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Executive Summaries

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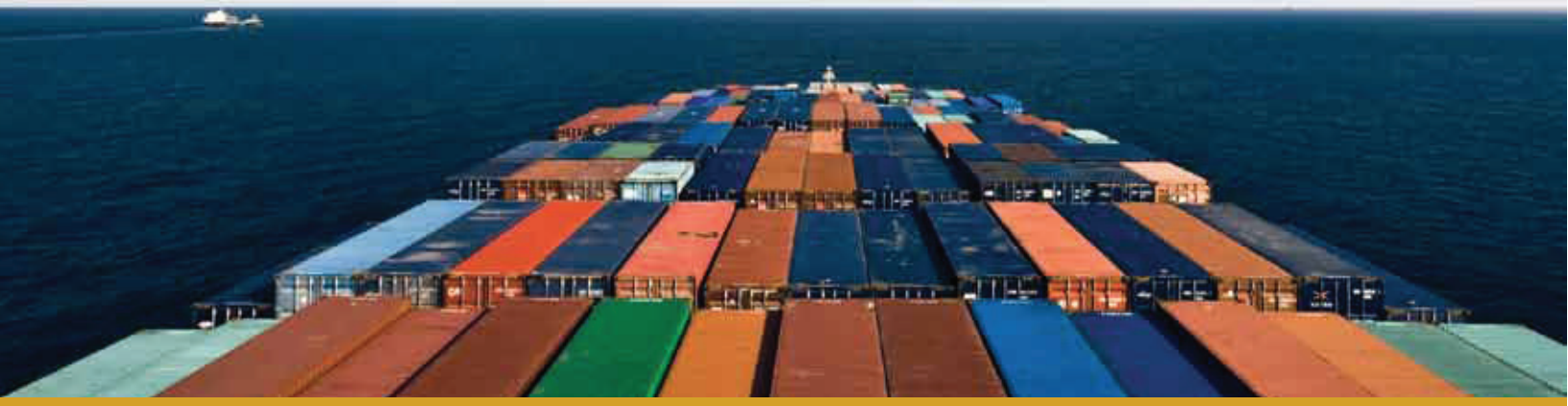

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International Opportunities for Massachusetts Businesses

Moderator: **Julie Donnelly**, *Boston* Business Journal
Speakers: **Tarun Khanna**, *Jorge Paulo Lemann Professor, Harvard Business School; Co-Author,* Winning in Emerging Markets
Robert J. Thomas, Ph.D., *Executive Director, Accenture Institute for High Performance*

Overview

The most helpful advice for U.S. companies seeking to do business in emerging markets may be: Don't be held hostage to your assumptions. Emerging markets are unlike American markets, shaped by different cultures, priorities, and pressures. They are also nothing like one another. The best approach to understanding a foreign market is to study it as an anthropologist would.

Leaders of multinational companies must make constant trade-offs between operating in ways they are used to and in ways that local market realities demand. The challenge is to both differentiate locally and remain integrated globally. Three leadership traits are necessary for success: leading as a team, agility, and changing ahead of the curve.

Context

These speakers shared insights from their research into what it takes for U.S. companies to succeed in global markets.

Key Takeaways

- **Critical advice for U.S. companies venturing into emerging markets: Challenge your assumptions.**

  Americans often have preconceived ideas about emerging markets' cultural and business dynamics. "My taxi driver was sharing his enormous emerging market expertise with me on the way over," quipped Professor Khanna.

  But life in emerging markets defies facile generalizations. Thinking in terms of generalizations is not necessarily wrong, but limiting. Such thinking doesn't begin to describe how a country's cultural factors and economic realities have shaped its industries, markets, and approaches to business and innovation. Business environments in emerging markets are unique, different from each other and very unlike America.

  In a busy hospital in Bangalore, India, most heart surgery patients don't arrive until their condition is critical. No one has been checking them for murmurs; annual checkups are not a priority when the next meal is in question. And because hospitals in India typically lack the costly machinery to stop hearts while operating on them, surgeons work on beating hearts, requiring greater skill and entailing greater risk.

  Yet this hospital, Narayana, performs coronary artery bypass grafts at less than 5% of the cost of hospitals in America—at volumes so high that the *Wall Street Journal* called its leader the "Henry Ford of heart surgeries." Narayana's mortality rate for the procedure is lower than those of top U.S. hospitals. Remarkably high quality is achieved at remarkably high volumes. A more apt metaphor is a cross between Ford and Toyota.

  Clearly, healthcare delivery evolved differently in India than in America as Indian doctors performed under different pressures and hospitals innovated in response to different constraints. That is just one of many examples of how "invention is the mother of necessity." India's Nano car is another. Such resourcefulness is often a surprise to Americans, yet it holds huge implications for the capability of Indian competitors.

  U.S. companies entering emerging markets need a nuanced and accurate view of the ways that their local competitors think, and the systems and practices that govern how business is conducted. They should get to know the market not as a tourist gathering business intelligence, but as an anthropologist bent on learning how competitors and customers think.

  > *"One of the biggest barriers to reinvention is being a prisoner of your own experience."*
  > — Tarun Khanna

  Having preconceived notions about what doing business in an emerging market will be like is risky. A company might assume that customers care about "new and shiny" innovations when they may actually care only that the product works. Also, an American company might be shocked to have underestimated the degree to which corruption and graft puts it at a disadvantage versus local competitors, as U.S. companies must always "take the high road" to retain their American stakeholders. Getting around in the legal/regulatory environment may require social connections, to a company's surprise.

  In emerging markets, the competitive playing field is often not level. There is no solution to this beyond trying to effect reforms, which is a difficult prospect. But accurately seeing the field as it really is a critical prerequisite for venturing onto it.

> *"If we can examine our assumptions about what we think is going on, that is the most helpful start to formulating a plan for engaging in these markets."*
> — Tarun Khanna

- **Globalizing companies make continual trade-offs between how they are used to working and what new markets demand.**

  "The world may be flat" (a phrase coined by a Brandeis alum), said Professor Thomas, "but it's remarkably uneven." Americans often don't appreciate the many critical differences between markets, even those in the same broad region (like Argentina, Brazil, and Mexico).

  Differences in culture, language, rules, norms, and the rhythm of life are challenging enough when a U.S. company enters a single market. But operating in multiple foreign markets compounds these challenges.

  Leaders often discover that they must make significant trade-offs between the ways they have long operated and the new ways demanded by the local market. This includes trade-offs between efficiency and responsiveness, adaptations to the local customs, having a common culture versus multiple cultures, and top-down versus bottom-up decision making.

  Such trade-offs must be made continually. Doing so forces a company to evolve. Companies can expect to be changed by an emerging market as much as the market is changed by the company.

- **Globalization requires specific leadership traits: leading as a team, agility, and changing ahead of the curve.**

  Constant trade-offs weigh on the shoulders of top management. Different trade-offs in different markets can cause the organization to lose focus and lose a cohesive, integrated common purpose.

  Former GE CEO Jack Welch once said that it is relatively easy for a global company to differentiate itself. But Welch said that differentiating and integrating at the same time is the challenge. Multinationals must do both. Getting an organization with people in different places and with different cultures to share common values and a common global mindset isn't easy.

  Accenture has studied top leadership teams in global companies (of all sizes) who are operating outside of their comfort zones in both emerging and developed markets. The most successful leadership teams possess three critical traits:

1. *Leading as a team—being collectively intelligent.* Different functional leaders of units in different geographies must coalesce to lead the enterprise together. What helps is having clarity of common purpose *and* clarity about the distinct, unique roles of the respective leaders. If leaders cannot describe exactly what they do, then they can't focus on what they ought to do. When leaders all know their respective purposes, the company can "speak with one voice" and communicate what the company stands for. Successful global companies have clear, integrated identities.

   > *"When you ask top leaders what their unique responsibility is, what they ought to do that no one else ought to be doing, it's common to be met with a blank stare."*
   > — Robert J. Thomas

2. *Practicing agility—and not being hostage to dated routines.* Top leaders of successful global companies are remarkably agile, and capable of addressing different kinds of questions, challenges, and decisions in different ways. They can make big decisions quickly. They may be a "team of rivals" who debate and challenge one another, deconstructing complex problems and creating robust solutions. They can both stick to protocols and improvise, depending on what a situation requires. They read situations well.

3. *Changing ahead of the curve—by living with one foot in the future.* The book *Jumping the S Curve* describes a leader with one foot in the present and one in the future. To make decisions about future investments, such leaders "live" the future before the rest of the organization—whether that future represents a new geography, technology, product, or way of operating. They are not hostages to past successes. They try to anticipate what the next challenge will be. They know that success can blind a company to changes in the environment, so they continually test and simulate new possibilities. They expose themselves to unconventional ideas and new environments. They build a pipeline of leaders with a global mindset and the traits needed for success in the envisioned future.

