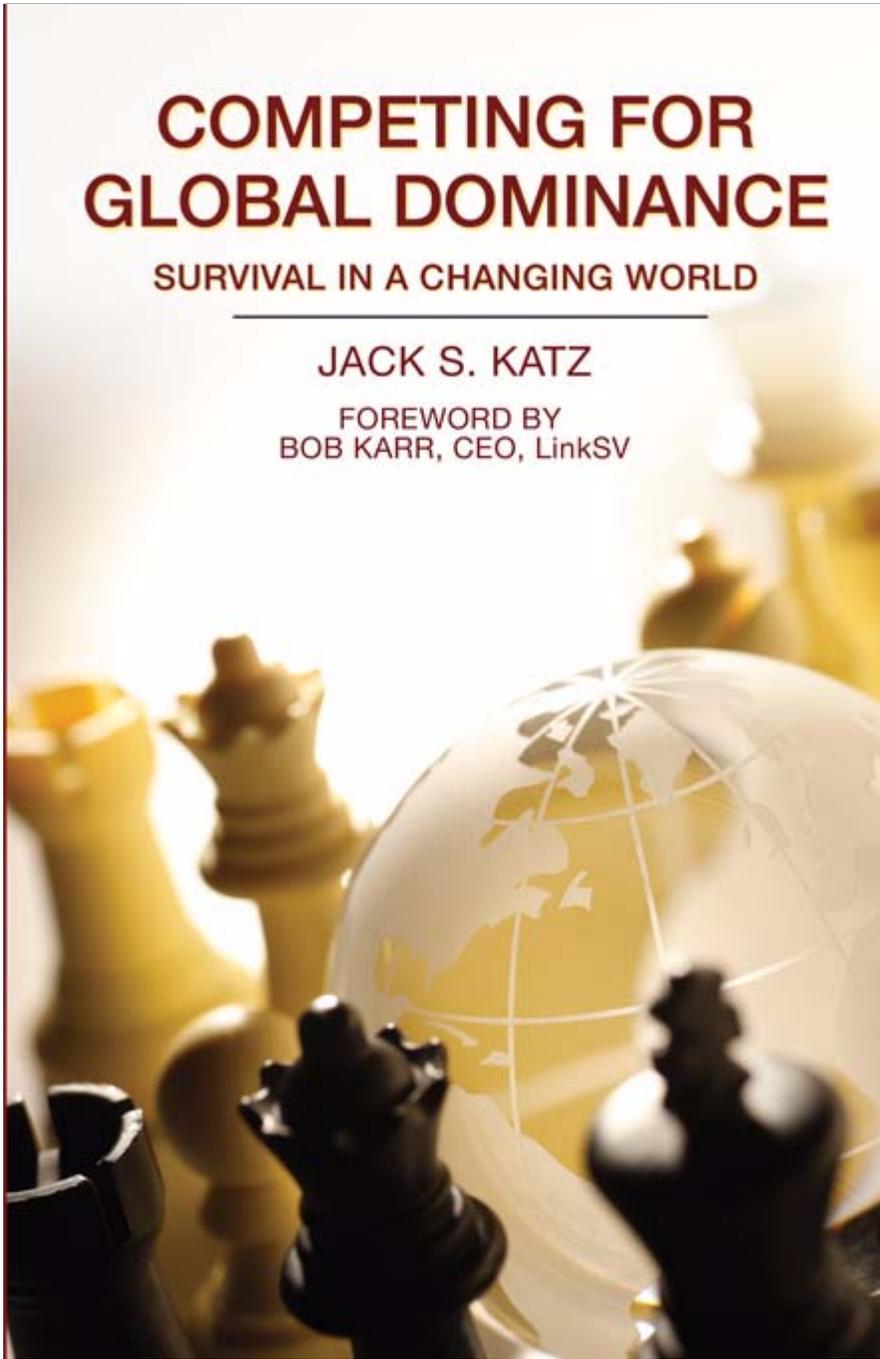


COMPETING FOR GLOBAL DOMINANCE

SURVIVAL IN A CHANGING WORLD

JACK S. KATZ

FOREWORD BY
BOB KARR, CEO, LinkSV





“Competing for Global Dominance” Book Excerpt

Survival in a Changing World

By Jack S. Katz

Foreword by Bob Karr
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Dedication

To Caren, for all her love, support, and enthusiasm in making this book possible.

