

WHITE PAPER



**International diversification
provides unlimited opportunities**

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ACHIEVING GROWTH IN CHALLENGING ECONOMIC TIMES

INTERNATIONAL DIVERSIFICATION PROVIDES UNLIMITED OPPORTUNITIES

Daily news and economic reports confirm that recession recovery in the United States continues to be slower than expected and hoped for, and many sectors report no growth at all. So where does this leave an ambitious American business manager who wants to achieve growth that matches — or even has a chance of coming close to — past accomplishments? The answer: outside of the United States.

THE NUMBERS TELL THE STORY

According to reports by the U.S. Department of Commerce:¹

Small- and medium-size companies account for 97% of total U.S. exporters, with nearly 75% having fewer than 20 employees.

- 95% of the world's consumers live outside of the U.S.
- Over 70% of the world's purchasing power is now outside of the U.S.
- As emerging markets rapidly grow, the United States' percentage of global purchasing power will continue to decrease.
- Fewer than 1% of all U.S. businesses export their products or services.
- Of those businesses, 58% export to only one country.
- Small- and medium-size companies account for 97% of total U.S. exporters, with over two-thirds having fewer than 20 employees.
- Companies that do export survived the financial crisis better, are in better financial condition today, and are expanding faster than non-exporters.

Emerging countries are expected to grow GDP by over 6.6% in 2011 vs. a current U.S. economic growth rate of 1.3%.

Much of the world has recovered from the 2008–2009 financial crisis, with emerging markets leading the way and growing faster than those in developed countries. According to the International Monetary Fund, emerging countries are expected to grow GDP by over 6.5% in 2011 vs. a current U.S. economic growth rate of 1.9%.² Notable are the BRIC countries of Brazil, Russia, India and China as well as members of the Association of Southeast Asian Nations, known as ASEAN, which includes the Pacific Rim nations of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, among others.

And despite the violence in Mexico that is so prominently covered by U.S. news media, our neighbor to the south is in a rapid economic expansion phase: GDP growth of 4.7%.³

Developing countries are not the only ones with healthy growth rates. Germany as well as Canada, which is the United States' most significant⁴ trading partner, also are experiencing economic expansion.

FOCUS ON THE MIDDLE CLASS

Every time our firm has conducted a market research analysis, we have focused on the growing purchasing power of the country's middle class, regardless of how you define middle class. Consider:

There are 1.3 billion people in the China. If 10% are considered the middle class, that's 130 million people. Even if only 10% of the members of China's middle class are interested in your product, that is 13 million people. And if only 10% of the people interested in your product purchase it, that is 1.3 million products sold @ \$x apiece = \$y in revenue.

China Business Potential

Chinese Population 1.3 billion

10% middle class 130 million

10% of those interested in your product 13 million

10% of those purchase your product 1.3 million

1.3M @ \$x apiece = \$y revenue

This argument can apply not just to the highly populated countries of China and India, but to any nation. An emerging middle class tends to have higher savings rates, its members are younger, and those people's wants increase with their wealth: cars, better food, health care, appliances, high-tech equipment, clothing and so on.

The president of De Beers SA, the world's largest diamond producer, has said, "Our target is the newly wealthy. Wealthy people already have diamonds." Who will supply these newly wealthy consumers with goods and services? Businesses poised and ready to meet the burgeoning demand. Expanding markets with populations seeking a higher standard of living will need more electricity, more raw materials, more equipment, more technology and more management skills. Prepared U.S. companies can successfully respond.

Combined, the middle class is growing faster in emerging countries than in developed countries. According to writer Mike Hogan in his April 18, 2011, edition of *Electronic Investor*, "The number of U.S. and European middle-class consumers is projected to **fall** to 558,000,000 by 2025 while Asia's **jumps** to 3,600,000,000." This significant increase applies only to Asia; it does not include the growing middle classes in other emerging countries such as Central and South America.

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CONDITIONS ARE RIGHT: WEAK DOLLAR, FREE TRADE, RESPECTED U.S. GOODS, FEDERAL SUPPORT

For U.S. companies, current conditions are at their historical best to take advantage of new international markets.

- Historically, the U.S. dollar is weak compared to other global currencies such as the Euro, yen or British pound. The current U.S. trade imbalance will continue to diminish the strength of the U.S. dollar, as the American thirst to sell bonds to finance U.S. debt will lead to the United States offering more dollars to attract foreign investment.

This is good news for U.S. exporters, as many American-produced products will be more competitive from a cost perspective than European and Japanese products. The strengthening of the Chinese currency, the Renminbi (RMB), and Chinese inflation in general are making U.S. products more affordable to Chinese and world consumers.

- The United States has free-trade agreements with 17 countries, providing a multitude of exporting opportunities for stateside businesses that involve either low or no import duties: Australia, Bahrain, Canada, Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Mexico, Morocco, Nicaragua, Oman, Peru and Singapore.

- American-made goods, services and agricultural products are still recognized throughout the world for their high quality and for coming from companies that are innovative, that provide excellent customer service, and that operate with sound business practices. Combined, these attributes win time and time again.

- In 2010, President Barack Obama launched the National Export Initiative to double U.S. exports in five years. Federal departments including Commerce, Agriculture, Treasury, Labor and State, as well as many other government offices, have been directed to assist U.S. businesses in promoting international expansion of their products and services and to support their efforts to expand internationally.