These traits are critical for creating a differentiated and yet integrated multinational enterprise.

> *"The research . . . helps us on three qualities for top leadership teams: The ability to lead as a team . . . to practice agility and not be hostage to routines . . . and to change ahead of the curve."*
> — Robert J. Thomas

Government Keynote

Speaker: **The Honorable Deval L. Patrick**, *Governor of Massachusetts*

Overview

Given its strengths in education, innovation, and infrastructure, Massachusetts is an attractive locale for business. The state has a highly educated workforce and its entrepreneurial culture is attractive to innovation industries.

To stimulate growth, the government has taken steps to reduce the cost of doing business. In addition, the Governor and his team are actively promoting business growth for Massachusetts firms both domestically and abroad. As Massachusetts firms look to expand, creating partnerships will be the key to success.

Context

Massachusetts Governor Deval L. Patrick discussed the state's strategy for supporting and promoting business.

Key Takeaways

- **Because of its economic growth strategy, Massachusetts is emerging from the recession more rapidly than other states.**

  When Governor Patrick entered office, his team implemented a plan to expand employment and business opportunities in Massachusetts. This plan has helped the state rebound from the recession more quickly than other parts of the nation.

  Massachusetts' unemployment rate is well below the national average and the state is creating jobs faster than most other states. CNBC recently ranked Massachusetts as the fifth-best place in the United States to do business, up from fifteenth a few years ago. In addition, Associated Industries of Massachusetts reported that business confidence now stands at a three-year high.

  > *"Massachusetts' economic progress is not accidental; it is because the state made the right choices and stuck with its growth strategy."*
  > — The Honorable Deval L. Patrick

- **To support business expansion, the state is focused on education, innovation, and infrastructure.**

  To compete in the global economy, Massachusetts has pursued a three-pronged strategy based on:

  — *Education*. Massachusetts has a high concentration of high-quality public and private universities, as well as research institutions and teaching hospitals. In addition, the state government places a high priority on public school education. Reforms have been introduced to increase teacher accountability and encourage greater innovation in the classroom. These programs are paying off. For the past five years, Massachusetts' students have been number one in the nation in student achievement. In addition, the state ranks in the top five in math and science. During the recent "Race to the Top" competition, Massachusetts was the top scorer.

  — *Innovation*. Massachusetts is attractive to innovation industries given the state's concentration of research institutions, venture capital, and educated workers, and its entrepreneurial culture.

  The state has launched a $1 billion, 10-year Life Sciences Initiative to promote preeminence in biotech and life sciences. To date, $200 million in public resources has been invested. This has already generated almost $1 billion in private investment and thousands of new jobs. Other innovation industries that are growing in Massachusetts include clean energy and IT. The state will host the first offshore wind farm in America and clean energy employment has grown 60% in the last few years. In information technology, companies have developed expertise in robotics and video game development. The state is the third-largest center of video game development in the nation.

  — *Infrastructure*. Infrastructure like road, rails, bridges, and broadband expansion enables business growth. Basic infrastructure is essential. Currently, out of the 351 cities and towns in Massachusetts, 123 do not have broadband Internet service. Infrastructure investment must be viewed as a platform for economic growth.

- **The state government has taken steps to reduce the cost of doing business.**

  To reduce the cost of doing business, Massachusetts has led the nation in reducing health insurance costs and has cut the taxes on businesses. The time needed to obtain state business permits has decreased from an average of two years to approximately six months. For new financial products, business permits take only around three months.

- **Massachusetts has developed marketing initiatives to promote business growth in the U.S. and abroad.**

  Efforts are underway to promote growth for Massachusetts businesses outside the state's borders. The Massachusetts Marketing Partnership has developed strategies to help local companies expand domestically and abroad. This umbrella agency is comprised of state marketing and trade offices, as well as private-sector supporters.

  A recent trade show exhibition organized by the Massachusetts Marketing Partnership resulted in $100 million in additional sales for local companies. The Massachusetts

Competitive Partnership, which represents the 12 largest employers in the state, is using private resources to develop a marketing video for Massachusetts.

In addition, the Governor and his team will continue to travel to publicize Massachusetts as a business destination. Governor Patrick recently returned from trade missions to Israel and the United Kingdom. The Massachusetts and Israeli governments signed agreements to coordinate research and development and to scale up innovation work. A project also was initiated with El Al to start direct flights between Boston and Tel Aviv.

In the United Kingdom, an agreement was struck between the University of Massachusetts Stem Cell Bank and Registry and the United Kingdom Stem Cell Bank. This will promote greater collaboration in the life sciences. Two British firms also have announced their intent to add jobs in Massachusetts.

Follow-up on these opportunities is essential. In the next few months, Massachusetts expects to receive delegations from Israel and the United Kingdom. The Governor also may make future trade missions to Silicon Valley, Brazil, China, India, Canada, and select locations in Europe.

- **Collaboration is the key to competing and winning in today's global economy.**

  Collaboration is critical. It is how Massachusetts became an international hub for life sciences and biotech, and it will be necessary for the state to become a national hub for green technologies. Businesses must be skilled at building partnerships worldwide.

> *"Working together is how to compete and win in today's economy. It's how we will win in the future."*
> — The Honorable Deval L. Patrick

Business Keynote

Speaker: **James Taiclet**, *CEO and Chairman, American Tower*

Overview

In a service-based economy like Massachusetts, many companies are unsure how to expand globally. American Tower has a structured approach to international investments that analyzes a variety of market characteristics and potential business partners. The company has also discovered that proprietary intellectual property and experienced, local talent are essential for international expansion.

As Massachusetts firms explore global opportunities, they must identify their best-in-world intellectual property. Local companies also should take advantage of the state's strengths in education, research, and finance.

Context

James Taiclet discussed American Tower's international expansion and lessons learned that may apply to other Massachusetts companies.

Key Takeaways

- **American Tower's business model benefits wireless carriers, broadcasters, and consumers.**

  American Tower owns and operates communication sites. It leases space on towers to wireless carriers like Verizon and AT&T, as well as to television and radio broadcasters. This business model makes economic sense for the company's customers. Several years ago, every wireless carrier and broadcaster had its own towers. Today, American Tower buys towers from the original owners and makes them available to other carriers and broadcasters.

  This approach also benefits the environment. When multiple sets of transmission equipment are placed on a single tower, it reduces the number of towers needed. Shared towers reduce land use and the visual impact of telecommunications, as well as the number of electrical and telephone lines needed for connectivity. A single diesel generator provides backup power to a shared tower, minimizing the wireless carriers' carbon footprint.

  American Tower's business promotes competition from wireless carriers, which benefits consumers. Leasing space on a shared tower makes it cheaper and faster for numerous carriers to offer service to consumers.

- **Two intellectual property processes are central to American Tower's business.**

  In 2002, American Tower concluded that two intellectual property-based processes were crucial to business success both domestically and abroad:

  1. *Valuation of existing towers*. Accurate valuation of existing towers ensures that the company makes superior investment decisions about which assets to buy or build. These choices are based on a 10-year performance model for each asset that analyzes technical, regulatory, and customer factors. Since investment decisions involve thousands of towers and billions of dollars, good bets ensure success and bad bets can lead to bankruptcy.
  2. *Installation of transmission equipment on towers*. Wireless carriers and broadcasters want equipment installed rapidly, but this requires mastery of complex technical, regulatory, and cost factors. It also requires substantial data and document management programs, engineering expertise, contracting skills, and sophisticated IT systems.

  After American Tower identified these two processes as critical, it developed the people, systems, technology, and business processes needed to achieve superiority. This took years and cost millions of dollars.

- **Successful international expansion relies on experienced talent, investor buy-in, and a rigorous decision-making process.**

  American Tower began its international expansion in 2006. Based on the company's experience, Taiclet has three recommendations for companies seeking global growth.

  1. *Invest in experienced, local talent*. Companies must invest in experienced talent well before they expect international revenue. It is critical to deploy talent to the regions of interest; successful global expansion is impossible with just a domestic team. American Tower hired senior executives with direct industry experience in each region. These regional leaders have built high-caliber teams that seek, evaluate, and negotiate transactions in the regions.

     > *"We've found that you can't drive a successful global expansion with your domestic team sitting in Boston or Chicago or Dallas or in the U.S. We decided to hire senior executives with direct industry experience in each region."*
     > — James Taiclet

  2. *Inform investors and board members early about the global expansion strategy.* Key stakeholders must be updated early and often. Investors and directors must have a complete understanding of the goals, approach, and risk-management program.
  3. *Establish a rigorous decision-making and governance process at the corporate center*. This will ensure that global expansion initiatives remain under control.

