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Success and Survival in International Expansion

A Thesis

Presented to

The School of Business

Quinnipiac College

In Partial Fulfillment

of the Requirements for the Degree

Master in Business Administration

by

Ronald R. Crawford

October 1995

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ABSTRACT

SUCCESS AND SURVIVAL IN INTERNATIONAL EXPANSION

Ronald Richard Crawford

Quinnipiac College 1995

Transportation times are decreasing, and the world appears to be shrinking, thus opening new markets for commerce around the world. This paper evaluates prospects on the expanding opportunities in international trade, with special focus on Eastern Europe, for the small to medium sized American business.

Many small to medium sized companies can use this analysis as a basis for their investigation, thereby identifying in detail the areas specifically important to their needs. This resource can be adapted to a variety of needs and industries allowing a "shopping list" approach which can be of benefit to an expanding company. These concepts are applied to analyze in an analysis of a theoretical American company's expansion into Bulgaria.

Both the elemental and the application sections should help a small to medium sized company to begin their research to learn how to expand successfully, according to their needs, into international markets.

APPROVAL PAGE

SUCCESS AND SURVIVAL IN INTERNATIONAL EXPANSION

This thesis is approved as an independent investigation by a candidate for the degree of Master of Business Administration and is acceptable as meeting the thesis requirements for this degree, but without implying that the conclusion reached by the candidate are necessarily the conclusions of the school.

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ACKNOWLEDGMENTS

I want to express my appreciation to all those who gave of their time so that this project could be completed.

To my advisor in this great endeavor, Dr. Patricia Anderson, who guided me to exceed my own expectations.

To Gary Smith, and the GENTLEMEN of the south, at American Uniform in Cleveland, Tennessee, thank you for all your help, time and generous gift of knowledge.

To my grandfather, W.R. Crawford, who has always inspired me to succeed in everything I attempt.

And finally, to my mother, Alice Ann Crawford, both for her patience and *lack of it*.

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CHAPTER 1

INTRODUCTION

"Suddenly, the bear in the woods disappeared. The Berlin wall came down, East Germany and West Germany were united, democracy and capitalism arrived in the formerly communist countries of Middle Europe, the Red Army withdrew to the east, the Warsaw Pact was abrogated, the Soviet Union split asunder, and communism ended in Europe, its birthplace. Democracy and capitalism had won. Together they had beaten dictatorship and communism.¹"-Lester Thurow, in his book, Head to Head

A wise man once noted that the only constants in life are change and death, only a short-sighted individual would fail to acknowledge both of these forces not only in life, but in business. Our world is free falling through a cloud of uncertainty, the base of which will either save us or observe our demise. Recessions, depressions, war, peace, starvation, and salvation, what will our destiny be? Who shall we believe? Economists, it is said, have predicted SEVEN of the last FIVE recessions, whereas politicians don't even admit we've had ANY unless of course to say that their opponents caused them.

A CROSSROADS? No, more than just a simple crossroad², a new road, one which is only now opening for everyone, and we must take great strides to make sure that our place is well defined there, not only as a nation, but as a collection of businesses. As Dr. Nadkarni, professor of international business at Quinnipiac College in Hamden, Connecticut, stated in his teachings on exporting, when asked what companies could afford to export, he responded, "No business can afford not to!" Those words ring truer now than ever before, with the collation of economic communities in Europe through the European Economic Community (EEC), the new accessibility of former "Eastern Block" countries and the former Soviet Union, as well as dangerously aggressive and effective strides being taken by numerous Asian countries

¹Thurow, Lester, Head to Head, William Morrow and Company, New York, 1992

²Ohmae, Keniche, Triad Power: The coming shape of global competition, New York Free Press, 1985

led by Japan³. So, what can a small to medium sized company do in the face of tremendous turmoil? If the market is right for you at this time, Export! Expand! Excel!

Like the pioneers of the old west, small businesses are wagon training into the eastern block and establishing footholds within the new EEC. The time is now, and with the right preparation, almost any business can successfully expand overseas. Preparation (not hesitation) is the key.

Basically there is a two part process in the pre-expansion investigation, where to expand, and how to expand. The first of these two basic stages is to determine the location and environment where a given business can flourish. This part of the investigation can be conducted in two parts, research and visitation. The research must be done prior to first hand visits due to the great magnitude of possible locations/countries available as options. The research portion should cover all the same areas of investigation as the visit will, such as economy, labor, currency, location, infrastructure, government, and technology. This research will enable a company to determine the two or three most likely countries as possible expansion locations. Once these locations are determined, this rough information must then be followed by personal visits to these countries. An investigating team should be formed which consists of two or three individuals who have extensive background in the areas of 1) personnel, 2) finance, and 3) facilities/operations⁴. Any given country visit by the "Team" should include meetings with, the U.S. ambassador (or an informed aide) in that country, several banks or financial institutions native to the country, legal/business consultants within the country, meetings with the local government agency concerned with foreign business, and of course, on site inspection of the available facilities. After completing these visits, a compiled study can then be completed and submitted to the executive board with the recommendations and cost analysis of the option which would be most profitable to future expansion.

The second portion of the investigation will then be compiled from the investigations

³Anderson, Michael, Madison Avenue in Asia, Farleigh Dickinson Press, London, 1989

of the visits and research. This second part is mainly concerned with, not where to expand, but by what method. Options for expansion include, simple exporting, production sharing, joint ventures (either with a foreign or a domestic partner), wholly owned subsidiary, or licensing⁵. The determination of these options should be decided upon by the executive committee taking into account concerns of taxation, labor, currency, technology, and government incentives (both foreign and domestic.).

Careful investigation is necessary to successful expansion, but it is only the first stepping stone to success. Once the investigation is complete, the committee must concern itself with the strategy of implementing its decision which should include time frames, financing, ROI, and of course evaluation and control. Preparation is the key, but following up with implementation in a timely manner is necessary for success.

Using the steps outlined and explained in the pages to come, a company can hope to minimize their risk in expanding and thereby maximize their potential for success⁶. Nothing is guaranteed, but the company can hedge against possible pitfalls by first analyzing the situation as thoroughly as we are able, followed by effective implementation towards success.

Pre-Expansion Investigation

Research is..."An organized method of finding out what you are going to do when you can't keep on doing what you are doing now." -Charles F. Kettering⁷

In each successful story of an American Company expanding internationally, typically there is a common thread which ties them all together.....Preparation. By maximizing the efficiency and the detail of the preparation, an accurate report/recommendation can be submitted in a timely fashion.

⁵Nelson, Carl, Global Success: International Business Tactics for the 90's, Liberty Hall Press, 1990

⁶Casson, Mark, Alternatives to Multinational Enterprise, Holmes and Meyer, NY, 1979

⁷The Software Toolworks Reference Library on CD-ROM, The Software Toolworks, Inc., California, 1990

When the team responsible for the research is formed, it is important to remember to balance the team with both production and financially minded individuals, who will be able to work together well during the research period. As for the team leader, it would be wise to assign the person who will eventually be in charge of the international section as leader in an attempt to familiarize him/her with the specifics of the situation as well as the pitfalls⁸. Additionally, this will allow the executive board to observe the leadership skills and competency of this individual in a new environment and thereby better evaluate his/her future responsibilities. It should be noted as well that if the team is not familiar with the locations to be investigated that a local guide from a private group or even the local government should be employed to assist the team in their endeavors throughout the area.

Research techniques utilized in the investigation should be numerous, but not redundant. Both first hand (interviews), and second hand (published research) information should be compiled and compared in an attempt to discern validity. If sufficient research is done domestically it will allow the smaller team which travels to the two or three most likely countries to do their job efficiently and in a timely manner. If the visiting team arrives with certain questions and goals in mind, it will be able to complete its mission and thereby offer an informed analysis of the compiled information, thereby greatly increasing the chance the BEST choice will be made.

The specific factors and areas of concern will be hereafter suggested as a simple framework for a small to medium sized company to use in considering the feasibility of international expansion.

Expansion Concerns

Where? When? How? Who? Why? Many questions, many answers to be found. This is the first area of the investigation process, Expansion Concerns. In this first part of the

⁸Personal Interview at American Uniform with Gary Smith, President, Cleveland, Tennessee, June 1992

investigation the team will attempt to answer the basic questions of location, labor, technology, and infrastructure among others⁹. At this point in the investigation, most choices should be eliminated in favor of those which exhibit the most cost effective and locationally superior attributes. Once the research is complete and two or three countries are determined to be the most likely candidates for further investigation, the compiled reports should be submitted to the executive committee for their approval and to update them on progress. Upon approval, the team should make immediate plans to embark upon successive visits to all of the chosen countries in an attempt to attain up to date information and first hand experience with the peoples of those countries. They should be done in successive order so as to allow the team to compare and contrast the possibilities while the prospects are still prominent in their minds. Through adequate research followed by personal visits, the team will then be able to submit their collated and complete report and recommendations to the board with confidence in the validity of their findings. This will allow the board to then either decide on the facts at hand or to request further information on a given area, if the findings are complete, the board can then continue on with the second part of the investigation, to determine the possible Expansion options. The pages to follow are the detailed areas of team research and concern which can be used as a FRAMEWORK for subsequent actions of the research team. These areas are broad and obviously not inclusive of all possible areas of concern to a given company.

The chapters of this paper can be summarized as follows: Chapter 1 is the introduction and give a brief preface to the topics to follow. Chapters 2 and 3 deal with the positive and negative aspects of expansion and the applicable concerns therein. Chapter 4 deals with making the right overseas expansion choice and a company at this point should have several options, for the best means of expanding. This chapter helps to identify the benefits and pitfalls of each option. Chapter 5, "The American Uniform Case" is a real world application in the form of the choices and success of an American company expanding into Eastern Europe. Chapter 6 ties together the material from chapters 1 through 3 in the form of a S.W.O.T.

⁹Personal Interview at American Uniform with John Ward, Vice-President, Cleveland, Tennessee, June 1992

analysis to facilitate successful expansion into foreign markets by the example of a fictitious American company expanding into Bulgaria.

CHAPTER 2
PRO EXPANSION TOPICS
Additional Access to New Markets

In order to minimize both transit time and transit cost, it is imperative that an expanding corporation take into account the centrality of a given country to its markets. Ideally, the country in question should have a substantial market for the product/service which will allow the company to obtain ready sales and market experimentation¹⁰. Since ideal situations rarely occur, second priority is that the country in question has ready access to various countries which are potential or past consumers of the product. Additional to this is the requirement that goods can pass over these borders with minimal cost.

Market location is an imperative that actually supersedes several levels of consideration due to the typically higher transport costs. That is to say, if you were a company producing Kimonos (Japanese women's wear), it would behoove you to try and locate your production facilities either within Japan, or as near as possible¹¹. This strategic positioning would allow financial benefits that would increase your cost competitiveness in relation to your competitors (given that they have not done the same thing). Remember however, that the degree of concern over the transportation costs will be directly related to the costs of shipping (i.e. transporting heavy machinery will be far more costly than shipping feathers). As will be illustrated in the sections to follow, market location is a primary concern which the expanding company must identify and deal with if it hope to be successful in its expansion efforts.

¹⁰Personal Interview at American Uniform with T. Roy Jones, Marketing Director, Cleveland, Tennessee, June 1992

¹¹De Mente, Boye, How to do Business in Japan: A Guide for International Business, NTC Business Books, 1990

Internal Markets

The presence of an internally vibrant market for a company's product can help to support the company while it expands into surrounding areas and markets. Whereas typically the lower labor cost countries and Less Developed Countries (LDC's) don't typically purchase many of the products which they produce, they can often be sold to local exporters who will sell the given product on a third party basis¹². The presence of this market allows the company to foresee substantial cost savings from transport which will be incurred by the exporters¹³. If the product is however an homogenous one, with a broad, general market(i.e. Coca-Cola), there is a good chance of selling the product to local distributors or retailers. This near instant access to a marketplace will be highly useful for various market research activities and planning of sales¹⁴. By test marketing so close to operations, the company can better determine the probable effectiveness of various marketing approaches and therefore save considerable money in the implementation of such plans in other countries with similar purchasing habits¹⁵.

Whereas an internal market is not a pre-requisite, if there exists several location options, it will often help to increase the attractiveness of a given choice which has such an internal option for sales.

External Markets

Centrality not only to resources, but to markets is an imperative which will weigh

¹²Bartlett, C., Managing Across Borders, Harvard Business School Press, Mass., 1990

¹³Nelson, Carl, Global Success: International Business Tactics for the 90's, Liberty Hall Press, 1990

¹⁴Personal Interview at American Uniform with T. Roy Jones, Marketing Director, Cleveland, Tennessee, June 1992

¹⁵Austin, James, Managing in Developing Countries, Collier-MacMillon Publishers, 1990

heavily upon the choice of production location. Centrality to surrounding markets will allow a company to offer their product or service at reasonably consistent prices throughout the markets due to uniform transport costs. When transportation cost is a major factor in the final cost of a given product, analysis should be conducted to determine the best location for production. Various forms of this analysis are illustrated in pages to follow, and take into account transport distance and market size to aid in the proper positioning of the production/distribution center.

Relations with Foreign Governments

(Government is...) "The Assumption of authority over a given area and all within it, exercised generally for the double purpose of more complete oppression of its subjects and extension of its boundaries" -Benjamin R. Tucker

Men cannot escape it through all their coups and wars, business cannot escape it no matter the boundaries they may cross, it is always there like a shadow, it is government¹⁶. The greatest business leaders denounce it, the loudest politicians praise it, and the youth denies it, but it is always there, like a shadow. When expanding internationally, we no longer face just the pitfalls of dealing with our domestic government, but additionally, we have the reciprocal pleasure of trying to please the foreign governments as well. Very often we find that the two idealisms are almost wholly incompatible, and therefore hinder consistent operations. What is an expanding company to do then? It must acknowledge the needs and requirements of both governments, and attempt to find a "Happy Medium" that meets the political desires of both. The range of governmental policies worldwide are as diverse as their people, and typically there are certain rules of play which must be recognized in order

¹⁶Geyelin, Henry, Communicating the Socioeconomic Impact of Multinational Corporations, Council of the Americas, 1976

to operate smoothly within their borders¹⁷. Since the fall of the Berlin wall, there have occurred numerous changes in the government structures of many countries and in their economic orientation. In many formerly eastern block countries, the governments are interested in promoting capitalism through the entry of foreign corporations, and to that degree they offer various incentives which promote foreign interaction and entry within their borders. Even in Europe, the economic climate has changed with the advent of the 1992 European Economic Community and its objectives. These changing factors must be acknowledged and addressed in order to compete effectively. As if these foreign factors were not confusing enough, the mood of the domestic population has altered so as to be less inclined to purchase goods manufactured outside its borders. The times are changing, and the practices of business must also necessarily change proportionately to compensate and remain competitive. The problems of dealing with foreign governments are numerous to say the least. Typically the rules of action are quite different in different countries from the giving of bribes and gifts to officials to the accepting of special favors and permits which allow the corporation to operate outside the normal laws¹⁸.

