PN-AAU-921
44924

INTERMEDIARIES AND BROKERS IN INTERNATIONAL BUSINESS VENTURE DEVELOPMENT

Prepared by: Harvey W. Wallender, III and Dr. Dimitri A. Plionis
with case studies by Vincent Bozzone

December 1985

A report from the Market and Technology Access Project (MTAP),
directed by Arthur Young & Company under USAID contract
No. DAN-4053-C-00-3086-00 project # 936-4053

OUTLINE

EXECUTIVE SUMMARY

The purpose of the research component of the Market and Technology Access Project (MTAP) was to investigate the process by which small firms in developed countries (particularly the United States) and developing country firms enter into collaborative ventures which involve firm-to-firm technology transfer and improved market access. The project was designed to fill the knowledge gap left by numerous other studies and projects which focused on technology transfer and market access-producing activities by larger developed country firms (mostly multinationals) and on similar activities by institutional vehicles created primarily by international development agencies and private voluntary organizations.

Small and medium-sized enterprises require various types of assistance to develop new products, access international markets, and acquire more productive technologies in order to become more competitive in world markets. Intermediaries can be instrumental in helping these firms locate and acquire the necessary information and resources to meet these needs. Given the critical role private enterprise plays in job creation and economic development, it is important to understand the role intermediaries play in the private sector, and how their activities can facilitate business growth and competitive development. The Market and Technology Access Project has investigated and analyzed intermediary organizations in the U.S. and developing countries. This research indicates that these types of organizations are playing an important role in facilitating enterprise growth, and this role is likely to become increasingly important in the future, especially as new forms of collaborative ventures between small and medium-sized firms here and abroad become more common.

Underlying this project is the basic notion that there is significant scope for mutually beneficial collaboration between small enterprises in the U.S. (and other developed countries) and enterprises in developing countries, if such collaboration, which currently is not very highly developed, can be expanded and enhanced. Small U.S. firms represent a source of technology, access to markets, management and systems expertise, and other resources and knowledge that can be used to create jobs and improve the competitiveness of firms of similar size in the developing world. At the same time, developing country firms offer sources of lower cost labor, access to markets, opportunities to license technology and other revenue enhancement and cost reduction opportunities for their U.S. counterparts.

The major research hypothesis, which has been supported by this research effort, was that collaborative ventures between smaller developed country enterprises and LDC enterprises often require the presence of an intermediary (organization or person) who acts as a catalyst and facilitator to bring the parties together, structure the venture and help bring it to fruition. Implicit in this research hypothesis is the notion that successful international collaborative ventures require specialized skills and knowledge of the various activities involved in bringing such ventures to a successful conclusion. These include, but are by no means limited to, financing, an understanding of the make-up of developing country and international markets, cross-cultural differences, international trade and investment, foreign exchange issues, legal issues, the process of international technology transfer, and access to information regarding the above factors domestically and internationally (international network). Acquiring the required skills and knowledge is comparatively more difficult and costly for small firms than for large ones. As a "process" expert, an intermediary possesses the skills and knowledge required for such intermediation activity and, therefore, can be more successful and cost-effective than disparate firms attempting to generate collaborative ventures on their own.

In addition to a relative lack of knowledge about international business in general, small businesses in both developed and developing countries attempting to enter into collaborative ventures today, face a much more complex environment than their counterparts of five or ten years ago. A variety of economic and structural factors (such as the international debt crisis) have substantially complicated international business transactions. In addition to the above factors (and partly in response to them), a large number of new forms of international investments (joint ventures, licensing agreements, franchising, international subcontracting, etc.) and of international trade (countertrade, offsets, etc.) have substantially increased the complexity of international business for even large and internationally sophisticated firms. On the other hand, the traditional propensity of small businesses in the U.S. and many developing countries to avoid international involvement is becoming increasingly risky as well because of the intensified competition from abroad (in the case of the U.S.) and the pressure to export (in the case of the developing countries). These trends have created increased demand for intermediary services on the part of small businesses. Such demand may have not yet been fully manifested in terms of actual utilization of intermediary services in part because of the recent global recession and in part because intermediation, being a relatively new industry, is still poorly organized and poorly understood by its potential clients.

Intermediation is by no means a novel concept. Banks, consulting firms, law firms and other types of organizations play active roles in bringing together private enterprises possessing capital, equipment and/or technology resources. The types of services provided by intermediaries vary according to the clients' needs as well as the capabilities of supplying firms to meet those needs. Often, the intermediary provides major services in its area of expertise and augments these with services from other specialized firms which are an integral part of the intermediary's network. These services may include locating equity or technology, venture planning and research/studies, arranging appropriate technical assistance agreements, identifying new markets or product opportunities, coordinating the activities of the venture partners, etc..

Much of the intermediation activity appears to be conducted on an ad hoc or opportunistic basis, usually as an adjunct activity to a firm's primary business. However, an increasing number of intermediaries see themselves primarily as intermediaries, seeking to establish this function as a primary business activity. Such intermediaries are faced with a variety of obstacles and constraints. For example, the extensive development time required to bring a venture to the point at which it is generating a positive cash flow; the high mortality rate for international ventures; the high cost of international travel, network building and maintenance; the reluctance of clients to pay up-front fees for research, planning and other intermediary services all work against the intermediary's cash flow needs and jeopardize the intermediary's ability to provide necessary assistance throughout the venture development process.

1. OBJECTIVE OF THE RESEARCH

The research component of the Market and Technology Access Project (MTAP) has several objectives. The principal questions relate to identifying the types of entities active as intermediaries and their behavior patterns. By analyzing the different types of intermediaries, conclusions may be drawn regarding the types which are emerging as the most successful and most likely to operate in the future, as well as the opportunities that exist for improving and enhancing the intermediation process.

This report deals with a number of different questions, but it is principally directed to the following key issues regarding the intermediation process:

- What are the needs of smaller businesses in developed and developing countries which motivate them to seek the services of intermediaries?

- What are the characteristics of successful intermediaries?

- What types of organizations or individuals act as intermediaries in developed and developing countries and what are their characteristics and methods of operation? How do they get paid for their services?

- What types of projects or collaborative ventures are currently being undertaken as a result of successful intermediation?

- What are the implications of the research conclusions for the design of a program to investigate mechanisms to promote collaborative ventures between small enterprises in developed and developing countries?

2. APPROACH TO DATA COLLECTION

To address these questions, a study program was organized to develop an understanding of intermediation activities and to identify the types of intermediaries operating in the United States and in selected developing countries. Recognizing the wide scope of the research questions, data collection was organized around six tasks. The first was to send out questionnaires and place advertisements in a number of publications in order to collect a non-scientific sample of intermediaries. Second, numerous telephone and in-person interviews, as well as four small working meetings, were conducted to develop an understanding of the major factors and issues which affect intermediary activities. Third, a conference of individuals representing different types of U.S. intermediaries was held to test concepts and improve the identification of key operating factors. Fourth, throughout the period of data collection, members of the project team made visits to intermediaries in thirteen developing countries in order to observe and further refine concepts about intermediation activities. Fifth, two surveys were conducted: one of International Executive Service Corps' (IESC) executives and one of selected business associations. Finally, ten case studies representing different types of intermediary organizations were compiled to elaborate on the operating characteristics of intermediary organizations.

The analysis of the data was carried out by the research team through a process of review meetings. Given the nature of the data collection, little emphasis was placed on statistical validity of samples. The major objective of this phase of the study was to collect as much information as possible regarding intermediary activities, to qualify factors that would help guide the selection of organizations for detailed case analysis, to develop information suitable for designing field trails, and to develop an evaluation framework for such trials.

3. GENERAL FINDINGS AND CONCLUSIONS

The study has determined that intermediation is a necessary function in most collaborative ventures between smaller developed country and LDC enterprises. Furthermore, a variety of intermediaries exist and are functioning in the United States and the developing countries. These organizations provide valuable services to assist in the growth, change and development of enterprises through collaborative ventures. However, it appears that existing intermediaries generally are poorly linked with one another and have difficulty facilitating large numbers of collaborative ventures between developed and developing country enterprises. Major opportunities exist for developing bridges and cooperative activities between different groups of intermediaries. This process can lead to a more effective distribution of information and services, which can stimulate more effective collaborative ventures and cooperative activities between developed and developing country enterprises. It can also lead to a wider range of services made available to collaborative venture partners. This expansion of the range of services offered benefits both the venture partners directly and the intermediary by providing more opportunities, mechanisms and flexibility for revenue generation.

Business organizations often fail to use intermediaries because they lack knowledge of the utility of their services. Companies unable to evaluate the costs and benefits of new business opportunities are reluctant to pay fees for professional assistance during early planning and evaluation stages of a project. In addition, most firms have difficulty assigning an explicit value to the role of the intermediary and its fees or compensation. In contrast, business are accustomed to paying for legal, accounting, and engineering services that relate to the traditional needs of the enterprise. It is not surprising, therefore, to find that intermediation (especially in smaller economies), is sporadic and normally offered only as a secondary service by existing service organizations. In many cases these types of firms lack certain skills or motivation useful to venture development.

Payment for intermediation services varies according to the type of organization supplying the service. Professional service firms such as accountants, lawyers and consultants are generally compensated on a fee-for-service basis, although contingent payments based on the success of a project are possible. We found that although these types of intermediaries were willing to consider a variety of payment arrangements, most revenues earned were fees.

Other types of intermediaries such as investment bankers, marketing organizations, trading companies and some technology suppliers relate their compensation to a percentage of sales or income generated by the project. Having contacted more than 600 organizations involved in some form of intermediation, we found that pricing and remuneration practices varied widely, often as a result of negotiating skills and market supply/demand forces.

As the more traditional approach of foreign direct investment becomes less common, (especially as most multinational firms have already positioned themselves in appropriate markets), we expect intermediation to play a more important role in the future. Smaller firms in both the developed and developing countries have fewer managerial and financial resources to invest, and they lack the international exposure and experience required to pursue collaborative ventures on their own to any significant degree, so there is a genuine need for intermediation in the international business environment.

Enterprise growth in the developing countries will require increasingly complex and sophisticated strategies. Intermediary services can facilitate this process, but must be more clearly defined and valued. AID can look to intermediaries as a vehicle for helping to achieve development objectives, especially in the areas of venture planning, coordination, resource identification, and the dissemination of information. Little can take place in enterprise development if entrepreneurs and managers are unable to gain access to information and obtain assistance in accessing new markets and more productive technology. One implication for AID is the need to develop programs that will support intermediaries during the extended period required to bring new opportunities and collaborative ventures to fruition. This support could be on a fee-for-service arrangement, either directly in support of intermediary work, or in connection with other programs so that intermediaries can "piggyback" their venture development activities in a particular country or region.

I. BACKGROUND AND OVERVIEW

1. HISTORICAL CONTEXT

Historically, USAID's approaches and strategies to promote economic and social development throughout the world have been oriented towards the establishment of in-country institutions and direct assistance to governments, often targeted at specific economic sectors or infrastructure development needs.

Towards the end of the 1970's, it became clear that major structural changes were taking place in the world economy. Trade patterns were changing, multinational corporations appeared to be slowing their international expansion, and some observers noted a lessening of direct foreign investment. It even seemed to some that this form of investment was becoming obsolete, and was being replaced by new forms of collaboration such as joint ventures and contractual relationships in which foreign-held equity was not involved (see Chapter IV).

It was in this context of change that the many benefits of private sector investments and other forms of business involvement in the developing world started to become recognized. In effect, a more balanced view of the contributions made to development by the private sector came to the fore, perhaps as a natural "pendulum swing" reaction away from the severe criticisms levied against multinationals in the 1960's and 70's.

Another significant factor to emerge was the discovery of the vital role small and medium-sized businesses played in the U.S. economy, especially in the creation of jobs and development of new technologies. A number of studies were undertaken in this area, all of which demonstrated the job creating power of small and medium-sized businesses. Generally, it was in this context that the Agency sought to harness private sector resources for development purposes. According to the Bureau for Private Enterprise Policy Paper (May 1982):

"The goal of USAID's private sector initiative is to foster the growth of productive, self-sustaining, income and job producing private sectors in developing countries using the financial, technological and management expertise of the private sector, indigenous resources, multilateral institutions and AID resources where appropriate."

2. COMPATIBILITY OF NEEDS

One strategy identified by the Agency for achieving this overall goal is the bringing together of investment opportunities and firms in the U.S. and their counterparts in the developing world. This bringing together or "linking" of principals in the U.S. and overseas involves more than just transferring capital or equipment. The development of these opportunities can also include the transfer of technology, management systems, access to markets, training, and other types of business expertise and resources.

These relationships must be mutually beneficial to the parties involved. On the one hand, a U.S. company may be seeking a less expensive source of labor, access to a foreign market that is closed or restricted to imports, a means of earning additional revenues by licensing a proprietary technology, a means for reducing taxes, and other company-specific benefits.

The host-country company may seek new technologies and improved production methods that would enhance its competitive effectiveness in the markets currently being served, may seek a relationship with a U.S. firm that would provide access to the U.S. market, or may desire a sub-contracting relationship for the assembly of parts or the manufacture of components.

Benefits to the host country would include such things as the creation of new jobs and reduction in unemployment, earning new sources of foreign exchange, attracting new technologies and industries with longer term growth potential, and similar economic and social benefits. It is important to recognize that the focus of this new initiative is not on the government-to-government level; rather it seeks to stimulate and encourage the establishment of mutually reinforcing business-to-business relationships. This new addition to traditional Agency programs presents its own set of challenges and information needs.

3. THE POTENTIAL FOR SMALL AND MEDIUM-SIZED FIRMS

Small and medium-sized firms in the U.S. and other developed countries have historically been less involved in international collaborative ventures than large companies. From the purely developmental perspective, this has been a drawback since it is generally recognized that smaller firms from developed countries may often be more appropriate partners for developing country enterprises. The following are some of the reasons given:

- Provision of a more appropriate technology for the local conditions (i.e. less sophisticated and better adapted to smaller-scale production, for example);
- A tendency to allow more significant involvement of domestic firms (as opposed to only dealing through foreign subsidiaries);

- Readiness to transfer technology in a faster and more direct way (without having to company with a corporate global strategy, etc.); and

- Likelihood to concentrate in productive sectors more closely matched with the needs of lower-income population (as opposed to high-income consumer durable markets like many large MNCs).

It would therefore, be highly desirable from the viewpoint of both donors and host countries if a means were to be found to substantially increase the involvement of smaller businesses from developed countries in collaborative ventures with firms in developing countries.

4. OBSTACLES TO A BUSINESS-TO-BUSINESS LINKING STRATEGY

Bringing together private sector firms in the U.S. with those in the developing world is constrained by a number of factors. Small and medium-sized firms in the U.S. have a tendency to be domestically isolated as opposed to being internationally oriented. The size and ease of doing business in the U.S. market acts as its own deterrent to international expansion. Many managers in these smaller firms think only in terms of exports, and then only when domestic business is suffering from the effects of a recession. The lack of management time and specialized international expertise in these firms is another barrier. Yet another involves the perception of a general lack of stability in the developing world, and developing country government policies and past actions hostile to business. Another deterrent is a general lack of knowledge about the creative business arrangements available which have substantial profit possibilities with relatively low risk. Many managers continue to think of a foreign investment as requiring a capital investment, and are not widely aware of licensing, joint venture, technology transfer, and co-marketing possibilities in which the investment is an already capitalized asset that could become even more productive through some form of an international business relationship.

The situation is similar in the developing world as far as many small and medium-sized companies are concerned. A lack of information, no organized approach for researching and accessing potential U.S. market opportunities, sub-standard quality products that cannot compete on the world market, a lack of hard currency, a lack of time and expertise and more act as barriers to the more aggressive development of international opportunities.

5. FACILITATING COLLABORATIVE RELATIONSHIPS

While these barriers do exist, the fact remains that many small and medium-sized U.S. firms have active international relationships, many in the developing world. At the same time, small and medium-sized foreign firms are represented in or supplying the U.S. market, and many have ongoing business relationships with U.S. companies. (Often whole industries are involved, such as the garment industry.)

But the general question remains of how individual firms in a variety of different industries have been able to overcome these types of barriers, and form mutually beneficial, ongoing relationships. A preliminary survey undertaken prior to the initiation of this Market and Technology Access Project revealed that "intermediaries" played a critical contact and facilitation role in the establishment of these types of business relationships.

6. THE NEED FOR FURTHER STUDY AND ANALYSIS

In order for AID to take an active leadership role in strengthening the role of the Private Sector in LDCs in the most efficient and cost effective manner, a great deal of research has to be undertaken prior to the commitment of the substantial resources necessary to implement specific programs on a broad scale. The results of the Market and Technology Access Project (MTAP), which primarily addresses the role and functioning of intermediaries, is only one of a number of studies designed to explore the workings of the private sector in an international business context. Many of these investigations, like MTAP, have both a research and "field trial" component and are designed to test the degree to which program concepts produce practical results when tried on a pilot scale in the field.

More specifically, AID has identified the following challenges associated with its efforts to make the private sector a more potent development force:

a. AID has limited expertise in critical business areas such as marketing, management, commercial bank business financing, and packaging and brokering business opportunities.

b. AID has had limited contact with U.S. firms and banks, and so has a limited knowledge of how they work and the basis for investment decisions.

c. AID has a limited knowledge of the capital and marketing needs of domestic and foreign firms, and does not know how foreign partnerships are viewed or the potential benefits they may provide.

d. AID lacks established policies and procedures for identifying, developing, approving and implementing projects involving private sector participants.

e. AID lacks a business point of view that would provide a basis for counseling host governments on how to improve those conditions that would increase domestic and foreign private investment and generally create a more favorable business climate.

It is within this historical context that the Market and Technology Access Project was conceived and implemented.

II. SURVEY CONCEPTS, DESIGN AND INITIAL FINDINGS

The purpose of the Market and Technology Access Project was to investigate the process by which firms in developed countries (particularly the United States) enter into collaborative ventures which involve firm-to-firm technology transfer and improved market access. The major conclusion of the research component of the project is that collaborative ventures between developed country enterprises and their counterparts in the developing world often require the presence and involvement of an intermediary (either an organization or a person) who acts as a catalyst and facilitator who brings the parties together, structures the venture and helps bring it to fruition.

Implicit in this summary statement is that successful intermediation requires specialized skills and knowledge of the various activities involved. This includes, but is not necessarily limited to financing; knowledge of host country policies, markets, and cross-cultural differences; foreign exchange issues; legal issues; the process of international technology transfer; industry specific knowledge; the international trade and investment environment; and access to information regarding these factors.

Overall, the Market and Technology Access Project had five primary goals:

a. To identify the needs of smaller businesses in developed and developing countries which motivate them to seek the services of intermediaries.

b. To identify a broad variety of intermediaries who are involved in collaborative venture development.

c. To identify characteristics of the intermediation process and those factors that influence successful outcomes.

d. To investigate selected intermediary organizations' activities, methods of operation, pricing strategies, operating constraints and similar business characteristics.

e. To use this knowledge to design and test appropriate field trials that would demonstrate the effective uses of intermediary involvement in developing collaborative ventures.

This Project was designed in an integrated manner so that each of these areas was addressed separately but sequentially. This allowed knowledge and information gained in a preceeding phase to be used in a following one. Thus, the broader survey indicated in (a), (b) and (c) above, provided the context and knowledge from which to select individual intermediaries for more in-depth treatment (d), and this in turn aided in the design and execution of the field trails (e).

1. THE SURVEY PHASE

The initial research component of the Market and Technology Access Program (MTAP) had several objectives. The principal questions related to identifying the intermediaries and their behavior patterns. From the analysis made of the different types of intermediaries, conclusions may be drawn regarding the types that are emerging as the most successful and most likely to exist in the future, as well as the opportunities that exist for improving and enhancing the intermediation process.

This report deals with a number of different questions, but it is principally directed to the following key issues regarding the intermediation process:

- What are the needs of smaller businesses in developed and developing countries which motivate them to seek the services of intermediaries?
- What are the characteristics of successful intermediaries?
- What types of organizations or individuals act as intermediaries in developed and developing countries and what are their characteristics and methods of operation? How do they get paid for their services?
- What types of projects or collaborative ventures are currently being undertaken as a result of successful intermediation?
- What are the implications of the research conclusions for the design of a program to investigate mechanisms to promote collaborative ventures between small enterprises in developed and developing countries?

2. APPROACHES TO DATA COLLECTION

A study program was organized to develop an understanding of intermediation activities and identify the types of intermediaries operating in the United States and in selected developing countries. This phase began with a broad scale search for intermediaries operating in the international business environment, both in the US and abroad. At the same time, it also sought information about their activities, characteristics of the international environments in which they were operating, and those factors that were perceived as being influential in successful intermediation efforts.

Recognizing the wide scope of the research questions, data collection was organized around six tasks. The first was to send out questionnaires and place advertisements in a number of publications in order to collect a sample of intermediaries. Second, numerous telephone interviews as well as four small working meetings were conducted to develop an understanding of the major factors and issues which affect intermediary activities. Third, a conference of individuals representing different types of U.S. intermediaries was held to test concepts and improve the identification of key operating factors. These individuals also completed survey questionnaires on intermediation. Fourth, throughout the period of data collection, members of the project team made visits to intermediaries in thirteen developing countries in order to observe and further refine concepts about intermediation activities. Fifth, two surveys were conducted: one of IESC executives and one of selected business associations. Finally, 10 case studies representing different types of intermediary organizations were compiled to elaborate on the operating characteristics of intermediary organizations.

The analysis of the data was carried out by the research team through a process of review meetings. Given the nature of the data collected, little emphasis was placed on statistical validity of samples as the major objective of this phase was to collect as much information as possible regarding the scope of intermediary activities, factors that would help guide the selection of organizations for detailed case analyses, to develop information suitable for designing field trials, and to develop an evaluation framework for such trials.

3. GENERAL FINDINGS AND CONCLUSIONS

The study determined that intermediation is a necessary function in most collaborative ventures between smaller developed and LDC country enterprises. Furthermore, a variety of intermediaries exist and are functioning in the United States and the developing countries. These organizations provide valuable services to assist in the growth, change and development of enterprises through collaborative ventures. However, it appears that existing intermediaries are generally poorly linked with each other and have difficulty facilitating large numbers of collaborative ventures between developed and developing country enterprises. Major opportunities exist for developing bridges and cooperative programs between different groups of intermediaries. This process can lead to a more effective distribution of information and services which can stimulate more effective collaborative ventures and cooperative activities between developed and developing country enterprises.

A more detailed description of this phase of the Project, including a discussion of conceptual models, data collection strategies, and numbers of intermediaries contacted and surveyed can be found in Appendices 1 and 2.

4. INTERMEDIARY TYPOLOGY

The following list summarizes the types of organizations involved in intermediation in one form or another.

INTERMEDIARY TYPOLOGY

A. INTERNATIONAL CONSULTING & ACCOUNTING FIRMS

B. SMALL CONSULTING FIRMS

C. INFORMATION BROKERS

D. LAW FIRMS

E. COMMERCIAL BANKS

F. INVESTMENT BANKERS & VENTURE CAPITALISTS

G. BUSINESS & PROFESSIONAL ASSOCIATIONS

H. GOVERNMENT AGENCIES

I. TRADE ATTACHES & MISSIONS

J. INTERGOVERNMENTAL ORGANIZATIONS

K. PRIVATE VOLUNTARY ORGANIZATIONS & SERVICE GROUPS

L. FOUNDATIONS & DEVELOPMENT ORGANIZATIONS

M. UNIVERSITIES & TECHNICAL INSTITUTIONS

N. PUBLICATION & GENERAL COMMUNICATION HOUSES

O. TRADE FACILITATORS

P. TRADING COMPANIES

Q. INDIVIDUAL ENTREPRENEURS & AGENTS

R. TRADE UNION ORGANIZATIONS

S. EXECUTIVE SEARCH FIRMS

T. ENGINEERING FIRMS

III. SMALL AND MEDIUM-SIZED ENTERPRISES AND THE ROLE OF INTERMEDIARIES

In this chapter we review the research findings regarding the role of intermediaries vis-a-vis the circumstances prevailing among small enterprises in developed countries and LDC enterprises. These findings combine the results of all data collection efforts under the project as they relate to standard technology transfer models among small enterprises. While the discussion is in terms of ventures involving technology utilization, it generally also applies to the somewhat simpler venture involving the development of trade relations between developed and developing country enterprises.

Most developing country and U.S. smaller enterprises, not normally involved in collaborative ventures, are inhibited from entering into such ventures on their own because of similar factors. Most importantly, the firms lack management resources that can help them qualify opportunities and carry out a program of change. In addition, these firms do not have the ready access to information or the direct linkage to networks that can help them develop cooperative projects with overseas partners. As a result, intermediaries play a critical role in formulating the ideas, providing the ongoing planning and start-up assistance, and linking together resources and partners for a viable project. Without the support of intermediaries, many firms would remain relatively passive regarding international cooperative projects involving technology transfer or market access.

1. THE ENTERPRISE DECISION-MAKING PROCESS

In this section a generalized model of the technology transfer process is reviewed to identify and characterize opportunities for intermediation.

To consider buying a piece of equipment, developing a new product, starting up a new business or entering a new market, any enterprise must make a series of sequential decisions. First, and most importantly, the company must establish a clear-cut definition of the opportunity at hand. Once the idea is formulated, the firm usually begins searching for different sources of information and experts to help qualify the opportunity and identify potential sources of technology and assistance. This stage is related to the specific identification of partners or candidates for assisting the firm.

Formal feasibility and engineering studies follow after potential partners have been identified and ideas effectively qualified. Feasibility studies and other plans provide the resources for negotiating agreements, structuring the project and and seeking financing. This sequence of activities applies equally to developed and developing country firms.

The start-up stage involves the actual transfer of technology, training of manpower and laying out of operating systems. In addition, start-up also includes the creation of the overall management systems and the actual development of marketing and production activities.

With a plant or new operating system actually operating, the ongoing activities of value engineering and productivity improvement begin. It appears that many firms overlook the critical need for continuous adaptation and improvement of new facilities and systems. The diagram on the following page (Exhibit III-1) depicts a generic, more or less circular process through which these activities pass in order to generate continuous change and improvement in the firm, through the introduction of new or improved technology.

This diagram helps identify a number of stages in which intermediaries can affect and improve the overall project development cycle. It also helps identify the characteristics an intermediary must possess to be able to effectively assist the small enterprise and, therefore, to be successful.

2. OBSTACLES TO NEW VENTURE DEVELOPMENT AND INTERMEDIATION

Small enterprises in the U.S. and in developing countries face obstacles throughout the project cycle of new venture development. Such obstacles have been documented in a variety of sources.[1] There seems to be a consensus that many of the obstacles are related to the initiation of a project (from idea generation to the identification of potential partners). Chief among such obstacles are:

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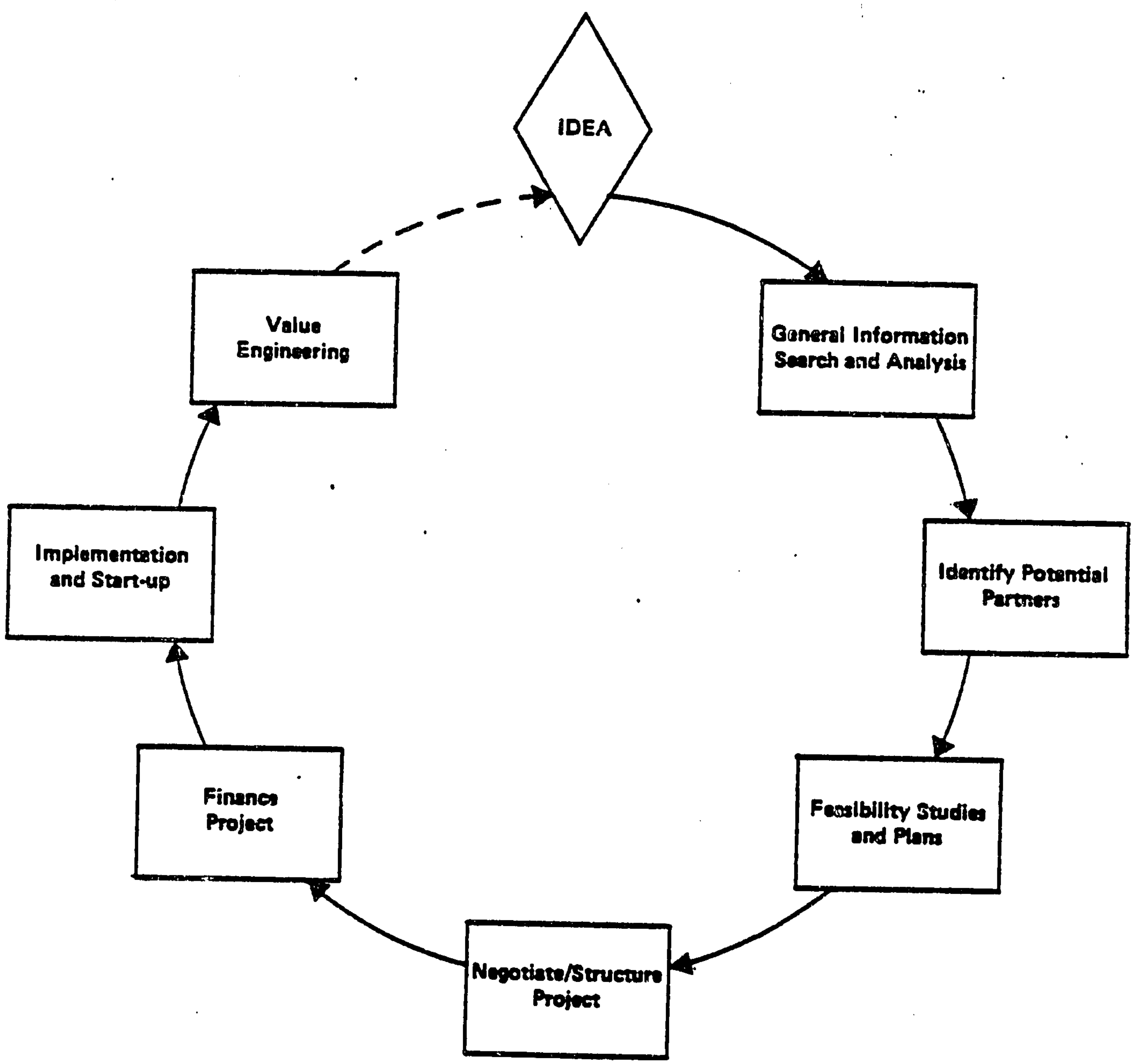
1. An informal report prepared by Harvey Wallender and circulated to the participants of the AID-sponsored workshop on "The Promotion and Support of Collaborative Ventures between Small and Medium-sized U.S. and Developing Country Enterprises" (August 31, 1982) summarizes and cites a number of sources including the following:

   - Arthur D. Little, Inc.: Technology Transfer to Latin America from Small and Medium-Sized U.S. Firms: Broadening the Channels, U.S. Dept. of State, 1979
   - Devres, Inc.: Studies on Technology and Management Needs of Small and Medium Enterprises, USAID, 1981
   - Burkholder Wallender International: Informal Telephone Survey of Selected Individuals Involved in Technology Transfer, 1982.

STAGES OF ENTERPRISE DECISION-MAKING
IN THE TECHNOLOGY TRANSFER PROCESS



- Scarce management and capital resources
- A psychological reluctance to get involved internationally based on a perception of high risk
- The necessarily short-term outlook of small business
- Inability to access and utilize information effectively.

The role of intermediaries is mainly to help the smaller enterprise surmount the obstacles arising throughout the project cycle but it is particularly critical during the initial stages of the project cycle when the enterprise is the most uncertain and unclear about its need, options and opportunities and is least inclined to proceed unassisted.

Any new project involves many complex issues and requires a rather sophisticated ability to handle information, analyze problems and develop working options. It appears that a large number of enterprises never get past the general idea or concept stage because they are discouraged by the complexities of new program development. An analysis of a sample from the files of the International Executive Service Corps (IESC) indicated that over 70 percent of the enterprises given assistance lacked effective skills to qualify effective opportunities and technology needs on their own.

Additionally, smaller firms, since they cannot readily quantify the overall costs and benefits of the new project, are not encouraged to take risks and to invest in appropriate assistance to help them get through the various analysis, planning and negotiating stages. An important characteristic of effective intermediaries seems to be their willingness to persevere and help guide clients through the early and difficult stages of project development when uncertainty and the perception of risk are the highest.

These findings have been corroborated by our own research at the beginning of this project. For example, during the first MTAP workshop, a working group of 44 U.S. intermediary executives and 11 developing country experts responding to an open-ended question identified ignorance of opportunities, lack of directly usable information and cultural differences as the most critical obstacles to collaborative venture development. Other obstacles identified were lack of financing, government regulations and lack of experience on the part of the venture partners.

The same group of intermediary executives and LDC experts responded to a scaled questionnaire designed to determine whether they agreed on certain factors as being most important for successful stimulation of collaborative venture activities. One of the statements which elicited strong agreement within the group was that LDC enterprises lacked the ability to identify foreign collaborative venture partners. Another question eliciting very strong agreement within the group indicated that developing country enterprises lacked the ability to identify or qualify collaborative venture opportunities with U.S. firms. Similar inhibiting factors were thought to exist among small U.S. enterprises. The results of the survey of the workshop participants are presented in Exhibit III-2.

These findings reinforced the argument that scarce management resources within LDC enterprises and small developed country enterprises inhibit collaborative venture development. Management of such enterprises does not have the time required to acquire and analyze information or investigate opportunities. In the developing countries there is generally less information available, so LDC enterprises suffer even greater difficulty regarding identification of opportunities, planning and project development. This same management resource constraint also means that the overall planning and development of new projects and follow-through is significantly inhibited, and the ability to cope with the perceived risk is substantially restricted.

These characteristics of enterprise management, and its limited resources and experience, also inhibit the use of intermediaries. As a rule, smaller firms tend to make less use of specialized staff, and their management is limited in its ability to utilize consultants or specialized external agents. They are especially concerned with paying up-front fees for planning assistance, often being uncertain or unconvinced about the value of the overall project. The general lack of management capability to organize, plan and direct new activities leads to a need for intermediation. Yet this same weakness inhibits the firm from being able to select and utilize intermediaries appropriately or to value their potential role.

In summary, the major factors which inhibit the individual enterprise from seeking out and consummating collaborative venture activities include the following:

MAJOR OBSTACLES TO COLLABORATIVE VENTURES BETWEEN SMALLER ENTERPRISES IN DEVELOPED COUNTRIES AND LDC ENTERPRISES

1. Limited overall resources, especially management resources and experience.

2. Inability to identify venture opportunities.

3. Inability to access and utilize information.

EXHIBIT III-2

RESULTS OF SURVEY ON FACTORS INFLUENCING COLLABORATIVE VENTURE DEVELOPMENT

	Agree Strongly				Disagree Strongly
LDC enterprises lack the ability to identify opportunities for collaborative ventures with US firms.	27	20	4	2	0
LDC enterprises require intermediaries to identify collaborative venture partners.	30	21	1	1	0
LDC enterprises require intermediaries to develop plans for collaborative ventures	25	17	8	3	0
Many collaborative ventures fail as a result of poor business planning.	13	28	10	2	0
Most effective intermediaries provide extensive follow-up efforts.	23	23	2	3	1
Effective intermediaries must have credibility with both LDC and US firms.	32	18	3	0	0

1 Survey of first MTAP workshop participants. Approximately 55 persons responding.

4. Uncertainty about the outcome and its potential value, leading to weak follow-up and lack of commitment to a venture.

5. Inability to value or qualify the appropriate role of intermediaries or other outside service organizations, leading to infrequent or limited use of such organizations.

Since these factors affect smaller enterprises in both developing and developed countries, little collaborative activity between them is likely to take place until individuals or organizations act to bring them together. These intermediaries will be successful to the extent that they relax some or all of the constraints identified. Moreover, the earlier in the project cycle the intermediary is involved with the client, the more opportunities it has for making contributions and for improving the project's effectiveness and chances of success.

3. CHARACTERISTICS OF SUCCESSFUL INTERMEDIARIES

Based on the above findings, intermediaries working with small U.S. or LDC enterprises must exhibit certain characteristics to be successful. These are summarized in the following paragraphs.

- Successful Client Development

  This is probably the most critical characteristic of successful intermediation. It involves the identification and cultivation of a number of potential clients with active or passive interest in international business and the stimulation of ideas and concepts jointly with the client until a venture can be initiated. An important ingredient at this stage is the ability to convince clients that they can overcome obstacles and perceived risk by creating effective and profitable collaborative ventures. It is also important for intermediaries to properly organize and "sell" ventures to help enterprises overcome their natural resistance to such new ventures. Unless the intermediary can convince the participating firms that the risk is manageable, no action will take place.

- Credibility and Trust

  A necessary intermediary quality for successful client development is the ability to generate credibility and trust among prospective clients. In most situations, the enterprise is facing a significant risk decision when it considers a collaborative venture. The intermediary must be able to demonstrate that he will act in the firm's best interests and with appropriate business ethics throughout the entire planning and development stage. Credibility and trust are especially important as the intermediary will not only need to have access to different types of information about the different enterprises involved, but also to deal with the doubts, confusions and fears of the different partners. The key role of credibility and trust in convincing smaller enterprises to enter into collaborative ventures explains why intermediation has traditionally been carried out by such trusted business associates of the enterprise as lawyers, bankers and accountants.

