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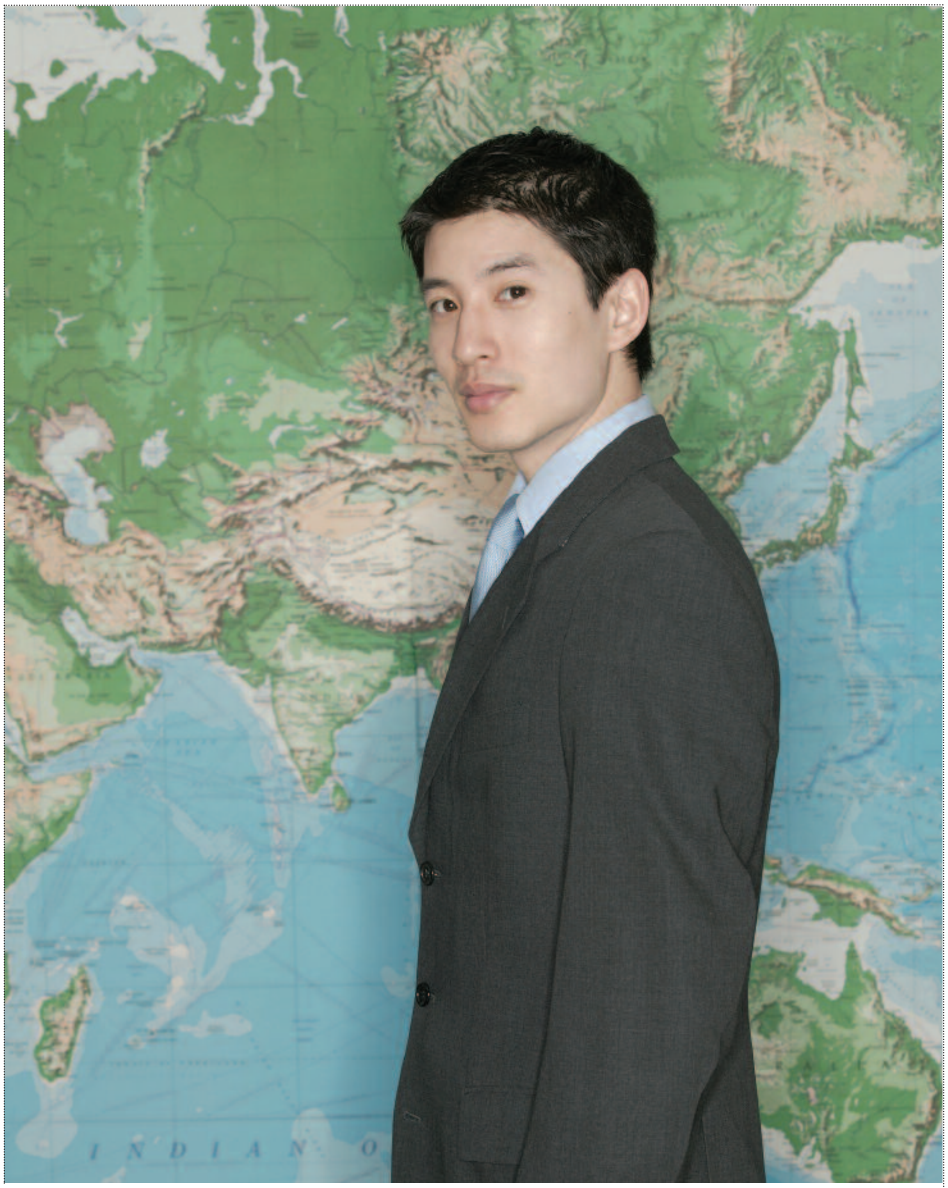
GLOBAL STRATEGIES



Going Global:
How To Make the Decision

Listen U.S. manufacturers: This is your wake-up call. The opportunity to plan for today's manufacturing has passed, and many missed that mark. Fortunately, today is the day to start planning for tomorrow's manufacturing, and there is still time. However, the old strategies of cost-cutting and downsizing will not suffice in the decade ahead. Only new methods and new solutions designed to respond to today's global market will provide future success.

By 2020, 80 percent of the world's consumer base will reside outside U.S. boundaries. These are your future customers, future partners and the future path toward growth. Harness the power of yesterday's advances in technology and communication and connect, starting today, with this vibrant global market. Take a reality check, reform corporate mindset and embrace the new reality – it's the only reality available. Then, map out a plan to incorporate new solutions for these new opportunities.