Foreign Government Incentives

In many of the formerly eastern block countries, the governments are trying to attract new business to their country and therefore provide jobs and income to their people, to such a degree, that they actually help finance new companies through financial assistance, the giving of lands, lands available at a reduced rate to foreign investment, or the temporary exemption of taxes upon them. These factors weigh heavily upon an expansion decision due to their obvious benefits, however, they must be weighed against the negative aspects which can range from political situation and changes in the political situation (Example: South Africa), to governmental stability (Example: El Salvador), to foreign acceptance (Example:

¹⁷Porter, M., The Competitive Advantage of Nations, New York Free Press, NY, 1990

¹⁸Austin, James, Managing in Developing Countries, Collier-MacMillon, 1990

Iraq). These factors can greatly outweigh the positive incentives and must therefore, be addressed before making a decision.

Foreign Infrastructural Incentives

In many cases, foreign governments will attempt to attract business by actually creating new roads or modifying existing ones. Future modifications to the present system as well as plans for the expansion of same are important factors to consider and question government officials on during interviews. The company should also inquire as to the projected time frame for completion, a good rule of thumb in many Eastern European countries is this: 1) if the upgrading of a highway has already begun, and the finish time is given, increase the completion time by 50% to arrive at a more likely date. That is to say, if you are told the current construction will be finished in one year, expect completion in approximately 18 months. 2) If construction has not yet began, expect to at least double the amount of time projected for completion. Again, this would indicate that a project slated for a one year completion will most likely be done at least two years later¹⁹. This rule of thumb is only a benchmark, not an exact science, it simply reminds the company researchers not to rely too heavily on completion dates issued by foreign (or even domestic) governments. One last note, the company entering the prospective area should also take into account the presence of locally based international trucking companies which will be used in the transport of goods to other countries or even within that country. If the company decides not to use outside sources of transport and handle these matters itself, it should confer with an export/transport consulting agency so as to obtain the necessary documentation and requirements for domestic/foreign transport.

¹⁹Personal Interview at American Uniform with Jack Seymore, Director of Purchasing, Cleveland, Tennessee, June 1992

Supply of Indigenous Labor

Labor is...."A surmounting of difficulties, an exertion of the contracting power of the muscles; and as such resembles pain, which consists in tension....in everything but degree." -Edmund Burke²⁰

Whether a company produces textiles, turnstiles, or tacos, it will need to hire people to produce its product or administer its services. It is therefore of paramount importance to spend more than just a few moments in considering the labor prospects in a given country²¹.

From unskilled "Line" workers to specialized "Trade" workers, and clerical workers to executives, the problem of labor availability is a paramount concern. Frequently, a main attraction of expanding into a foreign country will be the availability of low cost labor, it is important again at this point to remember the problem of choosing a plant location near a population which will be of use to the industry(i.e.- it would be useless to place a high tech electronics plant in an agriculturally oriented region). By attaining data on the most recent industries to be located in a given area, the team can better determine the propensity, and ability, of the native population to complete a given production/service task. It is similarly important to determine the reasons the last few companies (if there are any) left the area in an attempt to determine any negative productivity aspects such as high turn-over(of employees). When the studies of given prospective areas in each country have been completed, they should then be compiled and tabulated if possible to best determine the best probable areas for drawing a successful workforce from. This data can then be compared to the labor data collected from other labor areas and a decision can be made.

In the analysis of factory placement, several questions must be answered as to the availability of a workforce, primary among these is the presence of both management and line

²⁰The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

²¹Ball, Donald, International Business, Business Publications, Texas, 1988

workers to fill the necessary positions²². Initially, the company must determine whether it is willing to export some of its domestic employees to the new locale, and if so, the number and types of individuals to send. The practice of sending over the "Best and Brightest" to run the facilities is a frequently practiced one, however, it may not be the best option. Companies may also encounter difficulties in convincing those employees it wishes to send to these foreign markets to actually go. The company must then seek some way to "sweeten" the deal and encourage the necessary people to go. Solutions to these problems can be such things as pay increases, agreeing to short term placement in these foreign areas, and in the case of long term placement, graduated pay scales may help in many cases. In the case of several companies entering the European market, there has been a problem of having all the upper level management and line supervisors from the U.S.. What will frequently occur is that the U.S. managers will attempt to dictate the actions of their subordinates in the same manner as they had in the U.S., without taking into account or even understanding the business culture. The best choice may be to find a comfortable medium between the number of American and native managers and workers, treating the local people not as subordinates, but as team-mates. The right mix can typically be determined through historical observations of what other successful American companies have found to be a constructive ratio of workers and using that number as a guideline for the initial grouping.

After determining the positions which will be filled by the U.S. employees, the company will have a better idea of the types of talent it will require from the native area in a given country²³.

Education and Experience

Education is...."(That which) gives a man a clear, conscious view of his own opinions and judgements, a truth in developing them, an eloquence in expressing them, and a

²²Moyer, Reed, International Business: Issues and Concepts, Wiley, New York, 1984

²³Brannen, Ted, Overseas Management, McGraw-Hill, New York, 1965

force in urging them." -John Henry Newman²⁴

Experience is..."The wisdom that enables us to recognize as an undesirable old acquaintance the folly that we have already embraced" Ambrose Bierce²⁵

In evaluating the prospective populations of a given country there is always the concern of establishing the current status/background of the labor force. In an ideal situation the labor force of a given area will have recently had experience producing in the same field as you hope to establish, as this would allow for minimal training and costs, and the labor force had successfully produced in that field²⁶. This ideal situation, however, is not a likely one.

There are really only two options open to a company opening an international operation where employees are concerned, 1) Hire persons trained in and familiar with your field of production, 2) Hire people unfamiliar with such production and train them. There are pros and cons to both options which need to be addressed, or at least, identified²⁷.

Option #1 Hire Experienced People if Available

- Pro -a) Minimizes training cost
- b) Minimizes training time
- c) Diminishes the need for supervisors
- d) Allows a company to hire based upon past performance rather than estimations of propensity
- e) Makes it easier to put the "Right person" in the "Right job"

²⁴The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

²⁵Ibid.

²⁶Derived from American Uniform Interviews, Cleveland, Tennessee, June 1992

²⁷Nelson, Carl, Global Success: International Business Tactics for the 90's, Liberty Hall Press, 1990

Con - a) Usually higher pay expected from experienced workers

- b) Possible existence within the workforce of "Bad Habits" in the production process
- c) Negative workforce may be the reason for prior industry failures in the region
- d) Typical tendency for workforce to resist production differences/methods from last employer
- e) Possible prior existence of counter-productive and frictional trade unions

Option #2 Hire Inexperienced Workforce

Pro - a) Allows for proper and correct training

- b) Typically allows for lower starting wage
- c) Unlikely there is a Trade Union Present
- d) No prior expectations on behalf of community

Con - a) Much higher training costs

- b) Longer "Start-up" lead time
- c) No historical skill in production area
- d) May lead to severe misunderstanding and low quality
- e) Difficult to establish initial production estimates

Best Combination for Hiring

With all of these factors to consider, what is the best combination to pursue in hiring? Well, the answer to that question is not so easily determined, and there is no answer that is always correct. Several factors which are important to consider are²⁸:

1) Literacy - Typically literacy (at least in their native language) is a prime concern when hiring employees, high literacy will typically indicate a certain comprehension level and it will most likely ease training and updating.

2) Past Performance - No matter what industry an individual/community has had

²⁸Blough, Roy, *International Business: Environment and Adaptation*, McGraw-Hill, New York, 1966

experience in, there should be some historical evidence of propensity to adequately perform given tasks within a certain quality level.

3) Education - In the case of front line supervisors and lower to middle level managers the education level should be sufficient for them to adequately convey the concerns and productivity of their subordinates to their immediate superiors both verbally and in writing. Additionally, each level must have the ability to transfer an understanding of expectations to the level below them. As for the educational criterion pertaining to some middle and all upper management, the previous skills are required, as well as the ability to see beyond their own sectional needs and to comprehend the "Big Picture" and the overall goals. Additionally, the ability to speak both the language of the native culture as well as English can be helpful in easing the transfer of conceptual goals and promoting interaction.

Whereas this list is in no way complete, it does outline some of the basic concepts which should be of concern to a company attempting entry into new (to the company) areas. Again, it cannot be stressed enough that these concepts only form a framework, not a complete plan, and each company will have to adapt new/different criterion based upon their situation, size, and the country in question²⁹. It should also be noted that education in and of itself is not a completely accurate indicator of ability. We thusly derive that education level should be used only as one indicator of competency and future success. Therefore, to conclude, there exists no formula for the calculation of success of any given employee in a given position, however through historically prevalent trends, interviews, education, experience, and instinct on the part of the employer, can minimize risk, and success can be the rule of the day³⁰.

²⁹Bartlett, C., Managing Across Borders, Harvard Business School Press, 1989

³⁰Dymsza and Vambey, International Business Knowledge: Managing Internationally, Praeger, New York, 1987

Supply of Raw Materials

Since no life can exist in a vacuum, a company must determine the prospects of finding the materials needed for production of their product or the administration of their services.

An ideal situation would be one in which the country to be entered has limitless low cost raw materials necessary for production, this however is not usually the case³¹. Each country has its own beneficial raw materials, but a company must determine what its needs are and whether those materials are obtainable in the required quantities in that country, and if not, what the cost will be in obtaining them.

Raw materials are possibly the most important factor in the rise of the United States as a superpower³². The fact that the U.S. had access to iron, coal, rich soil, and diverse climate conditions lead to its self sufficiency. The patriotic revolution of 1776 may have never taken place if they felt that they would starve without food shipments from England, but such was not the case. There are few countries in the world which will meet all necessary raw materials requirements, the entering company must then divine which materials it will need from within the country, and which can be imported at reasonable prices³³.

It is also important to recognize that raw materials are not only objects and things, but also natural ability and societal norms. Such is the case with Japan (given as an example), where an industrialized idolatry was their superior resource. The aspects of raw materials are diverse, and must be acknowledged if the company is to continue operations successfully in the foreseeable future.

³¹Personal Interview at American Uniform with John Ward, Vice-President, Cleveland, Tennessee, June 1992

³²Porter, M., The Competitive Advantage of Nations, New York Free Press, NY, 1990

³³Personal Interview at American Uniform with Jack Seymore, Director of Purchasing, Cleveland, Tennessee, June 1992

CHAPTER 3
ANTI EXPANSION TOPICS:
ADDITIONAL COSTS AND RISKS OF MANUFACTURING ABROAD

[Economics is...]"The doctrine of proportion reduced to practice.... foreseeing contingencies and providing against them.... expecting contingencies and being prepared for them." -Hannah More³⁴

Economic Concerns

The economic prospects of a given country are of pertinent concern to an expanding corporation due to the effects of the economy upon most aspects of daily business. The economy will affect everything from wages to taxes, and from employment to sales. By determining the economic expectations of a given prospective country the company expanding there can better determine the probable changes in the workforce and sales in the foreseeable future. This determination is exceptionally important because it will in many ways divine the future success of the company in that country. The two primary areas of economic concern in as far as the company will be interested are typically the economic outlook of the country, which determines the future of various aspects such as wages and internal sales, and currency which determines the monetary cost of operations, as well as the stability of these costs.

Foreign Currency and Risk

"A guarantee that we may have what we want in the future. Though we need nothing at the moment, it insures the possibility of satisfying a necessary desire when it arises" -Aristotle

³⁴The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

The question arises often when speaking of opportunity for business in the countries of the former Soviet Union, "If the situation is so good, why doesn't everybody go there?" To answer simply, their currency is worth less than the materials which make it³⁵. The problem of dealing in foreign currency is truly epitomized by the Russian ruble. The ruble is an inherently worthless coinage³⁶ not accepted in trade with any other major currency. For this reason, most companies have held expansion plans for the area in check, awaiting the standardization of the currency. How then do companies like Pepsi see a profit in the country? Again, put simply, they barter³⁷. Pepsi has long avoided the problem of a non-transferable currency, by using the currency to buy other Russian goods and export them for profit³⁸. In fact Pepsi is the sole worldwide exporter of one of Russia's premium Vodkas! This not the solution for all companies, but it does provide an example of improvised action.

How then should a company entering a country determine the pitfalls and benefits of the native currency? This must be obtained by examining the past stability and fluctuation of the currency in relation both to the domestic currency (U.S. dollar) and to other major international currencies³⁹. This analysis will allow currency cost projections to be developed and thereby determine what monetary options are available.

The company must also take into account the acceptance of foreign currencies into the country's environment, or in other words, can goods be purchased using non-domestic currency, and if so, is there a cost difference between the different currencies?

If foreign currencies are typically not accepted, then further agreements with importers and exporters must be reached which determine where and when the currency exchange

³⁵ Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

³⁶Note that although the currency is currently worthless, this situation may change in the future.

³⁷ Arpan, Jeffrey, International Intracorporate Pricing: Non-American methods, Praeger Publishers, 1972

³⁸ Arpan, Jeffrey, International Intracorporate Pricing: Non-American methods, Praeger Publishers, 1972

³⁹ Sweeny, Allen and Rachle, Robert, Handbook of International Financial Management, McGraw-Hill, New York, 1984

will be made. Next, a given corporation can attempt to project the trend of the currency, thereby determining whether to convert their currency now, or to wait until transaction time. If the correct projections are made, the company can actually foresee substantial savings in the transaction, while still fulfilling their requirements of payment⁴⁰.

To summarize, currency and its fluctuations can have both negative and beneficial effects upon foreign operations, and only by hedging against the negative effects, and maximizing the positive ones can a company hope to compete effectively.

Foreign Economic Outlook

The economic prospects of a given country are of primary concern to an expanding company, and thus require substantial research and planning. A wise stock broker once said, "Buy when everyone wants to sell, and sell when everyone wants to buy, and you'll make a fortune!" It's true, by the time that "Everyone" wants something, it's likely that the benefits are long since over and the markets are saturated⁴¹. The winners are the ones who know what people want even before the people do. Such is the case with the economies of most countries. An example is Mexico, where the 807 clause allows U.S. corporations to have their labor-intensive assembly jobs performed there and they only have to pay tax on the value added by the assembly. Using this clause, some of the largest U.S. corporations built production facilities just over the border of Mexico. This was then followed by a second wave of companies which had to build facilities a little farther over the border than those of the first wave due to space requirements. By the time at which this practice became truly popular, facilities had to be built so deep into Mexico that the transportation costs began to

⁴⁰Geyelin, Henry, Communicating the Socioeconomic Impact of Multinational Corporations, Council of The Americas, 1976

⁴¹Blough, Roy, International Business: Environment and Adaptation, McGraw-Hill, New York, 1966

outweigh the labor cost savings⁴². Similarly, in the U.S., there was a building and production boom in the North East in the mid-80's which attracted many people and corporations to the area, then the recession hit and drove many companies out faster than they entered! What a company needs to try to do is determine at what economic stage a given country is in, and try to get their "Foot in the door" before the benefits are outweighed by new pitfalls. This is a difficult prospect for most companies, but one that needs to be addressed. An entering company, must also be aware that the current situation within a country is not guaranteed to exist in the future, and they must therefore be ready to adjust or change their "game-plan" as is necessary (a good example of which is American Uniform, which will be discussed in Chapter 5).