- <u>Information Handling and Analysis</u>

  Information handling and analysis is another important characteristic of successful intermediaries. Potential and existing clients need assistance in sorting through and selecting relevant data from the large volume of information that overwhelms most decision-makers. This is especially true for smaller firms which usually have little or no knowledge of international markets and how to penetrate them.

- <u>Developing and Using Networks</u>

  Probably the most important resource an intermediary brings to an enterprise is its skill in developing and using networks. These networks may simply be information sources or they may be active participants in the intermediation process. Usually they are made up of personal contacts in a variety of industries and places. These networks provide accurate and current information as well as assistance in targeting resources and other enterprises that will be required to make a project work. It should be noted that many firms and individuals become intermediaries because they are already working within an existing network of contacts with industrial, functional and geographic specializations. The necessity of establishing networks both in the U.S. and overseas, as well as traveling long distances, substantially increases the initial cost of setting up an intermediary function for international business. Therefore, organizations which are already part of a network may enter the intermediation business with far greater ease.

- **Access to Financial Resources**

  The capability to access financial backing for a collaborative venture is obviously an important ingredient of successful intermediation. However, this does not mean that the intermediary itself needs to have direct linkage to financing channels. Rather, the intermediary needs to have knowledge of how to access alternative sources of funding (from banks, government sources, development funds, etc.) Since prospective ventures may often include a mixture of investment and trade financing, for both developed and developing countries, a wide variety of funding must be accessible. However, a large number of sources of funds are available, especially for smaller firms, if the intermediary knows how to access them. Available funds are not always fully utilized because local enterprises cannot develop good project ideas, perform appropriate planning, access adequate information, etc.

- **Ability to Manage Other Services Needed**

  It is obvious that successful project completion requires many different types of skills and resources which must be identified, secured and coordinated by the intermediary. It is very difficult and often uneconomical for an intermediary to possess all these skills and resources unto itself and, therefore, it needs to associate itself with other organizations. In many cases, consortia involving a variety of different organizations, such as private voluntary organizations, large international firms and small consulting firms, lead to more effective business linkages because they provide a more complete range of services and expertise. Certainly, the larger international firms, such as accounting firms and banks, often require access to industry specialization in order to help develop effective planning and organization of a new project. On the other hand, smaller intermediaries or brokers increasingly need to turn to the larger organizations for information and access to international networks and other resources.

  In this connection, the role of multinational corporations (MNCs) in facilitating intermediation should not be discounted. Many companies that traditionally operate abroad through branches or controlled subsidiaries are exploring different ways to maintain market presence or to enter new industries. There is increasing evidence that MNCs will require greater access to countertrade, offset arrangements and other complex ventures. Limited capital and management resources, to some extent, also inhibit the MNCs from approaching a variety of markets. The multinationals are, therefore, increasingly open to new kinds of consortium and joint venture activity through intermediaries or other specialized organizations.

4. Suppliers of Intermediation Services

Intermediation services have traditionally been provided by a variety of service firms which operate in the commercial environment of the business community. Banks, law firms, consulting firms and other types of service organizations have long assisted client enterprises in many ways. However, seldom are these service firms involved in intermediation as their principal business. Most of these organizations provide a variety of services of which intermediation or brokering is a secondary or less important function. One way of viewing these traditional intermediaries is as a group of service firms clustered around any business enterprise, whether in a developed or developing country (see Exhibit III-3). Accounting firms, banks, suppliers, associations, law firms, consultants and related government agencies are all in regular contact with the enterprise. When the enterprise considers a new development or business expansion, it contacts these entities which supply advice, counsel and technical assistance. It is not at all surprising to also find these service companies or intermediaries bringing the initial idea or concept to the particular enterprise. In many situations, the service organizations will further link the enterprise to other appropriate networks and resource suppliers if they can.

However, most small and medium-sized enterprises in the U.S. and developing countries are not served by internationally capable organizations. The small firm in the U.S. tends to use local accounting firms and local or regional banks, which seldom have a need for sophisticated international linkages of their own. A similar situation exists in the developing country. Thus, the firms that have the greatest potential for contributing to each other are isolated because their particular service communities are not linked effectively to each other. Partly in response to this shortcoming, but also because traditional intermediaries could not fully serve the needs of smaller enterprises in terms of intermediation services, a new type of intermediary has begun to emerge. This type of organization is characterized by a primary focus on intermediation as a main business activity (as opposed to an ancillary service). Such intermediaries have existed in certain other countries for a long time and have been an essential force behind the internationalization of their businesses. A prime example of such an organization is the Japanese trading company. In the U.S. this type of role has been played primarily by individual entrepreneurs (usually specializing in a particular industry) and generally small companies. The increasing complexities of doing business internationally, especially in the aftermath of the debt crisis, has spurred in the U.S. the emergence of both large and small companies which offer a wide range of intermediation services as their principal line of business. Sears World Trade is an example of trade-oriented, diversified intermediary company; InterMatrix, International Technology Investments, Ltd., and TransTech are examples of smaller, more specialized intermediaries. Unlike the more traditional service organizations where intermediation is a secondary component, these firms are targeted at bringing together enterprises, market opportunities and technical assistance programs to gain access to goods that can be traded internationally. Others are developing a capability to manage joint ventures with developing country enterprises that may or may not include trade. It is too early to determine how successful these firms will be. It is clear, however, that they are filling a niche not fully served by the larger international accounting, consulting and legal intermediaries.

One important conclusion that can be drawn from Exhibit III-3 is that the new breed of intermediaries who are not normally involved with the service community of the client enterprises must be able to win the confidence not only of the enterprise, but of those organizations that traditionally serve the firm in planning, financing, risk management, etc. One task the independent intermediary might have to accomplish besides developing commitment from the client, is the education of, and collaboration with, other service organizations clustered about the client enterprise.

In the following chapters we examine in more detail recent trends and developments which impinge on the nature of intermediation services and the basic focus of organizations and activities that have evolved to provide these services.

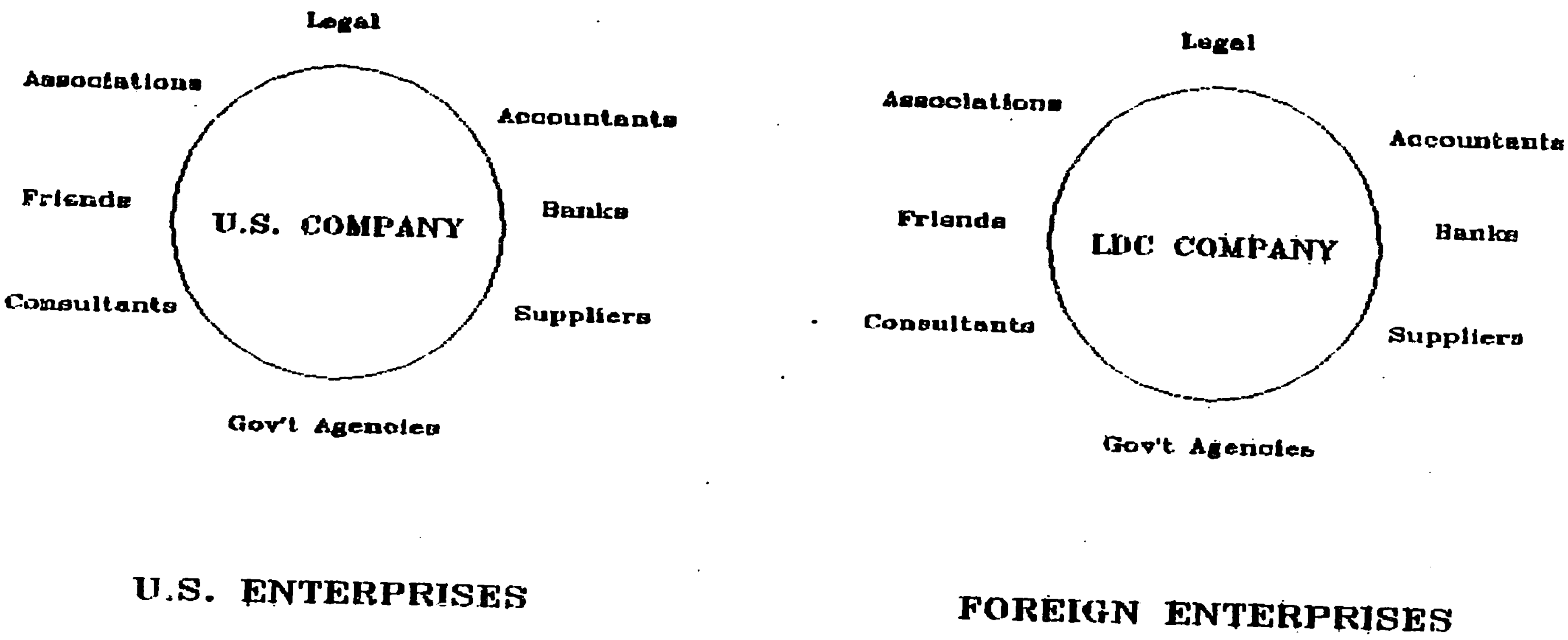
5. INTERMEDIATION IN THE DEVELOPING COUNTRIES

Intermediation as a service to business tends to grow according to the needs of the local economy. International business activities, have usually begun with simple trading services, quickly replaced by branches, subsidiaries and joint ventures. As the overall business system grows, and the local economy increases its sophistication, local business services are stimulated. Law firms, consulting firms and trading activities grow with the international capability of the economy.

With the increasing demand for international trade

Note that many regional banks are now developing intermediary services to help them gain new clients and revenues

INTERMEDIARIES CLUSTER AROUND ENTERPRISES



(especially exports), local enterprises require greater assistance in developing international business strategies, more competitive products and skills in accessing foreign markets. The larger the economy, the greater the probability that specialized and sophisticated business services will develop, a preliminary step leading to international intermediation. In the smaller countries, such as Costa Rica, a wide variety of traditional accounting, consulting, banking and legal services represent one category of intermediaries. Smaller consulting firms who aggressively try to develop clients by providing unique marketing and technology planning assistance also exist. In the larger countries, such as Brazil and Korea, these services are more widely available and their capability of serving the client more extensive. However, even in the larger countries, with a variety of intermediaries in different business service groups, there is apparently a significant inability to link their services to similar services available in the United States.

In an informal survey, conducted during the survey phase of this project, over 600 intermediary type organizations were identified in the United States. Only a few of these were actively engaged with overseas counterparts pursuing joint intermediation type activities. A similar situation was found during visits to Costa Rica, Panama, Pakistan, Morocco, Tunisia and several other developing countries. Local intermediaries seemed inhibited by their inability to identify and collaborate with similar firms in the United States. Intermediaries exist, but are poorly linked around the world.

In the developing countries, there is much less demand for traditional consulting and sophisticated business services. At the same time, the local consulting and service firms appear flexible and are anxious to engage in intermediation. Most importantly, the developing country intermediaries lack the rich sources of information and networks available to their U.S. counterparts. Because of these factors, intermediaries in the developing countries are significantly constrained in developing appropriate collaborative venture activities that would involve smaller firms in the U.S., appropriate U.S. technology or other external resources.

In the developing countries, the business community is not adequately experienced with the use of business services. Private enterprises are not as accustomed to using local associations, consultants, and specialized information services. Since the firms have not developed the management sophistication to use outside resources to the same degree as in the developed world, there is less active demand. Yet, at the same time, the need for intermediation services is much greater.

The developing country enterprises, now under great pressure to improve their productivity and to develop international markets, have a great need for technology, market linkages and other services. Unfortunately, the developing country enterprises have not developed the management planning or service utilization skills, and thus are not able to convert their needs into effective demand for local intermediary services.

Because the developing country enterprises have less understanding of the value of business services, they are more reluctant to pay for planning, organizing, and other business development services. In many developing countries, local enterprises have only recently been willing to invest in basic marketing assistance, legal services, and more sophisticated accounting systems. If intermediation is to become an effective resource service in the developing countries, the local suppliers of intermediation services must be capable of providing the service, and the users must similarly develop an understanding of the value of these services. Both must recognize that services should be paid for in relationship to the value of the future product, project and business development.

In order to identify intermediaries operating in the developing countries, newspaper ads were placed in various publications for one week in 14 developing countries. On average, each ad only produced about ten responses per country, and usually not from the firms clearly involved in the intermediation process. Considering the reluctance to respond to newspaper solicitation, personal visits to 13 countries identified a variety of intermediaries ranging from the established international banks to the one-man consulting firms. A third approach to identifying intermediaries centered on the local American Chambers of Commerce.

In three Latin American and one Asian country, workshops were organized with the Chambers to discuss the role of intermediaries and their presence in the different countries. In all cases, the workshops reinforced the belief that intermediaries were playing an increasingly active role, but they had problems establishing international linkages and developing adequate remuneration for projects developed.

Analyzing the membership of the different Chambers showed the emergence of brokering institutions trying to establish links with U.S. businesses. In Ecuador, the membership was more than twice the size of the Costa Rican and Panamanian Chambers. The Indonesian Chamber was equivalent in size to Ecuador. About 15 percent of the membership of these Chambers were made up of trading firms, consultants, banks, and financing institutions that could be used as intermediaries. These lists gave a more accurate picture of the firms seriously committed to working within the U.S. business system and being capable of some form of international linkage. The list of organizations from Costa Rica (reproduced in Appendix 4) gives a sense of the type of firms looking for U.S. technology or market links. This list excludes the product representatives (approximately 25 percent) of the membership and the larger multinational corporations and local manufacturing firms (approximately 60 percent).

In reviewing the Costa Rica list, it is evident that there are a number of banks and accounting service firms involved. In contrast, there are only a few marketing and specialized consulting firms, probably due to the small size and relative lack of sophistication of the local market. Law firms and individual advisors are also present as organizations capable of providing intermediation and technical assistance.

In summary, there is clearly a need in developing countries to demonstrate the value and utility of intermediation services. To some degree, due to the lack of international capability of smaller U.S. firms, this same demonstration process must take place in the United States if we are to reach a more effective level of collaborative ventures between developing and developed country enterprises. The developing country intermediaries are faced with similar problems as those faced by their developed country colleagues. The major characteristics which describe the intermediaries in the smaller developing countries include the following:

<u>DEVELOPING COUNTRY INTERMEDIARY CHARACTERISTICS</u>

- Within the science and technology infrastructure, consulting and specialized intermediation services have not developed as extensively as in the developed countries.

- Business enterprises in the developing countries lack the ability to identify and use external business services including intermediation effectively.

- Developing country enterprises have a great need for intermediation, but are less capable of seeking out these services and are generally unwilling to pay for them.

- The institutional community, including banks and technical institutions are not aggressively trying to develop intermediary skills and capabilities in the developing countries.

- Developing country enterprises and their supporting service companies have difficulties in paying for international services in hard currency.

- Trade, in combination with intermediation services, may be an important vehicle for developing payment alternatives for intermediation services.

IV. TRENDS IN COLLABORATIVE VENTURE DEVELOPMENT

In this chapter we discuss the impact of recent developments in relevant world economic and business conditions on the types and forms of collaborative ventures sought by U.S. and developing country enterprises. The emergence or prevalence of certain forms of collaborative ventures has a direct bearing on the intermediary activities which will be required and the form of organization that can be most effective in addressing such requirements.

In the past few years, a number of worldwide and regional economic developments have had a profound impact on the nature and volume of collaborative ventures between U.S. and developing country enterprises in general and smaller enterprises in particular. The effects on such ventures of the following developments were particularly strong in our opinion:

- The recent international debt crisis
- The relative growth stagnation in most developed countries
- The unprecedented strength of the U.S. dollar vis-a-vis other currencies.

These developments have been largely responsible, alone or in combination, for the following consequences:

- Dramatic reduction in the ability of developing country enterprises to pay for foreign technology and imported goods and services
- Substantial reduction in the competitiveness of U.S. products and services abroad and increased competition from imports in the U.S.
- The above factors and host-country imposed restrictions have made equity investments in developing countries less attractive.

For U.S. enterprises the result has been heightened competition in domestic and overseas markets and a strong incentive to seek (usually overseas) less expensive sources of raw materials, semi-finished components and labor. The LDC enterprises on the other hand, are experiencing a strong need to develop exports while at the same time are unable to pay for the necessary inputs.

A parallel and closely related development is the emergence in recent years of alternative forms of international investments in developing countries to traditional foreign direct investment model.[1] The principal characteristic of these forms is the lessening of importance of majority foreign ownerships represented by majority equity investments. The new forms include:

- Joint ventures where the foreign partner holds a minority interest
- Licensing agreements
- Franchising
- Management contracts
- International subcontracting.

The emergence of these new forms of investment further complicates the international business environment but, at the same time, it offers new opportunities for smaller firms to involve themselves internationally. The traditional equity-intensive form of foreign direct investment clearly favored larger firms which had both the capital and managerial resources required for such investment. The emergence of the new, less equity-intensive forms of investment removes this impediment to international involvement by smaller firms. It is, therefore, now easier for smaller firms, if they somehow can master the intricacies of utilizing these new forms of investment, to engage themselves in international business. Herein lies a very important role and rationale for intermediaries. They can provide the help smaller firms need to realize their potential by capitalizing on the opportunities afforded by the emergence of the new forms of international investment.

One of the important findings of our research is that trade is a very important ingredient of international collaborative ventures entered into by smaller firms. To understand the reasons for such a preference one must examine the factors motivating smaller firms to engage in international business. Unlike larger firms which are looking for foreign markets as a way to grow beyond the limits reached in their domestic markets, smaller firms (except for the very specialized) generally have room to expand within their domestic markets. One of their main motivations in going overseas is to improve their domestic competitiveness by acquiring lower-cost primary and intermediary inputs or by increasing the range of products offered to their markets. To

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1. See for example <u>New Forms of International Investment in Developing Countries</u> by Charles Orian, OECD, Paris 1984.

the extent smaller businesses are looking for foreign markets, it is mostly through exports rather than investment. Unlike large firms, they usually do not have global strategic interests or (with some notable exceptions) state-of-the-art technology which must be protected through ownership of the factors of productivity in foreign markets. Therefore, trade is relatively more important than investment to smaller firms than to larger ones. Trade (in the form of countertrade and similar arrangements) has also risen in importance among both small and large firms as a way to conduct business in those countries where payment in hard currency is difficult because of international debt problems or other restrictions.

From the developing country enterprise viewpoint, collaborative ventures which promote exports, technology transfer and access to new markets would obviously elicit the highest degree of interest. Overall, we can expect that the success of each type of venture and the frequency with which it will occur will depend on the degree of congruity of interests between developed and developing country partners. On this basis, we can expect that the following kinds of collaborative ventures will be relatively prevalent and fruitful among small enterprises in the U.S. (and other developed countries) and developing country enterprises.

- Collaborative ventures involving trade. Among such ventures, those combining technology transfer with trade, whereby the LDC partner receives technology and pays for it through export of goods (or services), should be the most popular. This approach is currently utilized by certain American trading companies acting as intermediaries. Collaborative ventures of this kind belong to a category where trade forms the nucleus of a lasting and mutually beneficial relationship between the partners which often leads to upgrading of skills and product technology for the LDC partner (for example, in order to meet quality and quantity requirements) and may ultimately lead to equity investment by the developed country partner.

- Joint ventures which can be structured so that the capital and personnel resource commitment of the developed country partner can be kept to a minimum. A good example of such a venture is where the developed country partner contributes capitalizable technology and know-how. In the past, many developing countries have resisted programs that allow the capitalization of technology. However, with diminishing opportunities for equity investment and the lessening of national concern over how to control foreign technology and investment in several developing countries, this is a viable strategy for many small enterprises.

Allowing the capitalization of technology creates the opportunity for payment over the long run, as opposed to payment of up-front fees for equipment and technical assistance. Discussions with small firms which indicated little if any interest in traditional foreign direct investment opportunities revealed that one in three would consider a technology contribution strategy because it gives them an opportunity to participate in the international market without dramatic "up-front" risk.

- Licensing agreements, especially those involving smaller developed country firms with specialized technology, such as specialty chemicals, biotechnology, electronics, etc., which is very much sought after by firms in developing countries because of the potential for developing exports and/or ancillary industries. Some intermediaries operating in this area act as traders in licenses and other know-how packages. This is especially useful in the cases where small and medium-sized U.S. firms have the technology, but lack the networks to market these licensing or technical assistance programs abroad.

- International subcontracting ventures where the developed country partner ships a semi-finished product to the LDC partner who performs the labor-intensive operations and ships the product back for finishing or direct distribution. This arrangement exploits the comparative advantages of each partner in terms of technology, management, production and marketing and, therefore, rationalizes the entire process.

Among these types of ventures, those which are also congruent with the host country's principal development policies and objectives will find a much more fertile ground. Typically, in developing countries, such policies and objectives involve increased employment and foreign exchange earnings, and the utilization of indigenous resources.

From the intermediary's viewpoint, ventures which create opportunities for revenue in their early stages will be the most favored. Given the well-documented resistance of small firms to the payment of "up-front" fees, one of the major (if not the major) impediments to the development of intermediary organizations has been their inability to sustain ventures long enough so that they can receive payment for their services. Moreover, payment must, of course, be in hard currency. This factor tends to favor ventures which involve trade over those which are mostly investment-oriented, because of the possibilities of a much quicker payoff inherent in the former compared to the latter. Another result of the need for early, or at least sustained, payment to the intermediary is a motivation to combine a number of ventures into one larger but more complex venture so that more opportunities for payoffs are created over the life of the venture.

The above findings have certain implications for the intermediaries. It is quite clear that a successful intermediary must possess the capability to facilitate trade and countertrade as well as investment opportunities. A successful intermediary must also be versed in the intricacies of licensing, subcontracting and other emerging forms of international transactions. It must also be able to deal with the sources of financing typically available in developing countries including development financing, blocked funds, etc. Finally, it is clear that cooperation among intermediaries will be increasingly important in developing successful ventures and successful intermediary business. Through cooperation, intermediaries can explain the scope of services they can offer and the range of industries and countries they can serve. In this connection, it is important to emphasize that linkage with local intermediaries in the host countries seems to be highly desirable, and in certain countries (e.g. Thailand) essential, due to the difficulty in penetrating and serving effectively the local business community. Another point worth making is that linkages with Private Voluntary Organizations (PVOs), some of which are significant intermediaries in their own right, would offer opportunities which otherwise might not be available.

V. PRESENT INTERMEDIARY ACTIVITIES

In this chapter we provide an overview of the major types of US-based organizations providing intermediary services to US and LDC businesses. This overview is based on information collected from primary and secondary sources as part of the research effort. Specific examples of different types of intermediaries are discussed in the next chapter.

1. LARGE CONSULTING FIRMS

Large consulting firms derive their principal income from fees in exchange for consulting services. To the extent they serve international clients, these firms must have, to one degree or another, established international networks. So far, intermediation has been an incidental business for most such firms. Often, and this is especially true for the public accounting firms, intermediation is provided as a service to clients for a nominal fee or no fee. However, it appears that the firms in this category are moving in the direction of formalizing intermediation. This line of business will then be actively pursued and will be expected to generate its share of income.

One characteristic of the larger consulting and public accounting firms is that they generally operate under a set of professional codes or standards which are sometimes in conflict with the operating style and methods which may be necessary for intermediation to be a profitable business. For example, collecting contingent fees is not currently allowed among accounting firms, but may be the only kind of payment that can be expected from clients in many situations. Also, consulting firms in general are not set up to take active part in trade or investment activities. However, there is evidence that commercially viable intermediation may involve both of these activities.

Large consulting firms may move into the intermediary business either by developing their own functionally separate organizations to lessen these constraints, or they may acquire the skills and capabilities they are missing by affiliating with other types of organizations such as small consulting firms, private voluntary organizations, law firms or trading companies. At this point, it appears that they are following the second of these alternatives, as this is less difficult from a managerial and corporate cultural viewpoint. However, nothing precludes a switch to the first alternative once these firms are convinced that intermediation can be a profitable business line and find ways to accommodate the changes required. At this date, the larger management consulting firms are still "waiting" to see just how profitable intermediation can be.

For consulting engineers, intermediation arrived in the last decade. To compete for large contracts in a diminishing world market for big engineering projects, engineering and construction firms offer equity, marketing assistance, and partner location. Companies like Fluor, Bechtel, Davy McKee, and Loomis, already act in virtually every role of intermediation and project development.

2. SMALL CONSULTING FIRMS

Because of the unique conditions of the developing country environments, a few smaller consulting firms are beginning to specialize in intermediation. In the United States, firms such as International Technology Investment (ITI), TransTech International, Caribbean Horizons, and others provide specialized services for bringing together firms for joint licensing, investment, and other program development. Unlike many of the larger firms, small firms are more flexible and can employ a variety of brokering mechanisms and payment arrangements. However, these smaller firms are often constrained because of lack of capital and existing networks. A related problem is that they have to rely on fee generation from intermediation more heavily than the larger firms. Opportunities to receive specialized grants and research support may prove extremely valuable in helping them develop the necessary size and linkages to make intermediation a viable business service. They also may be anxious to link to development programs that need an aggressive intermediation component.

Overall, it appears that the emergence of intermediation as an industry, offers a variety of new opportunities to smaller consulting firms. Although it is not quite clear yet which intermediation models would be most suitable for such firms, it appears that linkages with other intermediaries are generally useful.

3. BANKS AND FINANCING INSTITUTIONS

Commercial banks, especially the large international banks, are already involved in a variety of intermediation activities. Facilitating the development of collaborative venture programs is not a primary responsibility of the banks. Yet, almost all international banks are involved in some type of routine information exchange and brokering activities. There is an indication that regional U.S. banks are increasingly involved in intermediation. Regional banks such as Fleet National Bank in

Rhode Island and Palmer National Bank in Washington, D.C. are now developing special programs to assist their clients in pursuing international business opportunities, including collaborative venture development.

In the developing countries, aside from international banks, local banks are very anxious to develop more effective intermediation programs. Their clients are under great pressure to penetrate external markets and gain access to new and more productive technologies. Thus, organizations such as national development banks are aggressively seeking access to new information channels and intermediation systems that can help their clients achieve new growth and access to markets.

Investment banks, like Morgan Stanley, are actively seeking information on foreign venture opportunities but usually for large clients and large scale projects. Some groups, like ContiTrade or Key Resources International, act as a type of merchant bank to provide consulting, financing and even export management services.

4. TRADING COMPANIES

Trading companies represent another channel for intermediation. In the past, Japanese and European trading companies have been much more active than similar U.S. entities in facilitating collaborative ventures. However, the current emphasis on trade development in the U.S. has stimulated a wide variety of specialized trading activities in companies as well known as Sears Roebuck, Lockheed, Grumman, and General Electric. One interesting new element is that certain firms, such as Sears World Trade are not only acting in the traditional trading sense, but are also organized to provide unique access to technology, consulting services and other critical resources. Some new trading firms, such as Boles and InterTrade are aggressively linking together trading and technology transfer services. These kinds of firms believe that their success in trading will ultimately depend on their ability to provide improved access to technology and market systems so that products can be upgraded for international markets.

The recent passage of the Export Trading Company Act, has stimulated the creation of a number of new trading companies, some of them with the participation as equity holders of banks or bank holding companies. Examples are trading companies formed by Security Pacific and Continental (see also previous section). However, the results of the Act have fallen somewhat short of expectations and many of the trading companies formed have yet to be profitable.

It appears that many companies involved in trading are moving towards adding consulting and technology-related services. At the same time, there are indications that more traditional consulting firms are simultaneously moving toward the inclusion of trading as a new service they will offer. The convergence of trading, consulting and technology services is understandable, considering the difficulty that so many developing countries have with payment for services. Trading and barter (i.e., payment in-kind) arrangements, allow purchase of other goods and services normally requiring payment with scarce foreign currency. Overall, there appears to be a significant degree of turbulence among trading companies, an indication that the industry is still evolving.

5. VOLUNTARY ORGANIZATIONS

Private voluntary organizations appear to be increasingly involved in intermediation. Organizations such as Volunteers for International Technology Assistance (VITA), TechnoServe and the Agribusiness Council periodically pursue intermediation programs. The Fund for Multinational Management Education (FMME) is currently developing a series of specialized programs with the objective of stimulating joint ventures and cooperative programs. The International Executive Service Corps has recently launched a linkage program known as the American Business Linkage (ABLE), which is specifically designed to help developing country firms gain access to small U.S. companies and improve information availability regarding international markets and technology.

6. INFORMATION SERVICES

Information handling firms, such as the WorldTech Program at Control Data and Technology Catalysts, specialize in stimulating intermediation through the provision of valuable information and data bases. These organizations do not stop with providing information, they offer guidance for the location of consultants and other services to help bring together the resources for successful project development. Such companies have functioned in the information brokering business for quite some time. Their role in the emerging intermediation industry is not quite clear yet.

7. GOVERNMENT INSTITUTIONS

In the developing countries, there has been a rapid development of unique technology institutions. These institutions have initially concentrated on developing applied engineering and research assistance programs. As a result of successful experiments in Korea and similar newly industrialized countries, developing country institutions are increasingly looking toward their science and technology institutions to help link companies to foreign sources of technology and other resources. For example, Fundacion Chile, an applied science and technology center in Santiago, offers a broad range of services to diagnose needs, find technology, install systems and sometimes even invest in projects.

8. INTERNATIONAL CORPORATIONS

Multinational corporations, traditionally geared to direct foreign investment and local market development, are also pursuing intermediation strategies. In many situations, companies are involved in helping to bring together firms to join them in developing projects. In some cases, the multinationals are providing independent training and technology search programs. Thus a company like Champion International not only operates its normal pulp and paper operations, but provides services that help bring other kinds of firms and technology into their local markets. Many of these strategies are pursued as mechanisms to help maintain presence in the country, but also as unique new ways to generate revenue and diversify their businesses.

9. ASSOCIATIONS AND SOCIETIES

Trade associations and professional societies represent important agents for linkage and intermediation within the United States. However, few associations are organized to deal with international intermediation linking U.S. and developing country enterprises. The Agribusiness Council and similar organizations do have specific goals of bringing about collaborative venture projects, but these organizations remain the exception.

The larger association community may move slowly toward new intermediation activities as a result of emerging U.S. private sector development policy. However, present association activities relate principally to the particular interests of their members and tend to center on providing information and services unique to a specific industrial focus. These interests are dominated by U.S. market and international export interests. Since the emergence of new forms of collaborative venture development is relatively new, it is not surprising to find that most associations are not involved in this type of activity. In addition, the need for international networks as a prerequisite for facilitating these types of ventures and presence of the more promising immediate service opportunities inhibit the pursuit of international intermediation activities.

The basic definition of trade associations provides a partial explanation why they generally are not currently involved in international intermediation.

> "... a non-profit, cooperative, voluntarily-joined organization of business competitors designed to assist its members and its industry in dealing with mutual business problems."

Mutual problems would include accounting practices, commercial research, standardization, statistics and trade promotion. Individual project development overseas does not readily fit within the cooperative or common needs definition. In addition, since members are not clearly aware of potential benefits of new collaborative venture forms, there is little incentive among the associations to offer such services. In contrast, national legislation in the U.S., consumer issues, trade restrictions and other programs are of much greater concern. Individual projects are perceived as more naturally being the responsibility of the individual firm and its particular service organizations such as law firms, consulting firms, etc.

A survey of over 50 trade associations conducted during the research phase of this project concluded that even those associations with strong international trade interests are usually concerned only with overall export issues, legislative constraints or information services. These associations may be natural sites for new services in the future, once intermediation is demonstrated as a valuable and necessary function of new business development. Overall, less than 5 percent of the associations contacted had any form of international linkage capacity.

A final factor concerning anti-trust issues is important to consider. The Sherman Anti-Trust Act of 1890 outlawed agreements or activities that lead to a restraint of trade. The Federal Trade Commission Act of 1914 made unfair methods of competition in commerce illegal. Export trade is another matter and the Webb-Pomerene Export Trade Act of 1918 permitted the formation of associations to serve as agents for members' products intended for foreign commerce. This allowed the formation of joint marketing research, advertising, and shipping as well as the establishment of uniform contracts, quotas, production standards and prices. However, Webb-Pomerene associations are not trade associations in the conventional sense. To the extent they have been successful (their success has been limited), Webb-Pomerene associations have been and will continue to be valuable intermediaries for their members.

In summary, many trade associations see themselves as able to help companies exploit overseas markets and they provide such services at standard fees or membership guidelines. Acting to assist individual firms in developing unique collaborative venture activities does not, in their view, fall into their present purview or meet their needs of the overall membership and supporting communities.

VI. ANALYZING EXAMPLE INTERMEDIARY ORGANIZATIONS

One objective of the initial MTAP research effort was to characterize a range of intermediaries operating in the international business environment. This characterization process, led to ten intermediaries in the US being selected as candidates for case studies. The research design for these investigations followed a common format that included:

1. The background and overview of the intermediary's historical development.

2. An operating profile describing its business development strategy, types of clients, marketing and sales approach, pricing structure, typical operating problems and constraints to growth.

3. A description of current or recent intermediation projects.

4. Management's view of the future and new opportunities emerging for intermediary activities.

The following intermediary organizations were profiled in case studies which are detailed in Chapter XI.

- Sears World Trade, Inc.
- Kaplan, Russin & Vecchi
- Technology Catalysts, Inc.
- Palmer National Bank
- Boles World Trade Corporation
- The InterMatrix Group
- Trade and Development International (TDI)
- Boice Dunham Group
- TransTech Services USA
- Arthur Young

The rest of this chapter is based on a comparative analysis of these case studies.

1. BACKGROUND AND GENERAL ORIENTATION

The case studies support and reinforce some of the findings outlined earlier. One general conclusion is that the level of intermediation activity is higher in developed countries than in developing countries. This is understandable since the more sophisticated science and technology infrastructure in developed countries, coupled with the improved management capabilities of the companies, leads to a greater ability to use information, identify needs and select the appropriate role for intermediation. For example, InterMatrix, Technology Catalysts, Sears World Trade and Boles World Trade find it much easier to intermediate in Europe and Japan.

In the developing country environment intermediation is taking place, but at a slower rate. Overall, the case studies show that those intermediaries that pursue activities in the developing countries are organized along different principal business activities. As noted earlier, only a few of the smaller firms attempt to make intermediation a primary business. The organizations studied fall in the following general categories:

1. Firms specializing in handling rapidly changing technology (i.e., technology that is easily identifiable as playing a critical role in the development of new products and services sometimes referred to as "high-tech" areas).

2. Firms principally involved in providing professional services (i.e., accounting, legal, and general consulting).

3. Firms principally concerned with providing trading and market development services.

4. Firms principally involved with providing financial services.

In almost all the cases, the firms identified one of their most difficult problems as establishing contact with the client and helping them develop a clear cut understanding of the opportunities inherent in new project development. TransTech, TDI, Boice Dunham, and InterMatrix, all stressed the critical step of project identification and definition. In addition, these same firms comment extensively on the problem of helping the client follow through on all the different stages of the project cycle development.

Rapidly changing technologies provide dramatic opportunities for intermediation. Intermediation involving chemicals, electronics, automated equipment and other advanced technologies are much more likely to elicit client interest. The more complex technologies, in fact, have a more readily identifiable and direct impact on the client firms. In terms of risk, the client enterprise can more readily understand how it would use the intermediary's services to acquire and use these types of technologies. The ability to recognize and evaluate how a new or more advanced technology will help to capture new markets and improve a competitive position seems to be more easily recognized and evaluated by these firms. Technology Catalysts represents a firm specializing in providing information about new technologies.

This firm is also an example of a company that is less interested in developing countries, because those countries lack the market size or sophistication to purchase services and pay adequate fees. At this time, Technology Catalysts is principally targeted at linkages between Japan, U.S. and European users and suppliers.

A combination of trade and sourcing strategies characterizes a new breed of intermediary. Boles, InterMatrix, Sears World Trade, and to some degree, Boice Dunham are organized to facilitate trade in combination with new marketing approaches. Boles, InterMatrix and Sears are built around strategies that will combine trading company activities with supporting consulting and technology access services. These companies are responding to the increasing need for countertrade, bartering, and other novel trading mechanisms. At the same time, these firms have determined that many suppliers of products require extensive assistance for upgrading products, developing packaging and handling ongoing business development. Competition is very intense within the trading community and often times, as was the case of Boles in 1985, changes in markets and competitor activities can rapidly cripple the organization.

In the future, with continued competition among trading companies for access to products, those companies which provide additional technology and consulting services will have a better opportunity to develop new products and services with higher profit margins and other opportunities for additional billings. This assumes they are still capable of managing their basic trading transactions with efficiency. It is important to note that Sears World Trade, one of the largest new trading companies in the United States, has keyed its strategy to the relationship between trading, technology sourcing, and other consulting activities.

The professional service companies such as consulting, accounting, and engineering companies demonstrate a gradual movement toward increased intermediary activities. The larger consulting and accounting firms, such as Arthur Young, have established networks and contacts on which they can build improved intermediation services. In addition, these firms are increasingly aware that their overseas clients require intermediation services, in addition to their traditional accounting and consulting practices.