Acknowledgments

If I have learned anything from writing *Competing for Global Dominance* it's that I could not have done it alone. The ideas that are molded together here were bandied about and refined by many extraordinarily insightful colleagues and friends.

The initial concept and inspiration for this book occurred during discussions with my colleagues during the time I was employed at Sun Microsystems and Cisco Systems. We all became aware of many of the problems that faced both foreign and domestic companies when they tried to enter new global markets with their products and services. The issues were just beginning to emerge as we explored along with our worldwide partners ways to better understand these business conditions and then to solve them.

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Foreword by Bob Karr

Competing for Global Dominance outlines the issues that entrepreneurs and businesses face as they compete in a world marketplace no longer hindered by time or distance. Today's entrepreneurs have the advantages of worldwide social media, faster transportation, cheaper labor, and financiers anxious to invest in good ideas. This has all led to a new age of globalization.

After World War II, an American migration began when businesses set up shop in Europe and Asia looking to expand their influence overseas. Silicon Valley sprang to life in the 1960s, converting orchards into office buildings, and the start-up, high-tech community was born. The international expansion that followed brought together people of diverse backgrounds—Asians, Europeans, South Americans, Israelis, Indians, and others—into groups pioneering new product development and marketing strategies in order to bring new innovative products and services to market.

The Silicon Valley success model transformed groups of individuals and businesses from around the world. Using social networking, it is accelerating the communications process through the use of Facebook, YouTube, LinkedIn, and LinkSV. This collaboration expanded influence and market share by developing new ways of doing business.

Competing for Global Dominance addresses the possibilities with practical information and first-hand knowledge. It demonstrates thought leadership from the perspective of a practitioner who works with entrepreneurs and companies from around the world to position them for endurance and expansion in the new world of globalization. *Competing for Global Dominance* is a unique work that brings together the pieces of the puzzle for entrepreneurs and companies alike to compete on the international stage.

Bob Karr, Founder and CEO
Link Silicon Valley, LLC
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Introduction

I was on my first business trip to Japan to present a keynote address at an international conference on Customer Relationship Management to over six hundred Japanese business executives. Presenting to CEOs and other corporate executives had become "old hat" because I was doing several customer briefings weekly back in the States as well as other presentations around the world. My responsibility at the time was to evaluate our partners' technology to determine if it was a good fit for the company. If the opportunity presented looked good, I would begin negotiations to bring the technology in house for future use by our customers. Accomplishing this objective required me to meet with business executives worldwide to present new technology we offered and explain how best to use it in solving their company's business problems.

During this trip I had the opportunity to visit the Akihabara district in central Tokyo. The Akihabara is famous for its hundreds of electronics stores of various sizes, from small "mom and pop" stores to large stores like Sofmap, offering the newest in computers, cameras, televisions, mobile phones, and other home appliances. It was like Christmas in July, except that most of the electronics on sale were only suited for use in Japan and were not yet available in the United States. It would be another two to three years before some of these products would be available in the States. Most would never make it to America at all.

This was the situation I repeatedly found myself in during my international travels. I felt like Marco Polo returning to Venice from his travels to the Far East trying to explain the wonders that he encountered but unable to bring these treasures home with him. For me it would be new and different products from South Korea, China, Belgium, Denmark, Israel, and other countries where they were already in use but unavailable in the United States. I knew that if these products were available in the U.S. they could present destructive competition for local manufacturers who were becoming complacent in releasing new and innovative products for the American consumer. The U.S. market would provide these foreign suppliers the opportunity to have a greater influence on the global stage, if they would only take the risk.