American Tower established an investment committee that consists of the CFO, chief counsel, and regional presidents. Each investment or new market entry is vetted by that group, then presented to the CEO or board for approval, depending on the transaction size.

Before opportunities go to the investment committee, the regional presidents evaluate opportunities using a gated approach. A project must pass three gates before reaching the CEO or board level:

- **Attractive market characteristics**. Countries must have relatively high political and economic stability, a strong foundation of property rights, the rule of law, low barriers to the inflow and outflow of capital, and locally available management and employees. If a country does not pass this gate, American Tower will not consider investments there.
- **A competitive wireless market**. American Tower requires at least three independent wireless carriers to enter a market. It also assesses the potential for more network investment over time. This is based on the percent of the population without a phone, penetration of data services, and other factors.
- **A wireless carrier to partner with to launch the business**. The third gate is negotiating with one or more wireless carriers to launch the business. This is the most difficult gate. The most straightforward arrangement is when a carrier sells American Tower its towers and leases space back. Although the company enters international joint ventures, they are not desirable due to added operational complexity and governance costs. But joint ventures may be used to reduce the risk of entering a new territory. For example, American Tower recently entered a joint venture in Ghana.

- **American Tower's international growth has led to strong financial results.**

American Tower now conducts business in nine countries on four continents. By the end of 2011, the company expects to own and operate 40,000 sites; almost half will be outside the United States.

The company's international expansion has resulted in impressive financial results. In 2006, international revenue was $170 million, 13% of total revenue. Five years later, American Tower expects international revenue to be more than $500 million, accounting for 23% of total revenue. During the past five years, revenue has increased at a 10.8% compound annual growth rate and return on invested capital also has increased.

Even during the recent financial crisis, American Tower has prospered. Since January 1, 2006, the company's stock has increased by 91%, compared to the S&P, which has increased just 6%. Based on market capitalization, American Tower is the third-most valuable U.S. telecom company, behind AT&T and Verizon.

- **The company's global strategy has positively affected its U.S. workforce.**

While growing its international business, the company has added large numbers of employees in the United States. The company's U.S. employee base has increased from 850 in 2006 to over 1,100 today. To support its global business, American Tower has hired professionals in finance, tax, legal, IT, and business development. Most of these new jobs are located in Massachusetts.

- **Many Massachusetts businesses have proprietary intellectual property that can be used to drive international business strategy.**

Although product exports are important to international trade, both the U.S. and Massachusetts economies are primarily service-based. Many service companies in the state possess complex, proprietary intellectual property (IP). All of American Tower's international success has resulted from applying proprietary IP to the acquisition, construction, and management of communication facilities.

Massachusetts companies must determine what best-in-world IP they can develop and use to drive revenues outside the United States. If IP is packaged in the right way, international operations can secure more customers and also increase domestic employment.

- **Massachusetts' environment creates an advantage for companies seeking international growth.**

Massachusetts enjoys strengths that distinguish the state from other parts of the U.S. and the world. They include:

— *Education and research*. The state's world-class colleges and universities are hotbeds of research and development. This environment generates a continuous pipeline of the best students, researchers, and professors. These individuals bring ideas to the region and also bring their learning back to their home countries.

> *"With its unique environment, Massachusetts enjoys a competitive advantage when it comes to driving substantial international revenues."*
> — James Taiclet

— *Finance*. Massachusetts has a critical mass of sophisticated investors with capital that businesses can access. Local capital sources range from venture funds to private equity, hedge funds, mutual funds, and banks.

— *Medicine*. The state is one of the most technologically advanced centers of healthcare and medical research.

Other Important Points

- **Renewable energy.** American Tower is conducting trials that use towers for wind power generation and is testing solar power generation.

Building and Managing Global Trade Operations

Moderator and Lead Speaker: **Paula Murphy**, *Director, Massachusetts Export Center*
Additional Speakers: **James Paul**, *Director, U.S. Commercial Service, Boston Branch*
Derek Perkins, *President, Perkins Associates*
Patty Sasso, *Marketing Operations Manager, Doble Engineering Company*

Overview

Companies considering establishing distribution channels in foreign markets face multiple challenges. These range from deciding which markets to enter with what strategy, finding suitable channel partners, and managing these relationships.

Two government agencies offer services to help business at every point: the Massachusetts Export Center (jointly funded by the federal government and the state) and the U.S. Commercial Service, a division of the U.S. Commerce Department. Trade experts at these agencies provide advisory and research services to assist Massachusetts companies in all phases of establishing and maintaining export operations.

Context

The panelists shared best practices and advice about helping Massachusetts' companies establish export operations.

Key Takeaways

- **There is much opportunity for Massachusetts companies to export their products and services.**

  Exports play an important role in Massachusetts' economy. Consider the following facts:

  — Massachusetts is the 14th-highest exporting state ($26 billion in goods and services in 2010).
  — The state ranks 4th in the percent of manufacturing workers who depend on exports for their jobs (28%).
  — 90% of Massachusetts' exporters are small or medium-sized enterprises (fewer than 500 employees).
  — The value of Massachusetts' exports rose by 11% in 2010 (versus 20% for the U.S.).
  — Exports to the largest export market, the U.K., fell by 21% in 2010, but exports to China grew nearly 60%, making China the state's 3rd-largest export market (up from 6th).
  — Four other Asian nations are in Massachusetts' top 10 export markets: Japan, Taiwan, Korea, and Hong Kong.
  — Medical devices and instrumentation are first among industries (based on value of exports), followed by industrial machinery and computers.

  This is an opportune time for Massachusetts companies interested in establishing channels for selling their products or services overseas.

  The Obama administration's National Export Initiative is removing regulatory hurdles and streamlining processes such as the licensing restrictions that technology exporters face (Massachusetts is the nation's 4th-largest exporter of technology). This initiative also is expanding markets overseas by seeking new free trade partners for the U.S.

- **Businesses face challenges setting up overseas distribution channels; government resources can help.**

  Abundant federal and state resources are available to help small and mid-sized companies get started exporting. Many of the tools and services are provided at low or no cost. Federal and state government agencies can provide assistance on following challenges:

  How to assess potential export markets?

  Companies need to know the potential of various channels in specific markets and prioritize their options. Low-cost resources that can help:

  — *The Massachusetts Export Center* provides exporters one-on-one advisory services and tools to help analyze potential markets. All of the Center's services are free.

  — *The U.S. Commercial Service* is the federal government's lead trade promotion agency. For a small fee, agency experts perform market analysis and provide research studies customized to a client's needs. The agency's website provides market intelligence including:

  - **Country commercial guides**, which are annually updated reports on conducting business in specific markets.
  - **Market research reports** on specific industries in specific countries, highlighting opportunities, regulatory issues, competitors, etc.

  How to select the best method of market entry?

  Selling a product or service in foreign markets can be accomplished in either indirect or direct ways, noted Derek Perkins, each with its own pros and cons:

  — *Direct: selling directly to parties in the foreign market.* A business can export and sell goods or services in a foreign market with the help of local agents, representatives, or distributors. Other options are setting up operations in the market or selling directly to an end user. Non-export ways to sell direct include via a licensing partner, joint venture, or in-country manufacturing facility.

  Advantages of selling direct include more control, greater market knowledge development, and having a

local presence. Cons include having to devote management resources to the venture, finding good channel partners, and managing those relationships.

— *Indirect: selling to a party in the U.S., who sells to clients in the export market.* Indirect selling involves lower cost and risk and allows a company to quickly get in and out of a market. Negatives include less control, less market expertise, and poorer returns.

Deciding on a market entry strategy depends on many factors, like the market size and development potential, the product/service, exporting logistics such as regulatory restrictions, and distribution options. The Massachusetts Export Center and the U.S. Commercial Service both offer market research and advisory services to help companies weigh the relevant factors and choose the entry strategy that is best for them.

The U.S. Commercial Service's trade specialists in 80 overseas markets provide timely market intelligence covering competitive, legal/regulatory, and cultural/ protocol considerations. The Massachusetts Export Center offers technical assistance with the transactional aspects of exporting as well as market research.

How to identify and select targeted channel partners in the export markets?

Companies find, contact, and choose suitable local channel partners from sources such as trade shows and events, networks, and local markets' Chamber of Commerce equivalent. Both the U.S. Commercial Service and the Massachusetts Export Center can help facilitate this step of the process.

For example, many Massachusetts exporters are high tech companies with specific niche products; they can't use a broad-based distributor. The Center helps them locate partners with the technical expertise required to reach specific targeted customers. Additionally, the Center's Global Distributor Management Program takes companies through the entire process of assessing markets, finding distributors, and managing those relationships.

A core mission of the U.S. Commercial Service is helping U.S. businesses find qualified international partners. Its fee-based services include:

— *International company profiles*, including due diligence checks on potential partners ($600 for small and mid-sized companies in most markets).

