commercial experience reviews the representative agreement. Ensure that a local attorney reviews the same agreement. Dual review improves chances for a long-term relationship between rep and supplier.

The first year in any new market is a huge learning experience. At the end of the first year, the executive team and the local GM are likely to look back and determine that they could have made some better decisions. If it is determined that the chosen rep was a poor decision, you will need the flexibility to make a change in representation. By demanding flexibility in representative agreements, you will have the opportunity to upgrade the rep network.

Representative Agreements

Great representative agreements do not forge great relationships — nor do they guarantee success. Poorly written agreements, however, often hasten termination of relationships between supplier and rep. The first rule to follow when constructing and negotiating representative agreements is to ensure balance. All relationships and agreements between suppliers and reps ultimately expire. Expiration sometimes is amicable, as when both parties move ahead in different directions. Upon such disengagement, the rep aligns with a new, established and enthusiastic supplier; and the manufacturer creates a relationship with a new promising rep.

Parting company with a partner in a representative relationship sometimes becomes acrimonious. Agreements created in a fashion that favors one party over the other often result in costly litigation upon termination. How does imbalance enter an agreement? An inexperienced author may purposely draft an agreement that contains unbalanced clauses. Sometimes a party to the agreement attempts to stack advantages toward one side of the partnership in an attempt to make a better deal for itself. One partner becomes too clever by attempting to make life better by exploiting the inexperience of the other partner.

Seasoned players understand that biased wording does not serve the purpose of long-lasting partnerships. Bias leads to legal skirmishes, not to an improved relationship. Partners must remember that the real objectives of an agreement and subsequent partnership between a supplier and a rep are greater sales, improved market share, better profit margins, and other metrics. The objective of a supplier or rep should never be a list of advantages in an agreement of one partner over another. Resolution of imbalanced agreements regrettably often involves costly litigation.

Prudence during negotiation of rep agreements dictates that the rep be awarded a territory with which it has experience. If a rep has experience in only a small territory, it is not wise to assign a large territory and hope for the best. A better policy is to open the relationship in the proven territory and expand later, after results in the original territory suggest that an expanded geography is reasonable. Ensure that the representative agreement clearly states the obligations and responsibilities of both parties while the partnership is effective, upon notice of termination, during the period between notice and effective date of termination, and after the effective date of termination. Concise wording helps to reduce the likelihood of litigation.

Fraud and Scandal

Fraud and scandal are real possibilities in foreign markets. It is important to develop a perspective about fraud and scandal before opening the foreign operation. It is almost impossible to prevent something from going wrong in a foreign operation. Although discovery of fraud or scandal does not permanently destroy a supplier's reputation, a slow or poor response to a problem once discovered is unforgivable and unnecessary. A company must have an outline of a procedure to follow once a problem surfaces. When a supplier uncovers a problem, customers and competitors pay attention to how the supplier handles the problem. The marketplace admires and respects speedy and professional handling of a problem. A slow or sloppy approach to fixing the problem becomes part of the company's legacy, can dampen its reputation, and can impede its ability to grow.

Less seasoned management sometimes takes too long to prepare a solution when fraud or scandal surfaces. There may be an attempt to hide the problem from the outside