Even more enlightening was how the use of new technology in the world's emerging markets was outpacing the United States. During a business trip to Culiacan, Mexico, in the late 1980s, I participated in what was to become a vital leap of innovative change in telecommunications in this Third World nation. In this coastal area east of the Sea of Cortez, best known for its rich rural farmland and plentiful crops, the government was implementing a wireless communication service available for business and individual use. Working for a jointly owned U.S. and Mexican company trying to get new high speed communications to our data center was nearly impossible, due to the amount of time required and prohibitive construction costs quoted by the local telephone company. Their solution was to leapfrog the current structure and use wireless technology, reducing the need to expend vast sums of money upgrading their existing infrastructure. My observations in Mexico as well as other countries was that their governments

and their leading companies were moving quickly with the implementation of new and cost-effective technologies, while back in the United States our congressional representatives in Washington as well as the Federal Communications Commission were still arguing about fixed pricing and monopoly control of the telecommunications infrastructure. The United States was late to the party!

I realized that the groundwork laid by the U.S. Founding Fathers was being destroyed by our current federal regulators, who haven't grasped the scope of market dynamics. When faced with dramatic change, our forefathers knew intuitively what a generation has to learn to stay competitive and to survive. Our current state of world affairs provides us the opportunity to reach back into history to identify the business trends that have propelled economic development and to use this knowledge for our own preservation. I am reminded of the insight of Winston Churchill when he said, "The further backward you look, the further forward you can see."

I have met many executives who recognize their lack of market knowledge to compete successfully in international trade. I am mystified that they are not concerned about whether they have the right products, supply chain, or a personal network of contacts, which are all critical components of long-term business performance. In my experience, those executives who understand the changes that are occurring worldwide and take advantage of these new business conditions will better increase their chances for winning. Those who don't (or who go against the trends in the market) will usually struggle for market share, and then ultimately fail.

This reality was best exemplified by a Swedish executive to whom I was introduced who wanted to expand his company to the United States by relocating one of his top employees to Silicon Valley. He was coming here without knowing anyone in the United States, let alone in the San Francisco Bay Area. This individual was expected to go out and make cold calls to prospective customers throughout the U.S. to bring in orders for the company's Internet development work. As months went by without any orders, it became apparent to the CEO that his method of prospecting for new business was not working. He once said to me, "I don't know why our calls are not returned and why we cannot get in to see these executives. After all, we have an excellent reputation throughout Europe." After six months without any results to show for their efforts, he packed up and returned home empty handed.

Time after time I have seen foreign executives land on the shores of America believing that they can conquer the new world like Columbus and return home successful and wealthy. Even though Europe and other countries are skilled in creating technologies, they are not very effective at generating revenue from them. Like the Swedish executive, foreigners do not realize that the U.S. market is not like the images gleaned from watching American movies and television. Most executives fail to appreciate that business is built on personal connections and that cultural trust needs to be cultivated prior to setting foot on the airplane. The Swedish executive should have started developing his connections while still in Sweden, using online social and business networks to establish a solid contact base. He did not. He was ill-informed of how best to accomplish this undertaking in a profitable manner. To their detriment, most executives have not

invested enough time and effort developing a market strategy, let alone the tactics required for growing their business in this connected world.

In fairness, American executives working overseas face the same challenges and may possess similar preconceptions that foreign companies follow the same customs and culture as American organizations.

Foreign associations who cater to emigrants from their own countries such as Korea Trade Promotion Corporation (KOTRA), Japan External Trade Organization (JETRO), British American Business Council, and German American Business Association, etc., can assist them in getting a foothold in the target country. All of these organizations have varying degrees of success.