Infrastructural Concerns

More than roads, more than vehicles, a life line to the outside world. The infrastructure of a country will often be of absolute importance to the prospective company hoping to enter the environment. This section is broken down into six subsections, each of which covers its own specific and important aspect of the infrastructure in a given country. These five sections and a brief description follow: 1) The streets and highways section identifies aspects of high-speed small to medium-distance ground transport. 2) The trains and buses section identifies the logistics of the use of public transportation on behalf of the labor force between the production facilities and the population centers, as well as the availability of freight trains for high speed long distance transport. 3) The air service/ports section is significant due to the frequent need for transporting across bodies of water, as well as for very high speed/high priority air transport. 4) The postal service section identifies the need for consistent communication with the outside world. 5) The telephones section deals with the need for consistent and stable communications, both voice and data communication. 6) The power requirements section deals with the ability to obtain

⁴²Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

stable and consistent electrical power within a given country.

These six sections provide an overview of those factors typically taken for granted by American managers, but when dealing with many European countries, forgetting these essentials can cost the company more than just time and money, they can mean the difference between success and failure.

Streets and Highways

"All roads lead to Rome"

-Ancient Proverb

Typically in America, the status of the local roads are taken for granted without realizing the massive scale of such an undertaking. The likelihood of finding an eastern European country with the same such convenience is unlikely at best. We then need to direct our research in such a way that we can ascertain a better idea of the available over-land "trade routes" which are available. Of prime importance is the presence and condition of an operable highway system within that country⁴³. The presence of a highway system situated in such a way as to be of benefit to the production facilities will greatly increase the ability to transport goods between countries as well as giving the company an opportunity to transport their goods to alternate exit locations(ship and air ports) in a timely manner. The importance of a subsystem of streets and roads is also of great importance as it will allow the company to market its goods within the country it operates. The presence of transitable streets will be exceptionally important to a company producing a general, non-specialized product, such as a food or beverage.

Another area which U.S. corporations will often overlook in their exuberance to expand is the latent possibility of war in or around the country they are operating in. In such a case contingencies need to be established as to alternative markets, routes of

⁴³Personal Interview at American Uniform with John Ward, Vice-President, Cleveland, Tennessee, June 1992

transportation, alternative demand, and their ability to even produce. Innovative ideas can sometimes turn such possible pitfalls into windfalls. In the case of a clothing or textile business, the addition of military uniforms to their product line could be a very wise move at such a time (provided the armies have the time and money to purchase such apparel).

To conclude, not only the presence of a highway and/or serviceable road is enough, but the status of that structure must be determined, as well as the likelihood of the system to be "Kept-up" in working condition.

Trains and Buses

A commuter is..."One who never knows how a show comes out because he has to leave early to catch a train to get him back to the country in time to catch a train to bring him to the city."
-Anonymous

How will the labor force arrive at the production facilities and return back to their homes? How will bulky shipments be hauled across long expanses of land? Public transportation and commercial freight trains. In many European countries the public transit system actually operates efficiently and in a timely manner, and therein is the basis for the separation of rural and industrial areas. Depending on the country, there should be some form of public transportation available to bring workers from outlying areas to the production facilities, but in the case of newly built facilities, consultation with the local government should occur prior to finalizing any plans. This dialog should include the addition of a new bus/train stop in the area near the facility. If the government is unwilling to do this, then possible reconsideration of plant locale might need to occur. In highly industrialized countries, this should not be a problem, however in more regressive, rural countries the need for accessible public transit will become more and more evident.

The second aspect to consider is the proximity of rail service. When making inquiries, it is important to obtain information on the following: 1) condition and types of local trains, 2) accessible large cities and ports which the train reaches to, 3) countries

the rail system reaches to, 4) number of stops a train makes between locations, 5) number of times goods will need to be switched to another train before reaching its final destination, 6) weight capacity of the trains, and 7) costs of transit to most likely shipping locations, and the existence of bulk rates. It is worth noting that the rail system throughout Europe is not one of standard sizes, and frequently, when rails in one country do not match those in another, the underpinnings will need to be changed before the train can continue.

Air Service and Ports

"From going to and fro in the earth, and from walking up and down in it"

-Bible: Job, I, 7.

"To throw open the doors of commerce, and to knock off all its shackles, giving perfect freedom to all persons for the vent of whatever they may choose to bring into our ports, and asking the same in theirs."

-Thomas Jefferson⁴⁴

Again we are faced with two different aspects of production which are paramount to the success of a given operation⁴⁵. Air service is necessary not only for the access it permits to the outside world, but for its importance as a means for shipment of goods, and the timely receipt of needed items. Operating in a country without air service will seem to be a mere inconvenience until an important part breaks on a primary machine and the nearest replacement part is thousands of miles away, or in the case of shipping new products over long distances or oceans and having the product arrive long after a competitor's product arrived by air⁴⁶. Nearby air service is a paramount concern where speed and time are a prime necessity. When evaluating local air service, remember to consider the following factors: 1) large cities

⁴⁴The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

⁴⁵Blough, Roy, International Business: Environment and Adaptation, McGraw-Hill, New York, 1966

⁴⁶Austin, James, Managing in Developing Countries, Collier-MacMillon Publications, 1990

(domestic and foreign) accessible from that airport, 2) the cities serviced non-stop from that location, 3) the availability of freight airlines, 4) the transportation capabilities of the currently established air service (capacity, timing, performance, and reliability), and 5) possible restriction on air transport.

The shipping ports of a given country are also exceptionally important due to the cost effective benefits of shipping large quantities overseas. The major ports should be identified and evaluated using the following framework: 1) the existence of international shipping companies, 2) the regularity of the outgoing and incoming shipments, 3) reputations of current shipping companies, 4) the accessible ports serviced by local companies, and 5) the time consideration involved in shipping between ports⁴⁷.

Taking into account these aforementioned factors, the status of air and shipping ports can be effectively evaluated, thus issuing a rough picture of the long distance and timing options involved in transport. These factors provide a rough framework to evaluate the readiness of a given country for industrialization and production in the initial stage of research.

Postal Service

"[The world is] a place that grows smaller as the postal rates grow larger."

-Anonymous

Postal service is exceptionally important, both for communication with the outside world, and for the receipt of parts and supplies necessary for the continued operations of the company in a given country. When considering the integrity of a given postal system, many factors need to be considered, such as, cost, speed, reliability, and shipment size

⁴⁷Kelly, Marie, Foreign Investment Evaluation Practices, UMI Research Press, 1981

constraints⁴⁸. Costs should be considered, and tabulated for typical sized packages to each location where they might need to be sent.

Speed is of course a factor, and the research should identify the time it would take for each sized package to reach several destinations by several classes of transit (i.e. priority mail, over night, etc.).

Typically, the postal service of a given country will be able to handle most situations, but it should not be assumed.

Telephones

"An invention of the devil which abrogates some of the advantages of making a disagreeable person keep his distance." -Ambrose Bierce

Where would we be without the ever necessary telephone? We as a nation tend to take adequate phone service as an eternal constant of successful business, however our beliefs are quickly dashed when we travel abroad where such simplicity is non-abundant.

The major concern of telephone service needs to necessarily address two primary areas, the first of which is that of voice communication and conferencing⁴⁹. In evaluating a telephone system of a given country for voice communication concerns, there are several factors which need be addressed, these are:

VOICE COMMUNICATIONS CONCERNS

- 1) Clarity of voice quality - clarity within the country, Europe, and overseas
- 2) Ease of operation - How difficult is it to reach desired locations over the phone lines (i.e. Direct dial, or Operator assisted)
- 3) Operator competency - Do the operators speak English, and can they handle difficulties.

⁴⁸Personal Interview at American Uniform with Jack Seymore, Director of Purchasing, Cleveland, Tennessee, June 1992

⁴⁹Personal Interview at American Uniform with John Ward, Vice-President, Cleveland, Tennessee, June 1992

4) Service options - Is the system capable of the additional abilities of teleconferencing, etc. and does it provide for rapidly handled service assistance.

5) Service consistency - How often will calls be cut off or wrongly misrouted.

The second primary area of concern when determining the capacity of a given telephone company is the area of data communication:

DATA COMMUNICATIONS CONCERNS

1) Line clarity - Are the telephone lines stable enough with minimal line noise to permit uninterrupted data communications, fax receipt and transmittal. Very important when relying on the Internet, which in the years to come will vastly improve our ability to communicate across the globe.

2) Line consistency - Are prolonged data communications possible without excessive interruptions?

3) Line quality - Will transmitted/received data be of discernable quality at its final destination?

4) Line stability/safety - Are there reasonable precautions inherent in the system to prevent destructive spikes/loss of phone line power which could damage the systems connected to it?

These factors are of prime concern to any company expanding into the overseas markets, and can greatly affect the stable operations there. To this degree, companies must note the past performance of the local telephone company, as well as look into their future plans to determine possible interruptions in service and the likelihood of the service improving. Once these factors are investigated, it can better be discerned whether the service will be sufficient for the needs of the entering company.

Power Requirements

"Carrier of light and power, devourer of time and space, bearer of human speech over land and sea, greatest servant of man, itself unknown." -Charles W. Eliot⁵⁰

Determining the power supply and consistency within a given country are possibly the paramount infrastructural concern of an expanding company. Without consistent power, a company cannot operate effectively for long. Several factors should be investigated in the area of power, from power wattage, to stability of the power carrying conduits⁵¹. The power wattage of the native power supply is exceptionally important due to its tendency to cause incompatibility problems with existing equipment. In this case, care should be taken to note the amount of readily available power, its wattage, and the possibility to convert it if necessary to a more conventional level.

Consistency of the power will often determine consistency of product, even in labor intensive industries⁵². Whether the main use for power is machine usage, or simple lighting, without power, production is at a "stand-still." It is paramount here to investigate the past performance of the local power company, as well as to investigate their future plans for upgrading or repair.

Condition of the power carrying apparatus/conduits is of exceptional importance due to the probability that in inclement weather these wires could be damaged and thereby interrupt power for extended periods of time. If the status of the power lines and transfer stations is in a state of disrepair and deterioration, inquiries should be made to the power company as to the possibility of the replacement of the aging conduits. If the power company is unresponsive to the needs of its customers, it can be expected that service will only

⁵⁰The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

⁵¹Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

⁵²Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

deteriorate further. It should also be noted in this section that additional investigations should be done to determine the status of the water and sewage structure of the area to site-out other possible problems.

Labor Concerns

Turn-over

One of the great "plagues" of the twentieth century inflicted upon business has been that of high employee turn-over⁵³. As is the case with most companies, a great deal of time and money is invested in training a new employee only to find that the employee is soon working for another company in a very short time. This fast turn-over is costly to the company not only financially, but it disturbs the congruence and synergy necessary in the attainment of corporate goals. How then should a company determine the probable "life-span" of a given employee within the company? The best sources for this information will be the government of a given country or the larger unions (if any) indigenous to a country. Typically research will uncover the raw data on the relative turn-over rate or, in rare instances, compiled data for regional areas of production. A third source which is often very useful is the U.S. Ambassador or U.S. Consulate within the country in question. Frequently, the foreign office will have accurate information it will offer to American companies in order to assist in their development and survival overseas.

The company expanding into a given country must also do ongoing research when they are actually operating there as to turn-over and its sources (i.e.-wages, benefits, location, etc.)⁵⁴. By determining the reasons which an employee has for leaving the company, they can try changing their policy accordingly in a pro-active attempt to deter future loss. It is important for a company to realize that they often lose more money training a new employee than they do by meeting the needs of the current ones.

⁵³Behrman, Jack, International Business and Governments, University of South Carolina Press, SC, 1990

⁵⁴Personal Interview at American Uniform with Jack Seymore, Director of Purchasing, Cleveland, Tennessee, June 1992

Unions

"Trade unions are islands of anarchy in a sea of chaos"

-Aneurin Bevin

This is an area frequently overlooked when planning/researching possible production locations, however, this can be the downfall of well laid plans if not addressed. In many countries, unions are not an option, but a requirement. Unions can be of a helpful nature, or they can be outwardly aggressive and, dangerous. The power of European Unions is exhibited in their vast numbers, from 45% of the labor force in many western European countries, to 85-90% in some East European and Middle Eastern countries⁵⁵. This number can be much larger in some industries where union control is stronger such as textiles and manufacturing.

Union problems can occur in countries which are seemingly stable such as France or Spain, where the unions are frequently under communist control, and in France alone claim millions of members⁵⁶. Thus arises the question, to avoid or embrace the native unions. The answer is not a simple one due to the different types and powers of various country unions. The rule of thumb would be to avoid unions if possible, but to be aware of the possible pitfalls of doing so. It is also easy to consult with other companies which have been operating in that country in the past, thus helping to avoid the same mistakes as they may have encountered.

To conclude the union question, be conscious that the reach of unions within a given country can be vast, and sometimes unavoidable, so be aware of past performance of companies who have used or avoided unions, and derive your decision from that information.

⁵⁵From CD-Rom version of the KGB/CIA Factbook, Microsoft, 1991

⁵⁶From CD-Rom version of the KGB/CIA Factbook, Microsoft, 1991

Culture

Culture is...."The sum of special knowledge that accumulates in any large united family and is the common property of all its members." Aldous Huxley⁵⁷

Culture is possibly the most important, and the most overlooked, factor to be considered when researching countries for possible expansion locations. Culture is a deep felt instinct inherent to most, or all, members of a given society. In many business environments there are certain expectations, and in certain cultures there are also certain expectations of business⁵⁸.

How then do we deal with culture? We shouldn't reject it, but we should work around it or with it. What needs to occur is to consult with native individuals to determine the practices, holidays, and traditions of the native population. Next, having the requirements of the culture at hand, a decision needs to be made as to whether the company can operate in the environment given those restrictions⁵⁹. If the company can find a way to work there given those restrictions, it must then find ways to turn those requirements into viable actions, such as scheduling to accommodate a four hour break in the afternoon, or increasing production prior to a holiday to compensate for the lost time. There are almost infinite methods of compensating for the cultural requirements of a given society, "As long as a company is willing to bend, it cannot be broken."

To conclude, culture is typically seen as a constraint, however, if properly identified and compensated for, it can be surmounted. If a company finds that the only drawbacks to production in a given country are cultural ones, and it finds ways to overcome them that its competition does not, it will see prosperity and thereby leap ahead of its

⁵⁷The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

⁵⁸Blough, Roy, International Business: Environment and Adaptation, McGraw-Hill, New York, 1966

⁵⁹Casson, Mark, The Firm and the Market, Holmes and Meyer, New York, 1979

competitors⁶⁰.

Technology

"Science can only ascertain what is, but not what should be, and outside of its domain, value judgements of all kinds remain necessary." -Albert Einstein⁶¹

Technology has become such an integral part of our lives that we embrace it quickly without regard for the future viability of its continued use. This was the case in the early days of automobiles, where people bought the cars without regard for the likelihood of them being able to find gas or get repairs. Such is the case today with many companies entering remote areas of Europe and South America. Frequently, a company will "set-up shop" in an Eastern-block country, connect its computers or machinery up, only to find, to their dismay, that the surges in the electrical power destroy their machines and files⁶². They next try to find a repair/replacement facility, only to find that the nearest location is four countries away and will cost them exorbitant fees to be serviced.