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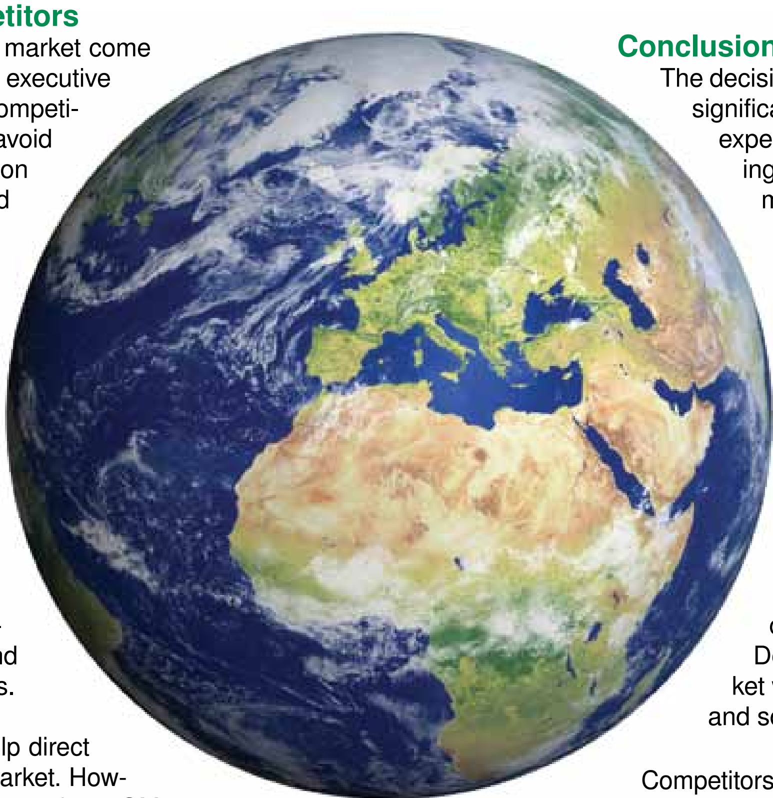
world. Such an exercise is foolish. It is almost impossible to keep the news of the problem from leaking into the market once discovered. Experience mandates that the best action is to implement corrective action as quickly as possible.

Lessons from Competitors

Lessons about the foreign market come from many sources. If the executive team gathers lessons of competitors, the company can avoid many of the most common and frequently repeated mistakes made by other foreign companies. Suppliers already operating in the market have a number of errors made and solutions taken. Gather as many of those stories as possible. Compile those tales before marching into the new market in order to avoid the simplest of errors. Avoiding blunders can save precious management time and scarce corporate resources.

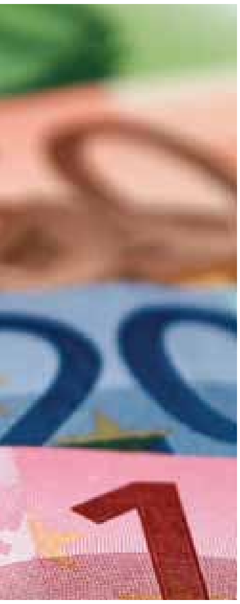


Suppliers rarely offer to help direct competitors in the home market. However, when selling in foreign markets, GMs of competing suppliers often recognize each other more collegially. Although there is little communication between competitors in the home market, GMs managing foreign sales operations in Timbuktu are likely have a cordial relationship. Those GMs are probably members of the local club and chamber of commerce. Both attend monthly meetings of one or more trade associations and are members of a local network. When problems or questions about running the operation arise, there is little stigma attached to asking for help from competitors. Fellow GMs of foreign operations can operate as part of a general manager's extended network. However, in order to take advantage of that resource, remember to constantly nurture, develop, and expand the network.

Conclusion

The decision to enter a foreign market is significant for any company. Entry is expensive and mistakes made during the entry process are even more costly. Proper planning is vital. Ensure that the entire executive team buys into foreign expansion. Continuously build and develop a foreign network. Learn and understand the customs of the foreign market. Correct all problems quickly. Support the GM at both the foreign site and at headquarters. Spend adequate time to select reps that will accommodate the company's planned growth. Do not set foot in the new market without a plan to handle fraud and scandal once it appears.

Competitors have made many mistakes in the foreign market. Learn and study those mistakes in order to circumvent making the same mistakes again. Perform adequate due diligence in the early stages of entering the foreign market. Be sure that all company divisions offering resources to the new market plan and budget for expansion. Create and nurture a corporate memory. The lessons learned during the early years of a foreign presence are extremely valuable and ultimately become part of the legacy and company culture.