Kaplan, Russin & Vecchi represents an international law firm that is regularly involved in intermediation activities, but has not determined as yet how to professionally resolve its legal service orientation with its project promotion and intermediation activities. Similar problems of practice, ethics and professional standards inhibit the larger accounting and consulting firms.

Financial service institutions are also heavily involved in intermediation. The larger international banks tend to avoid extensive intermediation due to the difficulties of servicing these needs in a cost-effective manner. However, regional banks, such as Palmer, evidence a greater willingness to experiment with new combinations of financial services, intermediation, and follow up consulting and information sourcing. The Palmer Bank case demonstrates a new kind of banking mentality which aggressively seeks out intermediation opportunities and is developing mechanisms by which it can charge consulting or information related fees for the development of background information, operating guidelines, etc.

Each type of organization is building its outreach service capabilities on different internal strengths. The professional firms such as Arthur Young and Kaplan, Russin & Vecchi move into intermediation as a result of their strong existing networks and local credibility with existing consulting, legal and accounting activities. The smaller consulting firms capitalize on their abilities to develop new markets or provide unique expertise associated with specialized product knowledge, area expertise, or abilities to overcome unique cultural or business development obstacles. Sears World Trade and Boles utilize their basic trading activities to further develop opportunities for followup consulting, technology sourcing or other services. Both these companies also have organized themselves around specialized product groups that give them industry specific capabilities.

TransTech and Trade and Development International (TDI) orient their activities toward a consulting process that provides a variety of marketing, planning, and legal services to firms trying to develop collaborative venture activities. Neither firm is industry-specific or limited to a particular region. Rather, these firms use information networks to scout for emerging opportunities and then offer consulting assistance required for opportunity development and commercialization. This approach is characteristic of many small specialized firms that are applying their ability to handle overseas environments, unique cultural problems, and organize other specialty skills for their clients as needed. Their commitment to helping push a particular project through is a major requirement for ultimate project success.

Boice Dunham operates with characteristics similar to TransTech, except that Boice Dunham has greater experience in dealing with licensable technology and industry specific activities. This type of consulting company sees intermediation as a principal business and views its role as taking potential opportunities and converting them into viable activities. The firm has a strong marketing orientation in that it screens major U.S. and international markets for emerging consumer product opportunities such as in-home electronics and personal computers. Opportunities are found through an ongoing process of networking with a variety of legal, accounting and other service businesses around the world.

InterMatrix is another type of smaller firm moving from consulting and area information services toward trading and technology linkage. This firm evolved as a research and consulting firm servicing larger international clients. Risk analysis, market trend data, and strategic planning services are offered to larger clients in the U.S. and Europe. Because of its international networks and experience in developing countries, the firm is now organizing a trading and technology search firm known as "InterTrade". The strategy of this new activity is to first offer services to a group of New England companies. From this base the company will search out collaborative venture opportunities on a global basis, organize technology transfer, and trade products resulting from the new activities.

2. OPERATING CONSTRAINTS

All of the case studies emphasize the importance of client development and the use of networks. Additionally, the firms all face problems in accessing technology, financing, and information, to varying degrees. However, the basic business characteristics of different firms dictate the degree to which these problems significantly inhibit their intermediation efforts and ability to expand. Exhibits VI-1 and VI-2 illustrate graphically the main points presented below.

Network Building

The larger firms, such as Arthur Young and Sears World Trade, are constantly building and expanding networks as part of their regular activity. For the small firms, network development involves significant risk since they need to relate immediate consulting and other services to efforts spent on network expansion. International law firms also tend to have established networks and their activities are oriented towards utilizing these networks more effectively.

Client Development

For all the firms described in the case studies, the need to develop client commitment and project activity is a central management issue. Whether using mass information marketing or building discreet consulting opportunities, the intermediaries all show concern with identifying clients and moving them into active project development. Each firm has different ways of gaining remuneration, but none overlooks the initial obstacles to

INTERMEDIARY EXAMPLE CASES

CASES / GENERAL CHARACTERISTICS	Arthur Young	Sears World Trade	Kaplan, Russin & Vecchi	Technology Catalysts	Palmer Bank	Boles	InterMatrix	TDI	Boice Dunham	Trans Tech
Trade & Services		●			●	●	●			
Professional Services	●		●							
Information Trading				●						
Special Consulting					●	●	●	●	●	●
SERVICE FOCUS										
Market Development		●				●	●	●	●	●
Strategy Devielopment			●	●	●	●	●	●	●	●
Rapid Changing Technology			●	●					●	
Process Focus			●					●	●	●
Product Focus		●		●		●			●	
Global	●	●	●		●	●	●	●	●	●
Foreign Area Specific								●		●
U.S. Region Specific			●		●		●			

building client project commitment.

The larger, more established firms have less difficulty accessing clients as a result of their ongoing business activities. However, their existing service orientations (legal, consulting, etc.) often restrict the firms from pushing more aggressively toward new project development. Thus, the case studies reflect the ambivalence of the professional firms in their movement toward more active intermediation. In contrast, the smaller consulting type firms are aggressive but lack the access to clients, technology, etc.

Payment and Cost Recovery

Payment strategies are less of a problem for the larger firms with clear identities as legal, consulting, or trading institutions. Development of specialized payment strategies for intermediation is not an overriding obstacle. The smaller consulting firms have difficulty building credibility with the client and creating a clearcut value for their services. Even organizations like Palmer National Bank have problems developing legitimate payment arrangements where they actively search for information or provide consulting services to complement their export or project financing activities.

The mechanisms for cost recovery is in most of the cases related to direct fees. The law firms, consulting firms and accounting firms basically charge for time or value of services rendered. Boles, Sears and InterMatrix represent attempts to garner income through both direct fees for assistance and income from trading. Except for Technology Catalysts and Arthur Young, all of the firms indicated a willingness to consider equity participation under the right circumstances. However, it was difficult to envision a situation where significant equity could be earned through the provision of brokering and ongoing technical assistance activities. On the other hand, earning commissions through trade arrangements or by directly taking inventory is considered feasible.

Increasingly, developing country firms can be expected to seek out assistance on a longer term payment basis. In many cases, the client expects the intermediary organization to assume some portion of the risk as part of their commitment and investment as a partner in a venture. Remuneration patterns for licensing services and some banking services are keyed to royalties or long term contingency fees tied to profitability and growth. The convergence of trading and consulting services offers an opportunity for a mix of direct fees and longer term royalties or contingency fees.

Developing Country Attraction

The developing countries generally represent a less attractive environment for intermediation compared to developed countries such as Japan and those in Europe. Technology Catalysts is an example of a firm with valuable services for the developing countries, but it generally perceives the limited market size and client ability to pay as a negative inducement, especially when compared to their principal markets in Europe and Japan.

InterMatrix, a smaller firm, sees opportunities to grow in developing countries. Up until recently, however, their growth in revenues is increasing in developed countries while diminishing in the developing countries. Of course, the availability of hard currency and more stable governmental environments also pulls the intermediary activity toward the developed countries.

SUMMARY OF CHARACTERISTICS AND CONSTRAINTS

Overall, the larger firms have the resources and position to pursue intermediation but are inhibited by the possibility of diluting or confusing their basic business identity and strategies. The smaller firms are more aggressive and dedicated to the intermediation process, but lack the networks, access channels, and credibility to move clients toward new projects.

New mixed consortium strategies are emerging in such firms as Arthur Young and Sears World Trade. These strategies use the strengths of small and large firms for more unique project development alternatives. In some ways, the smaller firms represent a vanguard activity, demonstrating new techniques and feasible strategies that will likely become an integral part of larger firms' activities should they prove successful.

Expansion of intermediary activities is constrained by a number of factors. Most importantly, clients fail to understand the utility of intermediaries and how to use them for profitable activities. Other important constraints include the following:

Client Development: Most of the cases examined demonstrate how difficult it is to develop clients for intermediary services. More traditional services, such as banking and auditing, have established procedures for client development and servicing.

Accessing Technology: Many of the cases examined showed that accessing technology was costly and difficult. In addition, these same firms found it difficult to convince technology users and suppliers of the merits of technology cooperation.

Accessing Markets and Partners: An important offering to the foreign client is the ability to find markets, qualify distribution channels, or locate other partners for marketing and sales. Developing knowledge and access to these channels is costly and requires significant expertise.

Network Building: For all aspects of brokering, networks are essential, whether they are linked to technology, finance, markets or other resource requirements.

Cultural Barriers: Some of the firms examined in the cases identified cultural barriers as a major constraint and thus a target of their activities.

Government Competition: For some of the smaller and more specialized intermediaries, the existence of government assistance programs, information services, and consultancy activities distract clients and muddy the water for long-term client relationships.

Payment Strategies: Virtually all of the firms studied were concerned with how to develop appropriate remuneration. Some worried about mixing contingent fees and professional fees, while others were fundamentally concerned with getting clients to invest in intermediary services at all.

Accessing Financing: One obstacle for many new projects is associated with financing. For some of the cases studied, the availability of financing, either through their own firms or others, represented a major factor in influencing success.

Professional Constraints: For accounting, law, and some private volunteer organizations, brokering leads to a variety of ethical and professional dilemmas. Usually these problems are associated with conflicts of interest between their professional roles and their task as intermediaries, especially considering that intermediation often requires aggressive promotion.

Exhibit VI-2 calls attention to the types of constraints indicated as most serious by the different companies analyzed in the case studies.

CONSTRAINTS ON INTERMEDIARY ACTIVITIES

MAIN PROBLEMS \ COMPANIES	Arthur Young	Sears World Trade	Kaplan Russin & Vecchi	Technology Catalysts	Palmer Bank	Boles	InterMatrix	TDI	Boles Dunham	Trans Tech
Client Development	●	●	●	●	●	●	●	●	●	●
Accessing Technology			●		●	●	●	●	●	●
Accessing Clients					●	●	●	●	●	●
Network Building						●	●	●	●	●
Cultural Barriers						●	●	●	●	●
Government Competition								●	●	●
Payment Strategies			●		●	●	●	●	●	●
Accessing Financing						●	●	●	●	●
Professional Constraints	●		●		●					

3. VIEW OF THE FUTURE

It is not surprising that those intermediaries who supplied information and participated in the development of these case studies were generally optimistic about the future prospects for increased recognition and use of intermediary services. Some were particularly enthusiastic about what they saw as the evolution of intermediation from its current ad hoc, opportunistic state to a more systematized, rational industry. Some highlighted the need for education and communication programs targeted at small and medium size firms in the US and developing countries, as well as at intermediaries themselves.

Others saw the increased use of intermediary services resulting from a need to bring small and medium-sized businesses into the international framework (particularly those in the so-called high-tech industries). New types of collaborative ventures are evolving, and new government programs encourage small firms to explore international opportunities and thus utilize intermediaries more extensively.

At the same time, all discussed the difficulties inherent in developing intermediation as a primary business. The fact that it is costly (both in terms of international travel as well as the costs of establishing and maintaining a contact network), it takes a considerable amount of time to move from concept to commercial, revenue generating activities (often the point at which the intermediary begins to get paid), is difficult to sell, and requires a complex set of skills in business, financing, legal issues, government regulations and more makes this a complex and difficult business to manage profitably.

VII. ISSUES OF PRICING AND FEES

Intermediary organizations generate revenues from their activities in a number of different ways. Most firms charge for professional time involved, but some relate their fees to the successful completion of activities, such as raising funds or bringing about successful joint venture projects. The amount of risk-taking by an intermediary is reflected in different types of price structures, as well as the intermediary's overall perception of the market with regard to the value and uniqueness of the various services provided. For example, investment banking institutions, because of their willingness to take risks when financing programs and their perception of their networks as unique and extemely valuable, usually receive larger fees for the coordination of certain types of ventures. In contrast, accounting firms may provide similar services, but avoid risk participation, due to their professional identification and practice standards.

Of the intermediary groups studied, it is apparent that pricing may be categorized in one or a combination of seven particular fee structures, such as:

- Professional services (accounting, legal, and/or consulting) fees
- Professional/Contingency fees
- Investment counseling/banking fees
- Joint venture equity
- Trading and marketing fees
- Licensing or service royalties
- Volunteer service charges

Each of these fee structures or payment strategies reflects not only risk taking, but the particular type of service that has been provided. For example, if the work performed can be defined in terms of manpower required, accounting, legal and consulting services may be billed on a per hour basis. On the other hand, certain types of intermediaries who are helping to bring together critical technology and marketing channels may be willing to take greater risks in return for royalty payments for a percentage of future profits that may be generated over a certain period by the new venture. Finally, some services, such as raising capital or obtaining other critical investment resources, are perceived to be so critical that very substantial fees may be charged if the services are successfully performed.

Professional Services Fees: Legal firms, accounting partnerships, and consultants provide important planning, networking, and follow-through services. As a rule, these organizations do not look for contingency payments, but prefer to bill time on an hourly, daily or monthly basis. As a rule of thumb, an average-size professional firm will bill its manpower at approximately 2.5 to 4 times the salaried rate of the professional involved.

This multiplier covers the costs of other expenses such as overhead and supporting staff and also provides a margin for profitability. A well-established accounting or legal firm might bill a senior partner at a fee of $150 to $250 per hour. Technical and engineering type staff tend to be priced somewhat less--between $100 to $150 per hour. Academics and other part-time consultants normally provide their services for significantly less, possibly $25 to $50 an hour. Currently, USAID's limit on fees paid to individuals is $26 a day. However, larger consulting, accounting and technical service firms which have been appropriately audited by AID could charge upwards of $1,000 a day for senior staff.

Professional/Contingency Fees: Though most professional firms prefer to bill on a straight time basis, many companies will accept a form of contingency payment. This normally means the professional service firm will bill at a minimum rate if the objectives of the project are not clearly achieved. In some instances, law firms and smaller consulting firms may base their billing on the successful outcome of a proposed plan or venture program. In this case, a significantly higher fee would be charged, based on the time involved and whether or not the project was successful. In other cases, firms might ask for a minimum billing amount or retainer plus a bonus that reflects the characteristics of a successful outcome. It is a common practice in law firms-- though less popular in accounting firms--to vary the hourly rate if a project has led to a successful outcome for the client. In the future, we might expect professional firms to offer contingent billing plans as a means of offsetting some of the project development risks.

Brokerage/Performance Fees: Many individuals and some professional firms accept payment strictly based on the successful development of a new project. Often, the development of financing, location of partners, or development of certain types of additional support is critical to the successful initiation of a new project. In these situations, fees are paid only if the project is successfully initiated. Fees tend to vary dramatically in terms of the size of the project involved. The most widely used standard, or rule of thumb, is known as the "5,4,3,2,1 Guideline." This formula provides that, if the broker is successful, he would receive five percent of the first million dollars resulting from the project, four percent of the second, three percent of the third, etc. This fee structure seems to be reasonably well accepted for projects that vary from three to five million dollars. Larger projects tend to be governed by a straight percentage of one to three percent; smaller projects normally involve explicit dollar amounts ranging from five to ten percent of the overall project size.

Joint Venture Equity: Intermediaries may provide a variety of assistance and receive payment through some type of equity participation. This approach normally evolves when an intermediary has provided (and may continue to provide) management guidance, marketing assistance, etc. The intermediary, by qualifying the value of the activity or time spent, would receive an equivalent share of capital such as dividend payments or some other profit distribution arrangement.

Trading and Marketing Fees: The intermediary's role may sometimes lead to long-term trading and marketing relationships. In this instance, the intermediary may accept a fee for technical assistance work, but will principally seek remuneration through a long-term royalty arrangement associated with the trading of goods and services. A company which is handling two to five million dollars worth of goods may expect to charge a fee of two to five percent of sales. In other situations, the intermediary may be involved in an ongoing role as both representative and marketing agent and could receive both a fixed fee plus some percentage of the total sales handled. These formulas, again, reflect the willingness of a firm to be paid in relationship to the long-term success of a project.

Licensing/Management Fees: An intermediary may also play a critical role in the organization of access to technology, skilled manpower, management systems, or other types of unique resources. In this situation, it is common to see a mix of professional fees plus a long-term percentage royalty from the resulting project. If an intermediary has helped locate, negotiate, and install a technology system, it might request a one percent royalty, in addition to recovering some charges for providing the specific technology required. For example, if an intermediary helped a company acquire formulas and processes for a new product, the company supplying the technology could expect a four percent royalty for five to ten years; the intermediary would receive an additional percentage for himself. In other situations, the licensor may pay the intermediary a part of that base four percent royalty.

Volunteer Service Charges: Volunteer organizations, when acting as intermediaries, usually expect their incremental costs to be recouped. Normally, this is achieved by charging for professional staff time and some fees which are used to maintain the overall organization. Volunteer services tend to cost about one-half to one-third the equivalent professional service in the same market area.

AN EXAMPLE COMPARISON

To understand the impact of different pricing strategies and what the intermediary will require, it is useful to look at standard project and price variations according to different approaches. (See Exhibit VII-1) In this example, an intermediary would be involved over a one-year period to help put together two companies for a five million dollar joint investment. This particular project would result in a new program with annual export sales worth ten million dollars. In order to put together the project, the intermediaries would have to find potential partners, assist in planning, provide guidance for financing channels, and help establish some kind of marketing and export activity. Naturally, the professional service firms would have better capability of providing early-on planning and organization skills, while the trading and marketing companies may be stronger in terms of their later marketing and trade contributions. However, this type of project could be put together by any of the basic types of intermediary organizations we discussed in this paper.

For professional service fees, assuming there are no contingent relationships, the fee for the year of activity would be $100,800. Time would be billed at $150 per hour for a senior partner and $60 per hour for management and technical assistance personnel. Assuming three days a month for the senior partner, and ten days a month for the middle level individual, the client will ultimately pay for 36 senior executive days and 120 middle management days. This means that billable time would be $43,200 for the senior partner and $57,600 for the middle level individual. The total fee, assuming a service direct time approach, would be $100,800.

A mixed professional fee and contingent approach would combine a minimum set of direct time billing which might be at $30 per hour for senior time, and $20 per hour for the middle management experts. This would lead to $11,640 for senior partner time and $19,200 for the junior partner. The minimum professional fees drawn would then be $30,840. If the project was successfully completed along the pre-established guidelines, then the facilitating firm might receive an additional $100,000 to $150,000. In short, for a successful project the intermediary service organization would receive $150,000 to $200,000 in fees and if the project did not go through, they would only receive the initial $30,800. This approach mixes billable time with some type of risk taking on both the part of the intermediary and the client. Unlike the standard professional fee model, the client pays less if it is an unsuccessful development and pays more if it is successful.

Looking at the same project as an investment service or investment banking approach, we can see that the client might pay upwards of $400,000 in fees to the investment banking firm. This fee is calculated on a range of two percent to eight percent of the overall financial package. The degree to which the investment banking firm is committed to the final program would change the percentage dramatically. For example, if it were to underwrite part of the financing package, the percentage fee for participation in the project might grow to as much as 25 percent of the overall package.

The brokerage commission approach, as in the "5,4,3,2,1" formula would cost the project $750,000 in fees. As stated earlier, five percent of the first million, plus four percent of the second million, etc. leads to a total fee of $750,000 if a successful joint venture is brought together. In this situation, the intermediary is probably not paid any other fees or costs. The fees are paid only upon the successful initiation of the planned project. Thus, the intermediary is assuming significant risk.

In the trading and marketing approach, the intermediary may receive some fees and expense coverage during the development stages. However, principal payment will be associated with a long-term royalty or sales commission linked to the ongoing activity. A three percent trading commission would lead to fees of $300,000 a year or $1,500,000 over a five-year period. In this approach, the trading company has helped put together the deal in order to gain access to the product and benefits through trading commissions. It should be noted that the firm would still incur its own costs to support trading and marketing activities. If the project required the establishment of a permanent sales and marketing office, linked to the client, the client would probably have to support some additional "out of pocket" costs, in addition to its sales fees.

Licensing and technology fees are another form of long-term profit sharing with a successful venture. Intermediaries, who often play a key role in technology organization and access will take fees through a long-term management assistance agreement or technology fee. In many countries, the timing, scope, and size of the royalty payment are limited by government. In most developing countries, a four percent fee over a five-year period would be acceptable. The intermediary, in many cases would be willing to accept an additional percentage point over the licensing fee to cover his work, if he is not the actual holder of the technology. This of course, would be a fee of $100,000 per year and a total of $500,000 for a five-year contract.

Volunteer organizations, acting as intermediaries normally have specific cost reimbursement programs. For example, the International Executive Service Corps might have a client cover travel, per diem, and some recruiting costs to have a retired executive work for three months in a particular developing country. This means the client would pay about $20,000 for three months of volunteer time. Assuming nine months of involvement over an entire year, the client would pay about $60,000 of cost reimbursement fees to the volunteer organization.

The following chart summarizes and compares different fees, all dealing with a similar $5,000,000 investment, leading to $10,000,000 in annual export sales for the new venture.

COMPARISON OF PAYMENT ALTERNATIVES
Intermediation to Establish a 5 Million Dollar Investment
(Sales - All Exports 10 Million Annually)

This example would require 36 Senior Executive Days and 120 Middle Management Days spread over over a o year period to bring together two partners for a joint venture. About $10,000 of other expenses secretarial support would be required.

Type of Intermediary	Index	Principal Role	Total Cost
• Professional Service Direct Fees only Lawyers, Accountants Consultants	$150.00 per hour and $60.00 per hour	- Plans - Networking - Follow-up - No risk	$100,800
• Professional Service Fees and Contingent Payment	Minimum - $20-30 per hour Maximum - Full fee + bonus	- Plans - Networking - Follow-up - Some risk	Minimum $30,840 Maximum $160,000
• Investment Banking	2-10% of Package	- Network - Financing Plan - Credibility - Some risk	Minimum $40,000 Maximum $500,000
• Trading/Marketing • Licensing/service Royalties	3% to 5% of Sales	- Network - Plans - Market Access - Some risk	Royalty or Management Fee $50,000 per year
• Joint Venture	Some part of equity and fees	- Plans - Networks - Ongoing Management Assistance - Risk	Dividend when paid
• Volunteer Organizations	Cost Recovery	- Technical Assistance - Networks - No Risk	$30,000 - $60,000

1. CONFIRMATION SURVEY RESULTS

A second survey of 15 intermediary organizations was conducted to further explore and confirm how pricing options were being used and the degree to which various combinations contributed to a firm's total annual revenues. The following chart illustrates the intermediaries (by type) who participated in this survey.

INTERMEDIARY TYPE	NUMBER
Consulting Firms [1]	9
Law Firms	3
Investment Banks	2
Importers	1
TOTAL	15

1. Includes PVO's, individual consultants and firms.

The following chart illustrates the frequency of pricing alternatives reported used by intermediary type. It is based on a simple "yes" or "no" answer to the question, "Is this a method of payment you use in your business?" Responses are presented as the number answering "yes" over the total number of respondents in that category. For example, 5/9 would indicate that 5 of the 9 respondents in that category use this pricing strategy while 4 do not.

FEE GENERATION OPTIONS					
	INTERMEDIARY TYPE				
PRICING OPTION	CONSUL'TS	LAW	INV. BANK	IMPORT	TOTAL
Fees	9/9	3/3	2/2	1/1	15/15
Fees w/Bonus	5/9	0/3	0/2	1/1	6/15
Brckerage	0/9	0/3	1/2	0/1	1/15
JV Equity	4/9	0/3	1/2	0/1	5/15
Trade/Mktg Commisn.	4/9	0/3	2/2	1/1	7/15
Licensing Royalties	0/9	0/3	0/2	0/1	0/15
Volunteer Services w/ Cost Reimbursement	6/9	0/3	0/2	0/1	6/15

This distribution gives an indication of how often different pricing strategies are employed, both among types of intermediaries as well as within particular categories. With the exception of licensing royalties, every category was used by at least one type of intermediary surveyed.

Some points of interest:

Law firms billed for their services on a straight fee for time basis. These respondents mentioned the possibility of conflicts of interest that can arise when a law firm or individual attorney takes an equity position, receives finders fees or receives other forms of compensation for legal work. Although the attorneys who participated in this survey claimed not to substitute other forms of compensation for their work, each mentioned knowing of others who did in lieu of fees. In the area of volunteer services with cost reimbursement, law firms mentioned that pro bono work was a normal part of doing business, but this work was not done with the expectation of receiving any direct financial rewards as a result in the future. Consulting firms, on the other hand, saw this more in terms of a marketing strategy and sales approach. Six of the nine consultants described this category as a routine aspect of new business and client development.

Every type of intermediary saw fees as a primary and preferred way of getting paid for their services. A frequently mentioned method was to set up a retainer arrangement whereby a client would commit a certain sum to fund the research and other project development work required. One investment banking firm would deduct this amount from the fees they would receive from raising the capital.

TOTAL REVENUES BY PRICING ALTERNATIVE

The preceeding chart may be somewhat misleading as it illustrates the frequency of use of these various pricing options, but does not indicate the total annual revenues accruing to the firm from any option. In other words, although an option may be used by a firm, it may not produce any significant revenues.

The following chart illustrates the relationship between pricing options and annual revenues from each and is based on respondents' estimates in answer to the question, "What percent of your firm's total annual revenues would you estimate result from...(each option mentioned in turn).

TOTAL REVENUES BY FEE ALTERNATIVE

	INTERMEDIARY TYPE			
FEE OPTION	CONSUL'TS	LAW	INV. BANK	IMPORT
Fees	93%	100%	40%	80%
Fees w/Bonus	6%	0	5%	0
Brokerage	0	0	40%	0
JV Equity	0	0	0	0
Trade/Mktg Commisn.	0	0	10%	20%
Licensing Royalties	0	0	0	0
Volunteer Services w/ Cost Reimbursement	0	0	0	0
Other/miscellaneous	1%	0	5%	0

This chart gives an indication that although many pricing options and fee arrangements are theoretically possible, the fact of the matter is that fees represent almost all revenues earned by the firms contacted for this survey.

In this survey, intermediaries were asked to describe how they might formulate a pricing strategy in response to an example of a typical international business venture. This example is reproduced here.

"You are responsible for arranging a joint venture between a U.S. and developing country firm. This project will take about one year to mature, and requires your involvement during this period. The venture will require a $5 million investment, and is expected to yield export sales to the U.S. of $10 million per year for a minimum of five years. You are required to:

a) Find a U.S. partner.

b) Assist in planning, plus provide guidance for financing.

c) Establish marketing avenues in the U.S..

Some general observations:

With the exception of law firms that bill on a straight fee for time basis, responses to this example elicited and illustrated creativity as a consistent theme. Although each type of intermediary sampled had an individualized approach for isolating the different tasks involved in the example and valuing these, most offered several options depending upon specific factors and tasks they identified. For example, when discussing the option of taking equity in lieu of fees or percentages, one respondent said this option would be a function of his level of confidence in the other partners' ability to execute the project and make a profit. Where this confidence level was low, equity would not be considered.

Investment bankers had the clearest ideas and best thought out rationales for valuing and pricing their services. Consultants, generally, were less clear in their notions of how to structure a compensation package for themselves.

Investment bankers used "real numbers" when discussing this hypothetical example, and illustrated how they would expect to be compensated for each task in the overall deal. For exa[illegible] one respondent structured the deal in the following manner:

* A $5,000 per month retainer for six months with out-of-pocket expenses billed separately. This $30,000 would be deducted from the revenues received from capital margins and marketing fees should the project come to fruition.

* A three percent margin for debt financing (assumed at $3MM) and a five to eight percent margin for equity financing (assumed at $2MM).

* A marketing or brokerage fee based on the volume of products sold, with one to two percent of total annual sales.

* An alternative to this marketing commission would be to set up a joint venture marketing company in the U.S. with the supplier selling to this company at something less than prevailing market prices for the product. Profits would be split 50/50.

Thus:

Retainer	$ 30,000.
8% on equity portion of $2MM	160,000.
3% on debt portion of $3MM	90,000.
	250,000.
Less Retainer	30,000.
TOTAL	220,000.
PLUS: 2% of $10MM annual sales volume. $200,000/year for 5 years	1,000,000.
Total cost of financing and marketing	1,220,000.

Consultants responding to this example tended to be more concerned with the work itself, and were more inclined to make explicit assumptions about the partners' roles and capabilities. For example, one respondent saw the overseas partner as supplying the product while the U.S. partner would provide the marketing and distribution. Thus, he did not see his firm earning any trading or marketing fees based on the volume of products imported and sold. In another case, the consulting firm had particular expertise in engineering and construction projects. Thus, he saw the example in terms of the $5 million being used to finance plant and equipment, likely in the host country, and so saw his firm being compensated for their international engineering and project management capabilities.

One conclusion that can be drawn from responses to this standard example is that intermediaries tend to adopt a creative stance when it comes to finding ways to structure a compensation scheme. With the exception of law firms, most offered different alternatives based on factors they identified as being important considerations or qualifying conditions. At the same time, it is interesting to note that each type of intermediary saw a different dimension of the example. Law firms saw the legal issues involved, investment bankers focused on raising capital, and consultants were more concerned with the development phases and tasks involved.

2. SUMMARY

As can be seen from the foregoing discussion, the issue of pricing, fees and valuing intermediaries' services is a complex subject. With the exception of the more standardized services such as legal and accounting work (which are generally accepted as being necessary requirements in business dealings and venture development), many firms are either unable to value or are unwilling to pay for other types of intermediary work. Thus, these intermediaries must first sell the need for the specialized information and skills they bring to the venture development process even before they sell their own active participation and involvement.

Without adequate support, many intermediaries face a difficult set of challenges. On the one side they must convince clients or would be clients of the need for their services and the value of their involvement in the venture development process. But many clients are hard to convince because they may be unfamiliar with the difficulties involved in forming collaborative ventures with overseas partners and for other reasons as well. (Our research has shown this to be the case for firms in both the U.S. and developing countries.) The intermediary is then put in the position of having to first demonstrate his worth in order to be adequately compensated. Generally, he must find a way to structure a compensation plan that is somehow tied to the success of the project, a plan that hopefully will yield adequate compensation in the future.

But when we look at the "new breed" of intermediary entrepreneurs who are attempting to forge new alliances and introduce new forms of collaborative ventures, we see mostly small firms and individuals paving the way. These intermediaries are generally the least able, from a cash flow point of view, to absorb the overhead and travel expenses and forego fees during the often extensive development process from concept to commercialization. Also, these intermediaries are being forced to assume a burden of risk that may be unrealistic given their limited resources. It is also fair to say that many intermediaries are specialists in particular aspects of the venture development process (e.g., market research, planning, technology transfer) and are somewhat naive when it comes to structuring and negotiating equity and performance payment packages.

The larger firms that conceiveably could handle the risk and cash flow problems more easily are not pursuing intermediation as a primary (or even secondary) business activity. Intermediation in these larger companies tends to be ad hoc, sporadic, and opportunistic as opposed to being an integral part of their routine business activities. We have seen Sears World Trade, for example, a large and well-financed organization, curtail its international trading and consulting services in 1985, after only a few years in operation. Boles, a good medium-sized trading company with strong consulting capabilities was in reorganization under Chapter 11 of the Commercial Code at the beginning of 1985.

It would appear that valuing and pricing intermediaries' services, at least in the short to medium term, will be heavily influenced by market forces and individual firms' marketing, selling and negotiating skills. At this stage of its evolution, intermediation cannot be considered an "industry" in the sense that common standards, established practices, standard pricing and the other more formalized policies and practices exist or are widely shared among a group of similar firms.

VIII. COMPLEMENTARITY OF INTERMEDIARIES TO AID ACTIVITIES

At present, USAID is pursuing a number of different strategies directed at improving private sector enterprise capabilities. The MTAP strategy is designed to help create additional demand for several of the established and ongoing programs. In fact, the MTAP field trial program is not a replication, but a complementary activity to a number of AID activities.

AID is presently launching multiple programs to test different mechanisms for strengthening the private enterprise in developing countries. Those programs involve unique financing, information channels and other linkage activities. Some examples of those activities include the following:

1. Some USAID bureaus have established investment funds to finance private sector enterprises in the development of new programs, plant facilities and export activities.

2. Some programs, such as the Investment Promotion Program in the Eastern Caribbean (PDAP) have set up linkage programs that utilize professional consultants to develop profiles on Caribbean firms, which are then used by the home office in the United States to search out possible joint venture candidates. Similar projects are planned or are underway in Indonesia, Thailand, Sri Lanka, Pakistan, El Salvador, Honduras, Costa Rica, etc.

3. A number of USAID projects are aimed towards developing improved policy environments including investment incentives, price structures, export incentives, etc. These programs are designed to create a more favorable environment for the development and encouragement of private sector enterprises.

4. In Java and the Philippines, programs are underway or about to begin which provide unique approaches for providing information, training and consulting assistance to smaller enterprises. In the Java program, the focus has been on analyzing the needs of local firms and in using different types of consulting strategies to provide technical assistance as well as information services to smaller firms.

5. In the Philippines, the Small and Medium-sized Enterprise Development (SMED) project focuses on providing training, consulting assistance, and international linkage to the smaller firm through the industry association community. The SMED project has

in its design a demand development component in that it expects to use international consultants and local experts to provide training, diagnostic services and other aids to help qualify opportunities and assist the development of smaller firms. The SMED project will be delivering these services through associations, Chambers of Commerce and other private sector networks. Thus, the project has a second benefit of building the local infrastructure that supports the business community.

6. Several other programs have been considered for ASEAN. They include: new management training programs for smaller business in the Philippines, enhancement of technology search programs supplied from Singapore, and the development of new policy research on factors that affect the development of small and medium sized enterprises in the ASEAN region.

7. In a variety of AID countries, programs have been underway for some time that provide support for institution building. These programs focus on providing technical assistance and funding to develop improved science and technology institutions, better training, and other activities provided through non-profit or governmental institutions.

8. AID supports a wide variety of private volunteer organizations including VITA, TechnoServe, LADD, IESC, Partners for Productivity and others. All of these PVOs have a variety of technical assistance and some linkage activities aimed at supporting developing country enterprises. In most cases, the firms provide not only direct technical assistance, but information and other linkage activities.

9. AID is actively engaged in manpower development programs at the worker, supervisor and managerial level.

The above listing, though not comprehensive, suggests a wide array of AID activities directed at private enterprise development. These programs combine technology transfer, information linkage, direct technical assistance, institution building, training, and policy environment improvement. Many of these programs will achieve their objectives if they are able to develop interest and commitment by the private enterprise or individual entrepreneurs and organizations.

MTAP type activities are complementary, and reinforce other combinations of strategies for several reasons. First, it is clear, as discussed earlier in the study, that both the U.S. and developing country enterprises are often skeptical, or at best passive, regarding major commitment to a new project even though it may lead to growth and improvement. In all cases, the first obstacle to overcome is the perception of risk. Other AID strategies deal with risk by providing technical assistance, improved information and other kinds of linkages. However, as we have seen from the normal development of collaborative venture activities in the United States and abroad, programs are seldom undertaken without key participation of local supporting organizations such as consulting firms, banks, law firms, etc. Thus, the intermediary provides an important component for building commitment among clients and stimulates action with the developing country firms so that they exploit available information, training, or financing resources.

MTAP does not focus on one particular type of collaborative venture activity. As opposed to some programs which are directed specifically to joint venture or information services, MTAP tries to assist the broker in developing whatever kind of collaborative venture activity that is possible (i.e., it is market responsive). New forms of technology sharing, trading, consulting, technology transfer and market access activities are all strategies that will be encouraged by successful brokers or intermediaries. MTAP expands the scope of business potential by stimulating the broker to choose whatever strategy is most effective for the particular case in hand.

MTAP attempts to direct existing intermediation towards new kinds of smaller business activities and smaller scale projects. Though intermediation is taking place in many developing countries, it tends to be focused on projects characterized by large sizes or unique proprietary technology situations. MTAP's focus will be to stimulate brokering activities that go beyond the limited number of obvious commercial attractiveness. With some grant support, and the development of new international linkages, it is felt that brokers' activities can be expanded to a larger number of small and medium-sized enterprises. This is a sector not engaged by the larger, more established linkage or international intermediary activities.

MTAP hopes to demonstrate and convey the feasibility of new forms of intermediation. Projects are being initiated in the developing countries, but most intermediary consultant and assistance organizations are anxious to know more about the effectiveness of new forms of intermediation. The test program allows for the stimulation of new kinds of collaborative ventures, new linkages and new strategies for intermediation, and also creates an important demonstration opportunity. This activity will help create a better understanding of the value of and different types of mechanisms that can be brought together.

A wide variety of private voluntary organizations, law firms, consulting firms and other organizations are involved in intermediation. However, there is not a great deal of cooperative and joint activities between these kinds of potentially complementary activities. Another focus of MTAP will be to encourage intermediation that brings together a wide variety of complementary activities. It is possible to link multinational corporation interests with PVOs, financing programs and other activities. The intermediary becomes a critical component for stimulating interest on the part of the client in bringing together the overall components into a viable approach.

In the United States, there are a variety of information services available. Many of these activities are not extensively utilized because of the limited capabilities of small U.S. firms. Specifically, thin management, competing market opportunities and confusion about the developing countries inhibit smaller firm participation. The active broker provides the catalyst to bring this firm into a potential venture, provide information, qualify specific clients, and build confidence.