What is the answer then? In essence, the technological level of a given country is dictated by its ability to safely use, repair, and service a component or system. Does this mean that there are no ways to produce a product/service given low levels of technology within a country? No. What it means is that the company entering into such a country must be aware of the low-tech drawbacks of the country, and compensate for it in at least one of three ways⁶³:

1) Alter the technological level in the area the company is to operate. That is to say, if the power supply is full of surges, build a voltage regulator that will

⁶⁰Dymsza and Vambey, International Business Knowledge: Managing Internationally, Praeger, New York, 1987

⁶¹The Software Toolworks Reference Library CD-ROM, The Software Toolworks, Inc., California, 1990

⁶²Lall, Sanjay, The New Multinationals, Wiley Press, New York, 1983

⁶³Lall, Sanjay, The New Multinationals, Wiley Press, New York, 1983

filter the power effectively, or if there are no repair facilities nearby, to allow a portion of the budget to either train a full time repair technician, or to pay for technicians to travel to the plant at times of trouble. The idea of training a technician could be useful if there are other facilities in the area with the same problem, who would be willing to hire the employee out to repair their machinery also.

2) Utilize the local low cost labor to do the tasks which were previously done by automation. This may be a good temporary solution to the low tech problem if the hourly wages are low enough to make this prospect viable. This should not be considered a permanent solution however, as quick turn-around times will become more important on new styles/products and the labor wages rise more quickly.

3) Use a combination of lower-tech machinery and low cost labor. This option has the benefit of deterring over-reliance on low cost labor, as well as allowing for easier upgrading of technology as the opportunity (and the environment) becomes available. This "truce" in the battle between technology and low cost labor will also diminish the initial operating cost by avoiding the problems of integrating higher technology into a new environment, as well as minimizing training costs.

Which of these methods is the best? The answer would be dependent upon certain factors, such as low labor costs, availability of a suitable technological environment, and the willingness of the company to finance the upgrading of the technological level in a given area.

To conclude, technology and its use within a given area is dependent upon certain factors of availability and need. These factors are paramount to the success of the continued operations within that country. Remember that having the best high-tech machines in the world will not help, if the company cannot find qualified persons to operate, repair, and service them⁶⁴.

⁶⁴Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

CHAPTER 4

MAKING THE RIGHT OVERSEAS EXPANSION CHOICE

Decisions are...."The action an executive must take when he has information so incomplete that the answer does not suggest itself." -Arthur W. Radford

In theory, as Mr. Radford notes above, the end result of a thorough analysis will be an answer, plain and clear. However, as the past has illustrated, information is never 100% accurate! I think that Chester I. Barnard said it the best, "The fine art of executive decision consists in not deciding questions that are not now pertinent, in not deciding prematurely, in not making decisions that cannot be made effective, and in not making decisions others should make." It can be inferred then that the investigating team should offer forth their recommendations to the board when their research is completed. It has been said that if you want to find the cause of a problem, ask the man who is closest to it. The same holds true in solutions, if you truly wish to find the best answer, ask the man who knows the problems best, in this case, that "man" who has headed the investigating team⁶⁵. The individual who has assessed the situation, compiled the data, visited the countries, talked with the governments, and knows the people. There is a lot to be said for "gut" feelings and instincts, and if the leader was chosen wisely, his/her recommendations should be rather sound. It is suggested that at the time of their presentation, several prospective plans be introduced to the board, in no particular order, and without revealing the plan suggested by the investigation team leader. This will allow different members of the board to identify those aspects and plans which they feel are important to their own areas of expertise. Once the general presentation is complete, the board members can express their opinions as to which plan they feel is the best. In a best case scenario, all members will agree upon the same plan which the team leader has chosen. In the case where different members have chosen different plans, or different from the one which will now be revealed by the team leader, a

⁶⁵Personal Interview at American Uniform with Gary Smith, President, Cleveland, Tennessee, June 1992

question and answer period should follow, in which the team leader addresses the concerns of the board members, and attempts to explain why his plan is more advantageous than the others. The purpose of this step is twofold, firstly, it allows the board members to see the reasoning behind the recommendation, and secondly, it allows for board members with certain specific concerns in certain areas to challenge the decision for optimality. If the team leader has addressed all important aspects, and is familiar with the choices, he should be able to defend his position adequately, or at least with few modifications. It is hoped that the end result of this action will be either the acceptance of the suggested plan, or the modification of the plan to address the specific and overall concerns of the board members, and therefore the company. During the "debate" portion of the presentation, the team leader should avoid generalizations such as "should" or "many", as well as absolutes such as, "all" or "none" and instead attempt to answer with specifics and quantifiable data following this process, all possibilities can be addressed and hopefully therefore reach the best conclusion given the available information. The end result will be the optimal one, agreed at and tested in the fires of debate.

Headquarters

The choice of headquarters placement and its organization are important concerns which need to be addressed so as to facilitate accurate control over all areas of operations. Keniche Ohmae suggests in his book, TRIAD POWER, that it is difficult to truly treat the three markets of Japan, United States, and Europe with equal attention, he further suggests such action as his Anchorage Perspective as a compensating factor⁶⁶. The Anchorage Perspective (or in other words, determining where to locate a central headquarters) is primarily symbolic in nature due to its location (Anchorage, Alaska), which is geographically centered between New York, Japan and Dusseldorf. It is hoped that such centering enables the corporation to view the various operations with equal attention without favoritism. It is not likely however,

⁶⁶Ohmae, Keniche, Triad Power: The coming shape of global competition, New York Free Press, NY, 1985

that there will be a great corporate building boom in Anchorage Alaska! The idea he is trying to stress is that an expanding corporation should not view its entry into foreign markets in terms of "We'll try it and see what happens, but if things go bad, we'll just pull out." Inherently, this sort of thinking integrates the acceptance of failure as part of its plan. If failure is an option, there will most likely be a self fulfilled prophecy occurring. The expanding company must decide on whether it wants to expand or not, and if it does, it must be firm in its belief that it will and must succeed. Failure is easy to plan for, success is a little more difficult⁶⁷. By separating the "World Headquarters" from the integral parts of the operations of either country, the needs and concerns of both can be best addressed. This may encompass the addition of new jobs , for example, the current head of U.S. marketing will now head the International Marketing division at the International headquarters, and someone else would take over his prior position. Sometimes hiring a new person to fill the international position will be advantageous due to their non-inherent loyalty to the domestic branch of operations. In cases of highly competent individuals, it may be possible in the short term, to use the existing individuals, but to change their job title (preferably with a raise in pay) to one that now encompasses the international operations as well, the new job title and additional pay will act as an incentive to address the expanding operations with responsible action and vigor.

By detaching the international headquarters operations from the domestic operations to the highest degree possible, the company can hope to avoid misdirection of action, concept and disfunction⁶⁸. Ideally, the world headquarters will be located at a point different from either the domestic or foreign operations, and consist of individuals who oversee the world operations and have reporting to them the heads of their respective areas from both the

⁶⁷Personal Interview at American Uniform with Gary Smith, President, Cleveland, Tennessee, June 1992

⁶⁸Ohmae, Keniche, Triad Power: The coming shape of global competition, New York Free Press, NY, 1985

domestic and foreign operations⁶⁹. By adding this top tier to the corporate "Pyramid" the company can hope to best address the concerns of the two (or more) bases of operations in a timely and effective manner, while still being able to standardize the actions of both, thereby enabling greatest efficiency and continuity of action throughout.

Type of Expansion

Determining the type of expansion is highly dependent upon a number of factors, among these are, domestic and foreign economic conditions, the existence of viable locations for production, governmental legislature which may hinder or improve expansion prospects, and the current financial status of the company. Ideally, the company wishing to expand would be faced with a situation where they are financially stable and their research has located a country where production could take place under near ideal conditions of favorable government support, and abundant supplies of raw materials and labor. The primary concern of the company should be to determine which option is correct for it at this time, and what each decision will mean to it in the future under best, worst and most likely conditions⁷⁰. This three stage analysis should be conducted as it will help to project probable pitfalls to be incurred, and will also allow the company to understand what the consequences will be should there be a negative downturn in their operations. Few companies realize that the price for failure is often higher than the promises of success, so it is important that these facts be realized. Each method of expansion differs in its investment cost, with the cost factor being highest for Wholly Owned Subsidiaries, then for Joint Ventures, next for Exporting, and the lowest for Licensing. Whereas the costs are differentiated by the various methods, so therefore,

⁶⁹Ohmae, Keniche, Triad Power: The coming shape of global competition, New York Free Press, NY, 1985

⁷⁰Nelson, Carl, Global Success: International Business Tactics for the 90's, Liberty Hall Press, PA, 1990

must the rewards be likewise oriented⁷¹. This indicates that the option of the wholly owned subsidiary, will have the highest start-up and research costs, but similarly, if successful, it will also see the greatest rewards and profit. Additionally, the establishment of full operations on foreign soil will frequently have some added benefits, among these are:

- 1) Improved ability to compete if located within the EEC, under current and future EEC regulations.
- 2) The ability to control the production and differentiation in a timely manner due to control over the operations.
- 3) The opportunity to gain first hand information and skill in dealing with those native markets.
- 4) The development of a positive image within the economic community and its peoples.

Though the benefits of the wholly owned subsidiary are numerous, there also exists the possibility of failure and in the case of the wholly owned subsidiary, the costs of failure are high. There exists also, the possibility that the native government will deter the entry of wholly owned subsidiaries into their country. Occasionally, countries will bar foreign entry into their countries unless it is in the form of a joint venture with a native company. In such a case, the entering company must analyze this situation and determine whether it will follow a different course of action by either entering a different country, or by modifying their plan to cooperate with the requirements of the native government.

Basically, the expanding company must weigh several factors to determine the best possible type of expansion. This analysis should be based upon the pre-expansion investigation information and recommendations, as well as against the pre-determined goals set forth by the board pertaining to this expansion. It is integral to this process that the group identify its goals and what the company hopes to gain from the expansion, as well as to determine the appropriate financial commitment it concedes to the venture.

⁷¹Nelson, Carl, Global Success: International Business Tactics for the 90's, Liberty Hall Press, PA, 1990

Location for Expansion

Once the country has been chosen, and the type of expansion has been designated, the company must next determine at what location they are to center their foreign production (providing the choice they have opted for requires such an action, if not this step is unnecessary). The choice of location entails a series of important determinations which include accessibility, presence of labor and capital, and the existence of facilities to handle the production. This analysis is herein divided into two separate sections, that of Location Analysis, and secondarily, of Building Options. The first part deals with the determination of narrowing the possible locations to a few of the most appropriate and functional placements. This first part if completed correctly, will offer a small number of options for production locations, this will ease the task of the second portion of the analysis, which determines whether there are existing facilities which fulfill the needs of the company at any of the prospective locations, or if new ones would need to be built. By completing the two part analysis, the company can determine the best course of action and begin the final stages of the expansion preparation.

Location Analysis

The Location analysis should consist of several factors, among these are the concerns of the local roadway status, the proximity to internal and external markets, the existence of current production facilities, the cost of land use, the presence of waste removal services, proximity to raw materials, and the presence of a labor force within a reasonable distance. We shall look at these factors one at a time so as to better understand their significance and thereby determine which factors are the most pertinent to a given company.

Local Roadway Status - Important to determine the ability to transport goods out to the markets, get raw materials in to the production facilities, ease of access for local workforce. These factors will weigh heavily upon any location decision, and must be weighed against the cost of the land and the availability of land. As

mentioned in previous discussions of infrastructure, there does exist the possibility that a given government will be willing to finance access roads or improvements if they already exist.

Proximity to Internal and External Markets - Nearness (which is dependent on travel times) is of course always a factor in any production situation, and at the time of the location analysis, serious thought should be given to this concern. Serious reflection should be given to considering such factors as locations near country borders, nearness to large bodies of water (ports), nearness to airports or train stations, and nearness to internationally traversing rivers.

Existence of Current Production Facilities - In an ideal situation, investigation will identify at least one existing former production facility which could be used for the necessary operations. Care should be taken to analyze the physical status of the building, whether it is for sale, the cost, and the reason the last tenant left the location.

Cost of Land Use - Time should be given to identify the total cost of each given location in as far as the land cost is concerned. In certain situations, it is possible that the local government will actually grant land to the entering company. Care should be given to identify any hidden costs or potential problems with either the government as far as length of lease and constraints are concerned, or with regulation and requirements in as far as water, electricity and sewage go.

Presence of Waste Removal Services - as mentioned very briefly in the previous section, the concern of waste and sewage removal is often a hidden barrier and cost to the expanding company. Particular care should be taken on this subject on behalf of companies with excessive byproducts or waste inherent to the production of the products. It should be identified if there are waste removal companies in the area, and prices should be acquired so as to offer a realistic cost analysis.

Proximity to Raw Materials - To minimize shipping costs, serious consideration should be given to the determination of various sourcing locations. The closer the suppliers of raw materials are, the lower the transportation costs, and thus

resulting in lower final cost. It may seem trivial to assess the minute costs of transporting raw materials, but these costs when magnified over a large number of shipments tend to add up and if not addressed, they can be the hidden costs which will begin to negate the profit margins.

Presence of a Labor Force within a Reasonable Distance- By establishing a production facility as near as possible to an available workforce the company can hope to ease the burden of skilled/unskilled labor recruitment, as well as enable easy and timely access to the workplace for many individuals. Whereas placement near a major populace is not a pre-requisite, it would be handy to be nearer people than out in the outskirts of nowhere.

So, we see that there are several location factors which can be addressed and weighed against the needs and major concerns of the company when making a decision. It is this information which may make a serious difference in the final decision and analysis.

Status of Building Choices

It is assumed that the production of a given product needs necessarily a facility to be utilized for said production. It is further assumed that the investigation of a given country will lead to the choice between using existing facilities, or building new ones. It is then, our charge to determine whether the existing buildings are sufficient for the current and near future production, or whether new facilities need to be established for the task. In analyzing the existing choices, several factors must be considered, among these are:

Structural Integrity - Whether the building has, or the new building will have, the ability and strength to withstand the rigors of production.

Utilities Status - Is the existing building currently able to support the electrical, water, and sewage requirements of production. It is important to note the cost of bringing the building up to requirements of operations if they are not so now, due to

the high cost of such renovation.

Prior History - The recognition of prior tenants at the location and their reasons for leaving. It is also important to analyze the possible left over environmental hazards which can be abundant and risk the health of the employees and staff.

Internal Space - Simply put, is there enough room to produce a given product efficiently in that facility, and can the structure safely support the necessary machinery?

If the company is considering the construction of a new facility, there are also a number of factors to consider, the most pertinent among these are:

Construction Cost - The cost of building, and the cost of construction labor.

Land Cost - It should be investigated as to the land cost of the area, and investigation should include talks with the local government to inquire as to the likelihood of special land grants for businesses.

Utilities cost - The incurred labor costs for the installation of electricity, water, and sewage. Additional to the labor and materials, it should be noted that there are often high fees for the attainment of such construction permits.