Globalization No Longer a Choice

Collectively, Brazil, Russia, India, China, (the BRIC countries), Central Europe and smaller countries are investing significant resources into higher education – emphasizing mathematics, science and engineering. Also, they are building state-of-the-art infrastructure to manufacture competitively both today and into the future. Furthermore, these countries are making great strides in adapting – and in some cases surpassing – the treasured U.S. model of innovation into their economic institutions and traditions while competing for limited international talent. No longer can U.S. manufacturers afford to sit on the international sidelines and watch.

U.S. manufacturers remain the international benchmark for productivity, quality and innovation; however, the gap is rapidly closing. In contrast to America's inward-looking focus, these new entrants to the global marketplace have an inherent global approach and established tradition of connecting with the international marketplace.

"We've had the luxury in the United States to sometimes say we want to engage or that we do not want to engage – we're still the big kind of indispensable nation," says Robert Lane, chairman and CEO of Deere & Co.

While this coveted status is generally considered a strongpoint for the United States, it has contributed to a great weakness in terms of embracing the new world order. Many smaller coun-

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tries have learned to start thinking globally well before they launch their businesses locally.

What's Happening in the World

Without question, the world has transformed from a collection of regional or national economies into a truly global economy as a result of advances in technology, the opening of new markets, trade agreements, lower tariffs, improved transportation and easier communication abroad. While these trends offer enormous opportunity for U.S. manufacturers to expand sales and partnerships into new world markets, the flip-side is stronger competition abroad which is intensifying each day.

"Sometimes when we talk about China we talk about low-cost manufacturing and all this," Intel Chairman Dr. Craig R. Barrett says. "My company is the biggest high-tech venture capital company in the world. We used to make 90 percent of our investments here in the United States. We now make about 50 percent of them in the United States, and about 50 percent of them in India and China. Do not think that China is not innovative. Do not think that they don't have creative ideas. Do not think they're not entrepreneurial. They are and they're copying the best that we have and that is creating universities that look like ours and then an investment environment that is just like ours to create startup companies."

Going Global: The Challenge

Although it's tempting for U.S. manufacturers of all sizes to focus and dwell on the many overwhelming issues of the day, such as weak economic growth at home, an uncertain credit crisis, a shrinking pool of skill and talent and increased foreign competition, the fact remains that these issues are not within the control of corporate management. Instead, corporate leadership must take one large step back and look into the global marketplace to discover new opportunities and new avenues to generate future growth. Although larger corporations have more resources to invest in exploiting these new opportunities, smaller manufacturers are more agile and can readily adapt to change. Regardless of corporate size, global opportunities abound.

A common challenge for many U.S. corporations – and manufacturers are no exception – can be summed up in one word: mindset. Fueled by our rugged individualistic and isolationist heritage, it's no surprise that collaboration across international boundaries requires a significant level of reconditioning. The United States must move beyond the "us against them" mindset and recognize that a prosperous world translates to more business for U.S. manufacturers – a win-win situation for all.

In fact, this changed mindset is necessary for the United States to maintain its long-standing and valued leadership in the world.

Fortunately, with a large dose of commitment, mindset can be corrected and this challenge can be overcome. How quickly [this occurs] depends on how serious American companies are about joining the global marketplace. As proven in previous decades, with past challenges, if American manufacturers get serious, look out world!

U.S. Manufacturers' Strengths

The United States still is the leading economy in the world, and U.S. manufacturers are by far the most productive. In fact, U.S. manufacturing productivity has increased eleven fold since 1940, and manufacturing exports today are at the highest percentage of GDP since World War II.

Another source of strength in manufacturing is the priority placed on research and development. American manufacturers currently account for 44 percent of the total U.S. R&D spending.

Combine these strengths with America's entrepreneurial spirit, collaborative nature and forward-thinking strategies, and it's the perfect breeding ground for a global-style entrepreneur. The only remaining question is, "What are the steps to drafting a roadmap towards a successful global strategy?"

Successful global expansion starts with leaders who think proactively, sense and foresee emerging trends and act upon them without fear. To accomplish this, U.S. corporate leaders need a global mindset and eagerness to look for new opportunities in developing markets. Many leaders understand that, in this new world order, simply having the right product and technology will not suffice. It is the caliber of their leadership and innovation that will make the difference.

Developing a global mindset requires U.S. corporate leaders to:

> Integrate the global component of strategy into their corporate strategy and change thinking patterns and strategies from a single domestic focus to a broad global focus.

> Manage uncertainty and fear while constantly adapting to change and accepting it as part of a process. Also, get the right people in place with the skills necessary to focus on international expansion.