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U.S. Trade Agreements

- Australia
- Canada
- Costa Rica
- El Salvador
- Honduras
- Jordan
- Morocco
- Oman
- Singapore
- Bahrain
- Chile
- Dominican Republic
- Guatemala
- Israel
- Mexico
- Nicaragua
- Peru

A review of today's corporate America confirms that the more international a firm's reach, the stronger its profits, balance sheet and prospects.

In 2009, 34.5% of total exports to China worth \$22.6 billion originated with U.S. small- and medium-size enterprises.

There are now more than 2.1 billion Internet users worldwide, and the number grows exponentially every day. Of those, 85% shop online.

EXPANDED INTERNATIONAL REACH DIVERSIFIES CUSTOMER BASE

Business owners know that diversification mitigates risk, a tenet that applies not only to a customer base, but to vendors as well. Relying on one or two customers or suppliers exposes a company to a possible precipitous fall should a key customer take its business elsewhere or should a supplier close its doors.

The practice of “putting all your eggs in one basket” applies to geographic territory just as it does to customers and vendors. Experience has shown that U.S. companies having a diversified customer base that includes international customers are weathering the financial crisis and post-recession period much better than are counterparts who depend solely on domestic sales.⁵

A review of today's corporate America confirms that the more international a firm's reach, the stronger its profits, balance sheet and prospects. And this holds true beyond the Fortune 1000 companies. Smaller internationally minded entities are realizing the benefits of a diversified customer base. In 2009, 34.5% of total exports to China worth \$22.6 billion originated with U.S. small- and medium-size enterprises.

INTERNET TECHNOLOGY, TRADE SHOWS BOON TO SMALLER EXPORTERS

Twenty-first century economic growth has been propelled not only by the expansion of global trade; technological developments such as the Internet and its spawning of e-commerce have been a boon to smaller exporters. There are now more than 2.1 billion Internet users worldwide, and the number grows exponentially every day. Of those, 85% shop online in one way or another.⁶

If your company has a website, you are global! Anyone connected to the Internet — including Mongolian herders searching for world-class vaccines for their camels and horses — can find the right supplier. That could be *your* company.

According to Philip Guarino of Elementi Consulting LLC,⁷ “A best-kept secret is that domestic trade shows are great places to meet and sell to international buyers. U.S. businesses that have discovered this relatively low-cost channel for drumming up new sales claim that exhibiting at the ‘right’ shows can fill their order books for the entire year. It may sound counterintuitive to make international sales without leaving the U.S., but the fact is that international buyers are attracted to large trade shows in the U.S. And let's not forget the draw of Las Vegas, Chicago, Miami and other big trade show venues.”

Nor should potential U.S. exporters overlook smaller niche markets. Even countries with populations less dense than China and India can prove to be a stable source of ongoing business. In many cases, all it takes is a little time and personal attention to establish relationships that reliably produce income.

Companies that create an export strategy grow 2.4 times faster than companies that only dabble in exports.

While it's true that cultivating business on an international scale can take more effort and planning than doing business in your backyard, it can be highly rewarding. A study by the U.S. Commercial Service and the National Manufacturing Extension Partnership shows that companies that create an export strategy grow 2.4 times faster than companies that only dabble in exports.⁸

When the president of a mid-size Wisconsin company was asked why its international sales went from less than \$100,000 a year to over \$5,000,000, he replied, "We answer every email — domestic or foreign — as if it came from our most important customer."

NOW IS THE OPTIMAL TIME TO CULTIVATE INTERNATIONAL BUSINESS

Whether your company has never exported or is an experienced exporter, there are abundant opportunities and resources to grow international revenues and profits. Taking the initiative is the first step toward reaping the benefits.

E.M. Wasylik Associates LLP provides business development services to small and medium enterprises seeking to expand their international opportunities. Please visit us at www.emwasylik.com or call us at 608-850-5643.

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Endnotes

- ¹ http://www.trade.gov/mas/ian/smeoutlook/tg_ian_001925.asp and Commerce Secretary Gary Locke, f.e. <http://www.commerce.gov/news/secretary-speeches/2011/02/17/remarks-national-export-initiative-small-business-conference-minn>
- ² IMF reporting from <http://www.imf.org/external/pubs/ft/weo/2011/update/02/index.htm> <http://www.tradingnrg.com/u-s-gdp-2011-u-s-gdp-q2-grew-by-1-3-july-29th-2011> and <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
- ³ Bank of Mexico publication http://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadroAnalitico&idCuadro=C_A126§or=12&locale=en
- ⁴ US International Trade Commission and US Census Bureau http://dataweb.usitc.gov/scripts/cy_m3_run.asp <http://www.census.gov/foreign-trade/top/dst/current/balance.html>
- ⁵ Statements from Commerce Secretary Locke <http://www.commerce.gov/news/secretary-speeches/2011/05/17/remarks-white-house-jobs-and-competitiveness-council-listening-an> and RSM McGladrey, Inc. Manufacturing & Distribution Monitor Spring 2011 Report
- ⁶ Updated statistics <http://www.internetworldstats.com/stats.htm>
Internet shoppers <http://www.ecommercetimes.com/story/3440.html?wlc=1313014221>
- ⁷ <http://www.mbda.gov/blogger/established-businesses-and-growth/listing>
- ⁸ <http://www.biztimes.com/manufacturingweekly/2011/5/23/>