— *International partner search* ($550 per market), which markets an exporter to potential partners and supplies details on those expressing interest.

— *Gold Key Service* ($700 per day), which arranges travel to the country for prearranged meetings with pre-screened potential business partners and post-meeting debriefings with the agency's local trade specialists, who provide customized market intelligence and help create follow-up strategies.

Doble Engineering, a manufacturer of test equipment for the power industry, has used Gold Key to find most of its 80 international representatives and highly values this service.

The U.S. Commercial Service's in-country trade specialists also help exporters find partners through the agency's promotion, advertising, and advocacy services. The agency organizes seminars and receptions for potential business partners, matches companies to trades shows and sets up meetings between U.S. exhibitors and foreign buyers/ distributors, advertises exporters' products in a newsletter, and writes letters of introduction on behalf of clients.

How to manage and support partner relationships?

Much of a company's export strategy rests on the nature if its partner relationships. Mr. Perkins supplied some principles of relationship management:

— *Select your channel partners, not vice-versa.* "You want to be making the decisions, not the person who approached you."

— *Choose partners capable of developing markets.* Determine that by their customer base, the kinds of products they represent, and the number of product lines. Distributors whose lines are too full may not give your business sufficient attention.

— *Seek long-term partnerships.* Clearly define in distribution agreements the scope of activities, terms, and obligations. Instill incentives to encourage distributors to stay for the long term. Take care not to cannibalize distributors' markets with your own regional sales team. The attitude should be "share the success." Responsive communication is a must.

— *Commit serious resources, providing training, marketing, and financial resources to help partners succeed.* Doble opens in-country offices "when we determine it's important to have a constant Doble presence," said Patty Sasso. Its eight foreign offices provide support such as consulting, repair, application support, training, and seminars.

— *Control partners' marketing strategy.* This can be a balancing act. Partners may know more about cultural protocols than you. There needs to be give and take, but within clearly defined parameters. "Manage but don't throttle partner relationships," said Mr. Perkins.

How to monitor, assess, and adjust overseas channel operations?

Require channel partners to regularly provide detailed reports with market, financial, and performance data. Doble uses regional sales managers to manage the sales network of a particular market. Partners who aren't working for the business must be swiftly replaced. "Hire slowly and fire quickly," advised Mr. Perkins.

Doing Business with Asia: Opportunities in Korea and the ASEAN Region

Moderator: **Judith M. Dean**, *Professor of International Economics, Brandeis International Business School*
Speakers: **Chul Chung**, *Chief Economist, Korea International Trade Association*
Carl Johnson, *President, Gloucester Engineering Co.*
Armen Ovanessoff, *Research Fellow and Senior Manager, Accenture Institute for High Performance*

Overview

Rapidly growing emerging markets represent a rising share of the global economy. They offer U.S. companies much opportunity for growth. China has attracted the most attention but other Asian economies have actually attracted more foreign investment as a percent of their size. Analysis suggests that South Korea and southeast Asian nations offer among the most attractive opportunities for U.S. businesses.

Context

The panelists shared their perspectives on growth opportunities for U.S. companies in Korea and southeast Asia.

Key Takeaways

- **U.S. businesses are "chasing growth" in a multi-polar world.**

  The world's economic and political power has been dispersed. Trade liberalization has created a "multi-polar" world. The global downturn of 2008 and 2009 accelerated the economic power shift from developed into developing nations. That is because many emerging economies grew much faster than developed nations during and since the downturn. One reason: Emerging economies are not saddled with excessive debt burdens.

  Over the next five years, emerging economies are expected to account for 60% of global growth. Their share of global GDP should rise from 42% in 2000, to 50% in 2010, to a projected 57% in 2020 and 61% in 2030.

  Recognizing the business opportunities suggested by such rapidly growing economies, many U.S. companies are "chasing growth" by entering emerging markets.

  China remains Asia's prime investment destination, attracting $600 billion in foreign direct investment (FDI) in 2010. That is the most of any emerging economy and twice as much as Singapore, which is the second leading place for FDI.

  But relative to the size of their economies, many Asian nations attract more FDI than China, where FDI represented 10% of 2010 GDP. This includes Singapore at 121%, Vietnam 57%, Thailand 37%, Malaysia 33%, the Philippines 13%, Indonesia 12%, and South Korea 11%.

  While China's GDP growth has lured investors, digging below the headlines can reveal other promising opportunities. Statistics other than the pace of economic growth, such as consumer incomes, are relevant to exporters and new market entrants. The number of households in emerging markets with income above $75,000 is highest in Mexico. South Korea comes in next.

  > *"Lots of people rushed into China because everybody tells you to rush into China. That's fine, but don't be surprised if you're not necessarily making profits when you arrive."*
  > — Armen Ovanessoff

  Gloucester Engineering learned valuable lessons after setting up its manufacturing operations in China. The company found its intellectual property inadequately protected, as Chinese workers change jobs frequently. The company also encountered difficulty getting money out of the country.

- **Accenture's analysis highlights the investment appeal of South Korea and southeast Asia.**

  Analysis by Accenture looked at five dimensions that it believes matter most to potential market entrants: 1) capital flows; 2) consumer profiles; 3) the battle for resources and sustainability; 4) innovation; and 5) talent.

  The conclusions from this analysis point to the attractiveness of South Korea and the ASEAN nations (the Association of South East Asian Nations). These nations:

  — Have rebounded rapidly from the economic downturn.
  — Have proven to be attractive investment destinations relative to their size.
  — Have begun to venture abroad, building their global presence during the economic downturn.
  — Have higher-income consumers that will demand new business models and approaches.
  — Are becoming large-scale, inefficient users of oil.
  — Require innovation to play a central role in building sustainable competitiveness.
  — Have the potential to provide some of the most productive workforces of the future global economy.

  Mr. Ovanessoff offered these takeaways for companies weighing the pros and cons of various emerging markets:

— *Asia is where the world's fastest growth will come from.* These markets will grow fast and contribute a significant portion of the world's economic growth over coming decades.

— *Asian markets are no longer just an attractive side show.* With FDI flooding in and rapid growth accelerating the trends, U.S. companies may need to act faster than expected to seize the opportunities.

— *Ignore Asian markets at your peril.* Even U.S. companies that don't participate in these markets are bound to be affected by them—via currencies, competitors, or other ways. "Their businesses will reach you."

- **The U.S.-Korea Free Trade Agreement is projected to benefit U.S. businesses and create U.S. jobs.**

The United States was once South Korea's largest trading partner; it is now fourth largest. Geopolitically, the two nations have long been allies.

It is in both countries' interest to renew the U.S.-Korean Free Trade Agreement (KORUS FTA), which expires on July 1. But the agreement is mired by politics despite support from the Obama administration and every sector of the American economy.

By eliminating tariffs and other barriers to trade between the two nations, KORUS FTA would open new markets for U.S. exports and would spur investment in South Korea. Surveys of South Korean companies suggest that they are eager purchasers of U.S. imports. More than 75% would increase U.S. import volumes.

KORUS FTA also would mean more investment in the United States by Korean companies, which fell to less than $2 billion in 2009 from $5 billion in 2006. Consequently, KORUS FTA is expected to benefit American businesses, farmers, workers, and consumers.

Failure to pass KORUS FTA could cost 345,000 American jobs. The stakes for Massachusetts, which had exports of $629 million to Korea in 2009, include $1 billion in lost GDP and $447.5 million in lost exports.

> *"Time is running out . . . [KORUS FTA] is in the interests of American businesses, American workers, and American consumers."*
> — Chul Chung

Gloucester Engineering in Malaysia

Gloucester Engineering is a Massachusetts-based company that makes capital equipment used by plastics manufacturers. It has operations in India and China, and sells equipment to businesses in Malaysia and around the world.

President Carl Johnson finds Malaysia to be a remarkably easy place in which to do business. In 2009, Malaysia was rated by *Forbes* as the 25th-best country in the world for business and by the World Bank as the 23rd for ease of doing business. Malaysia has the rule of law, with strong investor protections (ranked #1 by *Forbes*), liberal investment policies, and transparency. Intellectual property is protected. Access to capital is good, rated 13th in the world.

Malyasia enjoys political and economic stability, with little unrest. The pro-business government has a plan to improve growth, and has identified 12 economic sectors for development. These include agriculture, food and beverages, information and communication technologies, and oil and gas equipment and services.

The country's cities are modern and have excellent infrastructure (ports, rail, air transport) for imports and exports. "They have mastered the logistics side of things."

Also, the labor force is well educated. The nation's population is surprisingly young (60% under 25), low-key, and friendly, making for harmonious industrial relations. "They don't make it difficult for you."