These factors as well as many others will give the company a clearer perspective as to the "Final Costs" involved with either two of the choices for facilities.

Capital/Labor Mix

Sorry, no fables here about Men V. Machines, just plain common sense. Whereas in the United States, a given company may have established a certain formula for the appropriate labor/capital mix, it will not likely hold water in the new country to which it is expanding⁷². The new rule of thumb will typically depend upon the cost of labor in a given country. If the

⁷²Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

labor costs are relatively low or within reasonable limits, it is advisable to initially put heavy emphasis on labor production. This labor emphasis will help to minimize the company's initial start-up costs and will enable them to modify existing plans if necessary.

Typically, the emphasis upon high tech capital should only take place when there is no other alternative, or when the company feels that its tenancy in a given country is viable into the foreseeable future. Eventually, it is suggested that the capital labor question lean heavily in favor of capital, so as to enable quicker turn-around, minimize bottlenecks, and diminish lag within the production system. For the initial production however, the emphasis should almost always be placed upon labor.

Domestic/Foreign Labor Mix

To answer the question as to what percentage of the foreign workforce should be Americans, the answer would have to depend upon the type of expansion and the education ability levels of the country the company is entering⁷³. It would be obviously unrealistic to staff any given foreign operation with all Americans, so the question is, where should Americans be placed in the new facilities? The answer is, wherever they are needed. To place Americans into all aspects of the production is not only costly, but unnecessary. It is suggested then, that interviews be held in the country well prior to beginning operations or even construction. This will allow the company to determine the number of competent local individuals who could fill positions within the company. It is advantageous to have a native in a position to work with the upper management and be able to point out the special circumstances and precedents of operating in the foreign culture. It is suggested that the person selected to head the foreign operations be of American origin so as to better cooperate with the U.S. based portion of the company. This individual should be one open to the differences in operating in a foreign company, and not one who's going to try to implement all American methods and strategies, and not be open to new ways of managing.

⁷³Williamson, Harold, Evolution of International Management Structures, Temple University Press, 1975

CHAPTER 5
THE AMERICAN UNIFORM CO., INC. CASE
History and Background

The production of American Uniform is mainly done for the sole purpose of sale to the parent company, American Linen. The story of American Uniform, starts with the need that created it, the need for lower cost linen on behalf of the American Linen Supply Company. It was the American Linen Supply Company which first envisioned and initiated the creation of American Uniform as a supplier to itself for the purpose of minimizing its purchasing costs. The story of American Uniform begins with a gentleman by the name of Frank J. Mihelich (who would later change his name to Frank Miles), a young talented efficiency expert who had worked for American Linen during the Great Depression. The then co-founder of American Linen, Frank Steiner, decided that Frank Miles would head the new venture and preceded to create the Minneapolis Linen Supply Company. It was the directive of the Minneapolis Linen Supply, to produce and/or purchase the linens needed by the American Linen Supply Company. After several years of great success under Frank Miles, the name of the company was changed to American Uniform, and the company began to supply the U.S. Army with Khaki dress trousers during the war. After the war in 1947, the company found it could no longer exist in the Minneapolis area, and thus moved its base of operations first to Hampton, Georgia, then to its present location of Cleveland, Tennessee. In 1963, American Uniform acquired the Beacon Uniform Company in Canada, which later would become the nucleolus of the Canadian Uniform Company. Since its inception, American Uniform has grown to include three satellite manufacturing plants, now boasts over 1,000 employees, and have expanded their operations to include Canada, and Europe. This is due in large part to the excellence of its people and their commitment to success. It was my pleasure to meet with these fine people and conduct extensive interviews with them, much of the information of which is the basis for this paper. In the pages to follow, we will look into the operations of the company, the problems they have faced, the how they've managed to survive and grow through this time of drastic change in our world.

Initially, in Europe, American Uniform opened a production plant in Avellino, Italy many years ago. This facility in cooperation with additional facilities in Tunisia, enabled American Uniform to fulfill a substantial percentage of the linen needs of the various incarnations of American Linen in that region of the world. This arrangement was sufficient and prosperous for many years. At the time of the entry into Italy, the labor costs were low and labor was highly abundant, Italy in essence was much like the European version of what Mexico is today, a low cost, labor intensive stronghold. What no one foresaw was that the Italian labor situation was about to change.

What occurred in Italy was this, labor costs (wages) and their increases and decreases were tied directly to the rate of inflation of the country. This situation contributed to the eventual abnormal increases in inflation, and therein, the cost of labor began to rise to intolerable levels. This increase in labor costs served to decimate the previous profit margins, and therefore they diminish the relative attractiveness of operating there. American linen was faced with a serious situation where they had to make a decision fast, or risk running up deficits that would cripple operations. The problems were numerous, the company had a great deal of loyalty to their Avellino operations, but something needed to be done soon.

Current Situation

Lately, there has been a growing direct sales market on which the company is capitalizing. Additionally, the company is entering through automation the growing areas of specialized production, and new materials utilization in their production. The main production of American Uniform is that of Industrial Uniforms, and flat work which include such items as tablecloths, aprons, towels and embroidery.

Solutions:

Several options were considered as how to address the problems in Europe, among these were:

- 1) Maximizing of production in Tunisia

- 2) Minimizing work force in Avellino
- 3) Production compensation through outside contractors
- 4) Leasing of another production facility in another country for the use of production
- 5) Building of a new plant in another country that would fulfill the needs of production

Due to various reasons to be discussed in the following pages, the fifth choice was decided upon. The plan they submitted entailed a five year phase in of the new plant, with the following schedule for operations⁷⁴:

Year 1 - Projects the construction of a 2,500 square meter building in Hungary (on land to be donated by the local authority) and the installation of machinery in that facility. It also includes the selection, hiring, and basic training of local management and supervisory personnel.

Year 2 - Envisages the hiring of some 100 direct workers for the sewing and cutting sections.

Year 3 - Reflects the working of the first phase at capacity while a 2,000 square meter extension to the facility is constructed.

Year 4 - Includes the transfer of most of the remaining Avellino production, requiring the hiring of an additional 91 direct workers plus necessary indirect employees.

Year 5 - Shows the expanded facility working at capacity.

Analysis

The main purpose for including this study of American Uniform was to give a current example of an effectively operating company. I think that Assistant Plant Manager Greg

⁷⁴From "AMUCO International's Proposal for Establishing a Manufacturing Facility in Hungary". June 2, 1992

Ledford put it best when he described American Uniform as "People who take that extra step needed to do things the RIGHT way." It is evident throughout my research that they were determined to conduct themselves, and their operations professionally and thoroughly. This dedication is what is required of an expanding company who strives for success in both domestic and international operations. By approaching all options and investigating them thoroughly, American Uniform is now in a position of strength, with ties to a friendly and supportive government. The government of Hungary has not only agreed to donate the land to American Uniform, but it has also offered to contribute to the training costs of personnel. It is not likely that this offer was extended to all new companies, and certainly not to the ones who never thought to ask for assistance.

From my interviews, I have found that each individual has extensive knowledge of their respective fields, and each seems to have a hunger for knowledge that will improve the company. The strength of the Home Office is reflected in the actions of every employee, and in the open door policy which they employ. This enables them to temporarily or over longer durations draw from this wealth of abilities to enhance and cement strong and lasting operations overseas and around the world. Their philosophy seems saturated with common sense, their view on technology is practical, and not one of leaping first. Put simply, their view of technical advances as stated by Financial Director, John Ward was, "[American Uniform] may not be the first, but we're not far behind!" This enables them to update machinery at the time when it is stable and consistent, thus allowing them to be used without fear of constant problems which frequently occur in the newest inventions. Often companies will grab for the newest technology only to end up becoming the "Testing Ground/Guinea Pigs" for the devices. By following behind the "Point Man" of the new advance, American Uniform acquires the new technology at a time when it is more stable, but before it is accepted by everyone, which gives them price advantages.

At the main U.S. production facilities in Cleveland, Tennessee, new technology is added only after careful analysis is done to determine whether these additions will be as effective as claimed, or if they simply create additional expense. Often companies will add a new machine that will do the job of maybe say, 20 people. What often occurs is that it will do

the work of 20 people, however, it takes 10 people to maintain it, and since they have specialized jobs, these new employees may have salaries up to twice what the former labor workers were paid. At this point the benefits/costs appear to evenly match the old, however now take into account the initial investment of the machine, the production lost if the machine breaks down, and possible difficulties with the local union. Frequently, companies will justify these drawbacks with the positive aspect of increased production capacity, but here again it needs to be addressed that this is probably not the only work area of the production, and it may be able to produce higher quantities, but how many more people or machines will need to be added in order to handle the increased loads? My purpose here is not to discourage the absorption of new technologies into production, but to rationalize the additions before "Jumping on the Bandwagon." This practice of wisely investigating technological advances is an imperative to a company expanding overseas, and several factors need to be addressed, among these are the concerns of repair personnel, the availability of parts and the ability to get these parts in a timely manner. Sometime in the mid-eighties when the focus of competitiveness turned to Japan, someone started yelling "GO HIGH TECH, that's what made the Japanese successful!!!" Whereas, this is in part true, it is not the answer to all things. Innovative companies like American Uniform are leading the second wave of revolution which says, simply, "Technology should be utilized to minimize production costs, but it will not be the solution unless you first know the problem."

The detail of the pre-expansion investigation conducted by American Uniform shows aptly what can occur if all aspects are investigated before a decision is made. By biasing toward an initial solution too early, the company can lose all that which it hopes to gain, prolonged success and growth. If a small company feels that the costs of a detailed investigation are heavy, try comparing that to the cost of entering the wrong country and failing. Few smaller companies will find it possible to rebound from such a downfall.

To conclude this section, the example illustrated here by American Uniform is one of growth and change, two aspects of any successful company. By sharing its market trends and new market ideas with its worldwide production partners, American Uniform can foresee prolonged success and growth which can be traced from its entry level line workers to its

highly competent and intelligent President, Gary Smith. American Uniform exhibits the qualities of both a company and a family, thus enabling them to be leaders without losing their grip on the role of common sense. I firmly believe that American Uniform acknowledges the respect due every employee, and as a result, each employee is determined to repay that confidence with hard and productive work. And whether the "work" is that of Marketing Director, T. Roy Jones, Director of Purchasing, Jack Seymore, or an 18 year old girl sewing pockets on a pair of blue slacks, quality and pride are the end result, and will be where ever in the world their expansion may take them in the future.

American Uniform's success can be easily attributed to their cooperation among all ranks, the commonality of purpose, and the vision of its leaders. By following a reasonable plan, intelligently and succinctly set out based upon insightful investigation, American Uniform has taken all steps possible to ensure successful expansion, and the world can look forward to observing their impending success.

CHAPTER 6

S.W.O.T. ANALYSIS OF A MEDIUM SIZED U.S. FIRM ANTICIPATING EXPANSION PROSPECTS IN EASTERN EUROPE

Introduction

Possibly one of the most risky moves a company will make is that of expanding into a foreign country where it has no prior experience. It must also be acknowledged that this move could be the most profitable step if completed successfully. How then can a company weigh these two outcomes against each other? It must address the four primary areas of concern which will likely determine their probable success. These four determinant factors are: their own **STRENGTHS**, and **WEAKNESSES** (their internal abilities and shortfalls), and the **OPPORTUNITIES** and **THREATS** (the outside aspects of their environment which could help or hinder their success) which prevail upon them. The pages to follow will address each of the four concerns separately and generally so as to allow a specific company to determine those factors which will be most pertinent to itself, and thereby address these concerns in their own actions and time. It is my intention therefore to address the broad based problems, not the industry specific ones, however, frequently, for illustration, specific examples will be given as guides.

Overview

We will be investigating the theoretical S.W.O.T. analysis of a **fictitious** medium sized linen company called Texas Textiles, Inc. (TTI) interested in expanding their operations overseas by opening a production facility in Bulgaria. The strengths and weaknesses will be fictitious, however, the opportunities and threats of Bulgaria will be authentic. All information on Bulgaria was provided by the Eastern Europe Business Information Center, at the U.S. Department of Commerce's International Trade Administration.

Background

TTI was founded in 1901 by John Rice, a self starter who believed in producing a quality product at a good price and following up his sales with exemplary customer service. Beginning with only a small inheritance, John began with his mother and three sisters sewing aprons which were stitched with the names of his restaurant customers on them. He found great success in aprons, and expanded to light, comfortable uniforms that were extremely resistant to staining which he sold to filling station attendants. The secret, as John would reveal years later, was in soaking the materials in a special blend of oils so that the stains would never soak in. This also had the effect of lengthening the life of the dyes in the fabric as well so the uniforms rarely faded.

It was with these uniforms that John found true success. Word of his uniforms spread across state boundaries to cover most of the South Western U.S.. As John's success grew, so did his company, his mother retired, and his sisters oversaw the sewing room where they now employed 150 seamstresses, many of which were young immigrants from Mexico and Central America. Business was steady and they expanded very quickly, by the mid 1920's TTI had expanded its distribution and production to cover most of the United States and some of the border areas of Canada. With the advent of the Great Depression at a time when many businesses were going under, TTI grew. John had always been conservative with his money and had reinvested most of it in the company, the rest he had kept in a large safe at the main headquarters of TTI.

With the monies he had saved, John began to buy up many of his competitors as they went bankrupt for mere pennies on the dollar. Along with the assets of these companies, John also acquired many of their contracts, several of which were government contracts to produce uniforms for the armed services. John retained these contracts and began producing the uniforms according to all specifications, but adding his special stain resistance to them at no additional cost. It wasn't long until the military personnel noticed the big improvement in the uniforms, and orders were doubled. With the advent of the various "Work Programs" such as the W.P.A. and the C.C.C., John was awarded the contract to produce many of the cover-alls

and uniforms for these projects, and he expanded even further. With the onset of World War II, John used his influence with the armed forces to obtain even more contracts to produce uniforms, and from 1942 to 1945 TTI's production was at full capacity producing uniforms, and many of his smaller contracts producing uniforms for the civilian were let go.

Soon after the war, the demand for uniforms plummeted, and John scrambled to increase the number of non-military contracts he had, but they didn't come in fast enough, and John had to sell nearly one third of his production facilities to stay in business. By 1950, after a harrowing 5 years, John Rice had developed serious health problems and thought it would be a good idea to retire. John handed the business down to his daughter, Mary, 30 years old, a graduate of the University of Arizona, and previously vice president of the company for several years. Mary Rice had many of the best qualities of her father, and felt that the uniform quality could never be compromised. Mary had two sons, the older one, David John Martin (Martin was Mary's married name), was Mary's choice to take over the company upon her retirement, and to that end she made sure that he was well prepared, he had his B.S. in Human Resources Management from Northwestern, and his MBA from Quinnipiac College. In 1991 TTI passed to David from his mother with the words, "Quality and Service have kept us around this long, don't forget that." David immediately began making changes in the company, some successful, some not so successful, but the company did fine. In 1993 John began assessing the growth of opportunity for their expansion into Europe by opening up a production facility in Eastern Europe. The preliminary investigation isolated Bulgaria as having the best possible location for their expansion. In 1994 an external firm was hired to deduce the likelihood for their successful expansion. The following is the S.W.O.T. analysis developed from that study:

Strengths and Weaknesses

The first two sections of the SWOT analysis are both concerned with the internal abilities (or lack thereof) of the company in question, and can therefore be modified or changed if the company sees a need to do so.