To compete and thrive in the 24/7 global market becomes the foremost goal for businesses as well as their governments. As emerging global companies become a greater threat to non-global companies, a shift is occurring in operations where work flows to those countries, where it will be efficiently produced at the lowest cost with the objective of high quality. Through the interaction of people, companies, and governments, globalization brings change to societies from increased trade, investment, and the spreading of ideas through popular culture. The issues facing these businesses are not technology, as the Swedish executive discovered. He should have left his perceptions of America behind and found a way to enter a country that has customs, traditions, buying habits, and goals that are different from his own.

For this book I have brought together my experience working with hundreds of companies in the U.S. and around the world. *Competing for Global Dominance* brings to light the firsthand problems of what worked and what did not for these companies to establish a foundation for their products and technologies in this open and dynamic market. Whether it is in the United States or in another country, the basic concepts of market entry remain the same. How it is executed makes all the difference.

Each country over time has developed their own set of trade laws, methods of taxation, tariffs, and customs for doing business. I have used the United States of America, particularly the entrepreneurial culture of Silicon Valley, as the basis for this work because this market has best exemplified the culture that propelled innovative growth for the last half century.

1

The World Has Always Been Flat

Those who face the unprepared with preparation are victorious.

Sun Tzu

Global trade is not new; neither is globalization. Trade between countries has been going on for thousands of years. Consider the early camel caravans trudging across the deserts of the Middle East carrying their goods to far off exotic places. Then there were the golden ages of Greece and Rome, followed by the colonial eras of the British, German, Belgium, Portuguese, Dutch, French, and Spanish with colonies around the world established for the purpose of trade and wealth creation. Today, thanks to modern technology, for the first time in human history the world marketplace is open 24/7. The "sun never sets" on the world market.

For the entrepreneur, the entire world is now within reach in ways that weren't possible a few years ago. Venturing into the arena of global trade presents both opportunities and challenges for businesses, whether it is olive oil from Crete, food supplements from Germany, perfumes from France, software from Denmark, electronics from South Korea, or consumer goods from China.

The entrepreneur's challenge is influential; dominant cultures such as the United States have a significant impact on the behavior of people in other areas of the world. People are not uniform in their behavior; to understand how to compete, we need to leave our perceptions behind and find new models for entering these markets that have different buying habits from our own. This can be done through the use of online stores, interactive Web sites, video, and public relations techniques. The question is: How will the entrepreneur take advantage of today's cultural market transformation and generate revenue from it?

Identifying global trends and developing strategies to manage and execute them are vital to corporate success. Throughout history, centers of business activity, whether in fifteenth-century Venice, seventeenth-century Amsterdam, or contemporary Hong Kong, have shifted profoundly, not just globally but also regionally. As a consequence of technological advances over the last four decades, demographic shifts in the population have resulted in a massive realignment of global economic activity. These demographic shifts have affected workers in developed countries with layoffs, towns losing population (and gaining new immigrant populations), and companies manufacturing product that is no longer relevant to the needs of the market. This is not a new phenomenon. In the seventeenth and eighteenth centuries, the Dutch were perhaps the most economically wealthy and scientifically advanced of all European nations, but eventually they could not compete with the British or Spanish. Recently this same pattern is playing out with the massive modernization of China's eastern seaboard, where the population is leaving the interior and migrating east for employment.

With globalization, industries will shift even more dramatically than in the past. Shifts within regions are as significant as those occurring between nations. Average citizens are struggling to understand what is happening to their way of life and to the jobs they assumed would provide retirement security. They now find themselves forced to compete unprepared in a global marketplace.

The customer landscape has also dramatically changed with the advent of globalization. Social and business networking Web sites have expanded significantly as new ways are found to exploit the capabilities of these networks. This is great news for those who want to start and grow a business because almost a billion new consumers will

enter the global marketplace in the next decade. For those emerging markets that have the right attributes, economic growth will push them beyond their current standard of living to where they will begin to spend on discretionary goods. It has been estimated that over the next decade consumer spending power in emerging markets will increase from \$4 trillion to more than \$9 trillion,¹ almost the current spending power of Western Europe. Shifts within consumer segments in developed economies will also be intense, as it is estimated that the Hispanic population in the United States alone will have the spending power of \$1 trillion. We are also seeing an increase in consumer spending in China for goods and services; brand-name international products are especially in demand. More importantly, consumers have access to product and pricing information from manufacturers, no matter where they reside.