SUMMARY

Complementary to several other types of AID programs, the MTAP program seeks to test the intermediaries' ability to bring together resources and potential collaborative venture activities. MTAP allows a broadening of the scope of intermediation process to include small firms in both the developing countries and the United States. The MTAP program also allows brokers to develop cooperative programs of different types including licensing, joint ventures, coproduction, cooperative market development, etc. MTAP also helps bring clients into the system and infrastructure activities that are being created by complementary programs.

IX. GENERAL SUMMARY AND CONCLUSIONS

1. RECAP OF MAJOR FINDINGS

One of the most significant findings resulting from the Market and Technology Access Project is that intermediation is a critical factor in promoting international business ventures, especially where small and medium size businesses are concerned. These types of firms, both in the U.S. and the developing countries, share similar characteristics and needs that act as barriers to their initiating and following through on venture development ideas and projects. A lack of expertise, time, access to information, networks, investment capital, and knowledge of opportunities and new forms of venture agreements were identified, as well as the fact that many firms have a "stay at home" attitude that effectively rules out the exploration of international opportunities. (We did note, however, that this attitude is changing somewhat as result of increasing international competition, more effective communications systems, the promotion of special U.S. Government programs, and other developments in the world market.)

Thus, there is a need for intermediation which functions as a means of helping these firms overcome structural and attitudinal barriers, as well as to supply the necessary expertise, network contacts, additional resources and other requirements for initiating and developing an international business venture.

We also found that as much as intermediation is an essential element in venture development, intermediaries as a group cannot be considered as having evolved to the status of an "industry." We found that a wide range of companies, law firms, individuals, government agencies and private voluntary organizations often engage in intermediation, usually on an ad hoc or opportunistic basis. Often, they do not see themselves as performing an intermediation function as their identity is tied to their particular expertise (e.g., as lawyers, accountants, investment bankers, etc.).

We found that a "new breed" of intermediary-entrepreneur may be emerging in the form of small firms and individuals who explicitly recognize their role and function as intermediaries. These are actively moving towards developing and "packaging" a group of related research, information management, planning, financing, technology sourcing, market access and specialized expertise- resources and services that can be applied to each phase of the venture development process. Also, these intermediaries often introduce new venture ideas to potential partners. In financially related organizations, this begins to appear similar to more traditional merchant banking.

We found that the small firms often follow a strategy whereby a consortium of firms is organized around a project as these small firms individually do not have the financial wherewithall to support a fully-formed organization with the degree of diversified expertise required to carry through the entire venture development process.

We explored the differences between the older, established organizations such as accounting and law firms that perform intermediary-type functions on an ad hoc basis, and the new, emerging group who see intermediation as a primary business. There is something of a paradox here as the established firms have the contact networks, ability to attract and support other specialists, and the financial capability required of a "full service" intermediary organization, but they are constrained in taking a more active role as intermediaries by professional codes, tradition, and the primary focus on their main business. On the other hand, the innovators do not have the resources, size or established cash flow that would support a major strategic initiative in developing a "full service" capability.

We also found that intermediation, from a business profit point of view, was not generally attractive. Clients in the U.S. and the developing world had difficulties valuing these types of services, many of which are intangible. Thus, intermediation is difficult to price and sell. Often, clients expect intermediaries to take a risk position, tying payment for their services in relation to the financial success of the venture. Given the expenses involved and the extended time period required to bring a venture to fruition, this expectation effectively excludes smaller, innovative firms from providing necessary services.

The research showed that most intermediaries were poorly linked, both domestically and internationally. Although this situation is changing, especially in the U.S. where the consortium approach is becoming more popular, international linkages are in need of further development. There is a need for intermediary organizations in the U.S. to have known partners in the developing countries who can service firms in that country. It seems unreasonable to expect a small firm in the U.S. to undertake the extensive work required on both ends of an international venture during the normally extensive venture development process.

At this time, it is difficult to predict how intermediation as a specialized business function and set of services will evolve. We have seen larger firms such as Sears World Trade severely curtail their ambitions and scale down their resources and activities in light of the costs and difficulties involved in attempting to provide a "full service" capability. But at the same time, we have seen smaller firms such as Technology Catalysts find a market niche they could fill profitably. It appears in the short term that the consortium approach offers a workable structure in which a large firm supplies the contact network, overseas presence and service capabilities in a particular specialty such as accounting, while smaller firms bring technology sourcing, industry expertise, trading capability and other necessary ingredients. These consortia likely will be formed around specific projects, being limited in time and scope to the venture at hand. However, once established, they may form semi-permanent working relationships.

Governments in both the U.S. and developing countries will play a significant role in shaping the future evolution and direction of intermediation. As we have seen throughout the findings of this Market and Technology Access Project, intermdiation is a critical need in fostering business-to-business relationships that will promote development objectives. At the same time, intermediation itself is emerging as a specialized area of expertise with all the growing pains that might be expected. How governments choose to encourage and support this activity (as well as how they act to create more favorable business climates) will have a significant impact on its evolution and development.

2. IMPLICATIONS FOR POLICY AND PROGRAMMING

Given USAID's desire to bring together small and medium-sized firms in the U.S. and developing countries as one strategy for achieving the Agency's mission, and further recognizing the critical need for intermediaries in the process of venture development, a central question is, "How can USAID support intermediaries and intermediary-type activities that will facilitate new venture development involving small and medium-sized firms?" A second and related questions is, "What can USAID do to strengthen intermediation in general, to facilitate its evolution as an "industry?"

Throughout the entire MTAP research process, we had many opportunities to ask intermediaries themselves what types of support they would welcome from government, and what types of things did they find counter-productive. Here are some of their comments and suggestions:

"Sponsor seminars and conferences for new intermediaries in which actual field experiences of colleagues would be used as education and training content. These meetings would also function as a means for intermediaries to meet others in the business and would be one way to promote consortia of intermediaries with different skills and contact networks."

"Provide assistance in obtaining fee-for-service project work that would generate some revenues to sustain a smaller firm or individual during the extended period required for venture development. This project work should also provide travel opportunities so that intermediaries could maintain an in-country presence without having to fund all travel costs themselves."

"Consider providing a form of concessional financing whereby the intermediary could bill fees and travel costs against future project returns. In this way, should the venture not reach fruition or fail to yield expected financial returns, the intermediary would not have to assume this burden of risk."

"Offer qualified intermediaries opportunities to work as business consultants to USAID missions in the field with the responsibility for promoting intermediation as a necessary service, as well as facilitating the development of specific ventures and projects."

"Provide information on the formation of consortium-type projects so that individual intermediaries and smaller firms can participate in their areas of expertise (market research, technology transfer, licensing, etc.)."

"Develop an organized approach for bringing regional banks into the international business environment. As these banks have ongoing contact with small and medium-sized businesses, they are natural channels for reaching this market. A first step in such a program would be to familiarize bankers with U.S. government policy in this area, the many established programs and services already in place, and the potential role bankers can play in the internationalization of U.S. business."

"One of the characteristics of the international business environment at the present time from an intermediary's point of view is that the players represent a mixed bag. Private organizations, individuals, small firms, large firms, government agencies and others are involved as intermediaries to one extent or another. If intermediation is to evolve into a self-sustaining industry, it must become commercially viable. At the same time, a small intermediary firm cannot compete with a government agency or other organization that is not dependent upon revenues earned from intermediation. How can you sell a service that other organizations are giving away for free, albeit ineffectively?"

At the present time, the structure of the "intermediation industry" is fragmented among many smaller firms that have specialized areas of expertise, and between these smaller firms and larger organizations that have international networks and other resources but are not functioning primarily as intermediaries. One approach for facilitating intermediation on both firm specific and industry levels is for USAID and other government agencies to structure the context and then to sponsor individual specialist firms into particular country development projects. In this way, perhaps the best of both worlds might be integrated. The concept here is for USAID to become the "general contractor" with overall responsibility for country development programs with individual intermediary firms being used as subcontractors to carry our specific tasks within the overall program. Compensation could be a mix of fees and performance payments for private, profit seeking firms so that this traditional business incentive is utilized. At the same time, recognizing the difficulties smaller firms have in taking on project risk (especially if multiple projects are involved) and their needs for cash flow, this approach could function as a viable means of supporting intermediaries by providing professional practice opportunities and minimizing down side risk (compensating them on a fee for service basis), and keeping the profit inducement active as a stimulus for higher levels of performance. Actually, this approach is emerging in several upcoming AID programs.

Obviously, there are many policy and procedural issues that must be worked through when government agencies seek to form collaborative working relationships with private enterprises, an area that USAID was well aware of when the Bureau for Private Enterprise was founded. At the same time, the strategy for involving smaller firms as instruments of development is potentially a powerful mechanism for achieving the overall mission of the Agency.

X. CASE STUDIES ON DIFFERENT TYPES OF INTERMEDIARY ORGANIZATIONS

Ten detailed cases were assembled during 1983 and 1984. These cases were updated again in September and October of 1985. The design of the cases is based on the need to demonstrate differences between existing intermediary types, at least in the following areas:

- Basic organization and operating strategy.
- Services offered.
- Pricing and remuneration practices.
- Approach to intermediation.
- Further review of intermediation as an effective business activity.
- View of intermediation as a tool of economic development.
- View of intermediation and other services as programs for USAID and other government related organizations.
- View of factors that inhibit or encourage enterprise development and growth in intermediation.

Considering our categorization of types of intermediaries and different needs of developing courntry and developed country enterprises, cases were selected in five areas. The cases are grouped into these categories as these represent the most significant differences in operating approaches and have divergent aspects of risk taking and professional orientation.

1. <u>Trade and Consulting Firms</u> (The new forms of intermediation)

   - The InterMatrix Group
   - Boles World Trade Corporation
   - Sears World Trade Inc.

2. <u>Larger Professional Firms</u> (Adapting to Intermediation)

   - Arthur Young United States (A member of Arthur Young International)
   - Kaplin, Russin, & Vecchi

3. <u>Technology Sales and Consulting Firms</u> (Building on changing technology and products)

- Technology Catalysts, Inc.
- Boice Dunham Group

4. <u>Financial and Consulting Firms</u> (Moving traditional banking towards new venture development and merchant banking formats)

- Palmer National Bank

5. <u>Smaller Consulting Firms</u> (Innovation in small consulting)

- Trade and Development International
- Transtech Services USA

Each of these cases is preceeded by a brief data summary to give the general size, categorization of services and other relevant data. The cases themselves often combine interview notes and other background attidudinal data. Only one case, Technology Catalysts, is not built on extensive interviews and actual company visits. Technology Catalysts provided only publicity brochures available.

DATA SHEET

ORGANIZATION: THE INTERMATRIX GROUP DATE: 1/2/84

ADDRESS: 44 Post Road West, Westport, CT 06880

TEL: 203-222-0499 TYPE ORGANIZATION: Privately owned, for profit

INTERVIEW WITH: Dr. Jan Dauman POSITION: Pres., Chief Exec Officer

Dr. Carl Nisser Director, InterTrade USA, Ltd.

WHEN FOUNDED: 1973 ANNUAL REVENUES: $1,150,000 (1983)

MAJOR EXPENSE ITEMS: Salaries, Network maintenance, Travel, Telecommunications, Marketing and Sales

NO. EMPLOYEES: 24 full time; 15 part-time; 25 associates; 100 ad hoc per diem conslutants; 500 contacts/information sources

NO. LOCATIONS/OFFICES: 4 in house plus 7 associate offices. Operating in 10 countries with connections to 55 countries.

REGIONAL/AREACONCENTRATIONS: Worldwide

NO. OF MAJOR PROJECTS SINCE INCEPTION: 5 CURRENT: 7

REVENUES FROM INTERMEDIATION: $500,000 (1984 projects)

TYPES OF CLIENTS: Large multinational corporations

NETWORK AFFILIATES: Banks, Venture Capitalists, Export Council, Individual Specialists

COMMENTS: The InterMatrix Group is primarily a consulting company that specializes in providing assistance to large multinational corporations in the areas of corporate affairs management, strategic planning, and other areas of external relations management. At this time, intermediation is a secondary activity. However, a new organization, InterTrade USA, has recently been formed to function as a full service export, import, and trade management company to assist small and medium-sized manufacturers in the U.S. in international trade.

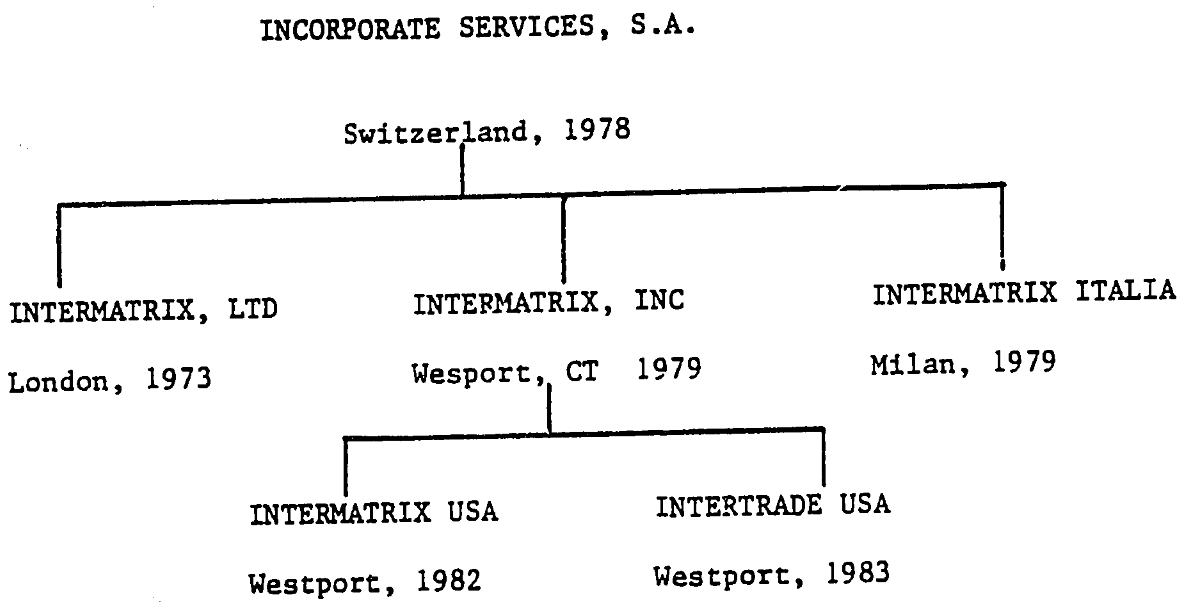
A. THE INTERMATRIX GROUP

I. BACKGROUND AND OVERVIEW OF DEVELOPMENT

The InterMatrix Group was founded in 1973 as Matrix Corporate Affairs Consultants, Limited (London) by two of its current principals, Jan Dauman and Geoffrey Morris, to provide consulting services to multinational corporations in the areas of corporate affairs and strategic planning.

Since that time, annual revenues have increased from $60,000 to some $1,150,000; full-time staff has grown from five to 24 people (plus 15 part-time, 25 associates, 100 ad hoc consultants, and 500 contacts and sources of information which make up the current InterMatrix network); offices and associates have increased from one to 21 countries; and country assessments with regular monitoring have increased from 19 to 55 countries.

Companies that make up the InterMatrix Group include InterMatrix, Limited which is the Group's worldwide research center and base of operations for servicing European clients. (This is the original Matrix Corporate Affairs Consultants, Ltd. which was renamed InterMatrix, Limited in 1983). InterMatrix Italia serves clients in Italy; InterMatrix Incorporated manages the Group's activities in North America and also serves as an umbrella organization for InterMatrix USA and InterTrade USA which are headquartered in Westport, Connecticut. (InterMatrix USA serves North American clients while InterTrade USA is a new entity that is described in a separate section of this report.) InterCorporate Services, S.A., the parent organization, was incorporated in Switzerland in 1978. The following diagram illustrates the overall structure and timing of additions to the InterMatrix Group.


INCORPORATE SERVICES, S.A.
Switzerland, 1978
INTERMATRIX, LTD
London, 1973
INTERMATRIX, INC
Wesport, CT 1979
INTERMATRIX ITALIA
Milan, 1979
INTERMATRIX USA
Westport, 1982
INTERTRADE USA
Westport, 1983

Philosophy and Business Foundation

As in most entrepreneurial/small business endeavors, the foundation and mission of the firm are closely aligned with the backgrounds and interests of the principals. InterMatrix is no exception. Both Dauman and Morris have extensive experience in the areas of corporate affairs, government relations, corporate social responsibility programming, and strategic planning. A third principal, Chief Operating Officer and European Director Richard van den Bergh is a specialist in finance and banking, country assessment and socio-economic issues.

Prior to founding InterMatrix, both Dauman and Morris worked with IBM United Kingdom Limited where their responsibilities centered on the creation and implementation of planning and measurement providing the social and political inputs necessary for sound corporate planning. It was during this period (mid-1960's to early 1970's) that the primary concepts and mode of operation for InterMatrix were formulated and tested.

Philosophically and conceptually, InterMatrix is founded on two key principles or ideas. One is that a multinational corporation has a "social responsibility" in that it is obligated to work with governments and other responsible agencies to solve major problems. Not only does this obligation have moral implications, but it is sound business policy. The second, related idea is that an interdependence exists between a corporation and the larger set of social, economic, political and cultural systems in which it operates. Everything is connected. The implication is that a corporation cannot act solely to maximize its own narrowly perceived self interest, but must see itself as an integral part of (as opposed to apart from) this larger system, and so must integrate external events and developments into its strategic planning process.

The principals also recognized that MNC's need a healthy small business sector. This lead to their further involvement in working as an intermediary, and providing assistance in technology transfer and management systems programs. They also recongized that much of their work with MNC's was applicable to small and medium-sized businesses, and that these companies require "hands-on" assistance. The recognition of these needs led to their becoming increasingly active in an intermediary capacity, and ultimately to the formation of InterTrade USA.

For many professionals working in the area of corporate relations today, these ideas may be taken for granted. However, ten years ago the nature of the relationship between the MNC and these external systems was neither well recognized nor translated into practical business decision-making processes or strategic planning programs. In fact, this was a period of great upheaval and transition in the area of external relations. It was a time when MNC's were being severely criticized and blamed for creating all types of problems, when "systems thinking" with its notions of environmental rapport was coming into vogue in business; when corporations were being forced to confront the "non-business" effects of their decisions and operations; and when public relations as a minor business function was being superseded by corporate affairs or external relations departments with a broader perspective and range of responsibilities.

It was in this new environment of change and transition that Dauman and Morris launched InterMatrix. They recognized that corporations were being increasingly required to manage their external relations in a more disciplined, systematic manner, and they also recognized that many corporations lacked the capability to perform effectively in this complex area.

In formulating their consulting approach, they adopted the discipline of finance as their model. That is, the use of detailed research based on professional methodologies, and the extensive use of both qualitative and quantitative data. This information is properly organized and presented in various formats that will assist management in strategic planning and decision-making, and also includes the use of measurements and controls to assess the effectiveness of plans and programs. This approach represents a radical departure from the older "public relations" notions that held away in this area for many years -- that is, a shift away from "image" towards substantive programs and strategies designed to achieve specific results. This is made evident by the fact that a significant portion of InterMatrix's work is with strategic planners and line executives.

2. OPERATING PROFILE

The InterMatrix Group is an international partnership providing independent assessment, research, counsel and project assistance in the field of trade and investment, corporate strategy, international affairs and public policy.

Specifically, InterMatrix helps its clients to:

1. Identify, evaluate and develop specific business opportunities.

2. Recognize, anticipate and interpret the full range of external developments affecting clients' activities worldwide.

3. Identify issues of priority concern, evaluate the implications, and integrate these into the organization and

strategic planning/decision-making process.

4. Design and implement systematic internal approaches and mechanisms for strategic planning and strategic management, and to monitor the external environment/changes on a continuous basis.

Its data base services include monitoring of some 55 countries in eight geographic regions worldwide on such diverse topics as political stability and risk, industrial and market structure, industrial policy, labor disclosure information, legal and regulatory environments, changing social values and many others. It also carries out a wide range of client-specific country assessments for market entry strategies and operational decisions.

In addition, InterMatrix operates in a variety of industries, ranging from banking to heavy engineering, telecommunications and retailing.

InterMatrix clients include approximately 30 multinational corporations, including IBM, Xerox, American Can, Citibank and many others, as well as several government and international agencies such as UNIDO and the World Bank.

New clients are attracted through a variety of means, the primary avenue being word-of-mouth referrals from existing clients. Another is through conferences and speaking engagements which often yield prospects that can be developed into clients. A third method is cold contacts, usually by letter and specifically focused on particular industries and organizations (banks and high-tech companies, for example).

Another method is to try and tie either new or existing clients to research projects as both sources and users of information. This allows the cost of research to be spread over a number of participants, lowering the cost and increasing the likelihood of an engagement.

The process of client development (i.e., sales) generally follows a standard industry pattern for the sale of customized intangibles. The process generally starts with an initial meeting in which the InterMatrix executive "tells his story," that is, he describes the organization, the type of work currently underway, forms of assistance rendered to other clients and benefits of this work. At the same time, the InterMatrix executive tries to find something the potential client needs. Generally, the objective is to carve out a small project that would provide an opportunity to work with this organization. By keeping the initial project small, the chances of "getting in the door" are increased.

However, several difficulties may be encountered in the selling process. One is that the potential client does not recognize the need for the service. Thus, one has to first sell the need and then sell the service to meet this need.

Another is the necessity to sell internally in the organization. This difficulty may arise in two forms. One is when the contact is made too low in the organization, where the individual does not have the proper level of decision-making authority. In this case the InterMatrix executive has to "sell" an additional meeting at the proper level. A second case is the opposite: the contract is made at the proper level, but the decision-maker is reluctant to give a "go ahead" without the concurrence of those department executives who would be most affected by the project. Here the selling effort must be directed towards securing the support of these executives for a project.

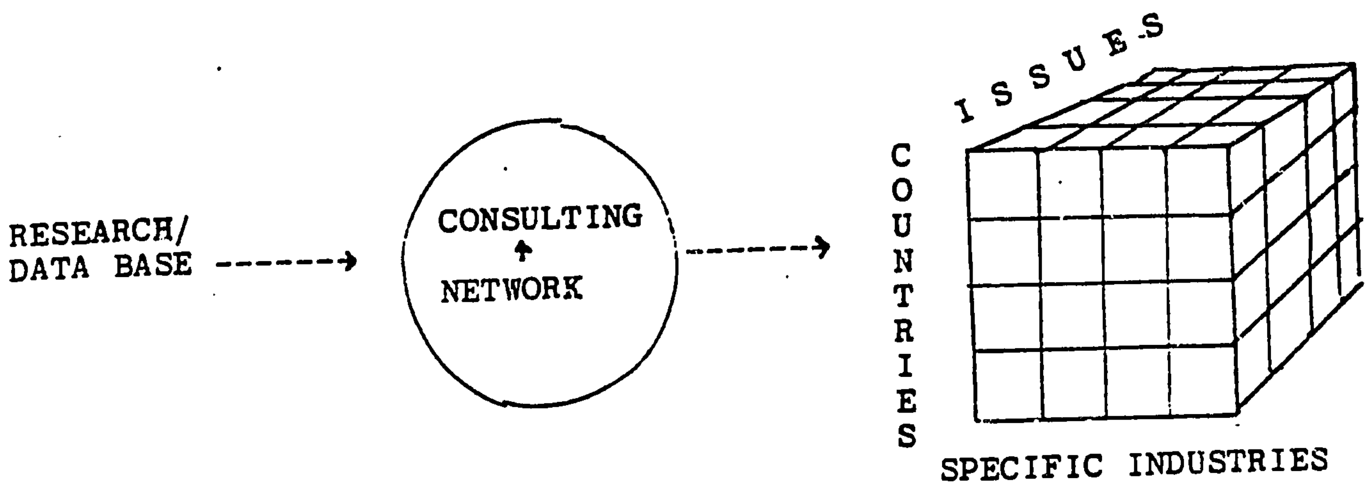
Overseas, the selling process is even more difficult and time-consuming. Generally, business is conducted on a much more interpersonal basis in countries outside the U.S.. This means added time and expense. In fact, Dr. Dauman's first trip to a new area is non-business in the sense that a greater degree of familiarization with the country, industry characteristics, personalities and other factors is required prior to initiating any substantive discussions regarding projects or services. Thus the expense of overseas client development is often prohibitive: multiple trips are required; distances, air fares, and related expenses are greater; more time is involved; and the opportunity cost is correspondingly greater. One approach for minimizing this existing expense, of course, is to tie client development work to an existing project so that some of the air fare and other expenses are borne by the project and incremental costs are borne by the organization. The assumption is that the firm has a project in the region.

Fee Structure

Essentially, InterMatrix bills on a time-based fee-for-service basis. However, it has several "performance-related" contracts currently in process. This represents a change from their traditional practice and is consistent with a shift to the intermediary role. The fee structure recognizes different classification of work and expenses are normally billed separately from time. Overhead is included in the hourly rates for different types of work. For example, consulting work may be on an hourly, daily or retainer basis. Rates range form $800 to $1,400 per day for senior consultants depending upon the nature of the work and the client's expectations. For example, overseas clients are not used to paying higher rates and so these must be adjusted. In addition to consulting time, other classifications of work include research time and administrative time (i.e., time required to extract information from the data base and organize/present it in a way that meets the client's requirements.

3. EXAMPLES OF PROJECTS

InterMatrix sees its research and data base as inputs into its consulting activities. It also has the capability of selling information as well as tying this information to its consulting and network affiliates. The following diagram illustrates these relationships.


RESEARCH/
DATA BASE
CONSULTING
NETWORK
ISSUES
COUNTRIES
SPECIFIC INDUSTRIES

One recent project involves an "opportunity scan" where an MNC requests assistance in identifying services businesses in the Far East in which it could invest and which would be compatible with its U.S. business. However, the MNC set up so many qualifications and constraints regarding the type of firm they were looking for that all potential candidates in this region were excluded. However, InterMatrix devised a novel solution to achieve the client's goals. This was to set up a venture capital fund, administered partly through existing institutional mechanisms and partly by establishing mechanisms where none existed. Thus, for a $20,000,000 investment (maximum), the MNC has an intelligence capability in place in the Far East with smaller funds in each of the ASEAN countries. This fund is also supported by the IFC/World Bank and others; however, this client is the major investor. The client is now negotiating investments in venture capital funds in Korea, Taiwan and Hong Kong, and InterMatrix is involved in these negotiations. Ultimately, the client will be involved in helping small businesses in nine countries with linkages to U.S. businesses in the areas of technology transfer, distribution systems and more. InterMatrix's role spans the entire process from concept formation through implementation.

At the same time, through an education and familiarization process, the client learned that its investment parameters were too limiting and unrealistic for the region. A relaxation of these constraints led to the identification of four opportunities for potential acquisitions. In this case, if an investment is made, InterMatrix receives a performance fee for its work as an intermediary.

InterMatrix also has entered into and $80,000 project with the Small Business Administration. This project is designed to test the viability of various public/private sector partnerships where the SBA and other agencies link up with medium-sized companies to create healthier small businesses. This includes such approaches as science parks and data services, and represents ways of providing small businesses with resources and services they could not afford to obtain on their own. InterMatrix has more than 15 years of experience in this area, having worked in the U.K. over the years in various programs that linked large MNCs and others to smaller enterprises.

Other intermediary-type work includes seminar programs to showcase opportunities in various regions. This is a forum for companies to get together to explore areas of mutual interest. Spain, Taiwan and Korea have participated in programs in which representatives of local companies have an opportunity to sit down with those of U.S. companies to begin a process leading to greater cooperation and expanded business relationships. This is in addition to working with partners (12 potential opportunities are being considered); contact work and bridge-building through the InterMatrix network (50 opportunities); and the personal activity of the principals.

Currently, project negotiations are underway in the following areas:

- Supplying U.S. navigational light equipment to the U.K.
- Finding and negotiating an acquisition or joint venture in the Far East in financial services for a U.S. financial services company.
- Representing a Swiss ophthalmic product for worldwide markets, starting with the U.S..
- Identifying a U.S. disk drive manufacturer to license technology or to joint venture in South Korea.
- Setting up a Far East distribution network for a consumer electronics manufacturer.
- Advising on Far East sourcing for consumer electronics products to be distributed through U.K retailers.
- Advising on setting up an ETC for a specialized product line for a group of U.S. companies.
- Licensing for the U.S. market a U.K. ship communication system.
- Advising on a telecommunications equipment joint venture in Saudi Arabia.

4. PLANS FOR THE FUTURE

InterMatrix's plans include continuing its consulting business both by increasing services to existing clients and by expanding the current client base.

In addition, they have started to leverage the information available through their extensive data base monitoring services by subcontracting the publication of monographs and reports, and distributing these to fee-paying subscribers. This also represents a marketing strategy as subscribers become familiar with InterMatrix services and so can become clients for more refined research and consulting activities.

InterMatrix will also seek funding for researching major issues in the international business environment. Three potential areas are the government's use of MNC's as instruments of foreign policy, protectionism, and industrial policy.

New offices are planned for Seoul, Taipei and Ottawa.

The most important area of expanded business activity is the identification of specific business opportunities and project brokering which includes taking the project through to completion. Some of this work, particularly for small and medium-sized businesses, will likely be taken on under the aegis of InterTrade, should financing be secured. InterTrade is the subject of the next section of this report.

5. INTERTRADE USA, LIMITED

By virtue of the fact that InterMatrix has been operating in the international business environment for ten years and because the principals are entrepreneurially-oriented with a personal history of acting as intermediaries, many opportunities to function in this capacity arise in the normal course of doing business. In addition, over the past twelve months, InterMatrix has carried out five assignments to identify specific diversification and acquisition opportunities for U.S. and British firms. The new service "opportunities scan" is likely to increase substantially the Group's intermediation activities in the near future.

InterTrade is specifically focused on the needs of small and medium-sized businesses that lack the resources and expertise to operate in the international business environment. According to the business analysis and plan contained in a private offering circular to raise some $1,500,000 to capitalize this venture, American manufacturers with less than $150,000,000 in annual sales are underrepresented in international markets for the following reasons: lack of international experience, a perceived lack of need to export, lack of international distribution skills, lack of government support, lack of administrative know-how in international trade, and a lack of "critical mass" to justify an international effort and its associated costs.

At the same time, there is an increasing awareness of the need on the part of U.S. manufacturers to become more active in international markets both to increase their competitiveness at home and to realize new growth initiatives. Also, the importance of the small business sector in creating new job opportunities and as a support/supplier network for large multinationals is increasingly realized. There is also the recognition that the small and medium-sized business sector may offer a viable alternative to the predominance of large multinationals in U.S. government development programs and goals.

All of this suggests that a window of opportunity is beginning to open for these firms, and that many of them require a specialized type and source of support to meet their needs. It is InterTrade's purpose to provide this necessary support through a full-service trade and export management organization. InterTrade proposes to provide the following services: Export Sales and Services, Import Sales and Services, Countertrade Services, and Information and Consulting Services. Consulting services include: export audits, market identification, foreign exchange management for buyers and marketers, overseas sourcing and production transfer, and market information on products, legal/regulatory environments, competition, doing business, political/economic factors, foreign exchange, etc. International trade management services include export and import management, sales representation, selection and supervision of agents and distributors, market analysis and advice, overseas component sourcing, barter and countertrade, production transfer, technology transfer, joint ventures, licensing/franchising, financial services, currency forecasts and technical support services.

Initially, InterTrade's strategy is to work with small and medium-sized manufacturers in New England, and to work in selected product categories (electronics and computer-related products; energy saving/pollution control devices; medical/surgical/dental devices, including hospital equipment; marine equipment; and precision controls and valves).

InterTrade has already identified some 550 potential customers from an initial base of over 10,000 manufacturers, and has assessed this group in terms of increased export potential. Preliminary discussions have already been initiated with distributors, agents and overseas manufacturers who are potential components sources. Recently, InterTrade negotiated an agreement with a sourcing and production transfer company based in Taiwan which covers the entire Far East region.

<u>Compensation Structure</u>

InterTrade expects to earn revenues on the basis of both fees and commissions. Fees would be for direct, consulting-type assistance while commissions would result from the total sales managed by InterTrade (both imports and exports). Generally, these fees range from four to eight percent for a company acting as an agent, and ten to twelve percent for a company acting as a principal. Thus, for every $1,000,000 in total sales managed by InterTrade, it expects to generate $60,000 in revenues. Financial projections over a 10 year period show a growth in total managed sales volume from $1.55 million in year one to $65 million in year five, and $167 million in year 10. Should these projections be realized, InterTrade would become a $10 million per year business in 10 year's time.

Current Situation With InterTrade

While the principals are trying to raise the money needed to implement an ambitious business plan, InterTrade USA, Ltd. has been formed and is now engaged in several small projects. It has already been approached by a number of small and medium-sized companies who would be customers, but it cannot handle this demand until it is properly financed and staffed.

6. INTERMATRIX'S CONCLUSIONS ON INTERMEDIATION

The Role of the Intermediary

It takes commitment to make a deal work. Follow-up and communication are extremely important. The intermediary must know the country, the market, the companies and principals involved -- it must know the entire industry. It must be able to put a deal together that will benefit all the parties.

Multi-sourcing and multi-validation of information should be standard operating procedure. These are principles of military intelligence and they apply here. Along these same lines, there is always the risk of having a contact take a client away. Therefore, you have to set the reward or compensation structure and the ground rules up front.

The top people in one firm must establish a rapport and solid communication with the top people in the other firm. Matching the size of the firms involved is also a factor. There are numerous problems involved in trying to match a large multinational, for example, with a privately-owned smaller company. The bureaucratic norms and regimen of the large company are often at odds with the less formal and more fluid style of the smaller firm. You have to be patient and then be prepared for action once the decision has been made. Putting a deal together can take a long time, especially when it involves the promise of an ongoing working relationship, and this is where commitment and follow-up are so important. It's very easy to lose patience and give up on the deal.

You can't do it remotely. You must operate face-to-face. Telephone conversations, telexes, letters, etc. are all supplemental, but cannot substitute for the personal contact that comes with face-to-face meetings.

The Skills of the Intermediary

Cross-cultural skills ar probably the most important. The ability to be culturally sensitive, to have a feel for the other's background and philosophical orientation is much more important than industry knowledge. Industry or product knowledge and information from experts can always be bought. The person who is culturally sensitive and can operate effectively in a culture is much more difficult to find.

This does not mean you can be ignorant of the market and industry. You have to know what you are talking about in order to build credibility and trust with the people involved.

Operating at the correct peer level is also important. It's often difficult for someone in their early 40's, for example, to work with a man in his 60's or 70's who has built a company from scratch, especially in those cultures in which age itself has a certain status. However, there is a new generation of people taking over, people who have been educated in the U.S., often at the best business schools. It's much easier to work with these individuals than it is with their fathers.

Also, the "P.R." days are over. In the past, the typical deal-maker has been a person with a lot of contacts who may play a minor role in a deal. Contacts are still important, but much more is required now, especially as the international environment becomes more complex. The effective intermediary must develop a holistic approach and perspective that encompasses a myriad of systems at many different levels.

The Future of International Business Relationships That Involve Small and Medium-Sized Enterprises

There is a lack of experience and expertise in the small and medium-sized companies as far as international business is concerned. In the past, these types of companies have not had a real need to export or to become involved in overseas sourcing of components. The U.S. market has been big enough and healthy enough to sustain their operations. Export, for example, is often perceived as a stop-gap measure during times of economic downturns. As soon as things pick up again, exports are forgotten.

Thus, one of this big obstacles to involving small and medium-sized firms in the international sphere is a set of human factors: lack of familiarity, fear of the unknown, laziness, ruling out options before they have been fully explored, and the general resistance and reluctance to deal with the new and unfamiliar.

Along these same lines, the small companies lack expertise and the administrative know-how for international trade. Often, the company is not large enough to justify the increased effort and expense required to support an international development program.

This is why InterTrade was established -- to provide the kind of assistance small and medium-sized businesses require to operate internationally.

It's certainly the case that the international environment is getting tougher and more complex.. In the past, the focus has been on the large multinationals. These organizations operate on a level that the small firm cannot relate to, in the sense that MNC executives are dealing with high-level government officials on programs or projects that can have major impacts on the country's employment, economy, social systems and the like. In effect, the environment has been preconditioned by these types of arrangements and so the rules are often so complex and, too often, overly restrictive that the small firm just can't play in the game.

However, international business is a huge, multi-billion dollar market with many opportunities for small and medium-sized businesses. There are many bright spots in the overall picture. There is a lot of communication and education going on. There is a good atmosphere as the value of the small and medium-sized business is becoming recognized, especially in terms of the creation of jobs. Also, these small businesses are less threatening by virtue of their small size and individual impact.

This level of development is an important one with many benefits for both the industrialized and developing countries, and the fact that USAID is sponsoring research in this area is a clear indication of a recognition of its importance. Presently, there are too few intermediaries and growth in this area will have a leveraging effect on the whole.