TTI is a very centralized organization with good leadership and foresight. The management's "hands-on" approach to the business gives them both a "line" perspective, and allows them to see the "big picture." Communication within the company flows quickly, both up and down, and allows the speedy application of new procedures. TTI has been at the forefront of new technology for many years and has added automation wherever possible. The quality control and service departments at TTI are immense and very few products leave the plant with problems. Distribution networks are well established and efficient, using all available methods of transportation as necessary.

The first major weakness of TTI is the high need on the part of David and the upper level management to control the entire company themselves. This sort of control will be difficult with both domestic and overseas operations, and may cause some serious problems if they don't learn to share control with their foreign counterparts. The second area of concern is TTI's extreme reliance upon high technology in its production. In eastern Europe, the prospect of attaining high tech equipment, not to mention maintaining it is a very grim one indeed. TTI will have to realize that the methods of production used here in the U.S. may not, and probably will not work in Eastern Europe. TTI would have to be ready to initiate human based production in place of their usual machine based production in their foreign plants. As a result of the difference in production, TTI would also have to re-evaluate their production schedules and capacity.

General Information on Bulgaria

Amongst those American firms who wish to promote a U.S. product line, some of the options are to enroll in the U.S. Department of Commerce's Agent Distributor Program (FCS

provides a screened list of prospective candidates): participate in a U.S. & F.C.S. sponsored trade promotion program (Either a trade show, trade mission or other officially sponsored mission): or, visit Bulgaria and participate in the FCS "Gold Key" program of tailored appointments.⁷⁵

Regional coverage is most likely from central offices in Sofia, being the hub of commercial and economic activity. Secondary hub sites might be Plovdiv (Central Bulgaria's agricultural center) or Varna, the major port on the East Coast of Bulgaria. The bulk of Bulgaria can be reached by car/truck within a 6-7 hour drive from any of the major hubs noted above. Standard distribution techniques are employed with warehouses, showrooms, and/or rep offices all being part of the distribution landscape of Bulgaria.⁷⁶

Steps to setting up an office in Bulgaria are fundamentally no different than in other parts of the world, the distinction being in the availability of Western-class office space and the time and energy needed to set-up. First from the legal perspective, Bulgaria requires no special permission to establish a business, except in certain sectors such as defense, banking, and insurance. Investors are required to register their investment with the Ministry of Finance within 30 days of its establishment. To establish a Bulgarian entity of an American firm, application must be made to the court that has jurisdiction over the area. A second option is to establish a promotional office, but such an office can have no contractual powers. In this instance, registration with the Bulgarian Chamber of Commerce is sufficient.⁷⁷

A local attorney is strongly advised for the simple reason that Bulgaria will enforce the letter of the law. To be in compliance, either a lawyer or a major accounting firm (all major accounting firms are present in Bulgaria) are available for such services. The U.S. & F.C.S. can also provide a list of recommended lawyers. One final note, good lawyers are

⁷⁵Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁷⁶Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁷⁷Ibid., p.3

usually politically and bureaucratically well-connected, and in a city such as Sofia with close-knit ties such connections can be invaluable.⁷⁸

The Transportation System, in Bulgaria in 1991 there were 33,900 km of hard-surfaced roads, including 266 km of motor ways and 2,935 km of main roads, 1,429m passengers and 129.5m tonnes of freight were carried in 1991. Much of the inter-urban provincial and rural road network is unpaved and in need of reconstruction, rehabilitation, and maintenance. As the number of motorized vehicles increase, the condition of the roads must be upgraded to higher standards, including higher safety standards. There are 4049 km of railways in Bulgaria (2650 km are electrified). Bulgarian State Railways (BDZ) has some 65,000 employees and associated enterprises of railway industry for manufacture and repair of rolling stock, sleepers and signaling equipment. BDZ is seeking to make rapid adjustments to an emerging market economy. s in other Eastern European countries that were formerly planned, BDZ's traffic base has shrunk and it is facing growing competition from road transport. Passenger traffic has declined less. A major study, funded by the European Bank for Reconstruction and Development, is taking place to examine BDZ's future. In 1992 BDZ was operating 4 steam, 347 electric and 554 diesel locomotives, 340 electric and 15 diesel train sets. Main line diesels are from Romania and the former Soviet Union, and electric locomotives are mostly from the Czech Republic. BDZ is studying introducing some type of combines transport (containers, swap bodies, or other).Balkan Bulgarian Airlines is the national air carrier. It runs internal flights from Sofia (airport: Vrazhdebna) and international flights to 64 destinations in Europe, Africa and the Middle and Far East. In 1992 it had 5 Boeings, 4 Airbuses and 51 ex-Soviet aircraft. In 1991 it carried 1.22 m passengers and 39,000 tonnes of freight. No US-flag air carrier serves Bulgaria. Ports, shipping and shipbuilding are controlled by the Bulgarian United Shipping and Shipbuilding Corporation. In 1991 it had 110 ocean-going vessels with a loading capacity of 1.87m DWT. Bourgas is a fishing and oil-port. Varna is the other important port. Bourgas is served by Lykes Steamship Corporation. There is a rail ferry between Varna and Illitchovsk(Ukraine). In 1991 there were 129,000 km of sea passenger route.

⁷⁸ Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

115,000 passengers and 18.61 tonnes of cargo were carried. There were 102,000 km of inland waterways in 1991. 13,000 passengers and 1.55m. tonnes of freight were carried.⁷⁹

Travel across Bulgaria can be enjoyable as long as expectations for attaining distances are lowered and driving is done in a more leisurely manner. Frequent slow agricultural traffic or other slow moving vehicles, as well as sections of poor urban streets will be encountered. The national road system is generally acceptable, though in the winter months precautions should be taken for mountain travel. The drive across Bulgaria from Sofia to the East Coast can be stunning as it parallels the Balkan Mountains. Travel within Sofia is not difficult given the concentration of business activity within center. Taxis and rentals are readily available, and the more adventurous can hop on the tram or bus.⁸⁰

Bulgarians are more informal in their business habits, from dress to manners, than any West Europeans. Moreover, Bulgarians prefer to become familiar with their business partner over coffee or soft drinks especially during initial meetings before launching into detailed discussions. When discussions progress onto business topics, very often general agreement is reached with details to be left for another meeting or to be mailed or faxed at a later date. While Bulgarians are shrewd at business, they may not take an aggressive stance, and as such will wait for the foreign partner to initiate or advance the relationship. This trait combined with the poor communications in Bulgaria results in many missed opportunities, as the U.S. partner considers Bulgarian non-responsiveness as a signal of lack of interest. This is in most instances not the case, though many less experienced Bulgarians will need to be prodded into prompt exchanges of correspondence. Western business partners may invite their Bulgarian partners to lunch or dinner, however it is unusual for the Bulgarian businessman to include his wife at such events. Bulgarians are very proud of their land and may invite guests on special occasions to visit their favorite country getaway. Such offers

⁷⁹Transportation; Document #6802, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁸⁰Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

should be considered unique and memorable.⁸¹

Aside from the unavoidable pirate-rate taxis from the airport (a normal ride to downtown should not be more than \$10.00), some other common-sense measures should be taken. The airport is old and congested and pickpocketing is frequent especially around the change booths. Incoming bags may be pilfered-one method is to use ordinary masking tape, wrapping it completely around the bags and the locks. This apparently deters thieves who don't wish to make their entry obvious. In the downtown areas, handbags and wallets should be kept close at hand or in a less exposed manner. Valuables, including jewelry, should be placed in the hotel safe as even the best hotels in town are subject to pilfering. Walking around town, even at night, can be enjoyable but better to be done in pairs and along trafficked streets. While the business traveler will likely not be approached, young foreigners at the main train station have been approached and offered drugged food and drink. The Embassy advises all travelers to be wary of such ploys which land the victim in the park or hospital without his valuables. Finally, Bulgaria has encountered a rash of car thefts and all precautions, including steering wheel "clubs", alarms, or parking in a secure location should be taken.⁸²

No visas are required for stays of up to 30 days. Business representatives planning on stays of more than 30 days should obtain a visa from the Bulgarian Embassy, though such visas may also be obtained at the border but at considerable more cost. According to Bulgarian law, foreigners staying more than 48 hours must register with the local police (hotels will provide this service as standard practice); individuals staying at locations other than hotels should contact their hosts for information on police registration. Recent regulations have tightened the requirements for obtaining a work permit. Full documentation of credentials such as diplomas, certificates, training etc. will normally be requested by Bulgarian labor authorities to determine the need for such foreign skills over the local labor pool. Documents should be verified in advance by the U.S. State Department's

⁸¹Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁸²Ibid., p.2

Authentication Office (tel: 202-647-5002) in order to be accepted.⁸³

Bulgaria celebrates the following holidays: January 1st (New Year's Day); March 3rd (Liberation from the Ottoman Yoke Day); May 1st (Labor Day), Easter Sunday; the first Monday after the Orthodox Easter (Easter Monday); May 24th (Cyril and Methodius Day), December 25th (Christmas Day) and December 26th (Christmas Holiday). A complete listing of holidays can be found in the special edition of Business America for the business traveler.⁸⁴

Bulgarian is a Slavic-based language, with similarities to Serbo-Croatian and Russian. A few courtesy words or phrases will carry the business visitor a long way when establishing rapport or acceptance. On the professional level, English is increasingly spoken with German, French, and Russian as the next in order of usage. Major hotels and some restaurants will have some knowledge of English. But the business visitor should be aware that a nod of alleged comprehension of what was said does not necessarily mean that the English was in fact understood. Incidentally, the traditional Western gesture of nodding meaning yes, and shaking the head for no, is reversed for Bulgarians.⁸⁵

There are no overriding health considerations other than infrequent city and industrial pollution, neither of which reach any critical proportions except during a few temperature inversion days of the winter. Bulgaria has in fact a sunny, dry and pleasant climate with four seasons. For medical care, a handful of doctors and dentists have Western training and cater to the foreign community; hospital care still leaves much to be desired. Should hospitalization be required, patients should opt to travel to West European hospitals, if possible. Most basic medications are available, but specialized prescription drugs should be brought or mailed.⁸⁶

⁸³Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

⁸⁴Ibid., p.2

⁸⁵Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

⁸⁶Ibid., p.3

All basic food items can be obtained in Bulgaria. Some American products such as cereals, condiments and canned goods are available at specialty stores in Sofia. Meats and dairy products are also available but not necessarily in recognizable cuts or with convenience packaging.⁸⁷

[In Bulgaria] Only a limited number of products require import licenses. Some agricultural products are subject to this requirement but licenses are usually readily obtained. In the non-agricultural sectors, products requiring licenses include the following: specialty pharmaceutical and dental products, narcotics and psychotropic substances, tobacco, nuclear materials, explosives, sporting weapons, hand guns, ammunition, military production technology as well as hazardous materials, precious metals, and endangered wildlife species. Bulgarian importers must petition the Ministry of Trade's approval in order to obtain such a license. The approval process may take anywhere from a few days to two weeks. The U.S. Embassy has no complaints on record from U.S. exporters that the import license regime has affected U.S. exports.⁸⁸

Imports of goods require the usual types of documentation normally required in international trade. Bulgaria applies the single administrative document used by the European Community. Temporary entry of goods may be obtained in a number of ways:

- A) either through an ATA Carnet for Temporary Import of Goods, obtained from the local Chamber of Commerce in the U.S.
- B) through other carnets, such as Carnet "TIR" or special Carnets for "Tobacco and Alcohol."
- C) authorized shippers and forwarders for major promotional events and trade fairs will normally handle the temporary entry of goods as long as proper documentation is received from the U.S. party i.e. that invoices/shipping documents clearly state that goods are to be used only for demonstration/display purposes. Souvenirs and

⁸⁷Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

⁸⁸Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

advertising materials are normally exempt from custom duties. Temporary import may not exceed 6 months and may not be sold without proper authorizations.⁸⁹

The Bulgarian Government aspires to a system of standardization in line with internationally accepted principles and practices. In this regard, some experts are familiar with ISO 9000 standards but Bulgaria is a long way away from its implementation. In general, imported goods must conform to minimal Bulgarian standards. The practice has been that imports have been accorded no less favorable treatment than for comparable domestic products. Bulgaria accepts test results, certificates or marks of conformity issued by recognized authorities of other countries (such documentation should be authenticated by the U.S. Department of State). All imports of plant or animal origin are subject to veterinary and phytosanitary control. Relevant certificates should accompany such goods. Finally the pharmaceutical sector has its own procedures and standards for the acceptance of drugs in Bulgaria which includes requests for full documentation and possible clinical trials.⁹⁰

Opportunities

The external opportunities which are available to the expanding company are of extreme importance due to their effects on success. The company must therefore strive to investigate fully these opportunities and any related threats before it can truly evaluate its chances for success.

The analysis of the external environment is an expansive one, and one which needs to be addressed before any expansion plans can be formulated. This investigation can entail the analysis of such factors as government, infrastructure, and labor. The first aspect of government of extreme concern due to the typical situation where we see the government and its

⁸⁹Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

⁹⁰Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

stability as the indicator of the stability of the country. In the case of Eastern Europe, the stability of governments vary greatly and should therefore be analyzed thoroughly. If the government is a positive, stable and supportive one, many opportunities can exist which will help the expanding company in its endeavors.

With the support of IMF, the World Bank, and the G-24 nations, Bulgaria Embarked on a rigorous macroeconomic stabilization program in 1991. Until the first half of 1994, the inflation rate was high, but eventually fell (from 420% in 1991 when prices and interest rates were decontrolled to 63.8% in 1993). However, The consumer index jumped to 59.4% for January-June 1994, although much of this increase was due to a sudden 21.7% jump in April as the Lev (Bulgaria Currency) rapidly depreciated. Monthly depreciation seems likely to remain stuck in the 4 to 5% range for the rest of 1994.⁹¹ This inspires confidence in the markets expansion, and creates a favorable environment for TTI.

Bulgaria has a Bilateral Trade Agreement with the United States, which provides for MFN (Most Favored Nation) treatment for Bulgarian export to the United States. On January 1, 1994 an interim association agreement with the EU (European Union) took effect, which grants preferential trade status to Bulgarian Imports, but does impose quotas in sensitive trade sectors such as agriculture, steel, and textiles, and apparel. Bulgaria has a similar association agreement with EFTA and has reactivated its accession negotiations with the GATT, in which it already has observer status.⁹² These developments can help to stabilize the business environment and provide a favorable climate for TTI to do business in.

Since February 1991, interest rates and most prices moved to market clearing levels, most state subsidies have been eliminated, and the Lev has been allowed to float on a system of internal convertibility. [...] Parliament has passed new market oriented laws governing foreign investment, intellectual property protection, labor relations, land reform, corporations, bankruptcy, and banking reform. [...] To accelerate the privatization process, the Bulgarian government adopted a "mass" privatization program in 1994, based on the Czech

⁹¹Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁹²Ibid., p.2

voucher model. Plans are to auction off the first wave of 500 enterprises. Some of these enterprises may be appealing to TTI, who could possibly find themselves in a "turn-key" situation.

