

**Appendix D - UNIVERSITY HONORS PROGRAM
SENIOR PROJECT - APPROVAL**

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Faculty Mentor: Dr. Yulan Washburn

PROJECT TITLE: The Process of Market Research
in International Business

I have reviewed this completed senior honors thesis with this student and certify that it is a project commensurate with honors level undergraduate research in this field.

Signed: Yulan Washburn, Faculty Mentor

Date: Dec. 15, 1999

Comments (Optional):

The Process of Market Research in International Business:

A Small Business Study

Shannon Kidd

Senior Honors Project

Graduation Date: 12/18/99

INTRODUCTION

As a student in Language and World Business, the field of international business has been a considerable focus in my undergraduate courses at the University of Tennessee. At the beginning of this fall semester, I accepted an internship (a requirement of my major) at the International Trade Center in downtown Knoxville. As an intern, my duties included market research for various clients and general research in the areas of cultural differences, international contacts, trade leads and exporting techniques. Throughout the semester, I have learned a great deal about the process involved in exporting a product and the steps necessary for achieving this goal successfully. Therefore, I chose this area as the focus of my senior project in order to demonstrate the knowledge and curiosity I have gained in my major field through this work. Specifically, I have outlined the exporting process in my project by way of a particular client with whom I worked at the ITC. Due to confidentiality purposes, I am unable to divulge certain details of the clients product and its applications. However, I feel that my project is not hampered by this lack of detail. The client is referred to as Broadhead Industries for the purposes of this project.

PURPOSE STATEMENT

The purpose of this project is to examine the process involved in exporting a product to a new market overseas, focusing on the research aspect of this endeavor. The goal is to reduce the intimidation factor involved for the average person attempting to do business abroad.

QUESTIONS

Obviously, there are hundreds of questions that need to be addressed when planning to export a product for the first time. For the purposes of this project, I am focusing on just a handful of these questions, particularly the ones that I dealt with in my work for this client.

Preliminary:

- What are the reasons for wanting to export?
- Is the company ready to undertake this project?
- What does the company want to gain?
- Are expected benefits worth the cost involved?

Product:

- What features of this product make it exportable?
- Will anything need to be changed or inspected before selling overseas?

Choosing a market:

- Where are the largest, fastest-growing markets for this product?
- Which countries are easiest to work with?
- Which countries have new and/or expanding militaries?
- Which areas have good trade relations with the United States?

Further considerations:

- Legal/government restrictions on product used for military applications

CLIENT INFORMATION

The client, Broadhead Industries, is a company which manufactures a specialized, fire-retardant textile used in military and fire-fighting applications. The factory is located in Tennessee, and Broadhead Industries is the sole producer of this material in the United States. The U.S. military is among its largest customers. The president of Broadhead Industries came to the International Trade Center in July of 1999 with desires to sell his product in new markets overseas. His interests lie particularly in South America, Eastern Europe, and Asia.

RESEARCH

Although the reasons to export are varied, the main reasons for Broadhead Industries are to maximize profits and due to the saturation of the U.S. market. Since their product is so unique in material and has a proven track record with its customers, the likelihood of success in a foreign market is increased.

The majority of my research was done via the Internet. My job was to investigate the possible markets for this product in South America and Eastern Europe, and report to the client on the top three markets in each area. I started with South America and found the most useful information in the National Trade Data Bank on-line. I viewed the Country Commercial Guides for all of the South American countries. I found that most of the nations were suffering from economic depression and would not be suitable for this type of venture. However, Argentina and Chile seemed to be the most promising, so I continued to research other sources for information on these militaries. I discovered that both countries were in the process of upgrading their armed forces. In particular, Chile was focusing on their Air Force which has direct applications for the product of Broadhead Industries. In addition, Argentina has the lowest inflation and the second largest growing economy in South America. Chile joins Argentina with an outlook of long-term stability and goals to compete on the international scene, highlighted by their recent trade agreement with Canada. Although I was asked to report the three top prospects in this area of the world to Broadhead Industries, I was unable to feel confident with the potential markets in any other countries in South America so only gave recommendations for Argentina and Chile.

The next step was to gain information for Eastern European economies. I used several different search engines and websites, with most help from the NTDB and CEEBIC. I discovered that Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia, Romania, and the Slovak Republic are all transition economies. In addition, according to the CEEBIC site, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, and Romania are involved in the Central European Trade Agreement (CEFTA). This information demonstrates a desire to strengthen their economies through the world market and helped to narrow my focus. The Czech Republic stood out from the others with a 42.4% increase with the European Union during the past couple of years. Also, political stability with President Vaclav Havel and plans to improve the economy through trade gave the Czech Republic a boost as a potential export area. Also, through more research on this country, I discovered that the Czech Republic, Hungary, and Poland are the three most recent additions to NATO from Eastern Europe. As members of NATO, all three countries must upgrade their militaries in order to comply with NATO standards. I found this information to be good news for Broadhead Industries, as these nations will most likely buy equipment from the United States, according to one source. The information I found in the National Trade Data Bank was positive for both Poland and Hungary with regards to their respective economies. Poland is currently the leader in Central Europe for attracting foreign investors and also boasts a large market and strong potential for growth in the future. Like the Czech Republic, Hungary is the location of several multinational companies including General Electric, Coca-Cola, Lockheed Martin, and IBM. The country is currently embarking on a purchasing program to upgrade its military machinery (including fighter planes) which has a direct application of the product

advertised by Broadhead Industries. Therefore, I believed that these three countries seemed to have the highest potential for sales for this product.

Once I felt that I had gathered enough information and research to support my recommendations, I wrote a letter to the President of Broadhead Industries and sent him copies of my findings. I also shared my recommendation with my director at the ITC before he had a meeting with Broadhead Industries and a representative of the U.S. Department of Commerce Export Support Services, George Frank.