Intermediaries Operating in the Small and Medium-Sized Business Sector

The international environment is getting more complex and difficult. This is especially true for those small and medium-sized firms that lack experience and expertise in this area. Thus, there is a greater need for intermediaries who can provide "hands-on" assistance to these small companies in a variety of capacities. These intermediaries will have to be more skilled and knowledgeable than those who have operated in this area in the past (the "P.R." types). They will have to focus more on the task of bringing the parties together and creating an environment or atmosphere that is conducive to success. They will have to manage the interaction at various points along the way and have sufficient commitment to stick with it, even when there is seemingly no progress being made.

In a fast-changing environment, access to accurate information regarding what is changing is crucial. Thus, intermediaries in the future will be forced to establish their own information systems and monitoring programs, or may buy this service from another firm.

Intermediaries will have to become more creative and entrepreneurial. They will have to be risk-takers as their compensation is most likely to be based on performance and the success of a deal. They will have to be creative in finding new ways for their clients to achieve desired objectives in an environment that can be very constraining and often overly controlled or protected.

There is a need for more non-financial people in this area--people who can see beyond the numbers. There is a great need in this area for skilled people with broad geographic and skills capabilities.

UPDATE AND CONCLUSIONS AFTER ONE YEAR (1985)

The InterMatrix Group is composed of five separate incorporated operating companies under the overall umbrella of Intercorporate Services, S.A., a Swiss corporation. When the initial case study of this group was prepared, a new entity, InterTrade USA had been established and was coming on stream. InterTrade was specifically designed to focus on the international needs of smaller and medium size businesses, and proposed to provide a "full service" trade and export management organization that encompassed countertrade and consulting services as well.

Since that time, InterTrade has found that demand for its various services has been uneven in the sense that smaller and medium size companies are more interested in reducing costs or production than they are in the export/import/countertrade areas. For example, InterTrade recently held a seminar on overseas sourcing for U.S. firms and sent out a general mailing to companies in Connecticut. Their expectation was that maybe 15 or 20 firms would be represented. In fact, 91 firms participated with one-third demonstrating serious interest in taking some next steps.

A second significant area of business activity for InterTrade is their involvement in importing consumer goods to the U.S., primarily from India and Italy at this point. What they are finding is that foreign firms seeking access to the U.S. market are often stymied by their lack of knowledge and contacts, as well as by being somewhat overwhelmed by the size of this market both in terms of potential volume and geographic distances. InterTrade can provide a variety of information services such as market research and industry standard practices, as well as more direct contact work in terms of tying foreign producers into established U.S. marketing, sales and distribution systems.

In effect, InterTrade appears to be evolving along consulting lines as opposed to functioning as a trading company. One reason for this is the substantial financial resources required to support the large volume of trading needed to generate any significant revenues for the firm. As the margin on trading is generally low and revenues result from the volume of transactions, the cash flow required for both financing purchases and waiting to get paid (not to mention the risks of losses associated with some transactions) generally bars smaller intermediary firms from playing a major role in this area of activity. At the same time, the firm is expanding its network and has identified a group in Asia that is a candidate to become part of the InterMatrix Group. This will provide a global presence in the major business sectors of the world: Asia, Europe, the U.S., and Latin America.

The Group is embarking upon a new information service/marketing approach for small and medium-sized businesses in the form of practical manuals for companies that are interested in specific countries. Ten of these country-specific "how to" looseleaf manuals are in the process of being published, and they are updated as conditions warrant.

Looking to the future, Dr. Dauman sees a growing recognition of the globalization of markets and technology and so is optimistic about the growth and value of intermediary services. He is, however, experiencing a similar problem to other intemediaries in that foreign firms are not used to paying for these types of services. In many ways, the <u>concept</u> of paying for services is alien in most developing countries. Where payment for work performed is related to the success of a venture, the expense and extended time required for most ventures to reach fruition (four years or more in many cases), as well as the risk involved, works against the commercial viability of intermediary services. Somebody must pay for this work and related expenses as it is unreasonable for intermediaries to fund the expenses, perform the work, bear the risk, and wait perhaps years for a return that may never come.

Some developing countries have products that may suit market niches in the U.S. and other developed countries, and Dr. Dauman believes that his group is in a good position to facilitate these types of opportunities by virtue of their knowledge of these markets and countries. He is quick to add, however, that the process of business development is time consuming and difficult. It has been his experience that there is more money available for financing deals than there are good deals to finance. This does not mean that more marginal deals are undertaken, though, as there are many other avenues in the U.S. and other developed countries for investments. Government policies, hassles, red tape and negative perceptions and attitudes toward business in general can be a significant deterrent to the development of private sector initiatives in the developing world, and the dichotomy between Africa and Latin America on the one hand compared to Asia on the other illustrates this point.

DATA SHEET

ORGANIGATION: BOLES WORLD TRADE CORPORATION DATE: 1/24/84

ADDRESS: 1521 New Hampshire Avenue, N.W., Washington, D.C. 20036

TEL: 202-332-2300 TYPE ORGANIZATION: Privately held, for profit

INTERVIEW WITH: Dr. Lo Christy POSITION: Vice President

WHEN FOUNDED: 1979 ANNUAL GROWTH RATE: 400% annual compounded

TOTAL REVENUES: $60 million (1982) EXPENSES: N/A

NO. FULL TIME EMPLOYEES: 350 P/T: N/A

NO. LOCATIONS/OFFICES: 35 Subsidiaries in 15 countries

REGIONAL/AREA OF CONCENTRATIONS: Worldwide

NO. COUNTRIES: 35-40 INDUSTRY SPECIALIZATION: Food products, beverages, paper/printing/packageing, office automation products

NO. PROJECTS SINCE INCEPTION: 12 T2 NO. CURRENT: 3 T2

TYPE OF CLIENTS: U.S. and other governments, manufacturers, distributors

TYPES OF PARTNERS/AFFILIATIONS: U.S. and foreign financial institutions

IS INTERMEDIATION PRIMARY OR SECONDARY: Primary

ESTIMATED ANNUAL REVENUES FROM INTERMEDIATION: $70 million (1982)

MAJOR OPERATING PROBLEMS/CONSTRAINTS TO GROWTH: Entry into new areas which requires marketing information, intelligence, industry knowledge, establishing a presence in a region/country, financial growth.

COMMENTS: Boles World Trade Corp. is a trading compnay that is moving into the area of technology transfer/trading in know-how. Initial concentrations in light industy, agriculture, health-related areas. This company underwent a major upheaval in 1984 and 1985 and by October of 1985 was in reorganization under the bankruptcy laws.

B. BOLES WORLD TRADE CORPORATION

I. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Boles World Trade Corp. (Boles) is unique in that it is a large, U.S. based general trading company. It was founded in 1979 by its present Chairman and Chief Executive Officer, John M. Boles, after an extended study and planning period (1972-1979). It was during this period that Mr. Boles had the opportunity to observe the structure and operations of large Japanese companies, and to form the business strategy for the subsequent development of Boles and company.

The company is generally patterned after the model of traditional, large Japanese trading compnaies and has grwon from $369,000 in annual revenues in 1979 to over $60 million in 1983, a 400 percent annual compounded growth rate. The company employs 350 people full time and has 35 subsidiaries in 15 countries. It specializes in food products, beverages, paper/printing/packaging equipment and supplies, office automation products, and other products generally classified as "light manufacturing".

The company recently established Boles Technology Transfer Group (TTG) that provides research and planning, implementation assistance, and training to governments and private enterprises. This group is under the direction of Dr. Lo Christy who provided much of the information upon which this case is based.

The integration of TTG into the overall Boles structure provides a comprehensive range of services and capabilities in international trade, technology transfer and economic development, and represents a further articulation of the "one stop shopping" corporate development concept.

As trading companies such as Boles are virtually non-existent in the U.S. and so are unfamiliar, it seems appropriate here to generally describe this type of business as it is represented by this company. A primary characteristic of a trading company on the Boles' model is that it is "market driven". This means that it first seeks out markets (i.e., needs or demand), and then seeks out sources of supply to satisfy this market. This approach differs from that of an export management firm, for example, which alrady has a product it provides and so has to look for specific markets for these products. The fact of already having a given product severly constrains their search activiites in seeking markets. Boles, on the other hand, is not tied to any specific product, and so its perspective on the world is much broader, less constrained, and open to general market opportunities that could be satisfied with the proper sourcing.

Another important set of characteristics descriptive of this general trading company is contained in the following quote: "It is an integrated financial institution that has the ability to move products, services and currency on multi-lateral basis with equal facility in and out of hard and soft currency countries." The implication is that a trading company must be completely transnational with neither allegiance to sources nor countries. Again, the basic concept of being "market driven" can be recognized here.

A third important characteristic of a trading company is that it takes title to goods. By doing this, it increases its risks and must also have access to capital to finance these purchases. But at the same time, it also earns a higher margin on transactions compared to an export management firm, for example, that primarilly acts as a broker and not a principal.

Another characteristic is that a trading company must establish and maintain a physical presence in those regions and countries in which it operates. Firsthand, immediate information is the "life blood" of a trading compnay, and there is no way to obtain this type of information without establishing a global presence. Mr. Boles' concept of his company as a "confederation of entrepreneurs, each a specialist in some commodity, product line, market or transaction... who are bound together by the company's communication system," illustrates the importance of timely information and the ability to communicate this quickly and efficiently throughout the company.

Boles differs from traditional Japanese trading companies in two major respects. Where Japanese companies tend to integrate backwards toward the source of supply and have a desire to own natural resource companies, Boles has no interest in owning anything as this would violate the primary concept of being market driven. Once a trading company owns a source of supply, it it locked into finding markets for these products, and so loses a degree of flexibility in its approach and operations.

The exception to this market driven philosophy ocurrs in countries with foreign exchange difficulties and the resulting import tariffs. The availability of foreign exchange or its equivalent as a prerequisite to international trade necessitates the creation of foreign exchange producing capabiliities in each country. Boles Technology Transfer Group specializes in trade related foreign exchange development through the introduction of value added processing of local products and the formation of trading companies for export promotion and productive enterprises for regional development.

Another major difference is that Japanese trading companies form very close associations with a primary banking partner (that may also have an equity position in the trading company). This gives the trading company "purchasing power," and also provides a means for the trading company to take an equity position in those companies from which they buy. This not only cements the relationship, but also provides a source of funding for growth.

However, until the recent passage of Export Trading Company Act of 1982, banks were not allowed to invest in trading companies in the U.S. The passage of this act, which is credited in a large part to Mr. Boles' testimony before Congress, eliminates two growth constraints in this industry. It allows banks to make equity investments in trading companies (up to $10 million and 25 percent ownership without prior regulatory approval), and it also allows domestic competitors to join in an export effort without fear of violating U.S. anti-trust laws. These changes in the statutory restricitons have encouraged financial institutions to study the possible formation of their own trading company or investigate business relations with emerging trading companies.

BUSINESS LOGIC

Given the fact that large trading compnies are not part of the American business tradition, it's logical to explore the underlying idea for a U.S.-based trading company, and how Mr. Boles perceived this opportunity.

During 1979, Mr. Boles founded and operated an international consulting company (Boles and Associates, Inc.) which provided him with an opportunity to study the structure and operations of large Japanese trading companies. At the same time, he also observed a kind of "breaking down" of the U.S. as a self-contained market which it has been historically. Many European and Japanese firms, especially those in steel, autos and electronics, considered the U.S. as their market and an integral part of their global business strategy. Domestic manufacturers began to realize that foreign firms doing business in the U.S. were not going to go away, and like it or not, domestic businesses were engaged in international competition (even though they may only have been producing and selling domestically).

This breaching of the U.S.'s traditional hegemony as a self-contained market (with its associated increase in competitive pressures on domestic producers) had a further effect -- it forced U.S. producers to look outside their traditional markets to see where they might realize a competitive advantage overseas. In effect, a shift away from nation state towards a "one world market" was underway, a potentially healthy environment for a trading company.

In fact, one of the reasons often cited for the lack of trading companies in the U.S. is that the domestic market has always provided sufficient demand, growth, natural resources, capital and labor so that domestic producers had little need to trade or to develop overseas markets. Japan and Great Britain, as island nations, had to trade in order to survive and trading compnies evolved to meet this basic need.

Another observation that provided the foundation for Boles was that world commerce was becoming more market driven and less product driven. Product driven companies prosper when they have a proprietary technology or product monopoly that is in high demand (U.S. manufacturers of jet aircraft, for example). However, this unique position only lasts for a limited time before others take the basic idea and begin to modify it to suit local or regional requirements.

There is a paradox to be recognized here. That is, as world commerce becomes more transnational and global on the one hand, the market-driven characteristic of this development creates highly specialized "micro markets" on the other. These markets are crated as products are modified to meet diverse needs. Again, this is a health environment for a trading company that is not tied to any particular product or source, and can link these micro market opportunities to innovative producers who can adapt to these market needs and conditions.

A third important observation was that many small and medium size businesses in the U.S. do not have the experience and resources required to do business overseas, yet these companies are often the most suitable partners or suppliers for micro markets overseas (as suppliers of technology, management expertise, components, or semi-finished goods). In fact, one of this company's first ventures was to ship California wines in bulk to England where the product was bottled and then distributed duty free throughout the common market countries.

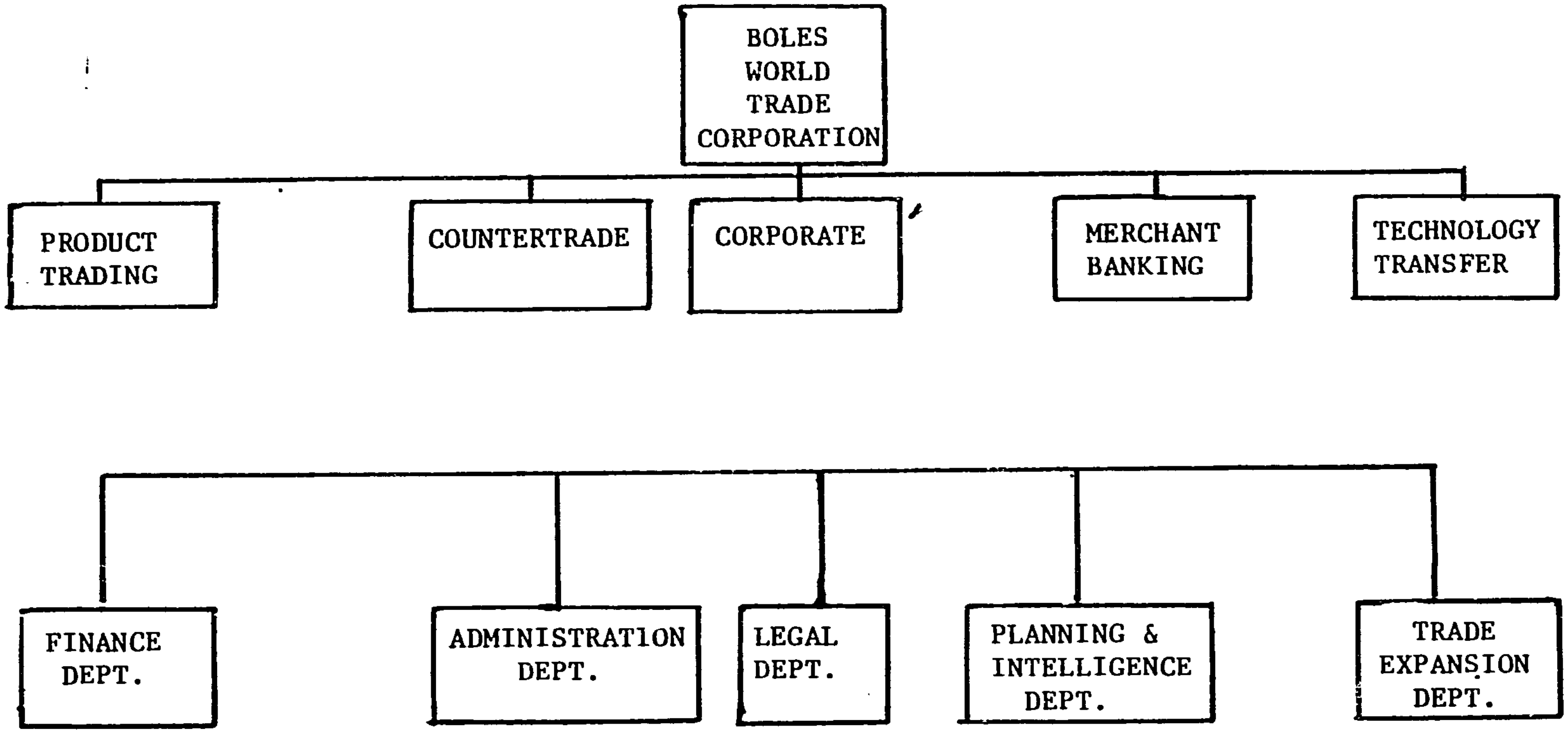
Thus, the founding idea and business logic for this company resulted from several important observations of changes in the nature and structure of world commerce, as well as from a sound understanding of long-established and successful Japanese trading companies.

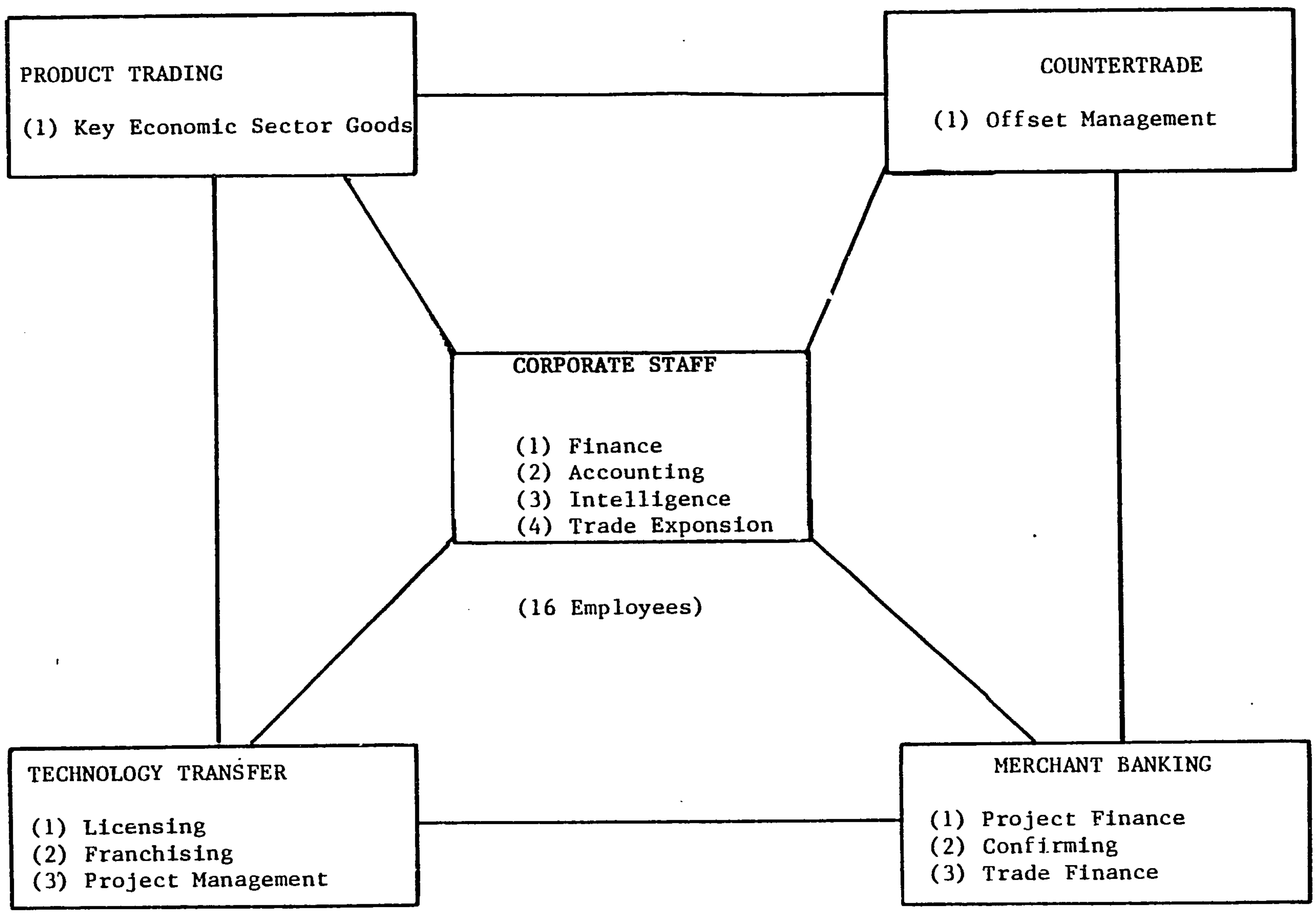
2. OPERATING PROFILE: ORGANIZATION AND SERVICES

In order to function effectively and be successful, a trading company requires, among other things, immediate market information (both needs and sources of supply), the ability to communicate this information rapidly and efficiently throughout the organization, and individual traders who are knowledgeable specialists in some commodity, product line, market and/or type of transaction. It also requires large amounts of short-term working capital to finance the "float" between purchases and sales, and also incurs substantial overhead expenses to maintain its overseas presence/branches.

Thus, one way to look at Boles is to see it as a network of specilaized functional groups all of which serve a vital need in the overall structure and operation. Boles World Trade Corporation is the primary trading/operating entity. It is geographically organized to reflect its global scope. The Boles' operating organization in each country is separately incorporated with overall regional integration provided by main offices in London, Hong Kong, San Francisco and Washington. The diagram on the following page illustrates this organization.

BOLES WORLD TRADE CORPORATION
STRATEGIC BUSINESS UNITS &
CORPORATE DEPARTMENTS




PRODUCT TRADING
(1) Key Economic Sector Goods
COUNTERTRADE
(1) Offset Management
CORPORATE STAFF
(1) Finance
(2) Accounting
(3) Intelligence
(4) Trade Exponsion
(16 Employees)
TECHNOLOGY TRANSFER
(1) Licensing
(2) Franchising
(3) Project Management
MERCHANT BANKING
(1) Project Finance
(2) Confirming
(3) Trade Finance

Boles World Trade Corporation engages in import, export and third pary transactions as well as countertrade. Major product groups include bulk food commodities, processed foods, beverages, data and telecommunications equipment, reconaissance cameras and other defence and security products. The company is expanding into chemicals, non-ferrous metals, minerals, machinery, medical equipment, pharmaceuticals and energy products.

Boles BanCorp, an international merchant bank, provides project financing for the Technology Transfer Group and other projects, as well as providing general trade and countertrade financing. In 1984, Boles BanCorp planned a major thrust into international trade finance (confirming).

The Trade Expansion Group is a kind of "catch-all" that deals with non-routine trades that fall outside the normal product lines. This group provides a method for capturing this non-routine business, and also provides an intelligence gathering/evaluation function for the company as a whole as it may become involved in high-growth opportunities that can later be shifted into the general trade operation should volume be sufficient to devote greater attention/expertise to this new area.

The Technology Transfer Group (TTG) provides consulting, implementation assistance, training and contract management services. Consulting includes performing feasibility studies, market surveys, pre-investment analysis, and specific problem solving interventions. Implemenation or development assistance includes structuring joint venture agreements, licensing of proprietary technologies, franchising, and the construction of turnkey operations. TTG also may enter into a management contract to operate these plants and projects.

As the transfer and utilization of new technologies requires a concentrated effort in developing management and technical skills on the part of the users, TTG provides custom tailored, industry or company specific education and training progrms that are designed to impart the comprehensive range of skills required to manage new technologies/businesses effectively.

Boles also assists large multinational corporations in managing their offset programs. An offset agreement involves finding markets for a country's goods to offset those being imported. For example, a country that purchased, say $10 million in defense equipment from a U.S.-based multinational would include as part of the contract the export of $10 million (or more) of agricultural products that the MNC would be responsible for helping to sell. Offset agreements and the responsibility for marketing exports generally fall outside the MNC's area of expertise and are perceived as "bothersome," so this is potentially a promising source of revenues for Boles as these types of agreements become more popular. revenues for Boles as these

PRICING STRUCTURE:

As a true trading company, Boles World Trade Corporation seeks to work on both the import and export sides in those countries and areas in which it operates. The prevailing perception of management is that one-way trades are too limited and no longer work. Often, trading requires working "three-legged" deals in which a third country enters into the transaction. For example, an export of commodities from the U.S. to the Philippines with an export of Philippine lumber to Korea, and an export of Korean textiles back to the U.S. This concept allows Boles to make money on both the import and export sides of these transactions, and also allows a greater flexibility in facilitating these trades as money does not have to be made on every leg of the transaction as long as the overall deal is profitable. Attention to detail is essential where a greater number of variables occur in multifacedted trades.

Margins on various types of trades range from a low of two to four percent in food products to 50 percent and more in high technology products. However, this high margin may be deceiving as it often takes a longtime to put a deal together where high technology products.

Payment arrangements are varied and quite flexible. Boles may make payment in goods if a known market is available for them. Fee for service payments are another source of revenues. These fees may be related to managing an offset program, arranging financing, providing collection services, and in the case of TTG, consulting and project performance fees. The nature of this business is such that "creative financing" is an important skill area.

OPERATING/GROWTH CONSTRAINTS:

There are a variety of factors that may adversely effect operations and act as growth constraints for this company. One is the cost of setting up and maintaining the offices required to establish a physical presence in the many markets and countries in which Boles has an interest. This cost, which includes normal brance office overhead, salaries, and corporate overhead required to provide the necessary support and communications (including travel) requires a volume of between \$50 - \$250 million in annual revenues to break even, depending on product mix and gross trading margins.

A second and related problem is the difficulty of raising capital. As this is a service company that lacks extensive fixed assets to provide collateral, it faces the same problems as other service companies when it comes to borrowing from a bank. This problem is further compounded by the fact that trading companies are virtually unknown in the U.S., and this presents an additional handicap when it comes to securing traditional sources of financing. Mr. Boles has, however, secured several million dollars in equity financing from European sources where trading companies are more familiar, recognized business forms. This is not a substitute for U.S. based financing and it will become increasingly important for trading companies here in the U.S. to develop sound banking relationships with domestic institutions.

Another constraint is a lack of skilled traders. This role requires a unique combination of entrepreneurial abilities, personality characteristices, negotiating skills, and an in-depth knowledge of an industry, market, product line and/or type of transaction. As trading companies have no traditional base in the U.S., there is no "labor pool" of traders here from which to recruit. Boles recruits traders overseas, and also trains promising candidates for this position.

Though the U.S. has many professionals in marketing there is a difference between marketing and trading. The classic marketing organizations are extensions of a manufacturing unit. The product is given and the open question is how to develop a market. These markets are relatively homogeneous with slight changes in packaging and design being required. Instead of a product push mentality both the market and the product are open to definition in trading.

A fourth area of difficulty is the more general one of operating a worldwide organization that cuts across national boundaries, time zones, cultures and languages. The management of information within this organization, the balancing of entrepreneurial drive and talent with the need for organization order and structure, and the diversity of trades and business activities all combine to present a demanding management challenge.

BOLES TECHNOLOGY TRANSFER SERVICES

Boles established its Technology Transfer Group in 1983, in order to expand its trading capabilities in the area of technological know-how, and to position itself as a problem-solving organization as well as a trading company. As a systems-based general trading company, Boles recognizes that the procurement of products is increasingly linked with the movement of technology information and know-how.

This group is under the direction of Dr. Lo Christy who has background in small business management and technology transfer programming. He owned and operated his own construction company in Northern California, and was a director of technology transfer programs for Stanford Research Institute, a consulting company, prior to joining Boles and Company.

The TTG has a staff of five with expertise in agriculture, government relations and systems applications, licensing agreements, evaluating new technologies/new applications, and developing new buiness opportunities. One member of this group has extensive experience in Latin America and the Caribbean.

The main concept of being "market driven" is very much a part of this group's identity and operating characteristics. Its inclusion in the overall Boles organization will give the company an added ability to shape trades/exchanges to fit specific cultures and needs, as well as an ability to "package" projects that will satisfy a variety of development goals, country policies, and economic constraints.

Opportunities for packaging projects are initially being developed in light industry, agriculture and health-related areas. Goals for these types of projects include import substitution through the development of in-country production capabilities; value added projects in which a new technology or method is introduced into an existing industry (i.e., packaging agricultural products for consumer end-users in the country of origin as opposed to bulk shipping of these commodities); "inversion technologies" which involve the introduction of a new technology or method along with a distribution system; and de-intermediation projects where more direct relationships can be established between producers and users.

Boles TTG specializes in trade related foreign exchange development. The availability of foreign exchange or its equivalent as a prerequisite to international trade necessitates the creation of a foreign exchange producing capabilities in each country. However, to a significant extent, the growing preponderance of soft currency and foreign exchange-deficient countries is a testimony to the inability of many countries to make and sell products that other countries want to buy. Resolution of this imbalance, which is a serious threat to world trade and living standards -- particularly throughout the developing world -- has now become a major concern of governments and international agencies.

The group sees itself as following a "process model" that includes consulting, implementaiton, training, and project management. The following diagram illustrates this model. Percentage figures represent Dr. Christy's estimates of revenues to be derived from each of these types of activities. Of course, not every project will require services in each area.

CONSULTING (20-30%)	IMPLEMENTATION/ DEVELOPMENT (50-60%)	TRAINING (10-20%)	CONTRACT MANAGEMENT SERVICES (10-15%)
Research Planning Feasibility Studies Market Surveys Problem Identification	Licensing Franchising Turnkey Construction	Custom-tailored programs	

3. PROJECT EXAMPLE:

Currently, this group is involved in a technology-related project for exporting fresh fruits and vegetable from Kenya and importing these to Saudi Arabia, primarily to supply the hotel industry in Jedda. The opportunity for the project was identified by a Boles representative in Saudi Arabia through discussions with hotel owners who were seeking a source of supply for fresh fruits and vegetables that were of high quality.

Normally, theres products were harvested prior to ripening in order to prevent spoilage that would occur during extended trasportation and distribution delays. Harvesting prematurely, however, had a detrimental effect on taste and quality, and so were not up to the high standards required by first class hotels.

The problem was how to allow these products to ripen naturally, and then ship/distribute them in such a way that spoilage would not occur during this period. The solution was to introduce specialized cooling and perserving technologies (packaging in specialized containers with rich amounts of nitrogen to eliminate oxygen) along with a more efficient shipping and distribution system (air freight). This project involved both the product and new technologies and equipment. It also allowed Boles to seek out other sources of technologies and equipment, and agricultural products, for this market. (A similar approach is being used to import mangoes from Pakistan to Saudia Arabia).

This project illustrated the integration of the technology transfer component and its benefits into the trading operation. Fees will result from consulting, equipment sourcing, and expanded trade opportunities.

CRITERIA FOR SUCCESS

Dr. Christy outlines the following criteria/factors as being important in the overall success of technology transfer-related projects, and working with businessmen and government officials overseas.

Expertise is a critical factor. This includes market and industry knowledge, expertise in specific technologies, culture-specific knowledge and sensitivity (including host country government aims and policies), and sound business sense. This type of expertise is necessary for establishing credibility with clients as well as for providing analytical input into the decision making process. The traditional academic or consultant is able to identify problems and suggest solutions, but has little interest in actual implemenation. A sound private sector business sense and an orientation towards implementation is required for a technology transfer specialist in the trading context.

Another important area concerns client relations and the establishment of trust. This requires the ability to listen and respond appropriately to client problems and needs, follow-through (and follow-up), and delivering on commitments.

Matching similar size partners is another success factor. Projects in which partners enter into co-venture agreements requiring them to work together for some period of time in the future have a greater likelihood of success when these partners are appropriately matched.

Another success factor that often may be overlooked is making sure you get paid, and making sure this remuneration is in line with the time, effort, expertise, and expenses required or expended. Valuation of the know-how component is a continuing problem.

5. VIEW OF THE FUTURE

Prospects for the future appear promising for both the general trade operation and industry and the Technology Transfer Group (which sees itself as trading in know-how). The factors discussed under the "Business Logic" section of this report provide the rationale for this positive assessment of the future for this company/business.

More specifically, Boles' management is concentrating on the small and medium-sized business sector in the U.S.. These companies need a vehicle for expanding their international activities and Boles, with its "one stop shopping" concept is positioning itself to provide a wide range of services/capabilities to meet these companies' varied needs. The diversity of companies in this sector is an international competitive strength, and both their management skills and technical know-how are salable. This may be in the form of licensing agreements, coventures, franchising, turnkey plants, and through other means as specific situations and needs dictate.

A growth constraint in this area is a "stay at home mentality" that has evolved over time as a result of the vitality and resources of the U.S. economy. Modifying this attitude will take time and require a longer-term educational effort (as well as successful demonstration projects that can be used as evidence to support the greater involvement of small and medium-sized business in international expansion).

Another promising area of growth is business-government partnerships. "Limited coalitions for limited objectives" is an in-house phrase that illustrates the concept of creating ad hoc organization coalitions to achieve specific development objectives and business needs. These coalitions may involve cost sharing arrangements and other forms of cooperation, and might be expected to be limited in terms of time as well as contributions. For example, a project designed to achieve an import substitution (development) goal might require a limited coalition to get it set up and operating. Thereafter, the coalition would dissolve and this new business would be expected to function on its own.

There are a number of problems and constraints to growth in this area as governments often view business and its profit orientation with some suspicion. Businessmen, on the other hand, have their own bias towards government. The trick is to encourage the potential partners to see their mutual interset/benefits to form a limited coalition as outwighing these negative biases. The integration of small and medium-sized businesses here may facilitate this kind of partnership as these smaller businesses are less formidable to deal with than large multinational corporations.

EXPANSION PLANS IN 1984:

The Boles' oraganization has been more or less fluid in its growth and development. The prime concept of being market driven has been influential in the company's adapting to the larger environment in which it is operating. It is important to recognize that a U.S. based trading company is a unique entity, and even though Japanese trading companies provide some basis for a model, many differences exist and so Boles has had to develop along its own unique lines. Now, however, management is instituting a more formal, structured planning process. Expansion plans call for the opening of more offices and greater specialization in certain types of product area. Increasingly, Boles plans to link trading and technology transfer services.

UPDATE AND CONCLUSIONS AFTER ONE YEAR (1985)

By the end of 1983, Boles had established itself as an international trading and consulting business. It's acquisition of the Spicer's Network gave it a worldwide trading capability with a number of different products. New acquisitions were creating other strengths and capabilities. Jack Boles, the head of the company, was quite skilled in organizing acquistion opportunities and developing financing partners. He had arranged for Merrill Lynch to raise 20 million dollars of equity funding for Boles. Merrill Lynch would receive 10 percent of the overall raised funds for this activity. For some of the funds to be raised, Merrill Lynch would provide tiger bonds as backup. Unfortunately, Merrill Lynch later argued that it needed to use this kind of financing backup for all of the equity which would ultimately make the process too expensive for Boles.

Counting on the development of the new equity, Boles continued to expand and develop new business activities. Its successful development of the Australian beer importation and marketing program accounted for more than 20 percent of its income. In 1983, it was heavily involved in looking for negotiations with a midwestern grain company to acquire the Australian venture. The unfortunate loss of this business in 1984 had a major cash flow impact that contributed to the forced reorganization of Boles International.

In 1984, as the Australian Beer contracts were coming to a close, the midwestern firm by-passed Boles and made direct contact with the Australian firm. As a result of this direct contact, the Australians and the midwestern company were able to cut out Boles completely. Even though some legal issues are still pending, Boles ultimately lost the income flow and any opportunity to convert this development into a source of new revenues.

In 1984, Boles acquired from Price & Pearson a major business activity involved in paper products. This left Price & Pearson with their basic wood products area. The paper business was quite substantial in that it generated about $4 million in sales for Boles. Sears Roebuck later acquired the rest of Price & Pearson and ultimately froze certain accounts relating to the Boles paper division activity. This tied up over $800,000 in cash while disagreements were litigated between Boles and Sears. This represented a second major impact on Boles' capability to continue business and support operating cash requirements. Actually, the frozen cash forced Boles into a situation where it could not carry out normal commercial transactions with its suppliers and other commercial associates in the paper division.

A third major event effected Boles in late 1984. For some time Boles had been waiting for Merrill Lynch to raise the $20 million in equity. It became clear that Merrill Lynch was raising the money using the tiger bonds as backup in almost all cases. The increased cost of financing the equity in this manner was untenable for Boles. Unfortunately, no other activities had taken place in the equity area so when Merrill Lynch finally indicated its inability to go ahead without full support from Boles on the tiger bond activities, Boles turned to a new investment banker.

The Arthur Taylor Company, a small investment banker in New York, was brought into the Boles situation after the relations with Merrill Lynch had terminated. Taylor was ultimately contracted by the Board of Directors for a fee of $300,000 and a percentage of Boles, if they could turn the operation around and sort out some of the problems regarding relations with Sears and other litagants. Arthur Taylor and company, ultimately, could not find a viable path to reorganize the firm and withdrew from the overall programming in April of 1985.