A unique behavioral transformation is occurring, which encourages us to communicate and work together with others around the world. Not only can we develop casual relationships with others, we can collaborate on the development of new products and services. We can also market, promote, buy, and sell goods online and have them shipped to us from anywhere. We are forming interconnected virtual communities of business and social relationships through online sites such as LinkedIn, MySpace, Facebook, Alibaba, HiTechCare, and others. More than two billion people worldwide now use mobile phones, and the numbers are increasing daily. You can audioconference or videoconference anywhere in the world for free on the Internet. There are one billion or more searches on Google, Yahoo, Ask, and Microsoft's Bing per day, and over half of these inquires are not in English. In a few short years, China has become the fastest growing country of Internet users in the world.

For companies to become successful in their target markets they will need to identify and appreciate the differences of their diverse consumers. History has shown that only a select few companies know how to initially deal effectively with this type of transformation. I am reminded of a German businessman residing in the United States who was unable to apply his knowledge of cultural differences in negotiations with a Chinese company. During the negotiation session, he tried to make them aware that what he was requesting in a way of

1. U.S. Bureau of Labor Statistics

a commission would not hurt their business or their revenues. When the German businessman was unable to convince his Chinese counterparts of the value he was bringing to them, he abruptly got up from the table and said, "We cannot come to a satisfactory conclusion," and stomped out of the meeting, to the surprise and embarrassment of all parties. The Chinese are accustomed to open and cordial dialogue first as they develop the relationship. Needless to say the relationship was not established and trust not gained. The German businessman lost the deal but even worse was the negative impression that spread throughout the Chinese company's business network informing them not to deal with this individual or his company in the future.

As with individuals, governments need to deal effectively with future transformation. This was dramatically illustrated when the city of Oakland, California, lured shipping away from neighboring San Francisco due to the unwillingness of the longshoremen's union to agree to the installation of modern container cranes for unloading cargo ships. This devastating loss of its container shipping business is one reason that San Francisco is now primarily a tourist town.

Entering any foreign market to establish a business for sales or seeking venture funding isn't easy. Most non-U.S. trade and economic commissioners will confirm that only five percent of their early stage companies that try to enter the United States market are successful. The remaining ninety-five percent have difficulty establishing themselves after one year. Those companies trying to acquire financing to grow will find it more difficult without a financial backer that will bankroll the company in its early development stages. This occurs even with chambers of commerce, trade and economic missions, innovation centers, foreign incubators, and a host of other organizations established after World War II to foster trade and economic development.

The Challenges of Global Trade

There are challenges facing any business entering a new market. These challenges include:

- **Increased start-up costs.** Entering any market requires short-term expenses for items such as travel, production, office space, sales and marketing materials, staff acquisition, product packaging, legal, accounting, business setup costs, relocation, and customs duties.
- **Level of commitment and time.** It will take effort and resources to establish and maintain a presence in a foreign market both to become established and to effectively grow the business. It may take years before a significant return on investment can occur. Most early stage companies do not have the sufficient resources to survive past two years.
- **Cultural differences.** Differences in language, culture and business practices in the target market(s) need to be understood and respected.
- **Unfamiliar regulations.** Foreign governments require a myriad of documentation from exporters that can present enormous challenges. Legal, accounting, and tax issues need to be addressed.
- **Accessibility.** Global trade requires ease of access to customers who are in different time zones, which will require new and flexible business and operating models to handle these changes.
- **Trust.** People like to do business with those they know and can trust. Trust takes time to foster. Even though a physical presence and face-to-face meetings are required, making your business known through social and business networking sites can assist in this process.
- **Risk of asset loss.** Security of information, intellectual property, and physical assets are a growing problem as companies expand overseas.
- **Competition.** There will always be competition for a part of the profits. Familiarity with the competition in the target market and their strategy for expansion is critical to know before entering an unfamiliar market. The only sustainable competitive advantage comes from developing and marketing new and innovative products before the competition does.