Among the negatives, per-capita income is only $15,000, and consumer purchasing power lags that of other Asian nations. These are signs of how far Malaysia has yet to go. In addition, corruption exists; the nation ranks in the middle among emerging Asian nations.

Newcomers to the Malaysian business world need high-level connections. However, just one Malaysian contact who knows the right people can be all that is necessary. Business revolves around personal relationships. Yet these relationships, once established, are strong and long-lasting. People remain loyal to their friends.

Among Mr. Johnson's caveats for doing business in Malaysia: Learn and adhere strictly to the interpersonal business customs. For instance, it is an insult to write on someone's business card in their presence. Don't express impatience at meetings that seem interminably long. Decisions are arrived at slowly, always in groups. Also, be attuned to behavior that could cause someone to lose face. Malaysians care deeply about preserving "face."

> *"Face is nothing more than respect. But it is also the most precious thing you can give or take away from somebody. That's something you need to be very, very aware of."*
> — Carl Johnson

Other Important Points

- **200 countries, 200 years, 4 minutes.** A short video with this title on YouTube illustrates global economic progress over the past 200 years.

Doing Business with South America

Moderator: **Erich Schumann**, *CEO, Global Atlantic Partners LLC*
Panelists: **Fábio Lacerda Carneiro**, *Deputy Head of Supervision Department, Central Bank of Brazil*
Abe Donner, *Latin America Manager, New Balance Athletic Shoe*
Bodo Liesenfeld, *Managing Partner, Liesenfeld International*
Carolina Vallucci, *Vice President of Commercial Operations for Latin America, Genzyme Corporation*

Overview

Their growing economies make Latin American countries increasingly attractive to international investors. Most nations in the region enjoy political and financial stability, as well as increasing numbers of middle-class consumers. Brazil is a leading target for many businesses, given its size. Companies must be aware, however, of the challenges associated with doing business there.

Businesses investing in Latin America should realize that each country has unique characteristics; a "one-size-fits-all" approach will not work. Understanding each local market and hiring local talent are essential. Also important is to recognize the unique issues faced by each industry.

Context

The panelists discussed the opportunities and risks associated with doing business in South America.

Key Takeaways

- **Growing Latin American economies represent important trading partners for the United States.**

  Latin American countries have positive economic momentum. Last year, their combined economies grew 6%. As a whole, the Latin American economy is almost three times the size of India's or Russia's, and is close in size to China's and Japan's. The United States exports more than three times as much to Latin America as to China or Europe. It also exports more to Chile or Colombia than to Russia.

  While the opportunities in this region are great, companies must recognize that a "one-size-fits-all" approach will not work. Each Latin American country has unique characteristics and complexities.

  > *"Each country is unique. You cannot think that with one plan you can penetrate all Latin American countries and be successful."*
  > — Carolina Vallucci

- **Investment opportunities are expanding.**

  The initial driver of Latin America's economic growth was natural resources, especially minerals and energy, along with agricultural products. To secure access to these resources, China has become an investor in Latin America.

  Over time, economic growth has resulted in market diversification. Burgeoning markets now exist for high tech and industrial products. In addition, South America's new middle class is driving demand for consumer products.

  Genzyme, a Massachusetts company, decided to enter Latin America. The company saw political and financial stability, a growing urban population, an improving socio-economic environment, improving healthcare policy, and a growing pharmaceutical market. By doing business in Latin America, Genzyme believes it can serve patient needs, increase revenue, and diversify risk.

- **Despite the opportunities, investors also face risks in South American markets.**

  Generally speaking, investors are attracted to markets where there is political stability, reliable intellectual property protection, an accessible financial system, and a well-educated and motivated workforce.

  The Latin American markets offer potential investors both advantages and disadvantages. On the upside, inflation is under control, domestic markets are growing, foreign debt levels are low, and the Standard & Poor's ratings for many Latin American countries are on the rise. On the downside, however, a few countries have governments that do not support free trade. In addition, social disparities, natural disasters, corruption, and highly valued currencies are challenges.

  > *"There is only way to know the region. Pack your suitcase, buy a ticket, and fly there, because the only impression that really counts when it comes to making your own investment decisions is your personal conviction that Latin America is interesting."*
  > — Bodo Liesenfeld

- **Different types of business models exist for companies entering Latin American markets.**

  There are three primary business models that global companies can use in South American countries.

  1. *Subsidiary model*. A company enters a country and opens a subsidiary office. New Balance uses a subsidiary model in Brazil and Genzyme has opened subsidiary offices throughout Latin America.
  2. *Distributor model*. The company finds a local distributor partner to build its brand.

3. *Licensee model*. This model is relevant in risky markets. For example, New Balance uses a licensee model in Argentina.

- **Success depends on hiring local talent and being a good citizen.**

  To succeed in Latin America, companies must understand the local markets. This knowledge can be gained by hiring local expertise and investing resources in-country.

  Market entry often is complex. As a result, every company going into Latin America should find a local partner. Once a partner has been found, frequent and transparent communication between local offices and headquarters is essential. Strong relationships with government officials and customers cannot be underestimated.

  In addition, companies must be prepared to be "good citizens." This means having a strong commitment to social responsibility and humanitarian programs, as well as transferring knowledge to the local teams. Genzyme, for example, has launched humanitarian drug donation programs in South America.

- **In South America, brands are extremely important.**

  Brand building can be accomplished in several ways:

  — *Creating an emotional connection*. It is critical that brands be relevant to local consumers. For example, since Brazil is a very technical running market, New Balance is sponsoring running events and athletes. If the company can succeed in Brazil, it will benefit from a halo effect in other South American markets.

  — *Developing a retail presence*. Retail outlets are a viable way for some companies to manage their brand. New Balance recently opened an "experience store" in a tourist area of Uruguay.

  — *Finding the right partners*. Brand building takes time, so it is important to partner with organizations that are patient, have the right talent, and are willing to invest in the brand. New Balance believes it will take five to ten years to build its brand in South America.

> *"New Balance made sure it had the right partners and that the partners had the right talent. Investing in human capital is critical."*
> — Abe Donner

- **Pharmaceutical companies can profit from Latin America's growing markets, but they must acknowledge and overcome several challenges.**

  IMS Research has identified Latin America as one of the fastest-growing regions for pharmaceuticals. The market has grown 10%, reaching $23.3 billion. The Brazilian market alone is valued at $11.9 billion. Despite the massive biotech opportunity, issues exist:

  — *Regulatory environment*. Latin America's pharmaceutical industry is characterized by complex regulations.

  — *Intellectual property protection*. Although IP protection is becoming more important, it doesn't always exist. Illegal importing of pharmaceuticals is common, as are proliferating generics.

  — *Reimbursement access*. Access to reimbursement is challenging. Social programs are improving, but half the population has to pay out of pocket for medications.

  — *Commercialization*. Commercialization is complicated, with heavy reliance on wholesaler systems.

  — *Social, economic, and political uncertainty*. Companies doing business in this region must be prepared to deal with constant change, as well as corruption.

  In general, pharmaceutical companies must be willing to accept high risks in exchange for high returns.

- **Brazil has great promise, but companies must overcome big challenges when doing business there.**

  Brazil is the largest country in South America and the seventh-largest economy in the world. The financial sector is stable and the economy enjoys diversification. In recent years Brazil has experienced new patterns of growth. The consumer market has exploded as almost 40 million Brazilians have moved into the middle class. As economic activity has increased, demand for infrastructure investments also has increased. Ports, airports, roads, railroads, and the energy sector all are under pressure.

  The environment for infrastructure investment is favorable. Brazil's economy is fiscally sound and the government is committed to reducing public debt. The goal is to have no fiscal debt by 2014. In addition, inflation is under control, net foreign debt has been reduced, and international reserves are increasing.

> *"Brazil is growing because of [our] own markets . . . our own people . . . our expanding middle class."*
> — Fábio Lacerda Carneiro

  But one of the challenges Brazil faces is the difficulty doing business in the country. In the World Bank's Doing Business Index, Brazil ranks 127 out of 183 economies.

  In addition, the government needs to address barriers to sustainable growth. These include implementing tax reform and payroll tax relief, decreasing bureaucracy, improving literacy and health, and strengthening the country's infrastructure. Also, Brazil's high import taxes make foreign goods expensive. A $14 tax is levied on every pair of athletic shoes manufactured in Asia and imported into Brazil. This cost is passed on to customers, resulting in costly goods that are accessible only to upper-income consumers.

Olympikus, the largest footwear manufacturer in Brazil, works with the government on regulations that prevent Asian imports. Consequently, local manufacturing is critical for most foreign brands. If New Balance had a local manufacturing capability in Brazil, it could produce shoes at a lower cost and sell to a broader consumer base.