In the United Kingdom, the Standard and Charter Bank was holding a significant amount of debt on Boles International. Because of the equity problems with Merrill Lynch, Jack Boles went to a number of European partners and gained their consent to change convertable dibentures into equity. This reduced Mr. Boles' overall share to under 24 percent. As a minority portion of the board, he was unable to control Boles singificantly. At this time, Standard and Charter Bank decided to withdraw its support of Boles and it attached the international assets of Boles, most importantly, the Spicer Trading System. By the beginning of 1985, Boles had in effect been stripped of its international trading network, Spicer International; its significant cash flow from paper products had been halted; and the Australian Beer and beverage program was dead in the water. In short, Boles was no longer effectively operating as an international trading company. The technology and consulting group had won a major contract from USAID, the Market and Technology Access Program (MTAP). It was bidding on and continuing to develop other contracts as well.

During the second quarter of 1985, Jack Boles had instituted a number of lawsuits effecting the Standards and Charter bank takeover, as well as the paper products division problems resulting from the acquisition of Price & Pearson by Sears. The technology development and consulting group had been reduced to Dr. Lo Christy and two assistants. All trading activities in New York, not associated with Spicers had been dramatically scaled down. Jack Boles personally began developing a new company, The Corporation for International Settlements (CIS). This corporation looked like it would find funding from Swiss and German sources. The objective of this company would be to set up service activities for blocked currency situations. The company would also deal in currency trading. In the meantime, Jack Boles began to personally take steps to acquire increasing amounts of his stock and it looked as though he had improved his stock position to as much as 37 percent by the beginning of May of 1985.

By the Spring of 1985, it appeared that Jack Boles had not yet weathered the assault on Boles operations. Sears Roebuck was actively bidding to acquire four of the Spicer trading operations abroad and was in a very good position to achieve this since the Standards and Charter Bank had taken charge of the Spicers Network in 1984. However, Boles was making headway with some members of the Board and was able to pick up increasing amounts of equity. There was at least some possibility that Boles would regain control of Boles Trading by the summer. In the meantime, it appeared that new cash would be available for Boles utilization through his new firm, CIS. Unlike the other situation, Mr. Boles was committed to creating substantial "early-on" equity to assure that he would not be caught in a cash flow squeeze similar to that of Boles International in 1984. In addition to the development of this financing, his participation was set up in a way that made it more difficult for him to lose control to a bank or a changing Board of Directors.

This situation, although extreme in some ways, does illustrate some of the operational and other difficulties encountered by intermediaries working in the international business environment, especially the critical need to establish and maintain a positive cash flow to finance operations. It also illustrates some of the difficulties and expenses involved in trying to raise equity capital. The main question, of course, is to what extent did the internal Boles situation of crisis interfere with carrying out the MTAP contract. Whether or not it will be posible to separate these effects from project activities so as to fairly answer the main research question, "Can intermediation be a commercially viable, stand alone business activity," remains to be seen.

DATA SHEET

ORGANIZATION: SEARS WORLD TRADE INC DATE: 2/22/84

ADDRESS: 450 5th Street, N.W., Washington, D.C. 20001

TEL: 202-626-1300 TYPE ORGANIZATION: Publicly Held Corporation

INTERVIEWS WITH: Mr. E. Sanders, President, IPAC
Mr. Eric Rothenberger, Assistant to the COB, SWT
Ms. Molly Hageboeck, IPAC
Mr. Rick Koskella, IPAC

WHEN FOUNDED: 1982 ANNUAL GROWTH RATE: N/A

TOTAL REVENUES: $12 million (loss) first year of operation (1983)

NO. FULL TIME EMPLOYEES: IPAC 30, SWT N/A

NO. LOCATIONS/OFFICES: 12 Overseas

REGIONAL/AREA CONCENTRATIONS: Europe, Southeast Asia, Australia, Latin America, North America

INDUSTRY SPECIALIZATIONS: Consumer goods, Agribusiness, Health Care

NO. INTERMEDIATION PROJECTS SINCE INCEPTION: 1

TYPES OF CLIENTS: U.S. and foreign governments, large and small companies

TYPES OF PARTNERS/AFFILIATIONS: Other Trading Companies, Banks, Other units of the Sears organization

IS INTERMEDIATION A PRIMARY OR SECONDARY ACTIVITY: Primary

COMMENTS: Sears World Trade is a new organization in the process of forming. It represents an integrated system of industry specialization, functional expertise, and geographic presence/expertise that provides for a process of research, consulting, plianning, implementation, and hook-up to markets for its clients.

C. SEARS WORLD TRADE/INTERNATIONAL PLANNING AND ANALYSIS CENTER (IPAC)

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Sears World Trade (SWT) is the latest addition in an expanding and diversifying company and represents yet another stage in the continuing evolution of a corporate development strategy initiated in the mid-1970's. This strategy is designed to identify and develop "synergistic businesses" that will capitalize on Sears' mass merchandising technology and on long-standing consumer confidence in its products and name.

When it was established in 1982, Sears World Trade was conceived as the buying and selling arm of Sears' merchandising operations (stores and catalogue sales in 47 countries). Subsequently, in the Fall of 1982, it was re-defined as a full service global trading company on a par with the other four operating units or groups that comprise the Sears, Roebuck and Co. organization. These groups are: Sears Merchandising Group, Allstate Insurance Group, Coldwell Banker Real Estate Group, and Dean Witter Financial Services Group.

The rationale for this re-definition stems from a recognition that the old principles of international trade are no longer valid as international markets are in a highly dynamic and even chaotic state. Companies operating internationally must contend with a new reality in which countries have high debt, no bank credit and no hard currency to pay for imports even though internal demand for consumer good, oil and other products is increasing. The IMF and individual countries themselves are working to restructure imports and develop export capabilities, but the question of who is going to buy/import remains open. Sears World Trade is developing on the premise that a global trading company is best suited to operate in this new environment as it has the necessary perspective and global "reach" to effect multi-party/country trades on a worldwide basis.

Currently, Sears, Roebuck and Co. functions as a holding company with each of the five operating groups having maximum autonomy in their planning and operations. However, the prevailing management philosophy places heavy emphasis on the concept of synergy, and management continually seeks new ways to combine various elements among the groups to create new businesses and/or increase volume. For example, the Merchandising Group offers a percentage discount to new homeowners on appliances and home furnishings when Coldwell Banker acts as the broker. The Financial Services Group is similarly positioning itself to service mortgage loans and package these as marketable securities. Thus, the concept of synergy, combined with the practice of routine strategy planning sessions among top executives of the five groups, provides the integrating dynamic for the organization as a whole.

Sears' Mass Merchandising Technology

Sears, Roebuck and Company was founded by Richard W. Sears in 1866 and became a significant force in general merchandising as a mail order house. The company's growth resulted from its philosophy of providing quality products at reasonable prices combined with a catalogue sales and postal delivery system that was ideally suited for the mostly rural American market of that time. The company opened its first retail store in 1923, and began to sell Allstate Insurance in its stores in 1931. Sears maintained its identity as a general merchandising company, expanding its retail stores and catalogue sales in the U.s. and overseas, until the mid-1970's when it initiated new strategic directions. In 1983, merchandising and insurance accounted for 93 percent of the company's total revenues of $35.9 billion.

Over the years, Sears has developed a unique approach to retailing that can be appropriately described as a "mass merchandising technology". Interestingly, this technology, which differs substantially from traditional retailing, represents a system of principles and operating methods that appear to fit the needs of a global trading company operating in the current environment of complexity and change. Thus, it is worthwhile to describe this philosophy/technology here as it provides the foundation for SWT's orientation and methods of operation.

The Sears approach to mass merchandising is based on the idea that profitability depends upon volume sales as opposed to high mark-ups on merchandise. This high volume, in turn, is built upon a number of factors, including consumer confidence, value of the merchandise relative to cost, extensive warranties (quality assurance), access to markets (strategically placed stores, specialty stores, and catalogue sales), and volume purchasing. In addition, Sears sees the customer as the center of its "business universe," and so stays attuned to consumer needs and preferences and "links them backwards" to the manufacturing source. By contrast, the traditional retailer is often no more than a representative or conduit from a manufacturer to the consumer. In traditional retailing, the manufacturer is the center of the business universe with little or no feedback from the consumer to the manufacturer that would provide information on changing consumer needs and preferences (until it's too late).

Thus, Sears continually assesses the needs and preferences of the consumer through research and close monitoring of the volumes of its thousands of stock-keeping units, and then links these backwards to the manufacturing source, often through its product development and testing laboratories. This ability to discern markets and source them to products that closely fit consumer preferences and market characteristics is the key concept upon which SWT's approach is based.

An intermediation project goes beyond sourcing from a developing country for known markets to surveying the country's potential for meeting exisiting market needs or creating markets for their products. Where a project matches a need Sears is trying to fill for its customers, there may be a direct line from the project to Sears. Where that link is not obvious, those working on the project will try to find markets in the more traditional sense.

2. OPERATING PROFILE

As a relatively new entity, Sears World Trade is in a "development mode", characterized by rapid internal growth, a high level of energy and enthusiasm, and the sense of excitement that comes from participating in forming an organization that will likely have a significant impact on the world of international commerce. As SWT is backed by a $35 billion company, it has the financial wherewithal to transform its ideas and plans into action programs rather quickly, which reinforces the level of energy and dynamism in the organization. Although SWT lost some $12 million during its first year of operation, this was less than expected. It is projected to break even in 1986 and to become profitable in 1987.

Organization Structure

Conceptually, the organization is structured to reflect the three main types of expertise that must be brought to bear on an international business venture or transaction. These are the geographic/cultural dimension, industry specialization, and functional expertise. Resources in terms of skills and expertise are drawn from these areas on an ad hoc or as-needed basis with the project or venture providing the integrating context. This organization structure is depicted in detail on the next page.

SEARS WORLD TRADE ORGANIZATION STRUCTURE

CHAIRMAN

PRESIDENT

VICE PRESIDENT*	VICE PRESIDENT	VICE PRESIDENT**
NORTH AMERICA	AGRIBUSINESS	LOGISTICS
EUROPE/NORTH AFRICA AUSTRALIA	HEALTHCARE PRODUCTS/DELIVERY SYSTEMS	PRODUCT TESTING LAB:
LATIN AMERICA/ CARIBBEAN	CONSUMER PRODUCTS	SOURCING
ASIA	HIGH TECHNOLOGY (EMERGING TECH- NOLOGIES)	COUNTERTRADE
		FINANCIAL SERVICES
		RESEARCH
		CONSULTING

*In terms of physical locations, Sears World Trade has its headquarters in Washington, D.C. with branch offices in New York and Chicago. Regional offices are located in Frankfurt, Hong Kong, London, Sao Paulo, Seoul, Singapore, Canberra, Taipei and Tokyo. In addition, SWT has working relationships with Sears buying offices which are located worldwide.

**The company seeks to meet the complete service needs of its clients/customers either as part of a longer-term relationship or as a one-time project, and will add new services as required to meet changing needs and conditions.

SEARS WORLD TRADE

SERVICE/CAPABILITIES OFFERED BY INDUSTRY SECTOR UNITS

CONSUMER PRODUCTS

Consulting
Sourcing to others
Sourcing to Sears
Design products
Product Testing Lab
Retailing systems
Craftsman "tool boutiques"
Sourcing for U.S. and foreign manufacturers
Technical consulting

AGRIBUSINESS UNIT

Turnkey operations
Poultry, beef, hogs
Common products to/from LDCs
Paper/pulp products
Price and Pearson subsidiary

HEALTH CARE PRODUCTS /DELIVERY SYSTEMS

Under development

HIGH TECHNOLOGY

Innovations
Distribution of IBM PCs
Laser optics
Commercializing new technologies

OTHER LINES

Countertrade/offset programs
Financial services
IPAC and Harbridge House (consulting subsidiaries)
Sears-Schenkers Services Corp. (joint venture freight management services)
Sears-First Chicago Trading Company (joint venture ETC)

Services Offered

As the preceeding diagram suggests, Sears World Trade has the capability of providing an extensive range of services which can be "packaged" to meet a variety of client needs and special situations. The company provides traditional trade services in that it functions as a classic intermediary that buys and sells (imports and exports) products as clients require. In this capacity it seeks not to take title to goods, but to function more as a broker that identifies sources of supply and demand, and then acts to facilitate the trade, which may involve multi-party transactions in several countries.

This ability to facilitate the trade itself extends to providing logistical support in terms of both physical movement of goods as well as processing the necessary paperwork. For example, SWT has established a joint venture relationship with Schenker's, one of the leading freight handling and cargo management firms in Europe and one which operates on a global basis. This gives SWT the ability to coordinate shipping, warehousing, documentation, licensing, payments and customs.

In addition, the company may become more involved in the sense that it will assist its customers/clients in finding new customers in existing and new markets, reduce costs through volume buying, and provide professional trade management services. Within its industry specializations, it can assist clients by establishing longer-term sources of supply to meet their recurring needs. For example, it can handle the resupply of hotels, hospitals and similar institutions. Where these have been "aggregated" within a country or region, it can provide cost savings through volume buying.

This ability to facilitate trade also includes trade financing. SWT has established a number of joint venture relationships with international banks and other financial institutions, and can arrange a variety of financial packages that can include currency, products, commodities, or a combination of these. For example, SWT established a joint venture with First Chicago Bank (Sears-First Chicago Trading Company) that will provide SWT with access to those of the bank's commercial clients who may have need of SWT's services. At the same time, First Chicago also gains access to the Sears network. This relationship is expected to provide rapid growth with minimal investment as First Chicago will generate exports and finance them, with SWT executing these transactions. Profits will be split 50-50 between the partners.

Countertrade is another service provided by SWT. It has the ability to negotiate such transactions, assess the market value of the goods involved, and sell products received in a countertrade transaction. As Sears' merchandising unit purchases over $1 billion in goods outside the U.S., this provides a unique advantage in those cases where these goods can be sold and distributed through the Sears merchandising system. SWT is also positioned to supply other mass merchandisers in the U.S. and overseas, and this represents an expanded sales and distribution avenue.

As mentioned previously, Sears has an extensive and well developed mass merchandising technology that it offers to clients through SWT as management services. These consulting type services include retail distribution, marketing, management, buying techniques and product development. The combination of Sears mass merchandising technology in conjunction with professional consulting services provides the company with the expertise and delivery capability to conduct market research/evaluation, and to provide information on market trends worldwide; to develop new product lines specifically tailored to targeted markets and source these from reliable suppliers; to provide product design standards and quality assurance systems to ensure that these products meet international standards; and to establish retail distribution systems geared to specific markets.

"Turn markets" is a phrase used at IPAC (International Planning and Analysis Center) to describe how SWT can take one or more non-exporters or casual exporters in a country or region and assist them in achieving full export capability all the way through sales. This type of project includes the following steps:

- Review of the country's production capacity, across or within sectors.
- Market research on products where capacity is identified.
- On-site review of production in factories, leading to recommendations for quality improvements, production engineering design, product design modification, etc.
- Supplementary market research, aimed at locating distributors/buyers.
- Assistance with exporting processes (e.g., letters of credit).
- Assistance with shipping, as needed.
- Product sales follow-up and feedback to producers.

Another area of management services involves strategic research and planning to improve the overall management and performance of clients. These services are primarily offered through Harbridge House, a Boston-based Sears subsidiary established 33 years ago by the staff and faculty of the Harvard Business School. Over the years, Harbridge House has provided systems planning to foreign governments, management consulting to multinational corporations, and a variety of other economic and financial advisory services to public and private sector organizations.

Harbridge House offers traditional consulting services in training and organization development, problem-solving, strategic planning, and international strategic management which focuses on assessing the implications of economic and social issues/changes on a client's business.

IPAC was set up as a new research and consulting subsidiary of SWT in August 1983. IPAC complements Harbridge House's capabilities by emphasizing those international market research, investment analysis and export planning activities that offer synergies with SWT.

IPAC is also working closely with management consultants drawn from the Sears Product Testing Labs. These consultants have worked extensively with the buyers in Sears Merchandising Group and therefore tie the general consulting services more closely to Sears' retailing activities.

Overall, SWT describes itself as being "client driven" in the sense that it seeks to fulfill the complete service needs of its customers/clients. In the current context of world business, these needs are complex and changing and it is SWT's intention to expand services and capabilities as clients' needs evolve and change. In reflecting on the extent of these services and capabilities, it seems fair to say they are truly awesome, especially in a "new" company. At the same time, it is interesting to note that the traditional idea of the "customer as the center of the business universe" is carried forward in SWT's idea of itself as being "client driven". A critical shortcoming of many consulting and management service organizations is that client needs are defined in terms of the consultant's capabilities and expertise, a shortcoming that SWT, with its philosophy and resources, may avoid.

Sales and Marketing

SWT's client/customer universe is highly diversified and expanding. It includes various departments of the U.S. Government, foreign governments, large multinational corporations, banks, importers/exporters, other trading companies, small and medium-sized businesses, hotels, hospitals, manufacturers, distributors and more. It also includes the Sears merchandising unit and buying offices, as well as other mass merchandising organizations.

The diversity requires SWT to adopt differing approaches for reaching potential customers in the sectors and for forming business relationships with them. For example, as the company's primary international consulting/technology transfer group, IPAC seeks to establish project-oriented working relationships with U.S. and foreign governments that may generate follow-on business in the trade area. At the same time, the larger SWT organization produces many opportunities for IPAC involvement in commercial projects. Again, this illustrates the prevailing management emphasis on synergy and the combining of elements among the various operating units to create new areas of business.

Individual traders operating in major population centers around the world are, of course, a prime source of information and trading opportunities. These offices are linked by a common communication network that ensures rapid dissemination of such information, with each trader having access to every other trader. The trading function is supported by special advisory committees composed of experienced regional/industry executives who add a level of sophistication that provides SWT with the "early warning system" for anticipating changes and trends in particular markets and industries.

Another source of business development is a function of the relationships senior executives have established with business and government leaders throughout their careers. These relationships provide information on U.S. and foreign government initiatives and programs in which SWT may participate, as well as similar information on particular business/industry needs and ideas.

Pricing Structure

As discussed previously, the Sears approach to mass merchandising is based on the idea that profitability depends upon large-volume sales as opposed to high mark-ups on merchandise. This same philosophy is carried over into the trading company which seeks to operate at a high-volume level with a five percent average commission/fee structure. As the company's intent is not to take title to goods if possible, and thus minimize risk, it expects this commission structure to provide the requisite level of profitability.

Consulting services may be offered on a fixed price project basis, or through a time and expenses arrangement. No fixed hourly rate is established as pricing will depend upon the client, region, nature of the project and potential longer-term relationships that may result from project work. Consulting services are, however, regarded as a profit-making activity, and discrete organizations such as a IPAC and Harbridge House are profit centers.

The company's policy is to be paid when services are rendered, and it has a preference hierarchy for the form of payment, with dollars preferred over local currency, and local currency preferred over goods and services. However, recognizing the reality of hard currency unavailability, the company considers countertrade a viable form of payment.

Operating Problems/Constraints to Growth

As Sears World Trade is a new and developing organization, some difficulties relate to its present state of evolution, and so may not be enduring in a longer-term or structural sense. One area of difficulty concerns the availability of information on the supply and demand for particular products and commodities on world markets, especially in terms of what makes a product competitive. Although this information can be obtained, it is "scattered" and not organized in a way that would be useful for business decision-making. When SWT and IPAC came into existence they examined the international data situation and found this data, particularly the U.N. trade data, to be spotty at best. Commercial data bases (those based on OECD statistics, for example) are also incomplete and not well organized, and thus data availability would seem to represent problems for everyone involved in trade. Meanwhile, IPAC and SWT are working on ways to improve the information bases available to SWT traders, although not necessarily by creating a massive, worldwide trade data base (which would be as difficult to keep up-to-date as it would be to create).

Another type of information problem concerns logistics in in-country distribution networks. Who distributes what, where, how much, how often and similar questions must be answered as the company seeks to provide a full range of services for its clients/customers. One strategy for dealing with this difficulty is SWT's intention to "aggregate" regional importing and exporting activities so as to achieve the larger volume levels required to become profitable. For example, there are many regional trading companies that operate within a circumscribed area such as the Caribbean. The idea is to use these companies to aggregate either supply and/or demand of particular products consumed or produced in the region, and then to purchase or sell these products and commodities on a global scale. Thus, SWT could purchase, say newsprint on world markets and then use regional trading firms to distribute this product within the region. In this way, SWT could operate at a high-volume level and obtain price reductions by buying in large quantities, yet be spared the high cost of smaller transactions, as the regional trading company would handle this level of distribution.

The same principle would also be applied to exports from a region where several countries all produce a similar product or commodity. Here the regional trading company would "gather up" all of this output and SWT would handle the high volume levels on the world markets. In order to realize this method of operation, the company must obtain detailed information on regional trading companies and in-country distribution networks. Again, this information is available, but takes time and searching to amass, especaially in foreign countries.

Another area of potential difficulty concerns competition with large Japanese trading companies that have been established for many years and already have their information and support networks built up. SWT must go through the "learning curve" in order to compete effectively with these large, experienced companies. The constraint here is that the company is not yet in a position to go "head to head" with these large companies in the high-volume areas in which they are already established. Also, it is difficult to predict how the Japanese trading companies may respond to such competition form the U.S.. C. Itoh, the largest of these companies operating in the U.S. market, has stated that the "day of competition is over" and SWT is seeking mutual referrals of trades and projects with these large trading companies. In fact, SWT and C. Itoh have exchanged executives in order to foster this type of collaborative relationship. The current SWT posture of seeking cooperative relationships with these large trading companies is perceived as a long-term method of operating (as opposed to a short-term method of coping with the problems of entering a new area of business).

Another constraint that relates to working in the small and medium-sized business sector is that these companies are often reluctant or unable to pay for the types of services they require to expand their international activities. Although there may be great potential for many of these firms to benefit from expanded international activities, their reluctance/inability to commit the up-front monies acts as an effective barrier to this expansion.

Suggestions for Government Programs to Facilitate Trade and Development

In addition to the problem of the lack of hard currency in the developing world, the U.S. Government's policy of responding to specific project opportunities is often not effective as it take too long for a positive response to materialize in the form of concrete action and assistance. In effect, the Government's time frame is "out of synch" with the sense of urgency that is required to take advantage of opportunities in the developing world. Often, by the time any concrete action is taken or approvals received, the project opportunity is lost as the potential private sector partners have moved on to other things.

One IDAC suggestion made to AID for dealing with this constraint is for AID (and/or others) to establish an indefinite quantity contract in the private sector area whereby research, feasibility studies and other forms of assistance from prequalified firms could be made readily available on an as needed basis to countries/approval development organizations. This concept would replace, in part, the current practice of funding on the project-by-project basis. It would also shift the decision-making authority from the funding source to the user in collaboration with AID missions. The service providers would be essentially a list of approved vendors who would invoice AID/other funding agencies directly. This would streamline the current project-by-project approach and allow many more opportunities to be considered and investigated, which would in turn have an overall stimulating effect of exports and development where private sector participation is sought.

Another suggestion is for the Government to assist intermediaries by providing information on needs and development opportunities overseas. At present, this information is scattered and therefore costly and time-consuming for intermediaries to locate. If this information were more readily available in a form that businesses can use more easily, intermediaries could spend more time and energy on linking these opportunities to appropriate firms, rather than spending their limited time on searching for the opportunities in the first place. A current and continually updated "opportunity log" could be a most effective development tool.

3, PROJECT EXAMPLES/IPAC ACTIVITIES

As the international consulting/project development group within Sears World Trade, IPAC identifies new areas of business and develops these by drawing upon the considerable expertise available throughout the Sears organization. It may, for example, work overseas to promote exports; set up countertrade and offest programs; work with regional trading companies to aggregate sources of supply and demand; conduct research and market analyses; work with client firms to bring about improvements in production, quality and management systems; and generally engage in project-type activities.

A great deal of what IPAC does fosters trade. In some cases, trade stimulated through IPAC consultancies, and consultancies involving the Sears Project Testing Lab staff, will lead to levels of activity in which SWT traders will take an active interest. Alternatively, some trade stimulated in this manner may be of interest to Sears, Roebuck and Co. buyers. Links to SWT traders or Sears buyers are not necessary elements of SWT and IPAC consultancies. When they do occur, they are invariably a plus for the client involved.

IPAC is currently engaged in an export development project in Mexico that brings the private sector, government and banking into a working relationship designed to build export capability in a variety of industrial sectors. This project came to IPAC through Mr. Hill's (SWT's COB) meeting with the President of Mexico who asked if SWT could enhance his country's export programs. These had been neglected in the recent past when Mexico was benefiting from its oil exports. When this market shifted, the country found itself without alternative ways to earn foreign exchange, and so sought assistance from SWT.

Initially, the project strategy involved identifying those industries that could benefit from an export development program. One selection criterion was that the goods produced could be improved so as to compete on the world market, and that a world market actually existed for these goods. After these industries were identified, the next step was to work on the "micro level" with individual firms that represented good prospects for participating in this program. The idea was to work with selected firms to bring about the necessary quality, production, technology and management systems improvements needed to make their products competitive in world markets and to ensure an adequate supply to meet anticipated demand.

SWT's in-country working partner was a leading Mexican bank that had international interests and wanted to explore practical ways to improve Mexico's export performance. This bank worked as an "intermediary" in the sense that it helped SWT in providing direct assistance to firms, and also acted as a facilitator in cutting government red tape, getting necessary approvals and generally providing momentum as it reduced unnecessary delays in the project.

The project started in October 1983 and the first phase was scheduled for completion in six weeks. This phase included a marketing and technical survey of two industries (shoes and garment manufacturing), a broad U.S. market survey in these product areas, and the identification of 10 Mexican firms in each sector that would be likely candidates for more extensive development work. Each of these 10 factories was visited by SWT staff who drew upon the expertise of Sears industrial engineers, industry experts and others. These visits were actually diagnostic analyses that studied production methods, management systems and capabilities, quality levels, plant layouts, equipment utilization and similar "nuts and bolts" areas. IPAC staff also sought information from factory managers about the problems they faced, and then organized those comments which related to government policy into a format which could be interpreted. Findings from the factory floor, as might be expected, dealt with manufacturers' knowledge of government programs, import restrictions that affect production, etc.

As a result of these studies, it was decided to undertake a demonstration project in one of the firms in the garment industry as Phase II of the project. At the same time, the marketing and technical survey was expanded to a second group of industries which included furniture, hand tools, auto parts and textiles.

The demonstration project involved converting one of six production lines in a nightgown manufacturing company to children's clothes. This conversion was done in conjunction with the implementation of SWT's technical and production management recommendations which included establishing work-to-time standards, instituting an in-process quality control system, introducing equipment modifications, training operators and supervisors, and other improvements required to bring this area of manufacturing up to international standards at a high level of production. At the same time, SWT was able to source the fabric requirements within Mexico.

At the time of writing samples of these clothes were being tested in Sears labs. It was expected that Sears would be the buyer, and the first full-scale production run was scheduled for April. Phase II activities in the other industries identified is progressing, and the intent is to implement the model/approach used in the manufacture of children's clothes in these industries.

Development Impacts

For this demonstration project in the garment industry, the development impact includes the obvious benefits of earning foreign exchange, the creation of employment, and the stimulation of a secondary industry (textiles), as well as some import substitution. In the broader scope of the project as a whole, this approach, which brings together the full service capabilities of the Sears organization, will expand the export sector of the country. It will strengthen these industries through internal company improvements which include upgrading quality, production methods, management systems and capabilities, and the technology used in the manufacture of these products.

Although a minor part of the overall project, the identification and analysis of government policies that have hindered exports, as perceived by factory managers, and the streamlining of administrative systems in this area are also expected to have some beneficial effect on the development of enhanced export capability and activities. One of IPAC's recommendations here is an educational program for exporters that would familiarize them with these procedures.

The need to broaden a too-narrow export sector and improve domestically produced goods so that these can compete on world markets is a common problem in the developing world. SWT has already had expressions of interest for similar types of programs from Egypt, Brazil and several Caribbean countries as a result of this project. Work on a similar program for Portugal was scheduled to begin in May 1984.

4. VIEW OF THE FUTURE

A significant constraint on the increasing involvement of small and medium-sized U.S. businesses in the international arena is their inability/reluctance to pay for services, or make an up-front commitment of funds when the future payoff is uncertain. This situation is compounded by a widely-held "stay at home" attitude in this sector as owners/managers tend to have little direct overseas business experience (or negative past experiences).

IPAC sees a need to construct a cost-efficient, aggregated set of systems that would assist these U.S. businesses in formulating and implementing plans to expand internationally in various forms, and has proposed this to the SBA. The idea here is to shift some, but not all, export development tasks away from the more traditional consulting approach of constructing individualized or custom-tailored programs for a particular client, and replace this practice with a "standardized" system based on the steps identified as required to enter the international business arena in a particular way (e.g., licensing or exports). Small and medium-sized businesses would then have access to one of SWT's planned programs that would best suit their needs, much as Allstate has packaged a variety of insurance plans that meet the needs of large numbers of people. Those who have additional and/or special needs that fall outside the scope of these services would be candidates for customized programs provided by consultants.

In addition to the inability/resistance to buying services, small and medium-sized businesses are further restricted by the macro-economics of trade and protectionism. Often, U.S. products are not able to compete internationally because of soft currency problems and the relative value of the dollar. For overseas firms that might enter into coventure relationships with U.S. producers (as component sourcers or for assembly operations, for example), the lack of foreign exchange severely restricts their ability to upgrade equipment, plants and other resources required to manufacture more sophisticated products at a high level of quality.

A further constraint which affects intermediaries as well as large and small businesses is that U.S. policy on countertrade is as yet unclear. The U.S. Government does not know whether it likes this new development or not, and its ambivalence produces uncertainty in the business community and has an inhibiting effect on the volume of world trade. Of course, any policies that have the effect of reducing trade volume have serious implications for a trading company operating on the philosophy that high volume with lower margins is the route to profitability.

New Opportunities for Intermediaries

This report has discussed the potential for "industrializing" intermediary-type services and packaging these to meet the needs of larger numbers of small and medium-sized companies. Another area of opportunity involves the use of local firms in developing countries to carry out the detailed information-gathering required to identify local distributors, agents, regional trading companies and others doing business in these countries who would be likely candidates to aggregate sources of supply and demand. The idea of aggregating on a local level and then using SWT's global network to effect large-volume trades opens up many opportunities for local intermediaries and others to do the required legwork and/or provide the necessary logistical support on the regional level. This is an ideal role for smaller regional trading companies if they can expand their perspectives and modify their operating methods to link the regional to the global level of trade.

UPDATE AND CONCLUSIONS
1984 AND 1985

Initally, Sears World Trade perceived its strategy and approach to the international trading environment as a global, diversified, "total service" organization with capabilities in sourcing, countertrade, financing, logistics, product testing, research, consulting and retailing through its stores and catalogue sales system. SWT was establishing a network of trading offices in North America, Europe, North Africa, Australia, Latin America, and Asia and had established specialized industry groups in agribusiness, health care, consumer products and high technology (especially emerging techologies).

Since the inital case study was prepared, SWT has dramatically scaled down its strategy and operations, primarily because the large initial investment and continuing negative cash flow was not being offset quickly enough by new revenues generated from these activities and business areas. It appears that SWT's desire to operate on multiple fronts simultaneously and the cost of the extensive resources required to do this was creating a negative cash drain on the parent organization that was more than management was willing to accept. Some observers have pointed out that SWT's senior management team was composed of individuals who had limited experience in building and operating a trading company, and that Sears Roebuck's corporate culture fostered a company self-perception that was not congruent with the demands and traditional practices of a global trading company.

Thus, in mid 1984, SWT was reorganized and scaled down with a more focused emphasis on consumer goods and light industrial products (tools). It is expected that SWT may become profitable at the end of 1985, but it will be many years before the initial investment and start up costs are recovered.

IPAC, SWT's consulting arm, was similarly scaled down when the Trade and Development area dissolved in June, 1985. The military and logistics groups within IPAC have been retained as each has a long term contract and cash flow. The trade and development group was unable to secure sufficient revenue-producing business to support its operations. This area is described as being "dormant" as opposed to "dead," and some attempts are being made to subcontact SWT's trade and development capabilities.

One conclusion that can be drawn from these developments is that SWT, even with its extensive financial resources and other businesses, is subject to the same problems as the smaller intermediaries, except on a different scale. The extensive length of time it takes to develop any collaborative venture to the point at which it begins to generate revenues, the extensive up front costs involved, and the high mortality rate of possible ventures all work against the "staying power" firms or individuals must have if they are to operate profitably as international intermediaries. Finally, SWT apparently lacked any control over Sears merchandising policies and the Sears buying activity continued outside of SWT. This reduced the possibilities of effective trade integration with Sears worldwide purchasing and manufacturing.

DATA SHEET

ORGANIZATION: ARTHUR YOUNG UNITED STATES DATE: 2/23/84
(A member of Arthur Young International)
ADDRESS: 277 Park Avenue, New York, New York 10172

TEL: 202-775-6300 TYPE ORGANIZATION: Partnership

INTERVIEW WITH: Dr. Dimitri Plionis POSITION: Principal (now Partner)

WHEN FOUNDED: 1894 ANNUAL GROWTH RATE: N/A

TOTAL REVENUES: Est. $700-900 million EXPENSES: N/A

MAJOR EXPENSE ITEMS: Salaries, Training, Office Overhead

NO. FULL TIME EMPLOYEES: 20,000+ (International Network)

NO. LOCATIONS/OFFICES: 325 Cities in 68 Countries (International Network)

REGIONAL/AREA CONCENTRATIONS: Worldwide (2/3 of all offices are located overseas)

NO. OF COUNTRIES: 68 INDUSTRY SPECIALIZATIONS: All types with concentrations

NO. OF PROJECTS SINCE INCEPTION: Thousands of consulting projects with hundres of mergers. Two current intermediary oriented.

TYPE OF CLIENTS: Multinational coprorations, U.S. and foreign businesses, governments

TYPES OF PARTNERS/AFFILIATIONS: Other consulting firms, lawyers

IS INTERMEDIATION PRIMARY OR SECONDARY: Secondary/Occassional

ESTIMATED ANNUAL REVENUES FROM PURPOSEFUL INTERMEDIATION: N/A

COMMENTS: Intermediation is a secondary, incidental activity for this firm. Much of this is in the form of putting potential partners in touch with each other, and this is generally done without charge. However, the firm also has an extensive practice in mergers and acquisitions which often involve domestic and foreign firms, and this represents a distinct type of intermediation for which the firm earns revenues.

D. ARTHUR YOUNG UNITED STATES (A member of Arthur Young International)

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Arthur Young and Company is one of the "Big 8" accounting firms that provides accounting and audit, tax management, and consulting services to public and private sector clients. The firm was founded by Arthur Young, a Scot immigrant, who established the first office in Chicago in 1894.

In the period prior to WW II, the firm grew to approximately a dozen offices located in major cities in the U.S. However, the post war growth of the firm has been dramatic, spurred by the overall growth in the U.S. economy and by the expansion of U.S. firms overseas. Currently, Arthur Young and the international network of its affiliations have offices in 325 cities in 68 countries and employs over 20,000 people worldwide.

The firm's growth and development strategy is based on establishing affiliations with local accounting firms, either as joint ventures, partial equity ownership, or acquisitions. Most of these offices operate under the Arthur Young name, and each must meet established professional standards in order to be included as a member. The resulting structure that has emerged is one of interlocking interests and reciprocal working relationships governed by an international management council.

Approximately 70 percent of the firm's business is audit work, with tax management and consulting services providing the other 30 percent. Often, tax management and consulting services cannot be offered to audit clients as the firm's "prime directive" is such that the independence of the auditors cannot be compromised. Thus, although the majority of the offices offer these three types of services, they may not share the same clients.

Intermediation in the sense of putting individuals/firms with common interests in contact with each other is an incidental activity. Generally, no fee is charged for this service and there is no measurement or tracking system that would indicate how extensive this activity may be. The firm does, however, engage in purposeful intermediation in the sense that it becomes involved in mergers and acquisitions, many of which are transnational.

The firm provides a variety of management advisory or consulting services which have evolved over the years in response to client's needs. These include general management and organization consulting; electronic data processing (edp); personnel and industrial relations; financial planning and control; industrial engineering/productivity improvement programs; and operations research. It also provides advice on recruitment and selection of senior executives, and may actively engage in executive searches for non-audit clients.

2. OPERATING PROFILE

Over the past decade or so, the nature of the environment in which Arthur Young and the other "Big 8" accounting firms operate has changed significantly as a result of competitive pressures among them. What was once described as a "gentlemen's business" has become increasingly competitive as the older norms and values of the profession have given way to more aggressive business practices. This shift coincides with the general slowing of growth in the U.S. economy during this period, and more competition for audit business. In effect, as long as the economy grew and companies expanded to a level at which the services of a local or regional accounting firm were no longer adequate, the overall amount of business for these large firms also grew and so there was no real need to compete among them. However, the reduction of this growth combined with a need for companies to cut costs resulted in greater competition among the large accounting firms. One change, for example, is that the "annuity characteristic" of the business can no longer be assumed. Audit clients are now much more likely to "shop around" for an accounting firm with their decision to switch based on fees charged, ancillary services provided, and the personalities involved.

Another change brought about by competitive pressures is the movement of staff from one firm to another. Whereas, in the past the operating environment was much more stable in regard to long term audit relationships and staff loyalty to a firm, now it is not unusual for "Big 8" firms to recruit staff from each other as their volume of work fluctuates.