In February 1994, parliament passed a severely constrained budget which provides for a deficit of 6.5% of GDP. To the surprise of many observers, by mid-year, Bulgaria was on target. In itself this achievement provides an important anchor of stability in Bulgaria's otherwise troubled macroeconomic situation. In addition, this success allowed Bulgaria to secure important external financing support from the IMF, the World Bank, and the G-24 countries.⁹³ Further governmental stabilization can only serve to bolster business in Bulgaria for TTI.

Bulgaria's foreign investment laws stipulate equal treatment for foreign and Bulgarian investors. The law permits repatriation of all profits. One hundred percent foreign ownership is permitted in all sectors of the economy with the significant exception that foreigners are not permitted to own land zoned for agricultural use. Foreigner and foreign owned companies are, however, permitted to lease such land for up to 70 years and foreigners may have up to 49% equity in a land owning enterprise.⁹⁴ These provisions make it favorable for TTI to invest in Bulgaria without fear of minority treatment.

A skilled, well educated work force is perhaps Bulgaria's chief economic resource, although productivity in some sectors is low and management skills are weak. Western businesses in Bulgaria agree that, properly managed, Bulgarian employees generally are hard-working, honest, and eager to learn. With the restructuring of the economy, shortages of skilled labor should not pose a problem. Bulgaria has two large trade union confederations, the Confederation of Independent Unions of Bulgaria (CITUB) and Podkrepa. CITUB is the successor to trade union integrated with the former Communist Party.⁹⁵ The presence of

⁹³Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

⁹⁴Ibid., p.4

⁹⁵Ibid., p.5

skilled, willing, and trained labor makes Bulgaria quite attractive to TTI's goals.

Bulgarian textile production is growing with special strengths in traditional weaves, rugs, and carpets.⁹⁶ This growth pattern in textiles will serve to make the transition for TTI much easier, as the market exists and is growing.

American firms generally find high interest among the well-educated applicants for representative positions. However, depending on the degree of managerial skills required, the greater the executive responsibilities, the more the need for training/contact. Among some of the reasons for direct training is to overcome a trait among many well-educated Bulgarians: "great on theory and research: weak on practice and action." Many American firms have been successful at developing the proper skills especially within the younger category of managers.⁹⁷ We can see from this that TTI can implement their work ethic if they take the time to properly train their employees.

The United States has a potential market in Bulgaria for cotton. Traditional trade patterns with former Soviet Union suppliers such as Uzbekistan have been broken. Unfortunately, the Bulgarian industry does not have enough orders, especially from foreign countries to keep its mills going at anything close to capacity. Should the situation regarding hard currency customers improve-and especially if the traditional suppliers in the former Soviet Union are unable to satisfy needs, there may be sales opportunities.⁹⁸ Here we see a clear example of possible vertical growth for TTI in a related field, they should keep this in mind in the future.

Finding an interested partner is generally not difficult, more at issue will be terms and conditions such as minimum purchases and promotional support. Generally speaking, the

⁹⁶Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.5

⁹⁷Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

⁹⁸Data on Best Prospects for Agriculture and Industry Sector Exports in Bulgaria; Document #3106, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

smaller the operation and less experienced the Bulgarian entrepreneur, the less resources the candidate will have to commit to the relationship and the greater the assistance will be sought.⁹⁹ Enough can never be said about the benefits of having a willing partner who is familiar with the country and its practices.

Franchising has excellent opportunities in Bulgaria. At present, only a few franchises have been established. Nonetheless, several factors are moving in favor of franchises: With the first major stores opened in 1994, franchising is becoming better known, Second, several U.S. supported business assistance organizations have experience in advising and matchmaking those interested in franchises. Third, Bulgarians are traveling more and have seen the business potential of such operations. And finally, despite the difficulties of financing in Bulgaria, more self-financed and well-financed Bulgarians are appearing on the market looking for such opportunities.¹⁰⁰ Franchising may be an option that TTI could explore, especially considering their special production processes.

The government wants to convert to a modern digital system and is taking steps to realize this goal. A committee on Posts, Telecommunications and Informatics has been established with responsibilities for planning, standards, tariff policy, licensing, and most other telecommunication issues. The government's goal is to reach 32 main lines per 100 inhabitants by 2000.¹⁰¹ This modernization will make it easier for TTI to operate effectively in Bulgaria and to communicate with it's customers and suppliers.

Sofia is well served by European airlines with convenient direct flights to most major cities in Europe. Balkan Airlines, the national carrier, has an extensive network of routes including direct flights to New York and Toronto, as well as routes to major cities in Central and Eastern Europe, the former Soviet Union, Africa, Middle East, Asia, and

⁹⁹Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹⁰⁰Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹⁰¹Telecommunications; Document #6702, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

Australia. Train and bus travel from neighboring countries is much more cumbersome, with many hours taken up in delays and border crossings. Car travel to Sofia from Greece, e.g. Thessaloniki (4 ½ hours), or from Istanbul (7 hours) is manageable and can be quite pleasant. Northern crossings through Romania can be difficult due to the bottlenecks created by truck traffic crossing the Danube, Surface travel across former Yugoslavia is not advised.¹⁰² Convenient ingress and egress is extremely important to TTI both for transport and travel.

Bulgaria's import regime was liberalized in early 1991, when import restrictions were eliminated and the number of items requiring import licenses was greatly reduced. That same year Bulgaria introduced a new tariff schedule which lowered duties to within the norms of the GATT. Subsequent legislation expanded duty-free items and waived registration requirements for certain products and raised quota limits on specialty food items and certain fruits. In 1991, the United States accorded Bulgaria most-favored-nation status (column I) duty rates. In the following year, the United States granted GSP (General System of Preferences) for certain Bulgarian exports to the U.S.¹⁰³ U.S. products entering Bulgaria are subject to preferential tariff rates. Tariffs are based on the harmonized system (HS) and calculated on an ad valorem basis. U.S. products receive the most preferential standard rates. As of April 1, all imports are subject to an 18% VAT. There is also a 0.5% customs processing fee assessed on the valuation of the goods. Agricultural import tariffs for products such as wheat, corn, rye, oats, sorghum, and rice range from 15-225%. For oilseeds, soybeans, and sunflower seeds, the duties are from 10-15%. Additionally, for plant and animal breeding materials, 5%; and for processed products 10-40% duties are assessed.¹⁰⁴ Regarding the export of U.S. products to Bulgaria, in 1993 COCOM export controls were eased on selected technologies and products. Bulgaria was granted "favorable consideration status", the same as the Czech Republic and Poland. Favorable consideration status means a presumption of approval for COCOM

¹⁰²Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

¹⁰³Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

¹⁰⁴Ibid., p.1

applications and a shorter approval period. For Bulgarian exports, certain products require export permission such as tobacco, scrap metal, lumber, cultural artifacts, protected plants and animals.¹⁰⁵ Seven free trade zones (FTZs) were established in Bulgaria in 1987: Rouse, Vididn, Plovdiv, Svilengrad, Dragoman, Bourgas, and Petrich. These FTZs have only limited functions such as storage, handling, and transshipment of goods, Only foreigners and joint ventures are permitted to operator within the FTZs. Due to their limited services, the FTZs have not attracted much usage, however recent figures indicate growing interest in FTZs. Moreover, some changes in the statutory framework, such as permitting Bulgarian entities to participate, are under consideration. Transactions within the FTZs are however, exempt from the 18% V.A.T. Basic warehouse space is plentiful in Bulgaria. Special climate controlled or fully equipped facilities are rare. Moreover, users should question the level of security provided by such facilities before making any commitments.¹⁰⁶ Bulgaria signed an E-Association Agreement permitting eventual free access of EC origin goods in a phase-out of 10% or 20% annual tariff reductions, depending on the product category. Bulgaria has a similar association agreement with EFTA member states. Finally, Bulgaria has reactivated its accession negotiations with the GATT; it already has observer status.¹⁰⁷ These provisions will minimize the “red tape” that TTI will need to get through in order to set-up and operate.

Threats

All the planning possible will not save an existing company if it fails to sufficiently address its threats. Threats can come from several outside sources, such as Competitors, Government, and the Foreign Culture.

Of the three main sectors of the economy (agriculture, industry, and services), the

¹⁰⁵Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

¹⁰⁶Trade Regulations and Standards in Bulgaria; Document #3110, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

¹⁰⁷Ibid., p.4

principle growth sector is expected to be services, followed by agriculture and industry. An average of over 3% annual growth of GDP is expected from the service sector over the next five years. According to reliable analysts, Bulgarian industry will continue to decline during its major transition phase and privatization, not gaining any substantial growth until approximately 1996-7¹⁰⁸. Industry remains the most volatile portion of the economy, having dropped from 51% of GDP in 1990, to 35% in 1993. Since 1989, Bulgarian industry has shrunk almost 50% more than all other sectors of the economy. Not surprisingly, industry is also the sector with the poorest record of privatization. [...] Major losers were: machine building and metals processing (-28.1%); food processing (-26.5%); and, the textile industry (-23.3%). It should be noted that these figures represent only state activity. Though relatively small, significant growth with the small-medium sized private firms such sectors as textiles, woodworking, food processing, and machine tooling should be taken into account.¹⁰⁹ The slow growth of industry in Bulgaria may be an indicator of a poor business environment for business and TTI.

In 1993, most of the tax burden fell on corporate profits, creating a significant drag on companies' ability to import capital goods and inputs.¹¹⁰ Bulgaria is revising its old communist era Commercial Code to Western, and specifically European Union, standards. Parliament passed the new Corporation Law in 1991 and the Bankruptcy Law in 1994, however the Commercial Law itself -- has not been revised and currently is not considered adequate by Western observers. The government is currently restructuring the state owned commercial banks into eleven competing banks.¹¹¹ Bulgaria may not yet realize the importance of

¹⁰⁸ Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹⁰⁹ Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹¹⁰ Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

¹¹¹ *Ibid.*, p.3

promoting effectively the development of business in Bulgaria, TTI may suffer as a result if the situation does not change.

With virtually no western banks operating in Bulgaria as a result of the Bulgarian moratorium on servicing foreign debt, trade with the U.S. and elsewhere has suffered. With the June 1994 signing of an agreement, some trade credit should now become available. The U.S. EximBank has not extended a line of credit, however a new category of lending has just opened as of August 1, 1994.¹¹² Financial services are rudimentary. Bulgaria has only begun to develop the capital markets that are commonplace in the West. Business is regularly conducted on a cash only basis due to the inflexibility of the banking system. There are no personal or corporate checking accounts. Fund transfers, even within Bulgaria, take an inordinate amount of time and are not always successful on the first try.¹¹³ The tentative nature of the banking situation could be the downfall of many companies in Bulgaria, TTI must develop contingencies to prepare for this.

Bulgaria's association agreement with the EU provides for an average annual reduction in duties of 10 to 20% over ten years on EU products. These reductions would put similar U.S. exports at a price disadvantage, however reduction in Bulgarian duties on imports from the U.S. currently are being negotiated bilaterally within the framework of Bulgaria's accession to GATT.¹¹⁴ TTI must be aware of the volatile nature of the tariff situation in Bulgaria if they are to operate effectively.

Foreign investors are required to obtain a license to own or have controlling interest in firms producing arms, ammunition, or military equipment; in banking and insurance; and in research, development, and the extraction of natural resources. Licenses are issued by the Council of Ministers' Foreign Investment Commission or (in the case of banking) the Bulgarian National Bank. These institutions have published

¹¹²Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., p.4

¹¹³Ibid., p.6

¹¹⁴Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., p.3

conditions for licenses, which Bulgarian officials state are normal and routine.¹¹⁵ What is “normal and routine” to Bulgarian officials may be quite detrimental to us owned companies, and further research should be conducted before expansion occurs.

Bulgaria has only a limited number of land border crossings. This problem is severely aggravated by the UN sanctions imposed on Serbia, which block the most direct and heavily used land route between Bulgaria and Western Europe and increased the strain on the few crossing points along Bulgaria's other borders. There currently is only one bridge across the Danube which serves as Bulgaria's border with Romania to the North, at Russe. A ferry has been established at Vidin. The wait at both the crossing points can last up to several days. There are only two crossing points along the Southern border with Greece, and one of these is open only in the summer. Bulgaria has two crossing points into Turkey and three into the former Yugoslav republic of Macedonia. Bulgaria has two significant ocean ports, Varna and Bourgas. Port facilities are generally adequate for bulk commodities, but lack facilities for special handling. Railroads are also poorly maintained. Most cargo hauling remains in the hands of the state-owned Bulgarian State Railroad and Somat trucking Company. Both enterprises lack specialized equipment, such as reefers. Bulgaria has more telephones per capita than any other central or East European Country, but it also has the lowest call completion rate. Circuit quality is poor with an aging infrastructure and equipment which suffers frequent breakdowns. The limited number of international circuits result in long delays for overseas calls. U.S. must be placed through an operator.¹¹⁶ The instability of the countries surrounding Bulgaria could lead to a complete loss of operations to TTI if the hostilities “spill over” into Bulgaria.

Joint ventures have largely not been successful for a number of reasons. First, normally the joint venture potential partner has been a state entity. State entities involve several layers of authority: the Ministries: the partner's Board of Directors, and the

¹¹⁵Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., p.4

¹¹⁶Economic Trends and Outlook in Bulgaria; Document #3102, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.6

management (may also involve trade union officials and municipal authorities). Decision-making becomes particularly difficult under these circumstances especially with a bureaucracy more interested in establishing its influence than in promoting the success of the joint venture. With such fundamental issues facing a j-v as the determination of assets, establishing an efficient work force, and maintaining quality control, joint -ventures need a solid agreement, a consensus which is particularly hard to achieve under the above described circumstances.¹¹⁷ TTI must be aware of the joint venture problems in Bulgaria and they need to address their expectations for the type of expansion they choose.

U.S. business representatives may bring a Western vehicle or establish a company vehicle pool with Western vehicles, however, the poor-availability of parts and service, the irregular availability of unleaded gasoline, or the targeting of Western vehicles for theft are all considerations to be taken into account.¹¹⁸ Mobility could be a major concern to executive sent to Bulgaria, creating an unhappy work environment, and eventually decreasing the quality of output.

