WOODWARD FELLOWS
MANAGEMENT BRIEFING
EXPORTING SERIES: VOL. 1
DECEMBER 2007

Effective Export Strategies: Key Success Factors

What factors should firms consider before expanding into foreign markets? How can firms benefit most from their experience and from the experiences of other firms? Prof. Rob Solomon of the NYU Stern School of Business and author of Learning from Exporting: New Perspectives, New Insights (2007) explores these questions.

Asian markets have continued to grow rapidly, and many companies are interested in entering the market. Over the last ten years, advanced economies grew at an average of 2.5%, whereas developing Asia grew at 7.7% during the same period. Large multinationals, equipped with strategic plans, capital and resources, were the first ones to enter the unexplored and uncertain markets of developing Asia. But as the markets in the advanced economies become saturated, even mid-size companies from the US and the EU are trying to expand into Asian markets. Realising the benefits of growth, Asian economies are focusing on lowering transaction costs to attract Western firms. The middle class population in these countries is growing fast as well, generating demand and creating market space for all kinds of companies, goods and services. Products and services are becoming universal in nature, even though each market is unique and needs some degree of customization. All the above factors are making it feasible for even mid to small-size companies to expand into Asian markets. Even though operational challenges persist in Asia, the markets have proved that they are going to be a major global growth driver.

Two thirds of the surveyed American companies in China are operating profitably and 90% saw an increase in revenues in 2007.

Overseas expansion has always been a challenge for any kind of company, big or small. To add to that, Asia is riddled with its own challenges. China, India, Japan, Korea, South East Asia and the Middle East – all these markets are quite different from each other, with each consisting of several different markets. Information is lacking and research is unreliable. Consequently, focusing in on the best market for a particular product may become a long exercise in itself. Important considerations such as the legal environment, government, security, social stability, and political conditions are difficult to quantify. A 2007 AmCham Shangai China Business Survey showed that major perennial challenges such as inconsistent regulatory interpretation, lack of transparency, and bureaucracy and intellectual property rights (IPR) infringements have scarcely changed in the last 3 years. Still, despite these challenges, the AmCham survey also revealed that 65% of the American companies were operating profitably in China and 90% saw an increase in revenues in 2007 as compared to 2006.

While making profits has been the main objective of companies going overseas, other benefits such as risk management through market diversification, and experience and learning from new markets are figuring more often in companies' growth strategies. There is evidence that companies experience a positive impact on home markets and an increased pace of innovation when they go overseas.

Featuring

Robert Salomon joined the faculty of New York University's Stern School of Business in September 2005. A graduate of NYU Stern's doctoral program, he was on the faculty of the Marshall School of Business, University of Southern California prior to returning to New York University.

Professor Salomon's current research centers on the management and economics of international expansion. He studies how and why firms enter foreign markets, how firms manage the cross-border technology transfer process, and how international expansion impacts firm performance.

Woodward Fellows recently spoke to Professor Robert Salomon of New York University's Stern School of Business about the challenges in overseas expansion and the benefits a company can look for by venturing into new regions.

Supporting Overseas Expansion

Salomon stated that most companies enter overseas markets because firms see opportunities to reduce operating costs or increase demand. Salomon, however, warns that firms should carefully consider the additional costs of foreign expansion. In his opinion, many firms overestimate the opportunities and underestimate the costs that exist in foreign markets. One example he points to is China – many firms view China's massive population and growing middle class as an assured expansion opportunity. What they do not realize is that the Chinese market is a complex, fragmented market with significant political, institutional, and environmental barriers. As a result, companies that expand into China must be strong in the domestic market so they can absorb the additional entry costs associated with these barriers. "There are certain additional costs that you have to absorb to enter these foreign markets," Salomon said. "You have to be able to expand abroad from a position of strength."

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Estimating Opportunities

According to Salomon, the difficulty of estimating opportunities is largely due to a lack of quantifiable measures regarding social, political, religious, economic, or technological factors. "It is much easier to estimate demand where we know what a country's population is, we know what their disposable income looks like, and we know what GDP per capita looks like," he said. "Howerver, China is a collectivistic country and United States is an individualistic country. How do I factor that into my demand equation? How do we factor in that Country A is a predominantly Catholic country and Country B is a predominantly Muslim country?"

To manage these uncertainties, Salomon suggests that firms expand in markets that are similar to its own, or in markets they have already been successful in. For instance, it is often easier for British companies to expand in America, or American companies into Canada. Or, if a company is successful in Hong Kong, it might consider expanding into Singapore. Companies can also look for markets where similar companies have been successful or companies from similar industries have been successful. "If the past says that all American firms do just fine in China on average, then maybe China is not a bad place to enter," Salomon said. "Look at other folks in your industry. Have other folks in your industry had success there?"

Taking the Time to Learn

In addition to identifying similar markets, firms must give themselves time to learn once they expand. They must start with small investments, test the market, and then make changes to their products and services till they get it right. The learning from the market during this initial period is important and cannot be rushed. Firms also need to understand that investing more money may not help. "No matter how much money you try to throw at the problem, it is not going to make it any easier because it just takes time for firms to learn," said Salomon. "You are going to learn to ride a bicycle at the pace that you are going to learn to ride a bicycle – no amount of money you spend on a different kind of bicycle is necessarily going to help you to learn it any faster. [Overseas expansion] is something like that."

Because learning is essential to successful expansion, companies should try to maintain as much consistency in personnel as possible. Thus, personnel who executed the first expansion should be used to execute following expansions because they learned firsthand what worked well and what did not.

The Importance of Governance

Finally, firms seeking to expand in foreign markets need to set up governance structures that will facilitate communication and the transfer of knowledge. Do the personnel in the foreign offices know how to benchmark competitors? Do they have an understanding of what's going on in the home base and have an understanding of what is going on in the foreign markets? Furthermore, if they see something in the foreign markets that could help the domestic operation, is there a structure in place that would enable them to pass along the information in a relevant and timely manner? "Governance is really, really important," said Salomon. "How you set up these operations, how you structure the operations, and how you structure the reporting relationships among the operations."

Conclusion

The dramatic growth of Asian markets over the past ten years has made it possible for small to mid-size companies to expand into the region. Indeed, many firms are. Still, successfully expanding into Asian markets is not guaranteed. Significant challenges, such as unreliable information, poor infrastructure, inconsistent regulatory interpretation, and bureaucratic roadblocks, can derail a company's expansion efforts.

Because of these challenges, firms should consider the costs of foreign expansion, deciding to expand only if they are currently strong in domestic markets. If they decide to expand, they should do so in markets that are similar to markets they have been successful in. Firms must also give themselves time to learn once they expand – the learning from the market during this initial period is important and cannot be rushed. Finally, firms seeking to expand in foreign markets need to set up effective, consistent governance structures that will facilitate communication and the transfer of knowledge.

> Firms must start with small investments, test the market, and then make changes to their products and services till they get it right. Learning cannot be rushed.

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