Sales and Marketing:

These competitive pressures and changes in the industry have resulted in the need to pursue a much more active and aggressive marketing and sales strategy. Advertising which formerly was regarded as falling outside the norms of the business (similar to the perception of advertising in the legal profession) is now an accepted practice. Similarly, active sales solicitations have become more frequent as these large accounting firms seek to bid for a potential client's business. And although this practice does not appear to have reached the "cut throat" level where one firm attempts to "steal" the business of another, there is a much more active and aggressive effort made to secure new business when it is generally known that a particular firm is "looking around" for a new auditing firm.

An important source of business for the firm comes from word of mouth referrals and contacts made in the normal course of doing business. As the firm engages in a wide variety of service areas among many industries, opportunities for new business development continually arise. At the same time, synergy among the three main components of the service structure (audit, tax and consulting) is less than optimal as there are potential conflict of interest restrictions that prevent the firm from providing certain types of services to its audit clients. Also, as an audit client represents a continuing source of business, the audit partner in charge of this function in a particular office may be reluctant to encourage, say, a consulting project with this client as there is a chance the client may not be satisfied with the outcome and this could jeopardize the longer term audit relationship. This is not to imply that Arthur Young's consulting work is not satisfactory, rather it's a comment on the nature of consulting work itself which does not always have the established discipline of an audit routine and the degree of "client satisfaction" is often a function of many variables that cannot be controlled.

Arthur Young also provides a wide range of educational services for its clients and others, and this service also functions as a marketing device to increase awareness of the firm and its activities among a wider public. The company sponsors seminars that cover a wide range of accounting and other business matters, provides educational consulting services for clients to assist them in developing in-house programs, and conducts workshops on subjects of topical interest such as changes in tax laws, new management techniques and tools, and similar subjects designed to improve professional knowledge and expertise.

In addition, partners and other senior executives in the firm regularly make speeches, participate in public forums, maintain memberships in various professional, business and other organizations, and generally are active in those environments in which public exposure and contacts can be developed. The firm seeks to project an image that is in harmony with the high quality of its professional standards and work, and recognizes that trust is an important ingredient in developing a relationship with a new client (as well as maintaining its current clients). Thus, new business developed through these types of contacts may take a protracted period of time to mature to the point at which a need is identified, a package of services is offered to meet that need, and actual work is undertaken on behalf of the client.

Types of Clients

Arthur Young and Company provides its services to both public and private sector organizations, including the U.S. and foreign

Governments. Although the firm does not specialize in any particular industry, it has over the years concentrated in the oil and gas industry, publishing, financial service institutions, retail, aerospace, construction, health care, high-tech industries and the entertainment industry, as well as professional organizations such as law firms. Colleges and universities, state and local governments, and national governments represent additional areas of concentration.

Pricing Structure:

As Arthur Young and Company is a service organization, time becomes a primary consideration in pricing decisions. The firm uses a rate structure that includes the time required to perform or deliver the services, the levels of expertise that must be assigned, the geographic area in which the office serving that client is located (i.e., overseas rates are generally lower than those in the U.S.), the type of client (government rates are somewhat lower than those for commercial clients), and the overhead contribution. Expenses such as travel and lodging are billed separately.

The process the firm follows in calculating fees is an interactive one and generally follows a process in which a "ballpark" amount is known or estimated on the basis of past experience. Then, the steps required to do the job are identified, the time required for each is estimated along with the appropriate levels of skill, and then overhead, expenses and other amounts are assigned. Depending upon the outcome in terms of the congruence between this figure and the ballpark figure, this process may be repeated so as to either reduce work in certain areas and/or increase services in another. This figure may be further modified when a competitive bid is involved and/or by other factors such as the potential for more work in the future with the same client.

Another approach is to fit the job and services to the client's budget. Here the client determines the amount to be spent, and the firm specifies the approach and services it will provide within this amount. Government work requires yet another approach as staff levels, payment schedules, and overhead percentages are already established and the firm must work within these constraints.

For audit work, payment arrangements are on a fee for service basis within an overall price given to the client. Monthly billing is the norm. For consulting work, fees are billed monthly over the course of a project as a monthly proportion of the total fixed fee with expenses billed separately.

Organizational Structure

The firm's organization reflects both its geographic diversity and types of services provided. In the U.S., the firm operates on the basis of five regions, each of which includes a number of offices. Each office is autonomous within its geographic sphere, except that its work is coordinated through the partnership management structure when the client's business is such that more than one office may be involved in providing services either in multiple domestic locations or overseas.

The firm is also functionally organized to reflect the three main service areas: audit, tax and consulting services. These are each headed by a senior officer who is responsible for the overall management and development of business within that service. Each office is further organized into audit, tax and consulting services.

3. PROJECT EXAMPLES

Currently, the International Service Division of the firm has two projects in process that are directly related to intermediation and the facilitation of international business relationships. One is the Market and Technology Access Project of which this study is a part.

The other is a USAID project which was first identified through the firm's participation in a USAID workshop that provided an overview of new initiatives and projects that were in the process of being formulated by this agency and subsequently would be put out to public bid. One of these projects was generally aimed at stimulating business development in Indonesia. After some background research and conversations with the Arthur Young consulting partner in that country, it was decided to pursue this project when it was issued in the form of a request for a proposal (RFP).

In the meantime, Arthur Young principals and staff in the International Office maintained periodic contact with the agency to determine the progress of the RFP, and also began to search for an Indonesian firm that would provide specialized industry expertise and other capabilities required for the project. Two firms were identified. One, a financial consulting firm with specialized expertise in agricultural development work became a sub contractor along with Arthur Young in the U.S.. Thus, when the RFP was formally announced, the whole team and approach was already organized, a significant advantage in securing the contract as well as saving time during the project start-up period.

Generally, the aim of the project was to identify Indonesian firms that would benefit from establishing co-venture or other types of relationships with firms in the industrialized nations. The project was organized in two stages. Stage one involved an overview of some 200 firms in various industries that would be appropriate partners in an expanded international effort. Stage II involved a further reduction of these to about 30 firms that were the most attractive candidates. Information on these firms would then be "packaged" so as to be interesting to potential investors or other firms that would have a possible interest in mergers or acquisitions. Arthur Young, then, would become a conduit for actively marketing these opportunities through its mergers and acquisitions services.

The potential development impact of this project for Indonesia is significant as it would promote an infusion of new capital in the amount of several hundred million dollars, would upgrade existing technologies, create jobs and improve management capabilities in these firms. Also, the project was very much in line with the host country's development goals which place a primary emphasis on the creation of new jobs which is required to keep pace with a growing population. Several hundred new jobs are needed each year, with some portion of these in the managerial and technical areas.

The pricing of this project offers an interesting aside in that the consortium was aware of the rough magnitude of the amount allocated by USAID. However, this agency was well aware of the fact that the contractor could earn fees on those investments made in these Indonesian firms as a result of their efforts and so insisted that some portion of the cost of the project be borne by the Indonesian firms and some to be pro bono work by the contractors. Thus, the final fee structure was somewhat less than it would have been for a "straight" contract, and the agency was able to leverage its dollars and still achieve its objectives. This example may, in fact, represent a growing practice on the part of government agencies that recognize some of the intangible "opportunity value" in various projects for the contractors and seek to factor this into the fee structure.

4. VIEW OF THE FUTURE

From Arthur Young's perspective, small and medium-sized businesses must contend with a variety of restrictions and constraints that interfere with their ability to expand overseas, even through there are often many advantages that would make an overseas venture desirable and profitable for these firms. For example, access to new markets, access to lower cost labor, and access to raw materials supplies to name a few.

However, firms which often lack international experience and expertise must incur relatively high front end costs in order to gain access to international markets and/or sources of supply. This problem is further compounded by the fact that many international initiatives never evolve to the point of implementation, and so the payoff is usually questionable with a high degree of perceived risk. Small and medium-sized firms do not have the surplus earnings to invest in overseas initiatives that run a high risk of never being realized.

Another constraint involves foreign government restrictions. Local content regulations, the need for direct foreign investment, and the difficulties involved in repatriating earnings/hard currency restrictions are perceived as formidable obstacles. Thus it is not surprising that many small and medium-sized firms display a "stay at home" attitude, and are reluctant to venture into a realm that is truly "foreign" and fraught with unknowns.

Given this general view, the firm's strategy is more oriented towards seeking technology transfer type projects rather than facilitating deals. The question is, how to reduce the costs for small and medium-sized firms so that overseas opportunities become more accessible or realizable? One approach is to "package" a project which might be offered to interested firms on a cost share basis, with some of the cost being supported by AID or other development organizations. This approach might also involve the services of a trading company to overcome the problems of repatriation of earnings/foreign exchange restrictions.

As the firm does not see itself as an intermediary, except as an incidental activity, it also does not see intermediation as a viable, stand alone business for the firm. Rather, it sees intermediation as being viable when it is offered in conjunction with other services, primarily because the method of payment conflicts with traditional Arthur Young practicies. That is, the firm sells its time and expertise on a fee for service basis (except in the mergers and acquisitions areas where a combination of fees and commissions may be utilized), and performing speculative work as an intermediary falls outside the established method of doing business.

Intermediation Skills

The effective intermediary is one who combines a group of character traits, special skills and knowledge, and a network of contacts and support relationships. Character traits include such attributes as creativity and flexibility as many potential business ventures or deals must be customized or adapted to meet the varying needs of the parties involved. The effective intermediary is able to ascertain these needs/objectives of the principals, and create a structure or working relationship that will satisfy them. Flexibility is equally important as the intermediary must be able to find ways to get paid for his time and contributions, and this arrangement must usually be worked into the deal in an acceptable manner. For example, an intermediary who rigidly adhered to a fee for service arrangement would likely not be effective as no one would pay an up front fee for a service that might not produce economic or other benefits in the end as many deals never come to fruition.

Special skills and knowledge include such components as market knowledge, knowledge of countries/cultures, government rules and regulations and similar "nuts and bolts" operating knowledge. At the same time, the intermediary must have a knowledge of trading and trade mechanisms, and be able to identify those that would be important in making a deal work. Current knowledge of available opportunities in an industry, market and/or region is equally important as a large part of an intermediary's job is the ability to sell opportunities, and to sell the right opportunities to the right parties at the right time.

A marketing and support network is another requirement for an intermediary's effectiveness. This network must supply information, contacts, and knowledge about current opportunities as well as provide access to those in positions of leadership and authority who would be the "prime movers" behind any deal. Also, as many intermediaries do not provide a full range of all the services required to structure an international business venture, this network should also include other specialists (both in the U.S. and overseas) who are trusted, competent professionals. One of the big constraints for new intermediaries entering the international area is the time, effort and expense required to build this support network.

In sum, an effective intermediary is one who can identify emerging opportunities, locate the appropriate parties who might have an interest in this opportunity, structure and present it in such a way that all the principals can achieve their individual objectives, provide specialized expertise in all or part of the forming process, provide consistent follow-up to keep the parties on track, solve problems and initiate changes as required, and get paid.

New Opportunities for Intermediaries

Intermediaries operating in the small and medium size business sector can expect a substantial amount of difficulty in fulfilling their various functions for all the reasons previously discussed. However, changes in the international environment and new government programs presently underway should create a somewhat more favorable environment for small and medium size businesses and intermediaries as well. For example, an increasingly interdependent world economy increases the likelihood that U.S. firms will be more apt to venture overseas for labor, new markets, raw materials, and even new technologies. This general trend which has been observed over the years will be heightened in specific industries depending upon the competitive pressures they may face, and other needs they may have. The intermediary who has acquired the requisite industry expertise along with cultural specificity and established in-country relationships will be in the best position to capitalize on these types of developments.

The U.S. Government is becoming more sensitive to the needs of small and medium-sized businesses and is providing various incentives to stimulate the greater involvement of this sector in overseas ventures. This includes such measures as the Export Trading Act, the Export-Import Bank's programs to provide low interest financing for exports, the decentralization of Export Import Bank functions among regional banks, and various other programs.

As much as these encourage the overseas activities of small and medium-sized businesses, they will similarly stimulate the need for intermediaries who can provide the resources and expertise these firms lack.

Finally, international business and trade is becoming increasingly complex, thus requiring specialized expertise in financing, countertrade, U.S. and foreign government policies and procedures, and more. This complexity and the lack of expertise on the part of most small and medium size businesses paves the way for a greater reliance on and need for intermediaries. On the other hand, a certain degree of caution should be exercised by those who would be new intermediaries as it is a type of business that takes a long time to develop to a profitable level, and it is one that requires a unique set of characteristics, special skills, and well-developed network of contacts and resources in order to function effectively.

UPDATE AND CONCLUSIONS
AFTER ONE YEAR (1985)

As a "Big 8" accounting and auditing firm, Arthur Young's intermediary activities traditionally have been an adjunct, ad hoc type of service rendered to clients, usually with little or no fees involved. When the case study of this Company was prepared initially, the idea of offering intermediary services in a more structured manner was being considered by management as this might allow Arthur Young to capitailze more fully on its extensive international network and client base. However, issues of professional practice standards such as contingent fee arrangements present something of an obstacle to the more formal development of these types of services.

Although Arthur Young has yet to make a final decision regarding the development of intermediation as a distinct service area, trends in the industry appear to be moving in this direction. For example, one of the other Big 8 firms has established an international trading and consulting group while Arthur Young has become more aggressive in seeking out opportunities to provide intermediation services.

Several trends in the international business environment are stimulating the need for more joint ventures. The invasion of U.S. markets, the strength of the dollar, and the need to cut costs in order for U.S. firms to compete with imports in the U.S. and in foreign markets all combine to encourage joint ventures which provide access to lower cost labor and materials. As this need becomes more acute, this represents another form of pressure on Arthur Young to increase their intermediary activity.

At the present time, it is not clear what effect protectionist legislation will have on joint ventures with firms in the developing countries. A selective application of import restrictions and tariffs primarily directed at Europe and Japan may have a beneficial effect for the developing world. On the other hand, U.S. measures that act to constrict international trade may put a damper on the whole system with the developing countries being the most adversely effected.

At the same time, the firm has some initial indications that Japanese companies are increasingly interested in the Caribbean Basin. The potential effects on these countries could be significant, and will depend upon their degree of interest and subsequent business activities in the region.

Looking to the future, Asian countries appear to offer the greatest joint venture business potential for U.S. firms in the developing world. China, for example, has a great interest in acquiring technology through joint venture relationships. Korea is an established off shore drawback supplier while Tailand, Indonesia and India are opening and appear promising. Each of these countries represents a need for specialized knowledge, established in country networks and a unique set of intermediary-type skills. How aggressively Arthur Young moves in this direction remains to be seen, and will likely depend upon their evaluation of commercial potential in this area and the general trend of Big 8 firms toward offering intermediary services in a more formal manner.

DATA SHEET

ORGANIZATION: KAPLAN, RUSSIN, & VECCHI   DATE: 2/21/84

ADDRESS: 1218 Sixteenth Street, N.W., Washington, D.C. 20036

TEL: 2 .2-638-0600   TYPE ORGANIZATION: Law Firm

INTERVIEW WITH: Clarence Mann   POSITION: Counselor
Jonathan Russin   Partner
Jay Kaplan   Partner

WHEN FOUNDED: 1969   ANNUAL GROWTH RATE: 4 to 73 Attorneys in 15 years

TOTAL REVENUES: N/A   EXPENSES: N/A

MAJOR EXPENSE ITEMES: Salaries, Library Maintenance, Office O/H, Professional Conferences, Client Development (Marketing)

NO. FULL TIME EMPLOYEES: 73 Attorneys   OTHERS: 7 of Counsel

NO. LOCATIONS/OFFICES: 8 (Washington, NY, SFO, LA, Colombia, Dominican Republic, Thailand, Taiwan, Spain)

REGIONAL/AREA CONCENTRATION: Worldwide with exception of PRC/Eastern Europe

NO. COUNTRIES: 5 (subsidiaries) INDUSTRY SPECIALIZATION: varied

TYPES OF CLIENTS: Domestic/foreign corporations, banks, governments, trade organizations, individuals

TYPES OF PARTNERS/AFFILIATIONS: Other law firms

IS INTERMEDIATION A PRIMARY OR SECONDARY ACTIVITY: Secondary

MAJOR OPERATING PROBLEMS/CONSTRAINTS TO GROWTH: Finding compatable partners, traditional law firm/legal profession lack of marketing/sales organization.

COMMENTS: Intermediation is a secondary activity, and is perceived to be broader than just project oriented. The firm approaches the role of intermediary with some caution as results of putting the wrong partners together can be counterproductive.

E. KAPLAN, RUSSIN, & VECCHI

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Kaplan Russin & Vecchi is an international law firm that specializes in providing transjurisdictional legal services to a variety of clients, including domestic and foreign corporations, banks, governments, trade organizations and individuals. The firm was founded by four partners in 1969 and has since grown to 73 attorneys in eight locations. U.S. offices are located in Washington (the firm's headquarters), New York, and San Francisco. Overseas offices are located in the Dominican Republic, Colombia, Thailand, Taiwan and Spain.

One unique characteristic of this firm is that it first established offices overseas (in the Dominican Republic and Viet Nam), and later established U.S. offices. This differs from the more traditional pattern of establishing a U.S. base with branches overseas, and is important in the sense that overseas offices are not regarded as "branches". Rather, they constitute an integral part of the firm's structure and operations. In addition, a number of the partners have extensive overseas "field" experience and in-country offices are staffed with partners and associates who in the large part are admitted to practice before the courts of their countries. (Approximately one-half of the partners and associates are nationals of those countries in which they practice.) This provides the firm with a broad-based international perspective, as well as an in-depth knowledge of foreign cultures and legal systems, that both philosophically and operationally supports its specialization in transjurisdictional legal services.

A significant number of the firm's partners and attorneys are multilingual. The firm has the capability to communicate in Spanish, German, Italian, French, Polish, Russian, Thai, Chinese and Vitnamese. This capability, along with an intimate knowledge of those countries in which the firm operates, is a significant asset in the practice of international law.

Approximately 75 percent of the firm's business is in the areas of trade and antitrust matters, and in litigation and arbitration. The balance is in foreign investment and technology licensing, legislative matters, and assistance to clients in negotiating and settling disputes involving government contracts. (These services are discussed in greater detail later in this report.)

Growth has primarily been achieved by forming working relationships with smaller law firms and individual practitioners in the U.S. and overseas. These relationships may take a variety of forms, and depending upon the degree of compatibility between the practices and personalities of the principals, may result in a merger of these firms into the overall structure and partnership organization of Kaplan Russin & Vecchi.

The firm has a formal growth plan with the goal of expanding its offices overseas, especially in Europe, Brazil, Mexico, Korea and Hong Kong. A key constraint to growth, however, is finding suitable partners and the time it takes for the various types of "get-acquainted" relationships employed to mature to a point where they can be integrated into the firm. Of course, many never reach this stage, and others may split off later, and so the entire identification and "get-acquainted" process may have to be repeated in a particular country or region. This results in lost time and delayed growth.

Intermediation is perceived as a secondary activity which arises as a result of the firm's law practice, international orientation and types of clients, all of which combine to present various opportunities to act in this capacity. Three levels or types of intermediation have been identified. One is intermediation at the policy level which involves working to establishing policies and legislation that would, for example, encourage foreign investment and/or relax certain restrictions that impede international business. Another level is described as programmatic. This involves establishing networks or structures that function to provide linkages and specific services required to do business internationally. A third level involves an individual project or business relationship. (These levels of intermediation are discussed more fully later in this report.)

2. OPERATING PROFILE

Kaplan Russin & Vecchi is a partnership with an interlocking ownership structure. That is, U.S. partners receive a share of revenues generated by overseas offices, and partners in these offices share in the overall economic performance of the firm. The specifics of these arrangements vary from office to office, and may change over time depending upon the volume of business resulting from the work of particular offices.

The firm may also work with other firms and individual attorneys in countries in which the firm has no established office, and fees are apportioned primarily in relationship to the division of work involved. These arrangements tend to be limited to specific cases, but have the secondary benefit of providing a means of getting acquainted with the local attorneys, which may then lead to a more permanent relationship.

Services Offered

The firm's practice, especially in the Washington office has developed around the following major areas:

1. Foreign Investment and Technology Licensing. The firm assists clients to structure their overseas operations in the most advantageous manner, in accordance with foreign investment, technology and currency regulations, as well as local law requirements. The firm has a broad base of experience in negotiating and drafting management, licensing and joint venture agreements; tax planning; establishing/expanding overseas operations; and assisting clients in obtaining financial and investment insurance from the U.S. and international agencies.

   Although work in this area has long been an integral part of the firm's practice, it has recently been identified as a separate area of specialized expertise that offers significant potential for new business development, especially among small and medium-sized firms.

2. Trade and Antitrust Matters. The firm assists companies in designing and carrying out their international trade and countertrade strategies. This includes handling exports licensing and export-import financing, providing antitrust advice on proposed mergers and acquisitions, and advising on the application of U.S. antitrust laws to international transactions. The firm represents clients before federal courts and agencies in unfair trade practices cases, escape clause actions, anti-dumping duty matters and similar disputes.

3. Litigation and Arbitration. The firm represents domestic and foreign clients before federal and state courts at the trial and appellate level, the United States Supreme Court, administrative agencies and the General Accounting Office. In addition, KRV has extensive experience in assisting governments and private parties to litigate and arbitrate claims by or against foreign parties and before international arbitration bodies. Attorneys in the overseas offices are admitted to practice before their courts, and assist in the enforcement of foreign judgements, as well as providing expert advice on local laws.

4. Government Contracts. The firm litigates disputes between contractors and federal agencies in all areas of government procurement, including supply and services, research and development, and construction. The firm also represents clients in contract negotiations, bid protests and other court actions involving government contracts.

5. Legislative Matters. The firm has an active and varied federal legislative practice. This includes monitoring and

reporting on matters of interest to clients, drafting testimony and preparing witnesses to testify on behalf of clients. The firm has also been actively involved in drafting bills, amendments and committee report language. Furthermore, the firm maintains contact with senate and House members to advocate clients' position on pending legislation.

Other Services

One of the difficulties e countered in the practice of international law (as well as in general practice) is that many clients do not know how to use an attorney's services and/or when to involve an attorney in the development of a business relationship. Typically, legal assistance is sought after a business partner has been located and preliminary discussions have already taken place. Axiomatically, the longer a client delays, the less effective legal assistance may be, as many options and alternatives will already have been precluded. For example, a U.S. businessman who establishes a trial or ad hoc relationship with a foreign agent or representative may find that he is locked into disadvantageous longer-term relationship as agents and similar types of representatives are well protected by various national laws, and the relationships cannot be severed easily.

One of the reasons for delaying the introduction of an attorney in the process of developing a business relationship appears to be the high cost of legal services. Kaplan Russin & Vecchi, for example, bills partners' time at the prevailing rates of law firms in Washington, D.C., ranging between $100/hour for seasoned associates to $175/hour for senior partners working in their specialties. Clients are often reluctant to incur high up-front expenses for legal assistance when they are unsure of the potential of the possible business relationship. However, the firm stresses the need for "preventive law" in order to reduce the likelihood of disputes and suits in the future. These can be far more costly than the time required when the attorney is involved during the initial thinking and planning stages of a business venture (not to mention the costs of getting into a bad deal).

In working with clients who are seeking to expand their overseas business activities, it is strongly recommended that an attorney be involved in the planning process. Here the attorney can help the client think through an approach to the venture. This includes such dimensions as outlining alternatives, providing expert knowledge on constraints and opportunities associated with various countries or regions in which to establish the venture, defining objectives (as well as defining what the client is willing to give in order to get what he wants), using the firm's network and overseas resources to investigate potential business partners' reputations and capabilities, and similar assistance in the planning process.

However, the attorney's involvement in the planning process represents the ideal situation. Normally, the attorney is introduced somewhere down the line, usually in response to a recognized need. Thus, the attorney's work typically follows a process or pattern that begins with a diagnosis of the client's situation. This diagnosis leads to the identification of specific problems and an array of alternatives for dealing with these problems. Once this has been done, the extent of the lawyer's work can be identified and fees determined. Often, there is no charge for an initial consultation, depending upon the extent of effort involved and the potential for establishing a longer-term relationship.

Generally speaking, the lawyer's job in working with a client who is seeking to expand internationally is to clarify prevailing issues and then work through this list to identify solutions to problems and define strategies for achieving desired goals or results. An important part of this process is the production of a working document that specifies these problems and issues, and represents a plan of action to follow in addressing them. This document is a critical element in the negotiation process, as it gives the other party a more concrete proposal upon which to base a response, and it also serves to clarify prior conversations and discussions between the parties.

Another type of service the firm provides is putting people with potential mutual interests in contact with each other. These may represent sources of financing, co-venture partners, sources of in-country knowledge or expertise and similar components required to effect an international business transaction. However, this role of "matchmaker" is not perceived universally within the firm as being advantageous, as these relationships may not be constructive (or may even be counterproductive). One risk is that a client may follow a lead that is unsuitable for a variety of reasons, have a bad experience, and then "blame" the firm for putting him in contact in the first place. Thus, caution is exercised here and the firm generally avoids intitating these contacts unless it know the parties well.

Client Development

KRV's client development or marketing efforts are similar to practices traditionally followed in the legal profession. Partners and other members of the firm are active in various business and civic organizations, make speeches and presentations, and generally put themselves in environments where their particular expertise and accomplishments can be recongized, and potential business contacts can be developed. Word-of-mouth referrals and repeat business are important sources of new clients and work, as are other attorneys and firms who may require the specialized expertise and in-country capabilities of KRV.

Another source of business and growth comes about as a result of attracting new partners to the firm. Often, these partners already have an established clientele or practice which can be better served through a partnership association with the firm. That is, an individual partner's clients can benefit as a result of KRV's specialized expertise and overseas representation, and KRV can benefit from providing services to these new clients which may need an expanded range of services offered by the firm. This is a form of synergy in which all the parties can benefit.

Another approach to business development is through the specific identification of a particular area of expertise and the further development of this area. For example, in order to expand the firm's capacity in the field of international arbitration and litigation, the firm sought out the expertise of the retiring Director of the Office of Foreign Litigation, U.S. Department of Justice. He became "Of Counsel" to the firm in 1981 and Partner in 1983. In another area, concerning international technology licensing and joint venturing, the firm has extensive experience and expertise. However, until recently, this area was not clearly identified as an established group of services and systematically developed. In this case also, the firm has engaged as "Of Counsel" a former international general counsel of a Fortune 100 company to develop and enhance these services. This combination of identifying a specific area of business and supporting this area with an experienced attorney with interest and expertise in the area represents a strategy of business development for the firm.

Kaplan Russin & Vecchi is sensitive to the fact that legal assistance is expensive, and may act as a barrier to small and medium-sized firms' overseas involvement and expansion. The firm is currently considering ways to "package" information and services that could make this option more affordible for these companies to explore. This is not a new idea in the firm, but one that represents a further extension of a traditional practice.

For example, in 1970, the firm published a monograph, "Forming a Dominican Company," that provided foreign businessmen with a comprehensive treatment of various types of Dominican corporations, the rules governing their establishment and operation, tax considerations (both in the Dominican Republic and in the U.S.), and the costs of various required licenses and permits. This publication included a checklist of all the information needed to establish a Dominican corporation. This was the first time that this information had been organized and presented in one place. The demand from local attorneys was so great that it was immediately translated into Spanish. Thus, this publication both served as a marketing device as well as providing a "package" of legal information that would be quite expensive for an individual or small business to acquire on its own.

Another example, also pertaining to the Dominican Republic, is a seminar organized and sponsored by the firm in 1982, "Business Prospects Under the Jorge Blanco Administration". In this case, KRV waited 100 days for this new administration to develop its policies and programs relating to domestic and foreign businesses. The seminar covered an assessment of the administration, legislative programs and priorities, government assistance for projects in the country, the effects of a deteriorating "country risk" position (i.e., the banker's prospective), the implications of the Caribbean Basin Initiative, prospects for the industrial-free trade zones, export prospects, and other initiatives and developments in the country during this period under Blanco's administration. The seminar was attended by more than 50 persons representing private companies, government agencies, and large multinational corporations, in addition to banks, attorneys, consultants and others. Again, the organization would likely be prohibitive.

Operating Problems and Constraints

Two operating problems have already been mentioned. One is the difficulty of finding suitable overseas partners in those countries in which the firm seeks to expand. Extensive development time is normally required for various types of "get-acquainted" relationships to mature, and it is not unusual for many of these to flounder before they reach a stage at which they might be integrated into the organization of the firm. This results in lost time, lost opportunities and delays in the expansion of the firm.

Another problem involves the high cost of legal fees and potential clients' reluctance to engage an attorney before they can see the business potential or economic benefits of a proposed arrangement or deal. Often, the legal dimension is introduced after a client's partner has been located and preliminary discussions completed. The attorney is introduced into the development of the business relationship in response to the client's perceived need and so the attorney may be brought into the negotiating process at the late stage after critical options have been foreclosed and irrevocable commitments made which prejudice the client's interests. The attorney then must focus on crisis management rather than preventive planning. As a result, the client loses an important aspect of the attorney's services. This problem is particularly acute where small and medium-sized businesses are involved.

Another operating problem involves communications and logistics. Having the right papers in the right place at the right time is a general problem in the practice of law and is magnified when operating overseas. Communicating with foreign attorneys, especially those who are not part of KVR offices, is an added difficulty. A great deal of time must be spent trying to get the specifics of a case or an issue, and this places a premium on what might be termed "interrogation skills". As the firm has the capability of communicating in a variety of languages, this problem is lessened somewhat, as the use of translators is generally not effective.

Differences among legal systems and the fact that clients use lawyers differently in different cultures pose another set of operating problems. In the U.S., lawyers are generally more involved in the sense that they take an active part in defining problems, proposing alternatives and entering into negotiations directly, as well as structuring and documenting the transaction or business operation. In other countries, lawyers may function more as "go-betweens" or as "quasi-politicians" who may use their contacts and influence in government and the local community to get approvals and agreements. These different methods of operating across cultural lines often result in misunderstandings and other problems which can have an adverse effect on productivity.

Pricing Structure

The firm's philosophy in this area is to bill for services as they are rendered. While the firm normally bills on an hourly basis, another method is to establish a "package price" for a defined amount of work which is estimated in advance. The firm also has retainer clients who pay a fixed monthly fee, and time spent is charged against this amount.

The firm does not take equity positions in client firms or business ventures for two major reasons. In the first place, entering into a venture as a principal could interfere with rendering objective legal advice, and could create a conflict of interest with the client. For example, if the firm had a stake in the financial outcome of a venture, this might influence the degree of risk the firm would think prudent for the client to assume. Secondly, it would be difficult to establish the degree of ownership of a venture among the various partners in the firm.

Major expense items for the firm include salaries, library maintenance, office overhead, communications and the costs of client development (i.e., conferences, pro bono work, the time required to write articles and other publications, and similar activities).

Interestingly, competition in the legal profession, especially in Washington, is increasing as a result of the current administration's emphasis on deregulation which reduces the overall amount of legal work required in specific industries. Although it is not likely that this increasing competition will have any effect on the generally high cost of legal services, it may lead to other changes in the way these services are marketed, sold and delivered. One possibility is that attorneys may shift their "institutional perspective" away from the norm of responding to needs and begin to adopt more of an initiating role in client development. That is, many may pursue a more active role as intermediaries and initiators of projects and new business ventures.

Future Business Plans and Strategy

In sum, KRV is positioning itself to take advantage of new opportunities in the international business sphere in a number of ways. One is to open new offices in Europe, Latin America and the Far East. This will provide new and existing clients with an expanded geographic capability (with all the benefits of in-country knowledge and legal expertise), and should yield an overall increase in the volume of business for the firm, especially as offices are established in high-growth regions.

Another strategy is to identify new or existing service areas and to develop these with the concentrated effort of an experienced attorney assigned to them. This attorney, as in most other areas of specialization, would function in the roles of both legal specialist and client development.

This strategy may be implemented in conjunction with one that involves targeting specific industries that have a need to expand overseas and/or increase their international activities. These would be industries that are experiencing economic or other pressures that would provide sufficient motivation to overcome inertia and the traditional "stay at home" orientation of many small and medium-sized firms.

A third area of strategic development involves the idea of providing "legal advice packages" that would assist small and medium-sized firms in specific instances. One possibility here is to provide information and assistance to firms that could benefit from establishing operations in free trade zones in the Dominican Republic and other Caribbean countries.

In addition, the firm will continue to work on the levels of intermediation previously outlined, assisting potential clients to initiate business ventures. The firm may pursue this role more aggressively in the future, but under controlled conditions, i.e., where the firm has experience with the potential parties and is confident of their reliability and integrity. A casual approach to this area probably would not be beneficial, and may in fact be counterproductive to both the firm and its clients.

3. PROJECT EXAMPLES

The Attorney's Role as an Intermediary

There are three distinct levels of intermediation at which an attorney may be involved. One is at the policy level which includes working to change or modify policies, regulations and statutes so as to create a more favorable business client/conditions in some geographic region or industry. This work might be on behalf of a large company, industry association or lobbying body.

For example, many corporations retain so-called Internal Revenue Code Section 936 earnings in Puerto Rico because these monies are exempt from U.S. corporate income taxes as long as they are not remitted to the U.S. (i.e., Puerto Rico is treated as a "foreign country" in this area). Presently, there are several billion dollars being held in Puerto Rican banks, and KRV is working with the American Chamber of Commerce of the Dominican Republic and with Congressman Barnes (Maryland) on a proposal and draft bill that would allow a small portion of these funds to be re-invested in the Caribbean. This would stimulate development in the region, ease the current lack of international financing, provide working capital for importers and exporters, and generally would have the effect of establishing Puerto Rico as an international banking center.

Another level of intermediation can be described as programmatic, that is, the establishment of programs or systems designed to achieve specific goals and/or support policy initiatives with more or less established routines and procedures.

For example, the General System of Preferences (GSP) allows qualified developing countries to export over 2,000 items duty-free into the U.S.. Many countries in the Far East have taken advantage of this program which has been significant in their development efforts. Because this program expires in January 1985, some of these countries may no longer be given GSP treatment and, as a result, may experience increased difficulty with certain types of exports to the U.S..

However, the Caribbean Basin Initiative duplicates many of the provisions of GSP, and extends until 1996. CBI countries can export duty-free products to the U.S. as long as at least 35 percent of the value of these exports is added in CBI countries. Thus, KRV is proposing various alternatives to the Dominican Republic that would alert manufacturers in the Far East to the facilities and opportunities available in the Dominican Republic. This program would assist firms to open production facilities in Caribbean countries and to develop linkages to U.S. markets.

A third type of intermediation in which KRV becomes involved is specific business ventures or projects. One example is that of a poultry breeder in the U.S. who exported fertilized eggs to the Dominican Republic where they were hatched and grown to supply the Dominican market. For various reasons, the decision was made to shift the production of fertilized eggs to the Dominican Republic. KRV helped its U.S. client structure the agreement with the Dominican partner, represented the client in negotiations and during the life of the joint venture, and assisted in bringing this joint venture to a pre-planned conclusion. As there was no breeding operation in the Dominican republic prior to this project, the development benefits were substantial in that a new, more sophisticated level was added to the Dominican poultry industry, approximately 500 new jobs were created and the country realized foreign exchange savings. At the same time, the U.S. client continued to maintain genetic research in the U.S. and advances in this area are available to breeders in the Dominican Republic under the terms of a different type of relationship, as the Dominican market is not large enough to warrant shifting this "grandparent level" to that country.

This was a successful venture. However, another example with the same client illustrates some of the uncertainties, risks and difficulties involved in international business ventures, especially where small and medium-sized companies are concerned. In this case, KRV introduced their U.S. poultry client to a group of African businessmen and entrepreneurs with the aim of setting up a similar type of poultry breeding operation in Nigeria. This country represents a larger market than the Dominican Republic, and the scale of the project was in the $40-50 million range.

The first step was an OPIC-supported feasibility study which KRV helped the client to prepare. It should be mentioned that OPIC feasibility study financing does not include any provisions for legal fees, and so the client had to finance $20,000 of KRV's time out of his own pocket, as well as to provide his share of the costs of the feasibility study.

KRV's role also included structuring the investment package and pre-investment agreement for shareholders. In addition, the firm prepared the licensing and technology transfer agreement, and prepared the trade name/trademark agreement and registration.

As one of KRV's objectives was to keep costs down in view of the client's limited financial resources, they prepared the agreement but did not enter into negotiations directly, and did not get involved in the bank financing.

Currently, the project is on hold and it is likely that the client will receive no benefit from the funds he has already spent. Again, this illustrates how high up-front costs can act as a barrier to small and medium-sized companies that seek to expand their overseas involvement, and it also illustrates one of the reasons why attorneys are frequently excluded from initial business deliberations and negotiations. In addition, this example demonstrates why caution must be the rule in introducing clients to potential business partners, as many proposed ventures are never realized and this may have negative repercussions in terms of the client-firm relationship.

4. VIEW OF THE FUTURE

Partners and other members of the firm are paying close attention to developments in the small and medium-sized business sector, especially as these relate to the expansion of international activities. There is, however, no unanimity of opinion on the future potential of this sector as a source of business for the firm. On the one hand, significant barriers to international expansion are expected to remain in force for some time. These include the general difficulties of doing business overseas, the health and vitality of the U.S. market which offers other profitable opportunities in a familiar and less costly environment, the high cost of legal services and other required up-front expenses, the lack of information on particular opportunities and advantages of doing business in particular countries or regions, and other constraints mentioned throughout this report.