Other Important Points

- **Minimal recession pain.** Latin America was the last into and first out of the Great Recession. This is because countries in the region were not tied into the global financial system, and high interest rates prevented banks from investing in dangerous financial instruments.
- **Capital controls.** Brazil's capital controls worry international investors. However, the government says tight monetary policy is necessary since Brazil's currency is overvalued against the dollar.
- **Risk in Argentina.** Argentina is risky for investors due to inflation, unwritten laws, and an upcoming election. Investors are advised to wait until after the election to act.
- **Globish.** When working in countries outside the United States, it can be useful to speak "globish." This is a simplified form of English that uses basic grammar and avoids culture-specific references.

Doing Business with Europe: Opportunities in Germany and the United Kingdom

Moderator: **Susan Windham-Bannister, Ph.D.**, *President and CEO, Massachusetts Life Sciences Center*
Panelists: **Rob Dietel**, *Vice Consul, British Consulate-General in Boston*
Gregg Dixon, *Senior Vice President, Sales and Marketing, EnerNOC*
Claus Habermeier, *Director, German Trade and Invest, New York Branch*
Uli Mittermaier, *Chief Financial Officer, Brainloop*

Overview

Trade relationships between Massachusetts and Germany and the United Kingdom are very strong. Both countries offer a favorable environment for American companies. The German market favors stability and sustainable growth, while the government provides attractive incentives and tax rates to companies. The United Kingdom is actively seeking new business through favorable tax rates, R&D credits, and enterprise zones.

Staff at German Trade and Invest and U.K. Trade Investment are prepared to help American companies determine how to enter these markets. These agencies can help entrepreneurs conduct research and navigate the regulatory environment.

Context

The panel discussed business opportunities in the United Kingdom and Germany, as well as governmental agencies that can help American companies enter these markets.

Key Takeaways

- **With its strong economy, Germany is an attractive place for businesses to invest.**

  In 2010, Germany's GDP ranked fourth worldwide and the nation was second in global exports. Compared to other countries, Germany recovered quickly from the economic downturn. In the fourth quarter of 2010, its 4.0% GDP growth rate was considerably higher than that of the United States or Japan. This rapid recovery may be attributable to Germans' risk aversion. In general, the German market desires stability and sustainable growth.

  Germany's economy is characterized by a highly skilled workforce, an abundance of small and medium-sized businesses that produce almost half of the country's GDP, a strong manufacturing sector, and world-class infrastructure.

- **Germany's low risk appetite and strict regulatory framework present challenges and opportunities.**

  Although risk aversion contributes to economic stability in Germany, it also means that early adopters of new innovations are hard to identify. Once ideas are proven, however, customers pick them up quickly. Successful concepts have the potential for sustained growth.

  Germany's strict regulatory framework reduces risk and increases stability. Businesses must plan accordingly to avoid surprises. Labor laws can be challenging because they limit flexibility and increase costs. Strict environmental standards, however, have stimulated innovation in green technologies where Germany is a leader.

> *"Germany is an attractive global market. There are many opportunities, especially for U.S.-based companies, in the technology space because it's a highly developed market."*
> — Uli Mittermaier

- **German Trade and Invest is an excellent resource for companies considering expansion into Germany.**

  This government agency partners with consulates, German-American Chambers of Commerce, and state-based economic development agencies to promote business opportunities in Germany. If a company decides to enter the market, German Trade and Invest can assist with market data, opportunity analysis, legal considerations, site selection, financing, and more. All services are free. Attractive incentives exist for investment and Germany's tax code is about 10% lower than the United States'.

  German Trade and Invest focuses on four broad industry areas: renewable energy and resources, mechanical technologies and electronics, chemicals and healthcare, and services and consumer goods. In each area, experts specialize in a particular field. For example, in the renewable energy sector, experts are available for wind energy, bioenergy, waste to energy, geothermal, solar thermal, and other specialties. For specific industries, potential investors can obtain sector overviews, competitor data, and supply chain information.

> *"Germany is able to attract companies because we have attractive incentives, attractive local markets, and expertise in R&D."*
> — Claus Habermeier

- **Doing business in the United Kingdom is easy due to location, language, and law.**

  The World Bank's Doing Business 2010 report ranked the United Kingdom as the best place to do business in the European Union and in the G8 community. This can be attributed to:

  1. *Location*. More overseas companies establish their headquarters in the U.K. than anywhere else.
  2. *Language*. With English as the language of business, it is very easy for firms to operate in the U.K.
  3. *Law*. Many government policies make it easy to establish business operations in the U.K. On average, it takes just 13 days to establish a business presence in the United Kingdom, compared to 32 days in the European Union and 35 days throughout the world.

- **The U.K. government recently announced programs designed to attract businesses.**

  On March 23, Britain's new government announced the budget for 2011 and 2012 that coincides with a new plan for growth. The central message is that Britain is open for business. Several programs will be implemented to attract companies to the United Kingdom.

  — *Lower corporate taxes*. This year, the corporate tax rate in the U.K. will be reduced to 26%. Additional reductions are planned that would decrease the rate to 23% in 2014. This will be one of the lowest corporate tax rates in the developed world. Several large companies have announced their intent to relocate back to the United Kingdom.

  — *R&D credits*. R&D is critically important to many industries. New R&D credits for small and mid-sized enterprises have been included in the budget. The R&D credit for small companies will increase to 200%. For every pound spent on qualifying R&D, companies will receive a deduction of two pounds.

  — *Enterprise zones*. To foster fast-track expansion for companies coming to the United Kingdom, 21 enterprise zones will be established. These zones will offer unique packages of incentives and support to help businesses establish their presence in the United Kingdom.

- **The British Consulate can help U.S. companies.**

  U.K. Trade Investment has a strong team at the British Consulate in Cambridge, Massachusetts and throughout the United States. The Cambridge office helps New England companies explore business opportunities in the United Kingdom. The services are fully consultative. The team can help companies understand new markets, validate opportunities, and schedule visits to business partners and government officials.

  Each U.K. Trade Investment office is focused on specific industry sectors. Mr. Dietel covers clean energy, renewable energy, and digital media. He has counterparts who are responsible for financial services, information technology, biotech, life sciences, and medical devices.

> *"As you explore international expansion, U.K. Trade Investment has a very strong team at the British Consulate in Cambridge. Our goal is to help you make the right decision. No question is too big or too small."*
> — Rob Dietel

- **Many business principles are the same in the United Kingdom and the United States.**

  EnerNOC helps companies reduce their energy bill up to 25%. The company creates virtual power plants which reduce the electrical load at customer sites and the overall burden on the electrical grid. Customers are paid each month for participating in the virtual power plant, whether or not their energy usage is curtailed.

  EnerNOC discovered that the U.K. has similar electrical system volatility as New England due to the intermittent nature of new wind and solar power sources. Consequently, the U.K. market seemed an attractive target for EnerNOC. Since cost savings and improved efficiency are appreciated by business owners universally, EnerNOC's value proposition has resonated in the United Kingdom.

  EnerNOC has found the United Kingdom to be a very multinational market where American companies are accepted. Doing business based on credible and trusting relationships is applicable everywhere.

> *"The United Kingdom is very multinational and people are very accepting of Americans doing business there. We haven't run into any problems. People buy from people."*
> — Gregg Dixon

- **American companies must be aware of the United Kingdom's calendar, communication issues, and labor laws.**

  When EnerNOC opened its office in the U.K., it was surprised by several aspects of the business world.

  — *The business calendar*. The financial year in the U.K. closes on March 31, not December 31. Companies must be aware of that schedule when creating budgets. In addition, many executives are on holiday in April, August, and December. EnerNOC continues to market and sell during those periods because less senior employees are still at work. It is a good time to educate teams and to gain broader support for solutions.

  — *Communication issues*. The diversity of accents in the United Kingdom can make communication challenging. EnerNOC initially thought that hiring people with many different British accents would be an advantage as it penetrated industrial sectors. It turned out that the

opposite was true. The company moved to hiring employees with less pronounced accents.

— *Labor laws*. Labor laws are a big issue. In the United States, employment is characterized as "at will." That is definitely not the case in the United Kingdom where it is much more difficult to terminate poor performers.

- **Success for U.S. companies in overseas markets requires understanding the local context.**

  One of the most common mistakes that American companies make is not thoroughly researching the competition in German and British markets. Due diligence is the only way to avoid being blindsided.

  It is critically important that American companies contemplating entry into an overseas market understand the specific characteristics of the local market. Many American firms believe they can succeed simply by finding a local distributor. That strategy, however, can lead to disappointment. Ideally, companies will take an engaged approach where they know the local regulations, culture, and language.

  Also, having realistic expectations is essential. Many U.S. companies are driven by quarterly financial reports and expect fast adoption rates. However, in the United Kingdom and throughout Europe it often takes longer to build the relationships and results than is expected.