Europe | Fertile Ground for Reps and Manufacturers

BY PETER HEUMUELLER

There is an interesting dichotomy taking place as the Euro continues its show of strength vs. the U.S. dollar. On the one hand, we have economic statistics indicating that European exports continue to increase as a portion of GDP. While a considerable portion of these exported goods and services are traded to members of the European community, large amounts are exported to countries outside the European community. In fact, figures indicate that since 2002, exports from what we might consider the "Euro zone" continue to outpace imports.

On the other hand, this European import/export scenario continues to play out at the same time many U.S. suppliers continue to set their sights on just their domestic markets. This is interesting given the fact that the relative strength of the Euro vs. the U.S. dollar should encourage more U.S. exports.

The question remains, why do so many U.S. companies focus their efforts on their domestic market when exporting could be so profitable?

In order to more fully understand how and why the economies of the EU and the European community are performing so well, it's important to realize that since the inception of the Euro, the final barrier for an economical exchange of goods has vanished. Today we find that most of the economies import and export their products among each other simply and quickly. The market can actually concentrate on product and service issues without any currency exchange concerns.

Furthermore, arguments from the past no longer exist such as, "We don't buy from Company A in country C because we don't know what the currency exchange rate will be when we get the invoice."

Prices and technologies are comparable in a very direct manner. Apples are apples and oranges are oranges. This is exactly what purchasing people like. An offshoot of this situation is that technological innovation occurs rapidly and allows suppliers to achieve a marketing edge over the competition.

Even economies from countries such as Switzerland, Germany and Sweden can afford to compete on a level playing field with such an attractive level of pricing.

Countries looking at this European experience often don't realize the extent of the challenge of being successful in this market. When they attempt to enter the market, often they are surprised how tough it is to achieve entrée. The technical state-of-the-art is very high, and prices are quite reasonable. As a result, there may be a tendency for countries outside of Europe to stay home — that is, if their home market exhibits sufficient strength for them to enjoy a prosperous business.

This approach might be somewhat shortsighted, however, since an avoidance of competition may one day result in a situation where suppliers' products or services are far from

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being state-of-the-art. Think for a moment of the concept of the Olympics. If you don't participate, you don't realize the speed of the fastest runner or the height of the bar that must be jumped. As others have said: "The important thing in the Olympic Games is not necessarily to win, but to take part." So too is it with business.

To put these words in a marketing context, by participating, companies learn why some quotes result in business and others don't or what technical achievements point to success.

The effort to participate may be costly, but in the end it may be a wise investment.

For the supplier who continues to focus almost entirely on his domestic market, the business may provide him with more than his "bread-and-butter" needs. But what happens as imports from other parts of the world begin to erode market share? Achieving those bread-and-butter profits will become much more challenging. What can result is that competing at home will be that much more difficult.

In the end, now is the time for foreign, (i.e., United States) manufacturers to compete in Europe. The weakness of the U.S. dollar actually provides a bonus (sometimes as much as 30%) for companies quoting in U.S. dollars. That bonus in favor of U.S. manufacturers can help offset shipping and travel expenses.

The most efficient means for the U.S. manufacturer to achieve a presence in Europe is by using a European-based independent manufacturers' representative. Use of that rep with a thorough knowledge of the following would allow the U.S. manufacturer the most efficient means to approach the market.

- Culture
- Language
- Technology
- The metric system
- Market

Manufacturers who choose this route begin in a very focused manner. They may start with one product and one rep in a single territory. By using this approach, the manufacturer can very quickly gauge his chances for success. The strength of the product and the demand of the market can quickly be determined.

But, first things first — the manufacturer must locate the right rep to work with in Europe. The rep who is ultimately chosen must be up to the task. Certainly one way to attract the interest of qualified reps is by offering a competitive commission, not to mention a monthly retainer or shared territorial development fee.

If the relationship between U.S. manufacturer and the European-based rep is built within this type of framework, the chances for success are relatively high.

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