As described earlier, the Bulgarian market can be complex and difficult to gauge given the past market distortions. Fluctuating market demand, poor statistics on disposable income, limited Government spending, and poor consumer education are all factors that challenge the American exporter. The multiplicity of target audiences adds further complexity in that purchasing for industry sectors or major portions of the economy was centralized with foreign trading organizations. Now each individual firm or entity has the right to conduct such activity. Most such organizations are however not trained in purchasing and as such will require some time to cultivate and educate.¹¹⁹

Service is recognized as an important factor in customer satisfaction, however in

¹¹⁷Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹¹⁸Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.3

¹¹⁹Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.4

practice Bulgarian service still leaves much to be desired. After 45 years of complaining to no avail, customer expectations are very low. As a result, any level of service is a bonus. As a consequence, the Bulgarian customer/client today is not nearly as demanding as his Western counterpart. Without such consumer pressure, firms will not be forced to translate their well-meaning slogans into actions. Sales are still the top priority. Yet the new culture of Western firms which do offer both the word and deed of service is having an impact--firms such as the U.S. computer, pharmaceutical firms, and telecommunications reps are providing good examples. Another level of customer relationships exists with the purchasing agents with governmental authorities or major enterprises. Technical training, guarantees of parts and supply, and some orientation visits are aspects of good commercial programs.¹²⁰

Opportunities for direct sales to either the national or local governments are very limited. The current austerity budget policies have eliminated all but the most essential purchases. The national government has little or no money for infrastructure projects, even critical water or energy projects. Most municipal governments cannot support their hospitals or even buy replacement bulbs for street lighting. As dismal as this circumstance is, two major alternatives exist: First, creative proposals will incorporate a revenue generating element such as pay telephones, or parking meters etc. have high potential. Other B.O.T. (build-operate-transfer) proposals are also well-received. The BULGARIAN partner will still be seeking seller financing in most of these instances. A second possibility is to participate in internationally funded programs on behalf of the Government. As one example, the World Bank initiated a public health assessment of Bulgaria.¹²¹

With close to 30 main telephone lines per 100 inhabitants, Bulgaria has a better telephone penetration rate than any other country in the region. The network, however, still consists of outdated electra-mechanical and analog equipment (the network consists mainly of old Strowger switches). Call completion rates are poor, and the waiting list for telephone

¹²⁰Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.6

¹²¹Marketing U.S. Products and Services in Bulgaria; Document #3108, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.6

lines as of 1992 remained high at 520,000. Bulgaria has about 2.4 million main telephone lines.¹²²

The Bulgarian Telecommunications Company (BTC) a state-owned monopoly formed in 1993, is the country's principle service supplier. BTC has formed a number of joint ventures with foreign investors, including some from the U.S.. Most of the issues of privatization of telephone operating entities, however, have not been addressed.¹²³

Infrastructure is one of the weak points of Bulgaria. As noted previously, communications within and to Bulgaria are difficult, though major programs are underway to modernize the system and provide options such as cellular phones, micro-wave systems, v-sat systems, private line/satellite linkages, and fiber-optic based connections. Such technology however is only as good as the weakest link in the network, meaning that the local cabling is subject to climatic conditions, construction, as well as vandalism and pirating of lines. Business reps will have to endure such a predicament until the upgrades come on line.¹²⁴

Finding the right accommodations can be a problem in Bulgaria given the many years of apartment block construction at the expense of single dwelling homes. Increasingly, the outskirts of the city are populated with renovated and expanded homes that are occupied by the incoming foreign community. Living on the side of Vitosha Mt. can have its appeal but isolation also brings greater concern for security and access up snowy roads. Apartments are also available but normally require some hunting. Foreigners may either use an apartment search service, contact the state-run housing organization - BODK; or look at newspaper listings. Those contemplating a move to Sofia should contact the U.S. & F.C.S. for further

¹²²Telecommunications; Document #6702, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

¹²³Ibid., p.1

¹²⁴Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

tips and suggestions.¹²⁵

In historical perspective, Bulgaria's changeover to a democratic system and market economy surpasses even the transformations of many communist countries in Central Europe given Bulgaria's faithful status and concentrated trade links with the COMECON countries. While other communist countries of the region adopted reform and displayed bursts of democracy, Bulgaria remained the most loyal and most bloc-dependent state in Eastern Europe. In 1989, after 35 years of rule, Todor Zhivkov was removed from power and a reform-minded but communist-led leadership took over in a bloodless transition. Following two Socialist Governments in 1990, the first non-Communist election was won by the Union of Democratic Forces (UDF) in October 1991. The UDF is an alliance of anti-Communist Parties and groups with strength among city dwellers and younger voters. Voters in the countryside and the older generation are still generally supportive of the former Communist Party, the Bulgarian Socialist Party (BSP). The UDF fell from power in late 1992, replaced by Prime Minister Lyuben Berov, a compromise candidate with no party affiliation.¹²⁶

As of mid-1994, Prime Minister Berov was trying to maintain his hold on power in the face of increasing opposition. In June, the BSP called for pre-term elections for the fall of 1994. The UDF walked out of parliament in June. No date has been set for elections, however, and it is by no means certain they will be held before the required elections are due in late 1995. The fragile status of the Berov government has meant a perceptible slowing of Bulgaria's economic reform program. On the positive side, restitution of shops and houses that were confiscated by the communists in the 1940's has put capital into the hands of many ordinary Bulgarians, helping to fuel rapidly growing consumer goods and service sectors. However, privatization of state-owned industry has moved slowly, as has the breakup of state-organized collective farms. Political tensions remain over the pace and impact of reform, the unemployed, and the level of corruption. Many of the difficult decisions facing

¹²⁵Business Travel in Bulgaria; Document #3115, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

¹²⁶Political Environment in Bulgaria; Document #3111, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.1

parliament require a strong coalition or consensus, something the current government is sorely lacking. Moreover, politics in Bulgaria has moved to the extremes of left and right, creating a vacuum of the center. As a result of a political discourse of compromise and pragmatism is difficult to achieve. However, some hopeful signs of recent are parliamentary agreements on a debt settlement, a bankruptcy law, a mass privatization program and an ironic consensus on the need to avoid elections. The impact on business is simply that needed legislation is frequently the subject of political deadlocks. Moreover, leadership at the highest levels is needed to assert the critical role of foreign investment, to move a lethargic bureaucratic, and to enunciate the proper and ethical basis for business. Of course, Bulgarians have been used to such political flurries before and continue on a "business as usual" basis, which fairly well characterizes the situation today.¹²⁷

Conclusion and Summary

Basically, TTI has to consider all the information before it and make its decision based upon its own goals. The low-tech foreign environment of Bulgaria, coupled with its lack of a true knowledge of service may be too difficult for TTI to adjust to. Expansion may not give TTI the instant return expected by many companies, but the opportunities will likely be of great benefit to TTI if they persevere. When expanding into foreign markets, it is extremely important to be aware of all the possible pitfalls before being lulled in to complaisance by the apparent benefits. Bulgaria has many benefits to a company expanding there, but it has to be the "right" company for whose needs Bulgaria supports. TTI may find that there is a country ideal for their expansion, but Bulgaria may not be it.

¹²⁷Political Environment in Bulgaria; Document #3111, Eastern Europe Business and Information Center, U.S. Department of Commerce International Trade Administration, Washington, D.C., 1994, p.2

CHAPTER 7

CONCLUSIONS

The following conclusions are of great importance to the company seeking to expand, they tie together the myriad of concerns which we have addressed.

It is important to recognize that raw materials include not objects and things, but also natural ability and societal norms. The aspects of raw materials are diverse, and must be acknowledged if the company is to continue operations successfully in the foreseeable future.

The two primary areas of economic concern in as far as the company will be interested are typically the economic outlook of the country, which determines the future of various aspects such as wages and internal sales, and currency which determines the monetary cost of operations, as well as the stability of these costs.

Additionally, currency and its fluctuations can have both negative and beneficial effects upon foreign operations, and only by hedging against the negative effects, and maximizing the positive ones can a company hope to compete effectively.

Taking into account the aforementioned factors, the status of air and shipping ports should be effectively evaluated, thus issuing a rough picture of the long distance and timing options involved in transport. These factors provide a rough framework to evaluate the readiness of a given country for industrialization and production in the initial stage of research.

The company expanding into a given country must also do ongoing research when they are actually operating there as to turn-over and its sources(i.e.-wages, benefits, location, etc.). By determining the reasons which an employee has for leaving the company, they can try changing their policy accordingly in a pro-active attempt to deter future loss. It is important for a company to realize that they often lose more money training a new employee than they do by meeting the needs of the current ones.

In many cases, to expanding company, culture is typically seen as a constraint, however, if properly identified and compensated for, it can be surmounted. If a company finds that the only drawbacks to production in a given country are cultural ones, and it finds ways

to overcome them that its competition does not, it will see prosperity and thereby leap ahead of its competitors¹²⁸.

Technology and its use within a given area is dependent upon certain factors of availability and need. These factors are paramount to the success of the continued operations within that country. Remember that having the best high-tech machines in the world will not help, if the company cannot find qualified persons to operate, repair, and service them¹²⁹.

Ideally, the world headquarters will be located at a point different from either the domestic or foreign operations, and consist of individuals who oversee the world operations and have reporting to them the heads of their respective areas from both the domestic and foreign operations¹³⁰. By adding this top tier to the corporate "Pyramid" the company can hope to best address the concerns of the two (or more) bases of operations in a timely and effective manner, while still being able to standardize the actions of both, thereby enabling greatest efficiency and continuity of action throughout.

The expanding company must weigh several factors to determine the best possible type of expansion. This analysis should be based upon the pre-expansion investigation information and recommendations, as well as against the pre-determined goals set forth by the board pertaining to this expansion. It is integral to this process that the group identify its goals and what the company hopes to gain from the expansion, as well as to determine the appropriate financial commitment it concedes to the venture.

The example illustrated previously by American Uniform is one of growth and change, two aspects of any successful company. By sharing its market trends and new market ideas with its worldwide production partners, American Uniform can foresee prolonged success and growth which can be traced from its entry level line workers to its highly competent and intelligent

¹²⁸Dymsza and Vambey, International Business Knowledge: Managing Internationally, Praeger, New York, 1987

¹²⁹Personal Interview at American Uniform with Greg Ledford, Assistant Plant Manager, Cleveland, Tennessee, June 1992

¹³⁰Ohmae, Keniche, Triad Power: The coming shape of global competition, New York Free Press, NY, 1985

President, Gary Smith. American Uniform exhibits the qualities of both a company and a family, thus enabling them to be leaders without losing their grip on the role of common sense. American Uniform acknowledges the respect due every employee, and as a result, each employee is determined to repay that confidence with hard and productive work. And whether the "work" is that of Marketing Director, T. Roy Jones, Director of Purchasing, Jack Seymore, or an 18 year old girl sewing pockets on a pair of blue slacks, quality and pride are the end result, and will be where ever in the world their expansion may take them in the future.

In the case of TTI, they have to consider all the information before them and make their decision based upon their own goals. The low-tech foreign environment of Bulgaria, coupled with its lack of a true knowledge of service may be too difficult for TTI to adjust to. Expansion may not give TTI the instant return expected by many companies, but the opportunities will likely be of great benefit to TTI if they persevere. When expanding into foreign markets, it is extremely important to be aware of all the possible pitfalls before being lulled in to complaisance by the apparent benefits. Bulgaria has many benefits to a company expanding there, but it has to be the "right" company for whose needs Bulgaria is supportive of. TTI may find that there is a country ideal for their expansion, but Bulgaria may not be it.

There are several lessons which can be learned from each of the concerns addressed in each of the chapters. The first chapter illustrated the many aspects of expansion which need to be addressed prior to the actual physical investigation of any given country. The second chapter began the process of investigation, and alluded to the many positive and attractive aspects which overseas expansion holds. In the third chapter, we were made aware that there are negative concerns to any expansion prospect, and any expanding company should not enter into any area blindly. The fourth chapter discerns the different expansion choices available and the rough guidelines for determining the staffing prospects therein. Chapter five illustrates the distinctive and successful story of American Uniform, a medium sized U.S. company expanding into eastern Europe, by their example we can all benefit. Lastly, in chapter six we followed the story of a fictitious company investigating possible expansion through an encapsulated S.W.O.T. analysis, through this we see that there are a plethora of

concerns which need to be addressed for even the simplest of expansions.

Finally, it is important to note that expansion may not be the best choice for all companies, but for those who do the research and find it viable, success can be found! The keys to success is ample preparation, and making an informed decision based on facts and not dreams. To those who choose the path of expansion, new worlds await, and good luck to them all.

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APPENDIX : BUSINESS OPPORTUNITIES IN BULGARIA

The U.S. Embassy, Sofia made available the following information which could be extremely helpful to a company looking to expand into Bulgaria.

- 1) Bulgaria is a European country with strategic access to neighboring Greece, Turkey, the Middle East, as well as to Europe and the former Soviet block markets.
- 2) In comparison to Hungary, the Czech Republic, and Poland, Bulgaria lags in trade/investment but has less foreign competition and more undiscovered opportunities as a result.
- 3) The emerging private sector is the most dynamic sector of the economy, with eager new entrepreneurs interested in representing U.S. products
- 4) Import demand is across the board for the spectrum of U.S. exports but especially in telecoms, services (e.g. no franchises in country, no full service western banks here); agro-business. environmental protection, consumer goods (see CMP for full list)
- 5) U.S. company presence in Bulgaria has doubled in the past two years;
- 6) U.S. exports to Bulgaria are up 35% this year

FCS Sofia Support Programs

American Business Incubator (ABI): The ABI is intended to provide U.S. Firms who are setting-up Business in Bulgaria with a head start in solving key office/communication and other start-up obstacle. The program offers half-price office rental rates for up to one-year at the Sofia World Trade Center; no charge usage of Sprint's data communication service to the U.S. for the first six months; free use of office equipment; no cost ABI support staff. The ABI is a collaborative project between FCS Sofia, leading U.S. firms in Bulgaria, and the World Trade Center. Since Jan. 1994, the ABI has provided offices for Sprint International, U.S. West, the ISCA Insurance Company, and with prospects for several major U.S. firms to participate in the coming months.

Export express: this program is intended to provide a head-start for Bulgarian importers in their initial relationship with a U.S. exporter. Export express aims to offer communications, upgrade the quality of Bulgarian Business correspondence, and provide specialized advice.

Specifically, the program will provide no charge usage of Sprint's data communication lines (calls from Bulgaria to the U.S.) for the first six months of a trading relationship: U.S. Peace Corps will place a Business Volunteer at export express offices (same location as the ABI) to counsel Bulgarian entrepreneurs on business strategy and correspondence; IESC will provide specialized consultants as needed. This program is available to any U.S. firm starting their business contacts with a Bulgarian partner. Program was initiated after a successful FCS sponsored state trade day which generated several hundred U.S. company-Bulgarian partner matchups. The program will be in full operation beginning in September.

Plovdiv Fall Fair: FCS Sofia organizes the U.S. Pavilion at the Plovdiv Fair (September 26, to October 2), a trade-only (professional) fair generating in excess of 30,000 in trade traffic. Upwards of 35 U.S. firms are expected this year in the U.S. Pavilion which has doubled in size every year for the past three. The fair is a horizontal show but stresses high technology sectors. Fees are reasonable: \$3,700 for 3x4 booth. For information contact FCS Sofia at tel: (359) (2) 65-94-64; fax: (359) (2) 80-38-50.

FCS Sofia market research data bank: Given the lack of professional quality market research, FCS Sofia has consolidated over 150 titles of market research drafted by Western experts on Bulgaria. These materials/or their summaries are available at Post.

FCS Sofia provides a full-service Gold Key package as well as no-charge replies to "quick and brief" requests for market information.

*The first American Chamber of Commerce in Bulgaria (approx. 100 members) will be in operation by the end of the summer.