Other Important Points

- **2012 Olympics and green business.** The United Kingdom will be hosting the 2012 Olympics, which have been termed the "Green Games." This event will provide many opportunities for companies that supply green products and services.
- **Cluster development in the U.K.** Cluster development is strong in the United Kingdom. Governor Patrick's delegation visited Tech City in East London, which is promoted as the next Silicon Valley. Another vibrant cluster development is Media City in Manchester.

Export Financing 101

Moderator: **John Ballantine, Jr.**, *Senior Lecturer, Brandeis International Business School*
Panelists: **Bruce Drossman**, *Export Finance Manager, Export-Import Bank of the United States*
John P. Joyce, *SBA Export Finance Manager, U.S. Export Assistance Center*
Joseph W. Mooney, *Vice President, Global Trade Finance, TD Bank, N.A.*

Overview

The financial aspects of global trade can be extremely complex and often are fraught with risk. But many resources are available to assist importers and exporters.

In particular, trade banks specialize in helping newcomers to global trade understand financing and risk-mitigation options. Available from these banks and from export-focused government agencies are credit facilities, insurance products, and working capital programs to help U.S. companies participate in global trade. These financing vehicles can help exporters expand international sales, boost borrowing power, speed cash flow, enter new markets, and mitigate their risks.

Context

The panelists explained the financial tools available to help small and mid-sized U.S. businesses export internationally.

Key Takeaways

- **The financial aspects of global trade are complex, but resources are available to educate newcomers.**

  Export/import trade financing requires a sophisticated understanding of the risks involved in individual deals (transactional, compliance-related, fraud-related), the tracking of every transaction and all financial exposures, and comprehension of the motivations of each counterparty. These nuances aren't taught in business schools, and even bankers don't fully understand them until working on their first trade credit facility.

  Consequently, the local banks of small and mid-sized businesses often don't know how to assist these clients with global trade financing. A company that is new to international trade needs to know the kinds of credit and insurance products available, their purposes, how they differ, how to access them, and caveats.

  Trade banks play two major assistance roles:

  — *Before shipment: they help the exporter or importer understand their risks and options for mitigating them.* They also provide access to credit and credit insurance programs.

  — *Post-shipment: trade banks can act as intermediaries between counterparties.* They can facilitate payment on the client's behalf and provide a process enabling clients to create, receive, and dispatch critical documents quickly and efficiently.

  In addition to trade banks, other resources for information on trade financing include:

  — *State export assistance centers* such as the Massachusetts Export Center (http://www.mass.gov/export).

  — *Federal agencies* such as the Export–Import Bank (the Ex-Im Bank) of the United States (www.exim.gov), and the Small Business Administration (www.sba.gov).

  — *Local or regional credit management groups* such as the National Association of Credit Management (www.nacm.org).

- **International transactions involve risk, which trade credit facilities and insurance products minimize.**

  In global trade, the risk exists that a counterparty will not deliver as promised. Who shoulders the most risk varies based on the type of trade agreement:

  — *In an open account transaction* the exporter/seller relies completely on the buyer to pay as agreed. The exporter bears all of the risk; the importer/buyer bears none.

  — *Payment in advance* requires all of the risk to be borne by the buyer, who must trust the seller to deliver as promised.

  However, there are products and programs that allow counterparties to share the risk:

  — *Documentary collections.* The seller relies on the buyer to pay upon presentation of documents or upon maturity, and the buyer relies on the seller to ship goods as described in the documents.

  — *Letters of credit.* The seller assumes the risk of non-performance, as the seller will not be paid if it does not deliver as promised. Letters of credit define the conditions. The buyer relies on the seller to ship goods as agreed.

  — *Export credit insurance.* This is insurance protecting exporters against non-payment by foreign buyers.

  — *Working capital programs.* These programs provide funds to improve exporters' cash flow while a company is manufacturing goods that have not yet been paid for.

  Effective communication is another way to reduce transactional risks. Counterparties should have explicit sales agreements defining terms and the credit facilities to be

used. Exporters and importers should get price lists from advising banks (don't assume prices aren't negotiable) and also should get the bank operations team's phone directory.

- **Letters of credit offer a way to ensure that payments and deliveries arrive as promised.**

Letters of credit are an irrevocable mechanism by which the exporter is ensured payment. But they are a payment facility, not a guarantee of payment, as they are subject to the exporter performing.

In issuing a letter of credit, a bank substitutes its own credit strength for that of its customer (the applicant). The bank commits to pay a stated amount within a specific timeframe to the beneficiary (the applicant's counterparty), provided that the beneficiary complies with agreed-upon terms and conditions.

Letters of credit provide payment assurance to an exporter and performance assurance to an importer. There are two types of letters of credit:

— *Commercial letters of credit cover the sale/purchase of merchandise.* They are issued by the importer's bank to the exporter, through its bank, as the primary payment vehicle.

— *Standby letters of credit support either performance or financial obligations.* They function as a secondary payment vehicle in the event that the applicant defaults. Standby letters of credit structures include advance payment guarantees, bid/performance bonds, warranty bonds, workers' comp, and credit extension support.

The counterparties' banks communicate via SWIFT, the Society for Worldwide Interbank Financial Telecommunications. Counterparties should ensure that their banks have SWIFT relationships with each other. If not, an intermediary bank will have to be used.

U.S. companies can verify the existence of foreign banks through *Bankers Almanac* or by asking their advising bank to check. There have been cases of fraudulent letters of credit.

It is not the receiving bank (the exporter's bank, say) that accepts the risk of the (importer's) issuing bank; the beneficiary (exporter) does. However, if both beneficiary and receiving bank agree, the risk can be shifted to the bank by having the letter of credit confirmed. Then if the issuing bank overseas does not pay, the advising confirming bank must.

- **Trade credit insurance products shift risk from trading counterparties to banks and government agencies.**

"Wouldn't it be wonderful," said Mr. Drossman, "if a U.S. company could provide what his new buyer in a new market wants and not take on economic risk? That's what credit insurance can do." Of the 1% of companies that export, only 5% use trade credit insurance. In Europe, where most companies export, 70% use trade credit insurance.

Trade credit insurance protects U.S. exporters against non-payment by foreign buyers due to commercial risks and/or political risks. It allows exporters to offer competitive credit terms to foreign buyers. And insured foreign receivables may be added to the exporter's borrowing base by assigning policy proceeds (claim payments) to the lender.

Trade credit insurance products designed specifically for small businesses are available through Ex-Im Bank. In fact, 80% of the transactions it facilitates are for small business exporters.

Ex-Im Bank is the official U.S. export credit agency. It works with banks to implement its trade financing programs for U.S. exporters. "We help the banks go where they wouldn't dare to go," said Mr. Drossman. Its programs supplement commercial financing, minimizing the risks involved in selling overseas.

Because it is a government agency (a self-sustaining one), its programs have restrictions, such as at least 50% U.S. content in the goods and services it supports.

The Ex-Im Bank offers a working capital program as well. Exporters can take a 75% advance on inventory and up to 90% on foreign receivables, helping to relieve the working capital crunch many beginning exporters encounter. Indirect exports also are eligible under the program.

The Small Business Administration (SBA) also provides programs for exporters:

— *A short-term working capital program* similar to the Ex-Im Bank's but with additional limitations. Use of funds is very flexible.

— *Export Express,* a variation of SBA Express, gives a guaranty to a lending bank to encourage export business.

— *The International Trade Loan program*—longer-term loans for equipment, real estate, or permanent working capital.

Working with Foreign Investors, Partners, and Suppliers

Moderator: **Warren Leon**, *Adjunct Professor, Brandeis International Business School*
Panelists: **Jim Bender**, *Senior Vice President, Sovereign Bank*
Wei Lu, *Partner, Cybernaut Capital Management Ltd.*
Rashid Shaikh, *Senior Director, Global Sourcing and Supply Chain Operations, Nypro Inc.*
Elizabeth Steele, *Deputy Director, Massachusetts Office of International Trade and Investment (MOITI)*

Overview

There are many good reasons for foreign companies and investors to consider Massachusetts (an educated workforce, a diverse economy) as well as good reasons for Massachusetts firms to consider pursuing opportunities abroad. Extensive state and private-sector resources exist to aid the investment and exporting processes.

Context

Professor Leon led the panelists in a far-ranging discussion about the resources that exist to assist Massachusetts companies in entering international markets and why foreign companies would be attracted to Massachusetts.

Key Takeaways

- **Massachusetts is attractive to foreign firms for multiple reasons.**

  For firms considering investing in the United States or partnering with U.S. firms, Massachusetts offers many distinct advantages. Among them:

  — *A great brand.* The Massachusetts "brand" is known throughout the world and is associated with intellectual capital.