I have found that there are numerous ways to reduce the risks and increase the probability of market entry success. Leveraging expert knowledge of global trends, use of efficient business processes and practices, and understanding the unique consumer characteristics of the market are the basis for sustainable advantage in any established or emerging market.

Market Characteristics

Global trade requires a process of internationalization and localization where products such as Coca-Cola, McDonalds, BMW, and Nabisco appear familiar in each target country. Messages that sell product, create awareness, or convey a need are now able to reach with ease any consumer anywhere in the world. The challenge for today's budding companies is to bring these messages and cultural differences together successfully to create value for these new global customers.

A great deal of uncertainty exists in the global economy. Competitors are emerging in every industry and in most cases across local and international borders that were once thought to be impenetrable. Company insight of their customers is the only continually reliable competitive advantage for any organization. Relevant intelligence through market research is needed from distributors and other service providers to better understand how a product will be accepted. A clear understanding of the unique interactions of each market segment is imperative for business survival.

The process of adapting a product and message for these markets requires more than just localization to meet cultural acceptance; it needs to be universally recognized. Once, after clearing customs at Milan's Malpensa Airport, I spotted a large billboard in Italian advertising Sun Microsystems' high-end servers. I later saw this same advertisement at a subway station in Tokyo, only this time it was in Japanese with a backdrop of Mount Fujiyama. Same product, localized for each targeted country.

A global outlook is required to establish brand awareness and communicate the essence of the product across all countries. Innovative ideas travel well and are necessary to keep pace with foreign firms that are quick to copy and ready to enter your market and possibly weaken your

sales. Such was the case during the Middle Ages when minor rulers often banned each others' merchants from entering their ports. This practice encouraged privateers on both sides to raid the shipping of their adversaries at will.

Throughout history merchants spoke languages such as Arabic, Latin, and Spanish. Modern executives are shaking hands, bowing, or presenting business cards in a formal manner while conversing in English that is accented with Mandarin, French, Japanese or Spanish. In truth, they are all twenty-first century industrialists.

Entrepreneurs and executives of newly emerging companies need to talk to the movers and shakers who are determining where the world is going and influencing the outcome. Those individuals can't do that if everyone in the room isn't speaking the same language. Networking is a way to begin, but it is only the beginning. Going out and exploring those markets and talking to the key influencers firsthand is imperative!

While insight derived from cumulative experience remains highly prized, the demands for growth require that insights be drawn from a deeper and broader experience. These insights must then translate directly into meaningful action. Going global in this economy requires greater sensitivity for the intended consumer by those who clearly understand the customers' buying behavior.

There is ample evidence of the rewards awaiting those who can break across boundaries and unite ideas. Success comes to those who can make the leap. These same companies are now searching the world for countries that can provide them the lowest cost structure for their operations. They now go to China for manufacturing, India for programming, and Thailand and Malaysia for inexpensive labor and resources.

Attributes of the International Business Environment

Companies are looking for dynamic economic regions with specific demographic characteristics like those of California's Silicon Valley, Boston's Route 128, Hertzelia Pituach in Israel, Hong Kong, and the Pearl River Delta area of China in order to maintain their global competitiveness while growing their market share. These companies are

looking for countries, cities, and partner companies who share their global ambitions. Each has attributes to create an international business environment with investment opportunities and low-entry barriers providing elements for sustainable growth. There are many areas in every country that profess to have robust economic development plans to help foreign companies to setup business. Most may have the economic incentives available but are not attuned to what their prospects are looking for and how best to provide it. There are very few companies with global ambitions that will succeed outside of these areas because the technology talent is not located there. But the needs go beyond talent. Companies are looking for:

- A workforce that is educated, flexible, adaptable and willing and able to learn new processes and produce at a reduced cost;
- Potential employees who are educated in math, science, and engineering who can add immediate value;
- A cooperative government that will work together with business, share their ambitions, and reduce bureaucratic barriers; that wants to be globally competitive; and that can make market entry easier and quicker for foreign businesses;
- An educational system with modern curriculum, international focus, multi-lingual at all levels, and with universities located nearby;
- Tax stability for planning, investment, and operational purposes with accounting standards and no capital restrictions;
- Transparency and stability in the rule of law with the capability to protect intellectual property and patent rights;
- Modernized, expanding environmentally focused infrastructure with electrical power, clean water, roads and ports to support new business while fostering sustainable growth;
- Developed and expanding ecosystems of suppliers, educators, bankers and customers close to air and sea ports for cost reduction and speed-to-market;

- A vibrant multinational local community attracting and bringing people together in a social setting from anywhere in the world;
- Reliable and secure banking systems with international standards of reporting and accountability; and
- No taxes or limited import, corporate and sales tax structures to foster trade and corporate growth.

Low-cost manufacturing countries are now experiencing the same problems with their local and multinational companies as the West has experienced. As their country's cost of living increases, so does the cost of labor, goods, services and production. At some point a company will look to move its manufacturing to lower cost areas. China is now concerned that the cost of manufacturing operations on their eastern seaboard is increasing too fast. They have a goal to develop their country's heartland to reduce the cost of production, all the while offshoring to Malaysia and other countries.

The goal for the emerging company is to reduce the likelihood that anyone else will gain a competitive advantage. The differences in market knowledge and the speed to open up new markets will make the difference for achieving global dominance.

Fifth century historian Herodotus noted in his own time that "human prosperity never abides long in the same place." Many of the cities that were majestic in his day became comparatively unimportant. Today, one only has to look at the former industrial cities in the United States such as Detroit, Michigan, and Akron and Youngstown, Ohio, to name a few that are now identified as the "rust belt" cities to see this phenomenon playing out in our lifetime. These cities lost most of their reason for existence when their leading industries relocated to cheaper areas of production, usually overseas. What remains are individuals clinging to what's left of the local economy, unwilling to adapt to the new realities of the situation they now find themselves in.

A major transformational shift is occurring worldwide and creating sustainable changes in behavior of individuals and organizations through the use of the Internet. The global reach of the Internet has been the catalyst for social and business networking having a greater influence

on how business is conducted. Social networking depends on a high pass-along rate from person to person, which accelerates outward to a large number of contacts. We now have 24-hour world news coverage, low-cost air travel, and enhanced global transportation systems such as UPS and FedEx that contribute to this transformation. The result is that global trade is becoming more dynamic as old companies begin to weaken and fade away and new companies emerge to take their place.

Identifying why a nation, a city, state, or a company prospers over time and how to maintain this prosperity remains highly relevant today. Which countries and companies will end up being the world's leaders in technology, innovation, and manufacturing has yet to be determined.

About the Author



Jack S. Katz is the CEO of Novusglobe LLC, an international business and market development consultancy and research company. He founded the firm after three decades of successful executive management for several well-known international corporations.

Identified as one of the ten top people to know by *Technology Decisions* magazine, Jack is noted for his knowledge and delivery of technology and business solutions that have had a dramatic impact on the bottom line of global companies. He is in frequent demand as a keynote speaker for professional and technology organizations and has delivered talks on three continents.

Jack's exceptional career began in information technology where he served in such diverse industries as retail, healthcare, financial

services, and insurance. He transferred this experience to the marketing and sales sector where he advises Fortune 1000 companies both on the strategic and tactical impact of leading-edge technologies, business development, and strategic marketing. He served in executive positions at Cisco Systems, Sun Microsystems, Providian Financial Services, Blue Shield of California, and Safeway, Inc.

Jack earned a Bachelor of Arts degree and Masters of Public Administration from the University of Colorado. He has served as an adjunct faculty instructor in computer science and business administration at the University of Phoenix.

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