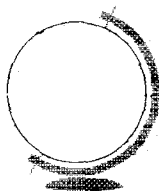
In addition to work in these two areas of the world, I also conducted a search on Asian militaries and the current government restrictions in the United States. I made a few calls and searched the Department of Defense website. In response, I received a fax from the Trade Department concerning the countries with which the United States has restricted trade due to political or security disputes. These countries in Asia include Vietnam and North Korea. However, there are also concerns with this product due to the fact that it is used for military applications. Although it is not used in the production of munitions, Broadhead Industries will most likely face certain inspections in the future process.

RESULTS

Broadhead Industries has decided to explore the markets in Eastern Europe (Czech Republic, Hungary, and Poland) and is currently awaiting information on contacts from the U.S. Department of Commerce. The plan is to find a distributor for the product with help from embassies in Eastern Europe. I believe that Broadhead Industries will be successful in these markets due to the unique aspects of the product combined with the growing economies and expanding militaries. I have enjoyed my small part in the process of market research. I learned that the Internet has increased the ease of market research for the average person. However, this process has also opened my eyes to all of the steps involved in getting a product sold overseas and has given me practical knowledge of my major. I believe that the skills I have learned through this project will be of great value if I choose to pursue a career in international trade. As for immediate results of this project, my faculty mentor, Dr. Yulan Washburn, has asked me to give a similar presentation in a Spanish for Business course here at UT next spring semester. I plan to use an example of a small business wanting to export into a Spanish-speaking market and will give the Powerpoint presentation in Spanish.

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International Trade for Dummies

Overcoming the Intimidation of
Doing Business Abroad

International Trade Center

- ♦ Provides counseling for Tennessee businesses in the areas of . . .
 - Exporting techniques and procedures
 - International marketing research and strategies
 - Trade resources
 - Transportation and distribution
 - Cultural aspects and protocol

Most Common Reasons for Exporting

- ♦ Increase sales and profitability
- ♦ Current market is saturated
- ♦ Demand lies elsewhere

A Client Study: Broadhead Industries

- ♦ Background:
Client manufactures specialized fire-retardant textiles used for military applications and fire-fighting purposes.
- ♦ Proposal:
Broadhead Industries would like to develop an export plan for its product.

My Job

- | | |
|--|--|
| <ul style="list-style-type: none">♦ <u>Questions to answer:</u>♦ Which countries have growing militaries with relatively little advanced technology?♦ Which countries have good trade relations with the U.S.?♦ Which countries are easiest to work with? | <ul style="list-style-type: none">♦ <u>Areas to focus on:</u>♦ South America♦ Eastern Europe♦ Possibly Asia |
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Internet Resources

- ♦ Stat-USA, National Trade Data Bank
- ♦ www.exportall.com
- ♦ www.ita.doc.gov
- ♦ www.getcustoms.com

South America

- ♦ Argentina:
 - ♦ Second largest economy in South America
 - ♦ Lowest inflation
 - ♦ Upgrading military
 - ♦ Chile:
 - ♦ Modernizing military, particularly Air Force
 - ♦ Long-term stability
 - ♦ Easy market entry
- 

Top Prospects in Eastern Europe

- ♦ Czech Republic
 - ♦ Poland
 - ♦ Hungary
 - ♦ Why?
 - NATO Rookies
 - Members of Central European Free Trade Agreement (CEFTA)
 - Top 3 leaders of foreign investment
- 

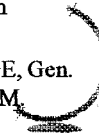
Czech Republic

- ♦ Exports boosted by currency depreciation, balanced 1998 budget, and 42.4% increase in trade with the EU.
 - ♦ Major multinational corporations have established operations here - P & G, Ford, Motorola, & Nestle
- 

Poland

- ♦ Leader in Central Europe in attracting foreign investors.
 - ♦ Reasons:
 - Size of the Polish market
 - Political stability
 - Prospect for real economic growth
 - Has begun planned process of updating defense system with NATO standards
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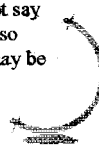
Hungary

- ♦ Advantage of proven track record with NATO military operations in Bosnia (lent military base to the U.S. at Taszar in '95)
 - ♦ Embarking on a purchasing program to upgrade antique machinery - particularly fighter planes - to be compatible with NATO
 - ♦ Multinationals in Hungary include GE, Gen. Motors, Coca-Cola, Lockheed, & IBM
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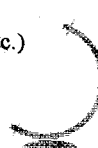
Results

- ♦ Broadhead Industries has decided to pursue exporting to markets of Eastern Europe - Czech Republic, Hungary & Poland
 - ♦ Currently, the U.S. Department of Commerce is working towards establishing distribution through the embassies in these countries for Broadhead Industries
 - ♦ Would eventually like to sell in Asian market
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Cultural Info - Czech Republic

- ♦ Shake hands and use formal titles when greeting
 - ♦ Very punctual
 - ♦ Conservative dress
 - ♦ Schedule meetings months ahead & avoid July and August (vacation months)
 - ♦ Speak softly
 - ♦ Take off shoes upon entering a house
 - ♦ Czechs are not "touchers"
 - ♦ Czechs will not say "no" outright, so negotiations may be lengthy
- 

What next?

- ♦ Government trade policies, inspections, tariffs, etc.
 - ♦ Making contacts
 - ♦ Find buyer
 - ♦ Negotiate a contract
 - ♦ Transportation decisions (air, ship, etc.)
 - ♦ Payment
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Summary

- ♦ Taking business overseas is a lengthy process, but anyone is capable of developing the skills necessary
 - ♦ Internet is invaluable in the field of market research for exporting
 - ♦ Plan to give this presentation in Spanish next semester for Spanish 346
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