  — *Great educational institutions.* The Boston area is well known for its high concentration of world-class colleges and universities, 150 in all, which can't be found anywhere else in the world. This includes Harvard, MIT, and Brandeis.

  — *An educated workforce.* Massachusetts has an extremely well-educated workforce. The percentage of the population with an advanced degree is the highest of any state in the country.

  — *A diverse economy.* Massachusetts' educated workforce has created one of the country's strongest, most diverse economies. This includes high tech, healthcare, life sciences, financial services, clean energy, and more. (One panelist said that Massachusetts has a much more diverse economy than Silicon Valley.)

  However, along with Massachusetts' many advantages, the state also has some disadvantages for businesses. These include:

  — *Costs.* The state has a high cost of living and costs for healthcare and energy can be high. Those working to attract businesses to Massachusetts need to understand which costs are higher and which are lower so that efforts are made to attract the right types of firms.

  — *Transportation.* While Massachusetts is close to Europe and has many direct flights, it is far from Asia and currently there are no direct flights between Boston and China. (However, Massport and MOITI have been working to get direct flights with China, Japan, and Israel.)

- **There are extensive resources to help Massachusetts firms go overseas and to assist foreign companies in coming to Massachusetts.**

  Various government agencies, as well as global banks, can assist companies seeking cross-border opportunities.

  — *MOITI can serve as a facilitator.* MOITI's two main functions are to attract foreign direct investment into Massachusetts and to increase exports from the state.

  For foreign firms, MOITI works closely with multiple government agencies to coordinate and facilitate access to programs and services. It can provide introductions to law firms and banks that can help these firms achieve their business goals in America.

  To help Massachusetts firms export, MOITI attends about ten major international trade shows that focus on Massachusetts' strong industries. MOITI invites companies to join the agency as part of the Massachusetts pavilion. At these shows, firms can meet potential foreign suppliers, business partners, and customers. MOITI also hosts about 70 foreign delegations per year that come to Massachusetts looking for partners or investment opportunities.

  > *"No matter what size company and what stage of operations you are in, I would recommend that you access the government services and agencies available to your company."*
  > — Elizabeth Steele

  — *The Western Massachusetts Economic Development Council.* This agency can facilitate foreign companies' efforts to set up shop in the western part of the state—helping scout out locations, identify sources of workers, make introductions, and perform other services to convince a company to set up shop in Western Mass.

  — *Banks.* Banks with international operations, such as Sovereign Bank, can provide Massachusetts companies

a full range of services to help develop business in Latin America, Europe, and Asia. These services include retail banking, cash management, working capital, foreign exchange, and access to capital markets. In addition, experienced international banks can provide valuable market intelligence, help a company think through the most appropriate legal structure, and help a company navigate often complex regulations.

- **Choosing a foreign partner or supply based solely on price is a mistake. A partner's capabilities and capacity are more important.**

  Often, a company will decide to work with a foreign partner based solely on the price of a company's product or service. Mr. Shaikh, who manages a complex global supply chain, sees this as a mistake.

  In choosing foreign suppliers and partners, Mr. Shaikh suggests looking at a company's capabilities, capacity, culture, and cost. He also suggests taking into account a supplier's quality and the total cost of ownership. Mr. Shaikh described switching to a new supplier for a particular component. The new supplier had a much lower defect rate, which lowered his firm's overall costs.

  > *"Companies often shop on pricing, not on capacity or capability. You have to really understand their capabilities."*
  > — Rashid Shaikh

  Once partners are selected, transferring knowledge and expertise is often critical to success. This can entail investing in training a partner, and can require the partner to invest in training its suppliers. A potential partner that lacks the capability to engage in a knowledge transfer and to train its suppliers may not prove to be a great partner.

  > *"You really have to go to these places and understand how things work locally. . . . Don't push the U.S. way when you are dealing with suppliers."*
  > — Jim Bender

- **To attract capital from foreign investors, understand what investors are looking for.**

  Mr. Lu is a U.S. representative of Cybernaut, a Chinese private equity firm that is expanding its investments in the U.S. Cybernaut specializes in early-stage investments, only invests in markets it knows well, and focuses on the clean tech and education services industries. Also, Cybernaut will only invest if there is a clear "China angle."

  Any investor hoping to attract capital from Cybernaut—or any other investor—needs to understand the investor's specific focus and investment criteria. Often American companies make a pitch to Chinese investors based strictly on ROI potential, not understanding the strategic considerations that may be more important for a Chinese investor.

  > *"We are very careful because investing in the U.S. is outside the comfort zone of Chinese companies. This is a learning process."*
  > — Wei Lu

  Generally speaking, Chinese investors are interested in acquiring or investing in American companies with great brands, channels, and R&D capabilities. These are strengths that China's private sector is looking to develop.

  For companies hoping to make contact with and attract capital from Chinese investors, Mr. Lu advised finding opportunities, like investment conferences, to talk with them about what they are looking for.

Other Important Points

- **Legal differences.** Other nations' laws can differ dramatically from America's in terms of corporate structures, repatriating funds, contracts, taxes, and more. Certain legal frameworks might even prohibit a U.S. company from suing a local supplier despite what a contract says. Mr. Bender advised companies to do thorough legal due diligence before entering a country.
- **Leveraging hidden assets.** Mr. Shaikh sees an opportunity for sophisticated Massachusetts companies to move beyond merely producing products or delivering services. He sees the potential for companies to identify and then leverage their "hidden assets," which are best practices and intellectual property about how to produce products and provide services. These knowledge assets about how to produce can have even greater value than actually doing the producing. He challenged firms to think differently and maximize the value of these hidden assets.
- **Mobile apps.** An industry of the future for Massachusetts may be mobile apps. Developing these apps is not capital intensive and there are many entrepreneurs in the area with the appropriate capabilities.
- **$150 oil.** Oil at $150 per barrel would be a major disruption to the global economy. However, Mr. Lu believes that oil will definitely reach this level at some point, along with increased prices for all commodities. This will result in worldwide wage inflation, and could actually result in manufacturing jobs shifting back to the United States. Oil at this level also will help drive clean energy solutions and electric vehicles.
- **Do it "now!"** Americans want everything done now. But the word "now" means different things in different cultures. In one culture, now might mean an hour; in another culture, it might mean a week. Understanding what is meant in different cultures is a key to success.

Keynote Biographies

The Honorable Deval L. Patrick
Governor of Massachusetts

The Honorable Deval L. Patrick was re-elected to a second term as Governor of Massachusetts in November 2010. Governor Patrick's life has charted a path from the South Side of Chicago to the US Justice Department, Fortune 500 boardrooms, and now the Massachusetts State House. First elected in 2006 on a platform of hope and change, Governor Patrick entered office propelled by an unprecedented grassroots campaign. Despite a challenging economic environment, the Patrick administration maintained or expanded the state's investment in critical growth sectors while delivering timely budgets and cutting state spending. Through targeted initiatives that play to the Commonwealth's unique strengths, like his landmark 10-year, $1 billion life sciences industry program, the Governor has positioned the state as a global leader in biotech, bio pharmaceuticals, and IT, and as a national leader in clean energy. He came to Massachusetts in 1970 at the age of 14 through a scholarship to Milton Academy. From that time forward, it has been Massachusetts people, schools, and institutions that have given Governor Patrick the opportunity to excel. Governor Patrick is a graduate of Harvard College and of Harvard Law School. After clerking for a federal judge, he led a successful career in the private sector as an attorney and business executive, rising to senior executive positions at Texaco and Coca-Cola. In 1994, President Clinton appointed him as Assistant Attorney General for Civil Rights, the nation's top civil rights post.

James Taiclet
CEO, American Tower

Jim Taiclet is Chief Executive Officer and Chairman of the Board of American Tower, a leading independent owner and operator of wireless and broadcast communication sites. Headquartered in Boston, the company has local offices across the US. It has been rapidly expanding its international presence and has offices in Mexico, Brazil, India, and the United Kingdom. Last year, the company expanded into five new markets: Chile, Colombia, Ghana, Peru, and South Africa. Taiclet first came to American Tower in 2001 as President and Chief Operating Officer. He had previously been President of Honeywell Aerospace Services, where he led a global organization of 10,000 employees providing aircraft equipment repair, part distribution, logistics, and space operations services. Prior to Honeywell, Taiclet served as Vice President, Engine Services at United Technologies' Pratt & Whitney unit. He was also previously a consultant at McKinsey & Company. Taiclet began his career as an Air Force officer and pilot and served in the Gulf War. He holds a Masters Degree in Public Affairs from Princeton University, where he was a Wilson Fellow, and is a Distinguished Graduate of the United States Air Force Academy. The January 2010 issue of *Harvard Business Review* named him one of the 100 Best Performing CEO's in the World over the preceding decade.