> Combine the various cultures and values of the corporate work force into a unique global organizational culture. Invest in your people so they can help you succeed globally. Embrace diversity and differences.

> Learn how to cooperate with partners worldwide by successfully managing global teams and alliances.

Once the proper leadership focus is in force, U.S. manufacturers can begin the process of developing a road map to measurable and sustainable growth in the international marketplace.

Nine Steps to Consider

A global strategy starts with product development and must be carefully planned all the way through distribution and delivery of the products. Each step in the process, from design to delivery, needs to be made in the context of local interest and culture, not American customs. For example, in many countries the delivery infrastructure Americans are accustomed to (UPS, FedEx) may not exist; products may be delivered strapped to the backs of bicyclists. Therefore, make no assumptions, think locally and utilize those local resources.

Consider the following steps:

1.) Make a commitment – Entering the global marketplace requires a tremendous dedication of resources, capital and time. Now is the time for U.S. manufacturers to focus on adapting for the future. Remember, 80 percent of the world's markets will be outside the United States – you must serve them.

2.) Seek expert advice, be humble – Avoid costly mistakes by seeking expert guidances from trade associations, attorneys, accountants, marketing and global growth experts. Tap into their wealth of experience, talent and information as few companies have the in-house skills necessary to launch a global strategy.

3.) Define your product – Perform the research necessary to seek out and identify target customers. Determine whether there is a real market for your existing product or if modifications should be considered. Going forward, think globally from the very beginning with product design and research and development.

4.) Going global has to be planned to avoid costly mistakes – Perform market research to identify existing competitors, consumer or customer demand, as well as cultural and political issues. Then, align your strategy with the country/region in each step from product design to the delivery of goods.

5.) Consider acquisitions – Here's expert advice from Thomas Knauff, managing principal of Jordan, Knauff & Co., experts in international mergers and acquisitions.

"Many companies grow very strategically and very successfully with well-executed acquisitions, especially in the middle market and lower middle market," he says. "If you acquire a company that already has the product lines you want, or that you want to modify, you avoid both issues: you haven't added another competitor to the mix, and you have leapfrogged the time issue by virtue of the acquisition. The execution risk is still there, but different – execution now means effective integration. Make sure you know how to do that."

6.) Create realistic goals – Everything takes longer than expected, so do not underestimate the time and expense of launching products into the global marketplace. Also, be prepared both financially and emotionally for business to take much longer than you anticipate. Set goals for establishing relationships, networks and channels of distribution, but expect delays in the process.

7.) Deploy the right team – In some markets it is crucial to have a local, trusted person. A successful vice president of sales in the United States may not employ the skills necessary to negotiate the global market. Consider cross cultural training.

8.) Beware of the cultural gap – Consider language, negotiation styles, gender issues and local business practices. Remember, there is no "one way" to do business. Adopt

appropriate polices and strategies to cope with different cultures.

9.) Be fast, flexible, innovative, motivated and enjoy the adventure.

Manufacturing for Tomorrow

International engagement is the key to future success and competitiveness in the world market for U.S. manufacturers. Although the process of going global will indeed present both external and internal challenge; if planned carefully and executed perfectly, the prize will be the difference between incremental bottom-line profits and exponential growth.

Albert Einstein once said, "In the middle of every great difficulty lies opportunity," and with a little creativity, knowledge and an actionable plan every manufacturer – large or small – has the potential to tap into the enormous opportunity offered by today's global marketplace.

Case Study

North American Tool, a manufacturer with 100 employees at two plants in Illinois and Michigan, expanded its operations in the global marketplace. The decision was formed in unison with other members of the U.S. Cutting Tool Institute. It started with a tooling show in Italy where U.S. companies were invited to gauge foreign interest in their products. The company left the show with 800 sales leads and more than enough motivation to go global, but how?

Ultimately, the company formed a joint venture with three other U.S. companies and opened manufacturing and sales operations in the United Kingdom. Today, this firm does business in 54 countries worldwide. When asked about the biggest internal challenge, Senior Vice President Bernie Bowersock reported one word: commitment. Once the commitment was made, however, many logistical issues arose: payment terms, shipping costs and brokerage fees, VAT and GST taxes, product terminology, product pricing, currency issues and time zone differences for supplying quotes. The biggest external challenge was following up on sales leads. This required visiting various markets, learning new cultures and trying to find local representation. The launch was made easier by enhancing the corporate Web site so clients could have immediate access to information and price quotes. **mt**

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