On the other hand, there are many programs and initiatives on the part of both U.S. and foreign governments to encourage small and medium-sized businesses to explore international opportunities, and these might be expected to have an overall "conditioning" impact so that the idea of a firm entering into an international venture could become a more popular and seriously considered alternative. It is likely that those firms or industries that are experiencing definite pressures would be the most likely prospects for considering overseas alternatives.

Members of KRV stress the fact that legal services are only one component of a more comprehensive "package" of services that are required to assist small and medium-sized businesses to expand their international activities. One suggestion for facilitating development in this area is to see the open trading company as the hub or integrating framework for bringing the necessary specialized inputs to bear on a particular venture or proposition. These inputs might include management consulting, accounting, banking, training, technology search groups, marketing experts, attorneys (both in the U.S. and overseas), government agencies, and others, depending upon the nature, scope and other specifics of a venture. It is also important that a firm has a definite business plan when considering an international business opportunity. The idea that there are "new opportunities in the Caribbean," for example, is not a sufficient basis for seriously considering doing business in the region.

Another important caveat is the need to know in-country partners and conditions very well. This is an area in which KRV can be extremely helpful to a client who is considering a business venture in one of the countries in which the firm has an office. However, this source of valuable information may be by-passed until after the business partner has been identified and preliminary negotiations have been completed.

New Opportunities

Technology fairs were suggested as a viable marketing strategy for both small and medium-sized companies seeking to expand internationally, as well as for countries or regions that are seeking sources of new technologies to aid in development. Technology fairs facilitate the identification of suppliers and users of technologies, as well as local firms that might be appropriate in-country partners. However, these fairs are not necessarily effective as stand-alone programs, but must be conceived and organized within a larger context and support structure that would act to assist the parties in taking the next steps required once a potential project or business relationship has been identified. Conceptually, this is similar to the idea of using an open trading company as the integrating framework for bringing together and managing all of the components necessary in assessing and structuring an international business relationship.

UPDATE AND CONCLUSIONS
AFTER ONE YEAR (1985)

When the initial case study of this international law firm was completed in 1984, partners and other members of the firm were paying close attention to developments in the small and medium-sized business sector with the intention of expanding KRV's international activities in this area. Since that time, several new initiatives have been undertaken.

For example, KRV submitted proposals to AID to participate in the field trials portion of MTAP. As a result, they became part of the Boles consortium and the business promotion activities in Costa Rica and Haiti. They are also actively bidding on other AID and development institution opportunities.

The firm has expanded in Latin Amreica, adding 10 new offices to their existing network, and are also seeking to add partners in Asia. One strategy here is to use the provisions of the Carribean Basin Initiative to source products, principally manufactured in Taiwan, into the U.S. market by using CBI firms to complete the manufacturing process (final assembly, for example) in order to meet the value added provisions of this legislation.

KRV is also engaged in a venture with a publishing company to write and distribute either a book or series of monographs dealing with the legal aspects of doing business in selected Asian countries, and the pros and cons of various arrangements. These publications would be intended for in-house corporate attorneys to familiarize them with normal practices and procedures, and are primarily intended as a marketing and new business development strategy. A U.S. firm seeking to establish a working relationship with a Taiwanese manufacturer, for example, might be more apt to use a KRV affiliate in that country as a result of this publication. KRV must have a way to make correspondent networks operational, and this is one approach for doing so.

In terms of the business side of intermediation, KRV reports similar experiences as others participating in this research. They are finding that intermediation is commercially viable only when it either feeds their main business activity, or when intermediation is part of an overall package of services. The question of how to get paid for the up-front work and effort involved is an issue. As clients are reluctant to pay for these services, deals must be structured in such a way that intermediaries are compensated out of the new business and revenues generated as a result of putting the partners together (and providing the intermim support and expertise required throughout the project development cycle). This is not always easy as the principles in a venture are apt to ignore or minimize the intermediary's role in bringing the project to fruition, and so may not pay either fees or royalties.

One of the ways for the intermediary to avoid this possibility is to structure the deal so that he has an ongoing and active role in the new business. Often, this is in the form of an exclusive marketing agreement in which the intermediary either sets up a marketing company or has other market rights that allow him some control over that portion of the new venture.

As there are many opportunities for KRV to get involved in inernational business ventures, and as many of these do not reach the stage at which they begin to generate revenues, it is necessary for any intermediary to have a selection method that facilitates the identification of those opportunities most likely to be successful. In addition to knowledge of the players and their track records, KRV focuses on the market itself. They seek products that fit certain market niches, and ones that can be sold at a higher margin as a result of having some unique property or advantage. This advantage may be in the form of a service or intangible value-added dimension such as sourcing agricultural products off season or adapting an existing product to meet the special needs of a micro market (shifting part of the production of a coffin manufacturer into sensory deprivation flotation tanks, for example). KRV avoids products normally traded on established commodities markets as the volume requirements are high and the margins low, and it would require a large and highly specialized organization to make trade in these types of products commercially attractive.

In regard to the impending threat of protectionism of U.S. markets, intermediaries must be careful to avoid those market areas that may be cut off or severly restricted. It is important to be working in a number of product areas and countries simultaneously so as to reduce this type of risk, and it is also necessary to establish and maintain relationships with key government policy makers to monitor developments and to influence blanket decisions to the extent possible.

DATA SHEET

ORGANIZATION: TECHNOLOGY CATALYSTS, INC. **DATE:** 3/29/84

ADDRESS: Suite 1204, 1235 Jefferson Davis Highway, Arlington, VA 22202

TEL: 703-521-0955 **TYPE ORGANIZATION:** Privately held For-Profit

WHEN FOUNDED: 1979 **ANNUAL GROWTH RATE:** 100% per year

TOTAL REVENUES: $5-6 million (est.) **EXPENSES:** N/A

NO. FULL TIME EMPLOYEES: 30

NO. LOCATIONS/OFFICES: 1 U.S. 1 Japan

REGIONAL/AREA CONCENTRATIONS: U.S., Far East, Europe

INDUSTRY SPECIALIZATION: Chemicals, Pharmaceuticals, Biomedical

NO. INTERMEDIATION PROJECTS SINCE INCEPTION: 87 (1982)

TYPES OF CLIENTS: Small, high-technology R&D firms; Large companies

TYPES OF PARTNERS/AFFILIATIONS: Other Data Base Intermediaries

IS INTERMEDIATION PRIMARY OR SECONDARY: Primary

COMMENTS: TCI is a data base intermediary that provides a variety of information and analystic services for finding and valuing new technologies. It seeks to intermediate between small, high-technology R&D firms and large companies that have the capability to commercialize new technologies (products and processes). TCI has experienced rapid grwoth since its inception in 1979, doubling annual revenues every year. TCI is expanding internationally with a joint venture with Mitsubishi Chemical Co. in Japan, and seeks to import European technologies to the U.S. and other industrialized nations.

F. TECHNOLOGY CATALYSTS, INC.

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Technology Catalysts, Inc. was founded in 1979 by its current president, Mr. Richard DiCicco. The firm offers a variety of data base or information services that are designed to link buyers and sellers of high-technology products and ideas. To this end, the firm offers some seven different types of services and sponsors technology R&D fairs in the U.S. and Europe. Mr. DiCicco, an electrical engineer with a graduate degree in business, was formerly with Control Data, Inc. where he participated in the development of Technotec, a similar type of data base service for linking buyers and sellers of technology.

Currently, the firm serves approximately 500 clients, mainly large businesses in the biomedical and chemical industries, and has total revenues in execess of $3 million per year. The firm specializes in pharmaceuticals, chemicals and medical products, and tends to avoid high-technology electronics. According to Mr. DiCicco, this field is problemmatic in that 90 percent of all infringement lawsuits filed since 1950 have been settled in favor of the defendants. This is because it is relatively easy to design around existing patents, and because there is often a high degree of similarity among electronics technologies and products.

Technology Catalysts monitors some 10,000 small businesses that represent the primary source of new and emerging technologies. It gathers information from government listings, corporate data banks, technology magazines, international licensing shows and trade fairs, and from other companies that provide similar data base services (e.g., Control Data, Inc. and Dr. Dvorkovitz's Instantechex). It offers these to its clients in a variety of formats or models that include specific searches, seminars, computer hard copy outputs, and personalized, consulting type arrangements.

The company has established a joint venture relationship with Mitsubishi Chemical Corp. of Japan for the purpose of researching all Japanese patent applications which are translated into English and made part of the company's data base. At the same time, Mr. DiCicco sees Europe as another source area for new technologies that can be sold to companies in the U.S. and elsewhere, especially in biotechnology, filtration membranes, specialty chemicals and additives.

The firm has also been involved in supplying Congress with information in support of the Small Business Innovation Development Act which seeks to strengthen the role of small, high technology firms in the Federal research and development procurement process. Mr. DiCicco worked closely with

Representative Berkley Bedell of Iowa and is credited with shaping the debate on this Act as it worked its way through the legistative process.

2. OPERATING PROFILE

Probably the best way to gain an operational understanding of this company is to describe the types of services it provides, and how these are sold and delivered. Currently, the firm offers seven different service-products in addition to its annual high technology R&D trade fair.

Licensing Locator is a data service that provides information on technologies available for licensing. Some of this data is a synthesis of Control Data's Technotec and Dr. Dvorkovitz's data banks which jointly contain some 50,000 licensing opportunities. In addition, TCI scans publications and government listings, and attends over two dozen technology R&D fairs around the world. The combined data base contains over 200,000 licensing opportunities.

The service is delivered in conjunction with TCI staff assistance to the client and involves a number of discrete steps. The first is a kick-off meeting in which the client's needs and technology objectives are established. Next, a profile based on this meeting is prepared, and this is used to guide the technology search or scanning activity. Once potential licensing opportunities that fit this profile are identified, these are analyzed to eliminate those that do not fit the client's needs or are in some other ways inappropriate. A proprietary report is then prepared which gives a basic description of the technology and other particulars. This report is presented to the client in a feedback session in which the various alternatives are discussed. As a result, a decision is made to either pursue one or more of these opportunities, or the search process is refined for a second iteration.

The annual fee for this service is $9,500. This includes a customized quarterly screening service, and an unlimited number of requests to screen the data bank.

License Planning Model is a service offered to both licensees and licensors. It is a structured approach that asks the relevant questions that must be considered when buying or selling a technology license. Price, royalty, income projections and other data are introduced into a computer program that produces sensitivity analysis, income statement projections, graphs and similar displays to assist buyers and sellers in evaluating and pricing technology.

This service can be provided either as hard copy computer output with one run and one update billed at $1,500, or it can be provided in conjunction with a one day seminar for $2,500 plus travel expenses.

Controlled Release Data Base contains highly specialized information on controlled release technologies for delivery of bioactive and non-bioactive agents. It contains over 16,000 pieces of information, both published and unpublished.

This information is delivered in the form of custom seminars and reports. Reports are often 300 pages or more, and cover the technology and the companies that have developed them. Videotapes are used to augment print materials. A one day seminar complete with text materials, videotapes, and one update report is priced at $7,800 plus travel. Text materials without the seminar is $6,000. These prices apply to drug delivery topics.

A second group of applications for these controlled release technologies is in the agricultural chemicals, consumer products, and animal health areas. These seminars and text/video packages are priced at $3,900 plus travel, with text materials at $3,000.

Technology Evaluator is a systematic and quantitative method for evaluation of a technology in terms of its technological, marketing and investment characteristics and potential. This is a service that is of value to both the buyers and sellers of technology, and includes a market research component, a strategic evaluation plan, and an assessment of the technology itself. It has the normal business advantages for the buyer who requires a strategic assessment and plan along with market research and financial analysis, and has the benefit of providing the seller/licensor with a marketing tool to help him identify and sell his technology to an appropriate firm.

The Technology Evaluator is delivered in the form of a report which includes such things as a strategic overview, market distribution channels, risk analysis, competitive advantages, financial projections, regulatory impacts, and other relevant information. It is priced at $8,000, which includes primary market research in the U.S., and at $7,500 for any western European country.

Technology Marketor is a service offered to small businesses and others who are seeking buyers for their technologies. It provides the seller with a low cost method of presenting his technology to 30 potential buyers. TCI selects these 30 companies from over 10,000 companies that are known to have R&D budgets. It contacts these companies on behalf of the seller, and provides monthly feedback reports on contacts made and interest generated. TCI does not charge brokerage fees for this service, and charges a $1,500 annual fee to subscribers.

Technology Videosearch is a 15 minute videotape presentation of a technology offered by a small firm. This service is offered to large companies that are seeking a technically competent company to engage in contract R&D work or to develop products. It provides the client with an opportunity to see 36 small companies, "meet" the principals, and obtain a sense of the company's expertise and competence while remaining anonymous. The fee for this service is $14,000 which includes the identification and taping of 36 privately held R&D firms. Individual tapes are $800 plus travel.

Technology in Japan is a result of TCI's joint venture with Mitsubishi. Information provided by this service is focused on the strategic and other requirements involved in licensing technology either to or from Japan. TCI provides four services in this area. One is a series of reports on the activities of Japanese companies in specific industries. Twenty reports with updates are offered for $6,000. These reports are issued throughout the year and cover such topics as technology, markets, strategies and patents recently filed by Japanese companies. They provide an in-depth picture of one's Japanese competitor or co-venture partner, and are produced by former board members of large Japanese firms.

A second area of service is a customized seminar specifically designed for a U.S. firm. This seminar covers technology in Japan of interest to the firm, and complete written materials are also provided.

Proprietary studies are the third service. These are customized research reports that include primary market research, and draw upon TCI's extensive data base and Japanese affiliations.

Licensing meetings held in Japan are the fourth service. They can be arranged for clients as needs dictate. The fees for these meetings and custom reports is negotiable while the cost of multi client reports with updates is $6,000.

TCI sponsors an annual High Technology R&D Trade Fair which attracts buyers and sellers of technology, as well as venture capital firms. The first of these events, held in the Shoreham Hotel in Washington in the spring of 1982, was attended by some 250 small high technology firms and 75 large firms such as Eastman Kodak, DuPont, Procter and Gamble, and Monsanto.

The fair is organized in a way that allows small firms to present their technologies to a generally interested audience, and also has provisions for display tables and meeting rooms where more in-depth discussions could be held. According to Mr. DiCicco, one of the advantages of the annual fair is that it required the larger companies to spell out the type of research they want done. Normally, researchers have to guess the needs of potential sponsors and then hope a research proposal meets their needs.

Fees charged for participation in the fair is on a sliding scale. Small companies pay $195, venture capital firms $500, and large companies $1,000 for this three day event.

Marketing and Sales:

TCI sees itself as an "information intermediary" as opposed to a deal maker. As such, it does not charge finders fees or commissions on those matches it facilitates between sellers and buyers of technology. Strategically, it offers different services to meet the differing needs of these groups, and recognizing smaller companies' limited financial resources, has a different pricing structure for these firms.

As the company has an extensive, catalogued data base of small high-technology companies, it can use direct mail solicitation as an effective marketing and sales tool. These mailings can either be general in nature (i.e., an invitation to participate in the annual fair), or specialized (i.e., for those companies involved in controlled release technologies).

TCI has an extensive brochure that describes its service-products in detail, and this is used either as a direct mail piece, or as a response to general inquiries. This brochure includes a separate price sheet which is updated periodically.

As TCI specializes in the chemical, biomedical and pharmaceutical industries, it has made a special effort to develop its business with R&D directors and others in these companies. Virtually every major U.S. chemical company is a TCI client.

In addition, TCI executives and staff attend conferences, workshops and similar events in which technology transfer is a theme. The company is also represented at specialized industry gatherings that provide opportunities for public exposure.

Finally, the information services the firm provides also become a marketing and sales mechanism. For example, the Technology Marketor service in which 30 firms are contacted on behalf of a small company with technology to sell, also provides a way for these firms to learn about TCI and its services. These firms may then become customers for the Technology Evaluator, Licensing Locator or other services.

Business Growth:

TCI's computerized data base lists over 200,000 technologies available for licensing, and the company keeps tabs on some 12,000 small firms that engage in research and development activities. It has over 500 clients, most of which are large companies that pay an annual fee for access to this data base.

The company's fastest growing service is the Technology Video-search in which small companies make 15 minute presentations that are used to make large companies aware of their talent and capabilities (as well as their acquisition potential).

Since its founding in 1979, TCI's annual revenues have doubled every year. Currently, these revenues are estimated at $5 to 6 million in sales.

The company is expanding on three planes. One is within those industries in which it specializes as it seeks to sign up more large companies that would benefit from its Licensing Locator and other services. A second plane, is to identify new industries in which the development of new technologies plays a key role in growth. For example, those industries that have emerged around gene splicing technology represent a new area of specialization and growth. A third plane is geographic expansion as evidenced by TCI's joint venture with Mitsubishi and its Technology in Japan program. Importing technology from Europe is perceived as a new business development area.

Competitive Situation:

As a "technology scout," TCI competes with a number of other firms that offer similar services. Arthur D. Little, for example, locates new technologies and finds buyers for them. Out of some 1,000 technical disclosures per year, this company selects 10 to develop. Arthur D. Little is willing to invest in the development and patent process, and takes a 50 percent ownership position in the new business.

The Rain Hill Group in New York operates primarily within the chemical industry. It conducts searches and provides consulting type assistance to its clients on how to best integrate these new technologies into exisiting operations. Clients pay an annual fee of $84,000 which includes an unlimited use of search and consulting services. According to Richard Cawley, President, 52,310 new business opportunities came to the firm in 1982. Of these, 738 were recommended to clients, and 200 of these recommendations were acted upon. Out of these, 30 deals were closed with 20 more expected to close, or about .01 percent. This illustrates the extreme degree of "statistical reductionism" at work.

Dr. Dvorkovitz & Associates is the oldest firm in this field, having been founded 20 years ago. The company has 42 representatives who monitor new technolcgies around the world, and clients have unlimited access to this data base for a $6,000 annual fee. The firm also organizes TechEx fairs in the U.S. and Europe. TCI maintains a business relationship with Dvorkovitz and Associates, and TCI clients have access to his data base.

Research Corp. is another competitor operating in this field. This firm monitors research in a wide variety of fields that is carried out by university scientists. It has agreements with about 300 academic institutions. Of the 400 inventions disclosures it receives each year, RC applies for patents on about 10 percent of these. Approximately 15 inventions are licensed each year with 15 percent of the revenues going to the researcher, and the balance split between the university and RC.

University Patents, originally a not-for-profit organization, has grown into a commercial company. It markets university breakthroughs to large companies, concentrating in the biomedical area.

Other competitors include SRI (formerly Stanford Research Institute) and Battelle. According to Mr. DiCicco, TCI's competitive advantage is that these companies have large staffs and large overhead expenditures, while TCI is able to deliver its services with a staff of about 30 people.

3. <u>PROJECT EXAMPLES</u>:

Recently Mr. DiCicco announced that his company completed 87 technology transfers in 1982. These transfers, it should be noted, do not necessarily involve transfers of U.S. technology overseas, but also include transfers from small R&D firms to large companies that have the ability to develop these further and market them.

For example, DASI, Inc., a small firm with a patented process for sterilizing milk so completely it can be stored for 2 months without refrigeration, found their process of interest to Eastman Kodak who saw potential applications for sterilizing developer gelatin. Adolph Coors was similarly interested in this technology as was American Hospital Supply Corp.

Bristol-Meyers licensed a household cleaning product from a small firm during this period, and ASTRE, another small high-technology company, received a research contract from NL Industries to develop a microorganism to decompose titanium dioxide, an industrial waste product.

TCI also facilitated an agreement between two individuals who invented a protective guard for oxygen tank regulators with Technology Distributors, Inc., a company that specializes in hospital equipment sales.

4. VIEW OF THE FUTURE

Given the fact that Technology Catalysts has doubled its annual revenues during the last four years of its existence, its view of the future must be an optimistic one. Small, high-technology R&D firms are a dynamic source of new ideas and technologies, and TCI's strategy of hooking these up to large firms that can commercialize these technologies appears to be a viable one.

However, this area is not without its problems and constraints. One is that large companies are often reluctant to fund further research being conducted by a small firm until the product or process has reached the "demonstration" stage. This is often a "catch 22" situation in which the large firms are unwilling to invest, and the small firms require the funds to continue the research. This is not true in all cases. Monsanto, for example, does approximately 90 percent of the "D" in-house, and seeks the "R" component from small firms.

Another problem is that small firms must compete for the attention of venture capital firms who ar innundated with new ideas. The process these venture capital firms follow in selecting a small company/new technology to back is often arbitrary and based on hunches and personal preferences. Thus, many small firms with potentially marketable new technologies are not able to secure the necessary capital for further development and commercialization.

DATA SHEET

ORGANIZATION: BOICE DUNHAM GROUP DATE: 2/28/84

ADDRESS: 575 Madison Avenue, New York, N.Y. 10022

TEL: 212-605-0367 TYPE: Partnership

INTERVIEW WITH: Craig Boice POSITION: Principal
David Dunham Principal

FOUNDED: 1982, Reorganized 1983 ANNUAL GROWTH: N/A

TOTAL REVENUES: $800,000 EXPENSES: N/A

MAJOR EXPENSE ITEMS: Salaries, Travel, Office Overhead, Conferences

NO. FULL TIME EMPLOYEES: 6 P/T: Project Staffing as Required

NO. LOCATIONS/OFFICES: 1

REGIONAL/AREA CONCENTRATIONS: Worldwide. Empahsis on the U.K., Canada, Middle East, Far East

INDUSTRY SPECIALIZATION: Consumer Products, Plastics, Electronics

NO. INTERMEDIATION PROJECTS SINCE INCEPTION: 8 CURRENT: 3

TYPES OF CLIENTS: Large Corporations, Small Companies

TYPES OF PARTNERS/AFFILIATIONS: Lawyers, Accountants, Other Consultants, Business Executives

IS INTERMEDIATION PRIMARY OR SECONDARY: Primary

ESTIMATED ANNUAL REVENUES FROM INTERMEDIATION: See above

G. BOICE DUNHAM GROUP

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

The Boice Dunham Group was established in 1982 as the Allen Management Group by James Weschler, Craig Boice and David Dunham. Subsequently, Mr. Weschler left the firm to manage one of the ventures it had established in Europe and the group was reorganized as Boice Dunham in December, 1983.

Primarily, the group seeks to intermediate ventures with specific short-term objectives. It focuses on specific opportunities as opposed to more general areas of business development, and seeks to play an initiating/initial structuring role to realize these opportunities. Once the venture or project has been set up and is operating, the idea is for the partners to withdraw and concentrate on new opportunities and to manage the venture over the longer term as advisors or directors on the Board.

The group has identified three areas or types of involvements that are compatible with its intermediation objectives and special skills. One area is described as Opportunity Analysis and Structuring. Here the firm assists clients who are looking for new business opportunities. This assistance ranges from domestic and international search activities to structuring a deal, depending upon the client's needs.

A second area involve Venture Design. Here the firm may become involved in joint ventures, licensing agreements, franchise operations, establishment of distribution systems and turnkey projects. In some cases, Boice Dunham may assist clients who have become stalled at some point in the development of a business relationship. This assistance may include redirecting the focus of the venture, harmonizing the objectives of the parties involved, and/or restructuring the deal itself.

A third area of activity is Venture Initiation. The firm acts as the catalyst or integrating mechanism for bringing the necessary resources together to realize a business opportunity. The firm may take an equity position in the new venture and/or receive payment in the form of finder's fees and commissions.

Both Mr. Boice and Mr. Dunham have extensive international experience that prepares them for this work. Mr. Boice has an MBA from Yale with a concentration in international business. He was a Senior Consultant with the Economics Studies Group for Coopers and Lybrand in Washington and London. He was the Vice President of Operations for the International Licensing Network, a private consultant company in New York, and was an International Economist for OPIC prior to founding the Boice Dunham Group.

Mr. Dunham was raised and educated in Great Britain and Canada. He has an extensive background in consumer marketing, including market research, new products consulting and advertising. He was an account executive for the Ted Bates advertising agency in Toronto and New York where he was responsible for market planning and advertising campaigns for Beecham, a leader in the over-the-counter pharmaceuticals industry. Prior to establishing Boice Dunham, he was a partner with Dunham & Marcus, a new products development house in New York City.

2. OPERATING PROFILE

Intermediation is a primary activity for the Boice Dunham Group. Its activities in the three areas outlined previously are geared to the identification and development of specific business opportunities, with a primary operating rule being to develop the business within each opportunity; that is, to convert potential opportunities into profitable, revenue-generating business. Thus, the firm's capabilities span the entire business development cycle from initial identification to bringing the necessary resources and elements together; structuring the type of relationship that is best suited to the needs of the principal parties and the nature of the business (e.g., licensing, franchising, etc.); and following through to ensure this development process does not become stalled prior to its culminating in a revenue-producing business relationship or venture.

It should also be mentioned that strategically the firm seeks for its ventures what are described as "preemptive market positions." That is, its venture planning horizon is 18-24 months in the future, as it seeks to establish a market position or share that preempts others from entering this market. Its focus is micro-economic in nature, the idea being that a large share of a small market is superior to a small share of the large market as the larger market will likely attract competitors with all of the associated disadvantages (e.g., reduced margins from price competition, increased marketing and sales costs, a greater need for more sophisticated and expensive management skills, and similar profit-reducing expenses). The firm uses the concept of "target marketing" to its advantage. Although this is a well-established approach in the U.S., it is not widely used overseas where it can have a high level of utility, given regional differences and other cultural factors inherent in this environment that create a wide variety of fragmented markets that may be most profitably addressed on an individual basis.

Types of Clients

The group provides services to Fortune 500 corporations and smaller businesses in the $1-20 million range, and has found that mid-sized companies are the least likely to venture overseas. The firm is involved in a number of different industries and operates on a global basis. For example, it is working with Israeli plastics manufacturers to find new markets for their industrial and consumer products and technologies. It monitors the in-home electronics market (personal computers and home entertainment), as well as financial services markets, new approaches to retailing and merchandising that utilize new communications technologies, and other areas that are characterized by significant change. The change and chaos inherent in these markets requires sophisticated marketing perspectives in order to isolate the emerging markets and technologies that represent viable new businesses.

Sales and Marketing

Client development is primarily a function of referrals and direct contacts initiated by the principals. The firm's affiliation network includes lawyers, accountants, executives and former clients, all of whom are potential sources of new business and new prospects. The sales effort is concentrated on those industries the principals have identified as having potential, either for overseas expansion or for utilizing new technologies as these emerge (for example, the use of videotape machines and software as in-store point of purchase and merchandizing techniques).

In addition, Boice Dunham approaches potential clients and others with specific opportunities (as opposed to trying to sell concepts or general business opportunities). This strategy, along with their ability to give the prospect a "quick read" on the market and industry structure in many cases, provide an effective means of contact and initial access.

As the principals have extensive corporate experience, they have the ability to understand and work within the corporate structure and system of priorities, which represents a significant advantage in the sales effort (as well as in working with a corporate client). Nevertheless, there are many "dry holes" as promising initial contacts do not yield tangible results, and so the firm must base its future planning on the statistical reductionism common to most sales efforts of this type (i.e., the ratio of the number of contacts required to produce a desired level of sales).

Pricing Structure

In addition to the two principals, Boice Dunham maintains a staff of six senior consultants who are assigned to projects based on their areas of expertise. Principals bill their time at $1,000 to $2,000 per day, with senior consultants billing at $500 to $750 per day. These rates may be adjusted to reflect the lesser rates that generally prevail overseas and with smaller companies.

Travel and research expenses are billed separately, and the pricing structure is flexible and depends upon the nature of the project, the firm's role/involvement, and similar factors. For example, a particular engagement may include some time and travel charges, some fees and commissions, and some equity sharing arrangements, all of which would be taken into account in price negotiations.

In the international sphere equity participation typically ranges from 1 percent to 10 percent, and it is not uncommon for the firm to allow the client to establish the commission or performance fee payment schedule. It should be stressed that this approach is only followed with overseas clients who, the firm has found, would usually be too "ashamed" to fail to pay the firm for its intermediation work. It is sad to say that this same sense of honor does not generally apply in the U.S., where the firm must establish agreed-upon payment and timing schedules which are contracted in advance.

Major expense items (in addition to senior consultants' time, travel and research costs which are billed directly to clients/projects) are office overhead, client development expenses (i.e., attendance at conferences, seminars and similar types of activities; costs of identifying, contacting and visiting client companies; and other direct sales expenses), and the costs of gathering and organizing information on new markets, technologies and opportunities that represent the firm's "stock in trade".

Although office overhead is a major expense item, Boice Dunham realizes a cost savings here through its arrangement with Worldwide Business Centers. The center at 575 Madison Avenue in New York provides office space and all of the necessary support services required by a small business and charges on a "pay as you use them" basis. These services include telex, word processing, secretarial services, telephone answering and receptionist services, conference rooms and more. These centers are located in major cities around the world and so provide the firm with an office and services overseas as required. This is a cost-efficient approach for a small business, especially one that operates internationally. An added benefit is that many smaller firms share offices in a center and this provides opportunities for establishing contacts, as well as providing the social interaction that is often lacking in the small business environment.

Operating Problems/Constraints to Growth

In functioning as an intermediary, Boice Dunham has found a significant operating problem to be the more or less continual need to keep the parties on track while working from the outside, and to maintain the pace and momentum of a project or business venture relationship. This is described as the "harmonization of objectives," and is further complicated when individuals with different cultural backgrounds are involved as principals in a transaction. For example, the custom in the U.S. is to do business first and socialize later, whereas in much of the rest of the world, the norm is that business is secondary to other interests and obligations (i.e., family, community, religion). There differences complicate the intermediary's job immeasurably, yet the harmonization function must be continually attended to in order to move the project or deal towards competition. Should this be ignored, the likelihood of a successful outcome is reduced significantly and much up-front time and effort can be wasted, not to mention the opportunity costs involved.

Along these same lines, Boice Dunham has found that overseas, the initial resistance to or inertia on a new project is huge, but once this has been overcome the tendency is for the project to move toward completion quite directly. In the U.S., on the other hand, the initial inertia is easily overcome, but the development process can stall easily. This can cause "credibility problems" when working with people overseas who might naturally interpret a loss of interest on the part of the U.S. firms or individuals to mean that they were not being serious in the first place. Of course this reflects on the intermediary, and jeopardizes any future dealings the latter may have overseas with a particular group who have been disappointed by a potential U.S. partner.

It is also for this reason that the firm strongly maintains that traditional feasibility studies are usually irrelevant for overseas projects. The idea behind this view is that few project actually materialize, and all the feasibility study usually accomplishes is to get a lot of people's hopes up with only disappointing results. This disappointment easily deteriorates into anger, humiliation and other "bad feelings" which have long-lasting effects, and also serves to increase the resistance to and intertia felt for any future projects that may be proposed for an area.

Alternatively, Boice Dunham recommends that more appropriate, non-traditional feasibility studies be focused on "how" to do a project, and not on "whether or not" a project should be undertaken. The decision about <u>how</u> to proceed with a project can be made without the extensive, often misguided and outdated financial analysis that normally comprises the bulk of a feasibility study, and instead can emphasize a type of investigation more relevant to most overseas project, namely, what it would specifically mean to attempt the project in terms of practical changes required of the community involved.

Another operating problem concerns the lack of information on U.S. government policy and how a potential project may be regarded. The firm's experience has been that policies change very rapidly and easily within the various agencies and offices of the government that become involved in international business ventures and projects. They find it extremely difficult to get definite answers to critical questions regarding projects and approaches, with "buck-passing" and "we have to wait and see" being the norms. As a result, the government is being its own worst enemy by increasing the perceived level of risk in the developing world.

Boice Dunham emphasizes that there is a great need in the government to separate policy-making from administration in those agencies that are involved in development. The blurring of these functions within the single agency has the negative effect of percluding most interesting opportunities overseas, as many opportunities only remain viable for a limited period. Confusion and delay on the part of the government allow these potential development opportunities to evaporate. The recommendation here is for these investments to be treated much as a bank would evaluate them within the context of policy guidelines; once policy guidelines are set, individual projects are rapidly evaluated. The international agencies in one sense should be modeled in practice after the Social Security Administration, which does not make policy, but does carry it out effectively.

Other operating problems involve getting paid in hard currency and the need to adjust fees on the basis of exchange rates and other geographic considerations. However, a small business can usually cope with getting paid in foreign currencies as the amounts involved are usually small.

3. PROJECT EXAMPLES

Currently Boice Dunham has a project in process that involves assisting a small U.S. manufacturer to expand overseas. The client manufactures a specialized furnace that is used to produce various carbide compounds which have a wide range of industrial and military applications (e.g., boron control rods for nuclear reactors, and a hard surface coating to protect tanks). The production of such materials in this furnace represents an ideal turnkey operation as raw materials are readily available in many countries, training requirements are not extensive, the value added is high, and there is a growing market/application for these compounds.

Boice Dunham identified the client as a firm with overseas growth potential, and the client expressed a desire to grow, primarily by licensing its technology overseas. The company had already established a loose relationship with a Japanese distributor, and it perceived other opportunities that might be realized via licensing or other means.

Boice Dunham's involvement encompassed a number of dimensions. First, they helped the client raise almost a million dollars to finance their expansion. They also set up contacts with German, Japanese and British firms that had an initial interest in manufacturing/selling these funraces overseas. They initiated a search among developing countries to identify those firms that would be likely candidates for this technology. They found Brazil, with its pure raw materials, to be appropriate, and Israel, with its military applications, to be another prime candidate.

At this point, a number of problems surfaced. First, the U.S. markets began to weaken, and management's interest in overseas ventures diminished as they placed an increasing emphasis on their domestic business. Secondly, the British distributor asserted that it had the exclusive right to the firm's overseas business. Third, management began to fear escalating "costs" of doing business overseas, especially the loss of control and the need to adapt to cultural differences and country restrictions.

At the same time, the CEO's own dealings with OPIC were proving less than satisfactory. He got "the run around" when trying to get answers to important questions, and also got "pushed off" to other countries that were not as advantageous for the company as those identified. He finally reached the point where he lost interest in the whole idea, as the time and frustration involved were perceived as out-weighing the potential benefits of expanding in the developing world.

This example illustrates some classic problems that continually reappear in this area. One is the need for greater understanding of small and medium-sized businesses and their constraints on the part of OPIC line staff, and a greater need for cooperation in assisting these companies to expand overseas in accordance with their won objectives. Smaller companies do not have the time and other resources required to cope with extensive delays and inefficient, bureaucratic regimens. In effect, there is a "culture gap" here. The managers of smaller and medium-sized companies are more in control of their operations and are used to taking direct action to solve problems. These companies have limited time and resources available, and cannot afford to spend these scarce resources in ways that do not produce quick results. A large corporation, on the other hand, not only has the resources available to devote to a longer-term project development process, but the scale of these projects is normally large enough so that extensive up-front costs may be justified by the potential future returns.

Also, a large corporation experiences many of the same internal dynamics that characterize OPIC, AID and other government agencies (i.e., "politics," delays, the unwillingness or inability of individuals to make decisions and take responsibility, etc.). These problems become an accepted part of life in the large organization, and so there is a greater tolerance for them when they are encountered in dealing with a government agency. A small business has not usually developed this tolerance, and so cannot be expected to spend a great deal of time and energy dealing with the government on a project that is likely to produce modest financial returns. Those government agencies that seek to develop closer working relationships with small and medium-sized businesses must understand and adapt to this sector's culture, as these companies simply cannot afford to adapt to a bureaucratic norm.

Another classic problem that arose in this case concerns the issue of control. As discussed previously, the managers of small businesses are used to being in control, which means that they are involved and making decisions in every area of the business. When overseas expansion is considered, especially when this involves licensing the company's technology, this sense of control is often lost. Questions like the following begin to surface. "Is this licensee going to make these furnaces up to my standards?" "Is he going to steal my technology and not pay me for it?" "If he doesn't live up to the terms of our agreement, what recourse do I have?" In the case presently being discussed, the CEO of the client company was also the inventor of the technology, which only amplified these concerns. The client, therefore, felt the need for a "submissive" overseas partner in order to maintain some semblance of control. Yet a "submissive" partner may not be aggressive enough to go out and develop a level of business that would make the venture profitable. The solution is often to leave control of the overseas relationships to the intermediary -- a less than comfortable outcome for the typical small business manager.

There is also a "cultural double standard" that comes into play in many of these types of projects. That is, different standards are applied to European partners by both government agencies and business managers than are applied to partners in other countries. For cultural and historic reasons, Europeans are perceived to be "less foreign" than others, so there is more resistance to ventures that involve non-European countries. In this case the client was quite willing to enter into a relationship with a British firm, and was far more reluctant to consider Brazil, Singapore and Israel which had been identified as better areas of opportunity.

In spite of these general and particular problems, the project remains viable. The Israelis, for example, are maintaining contact with the client and seeking ways to address his concerns and make him more comfortable. This illustrates how cultural differences regarding inertia/momentum work in practice. That is, although the initial inertia to a project is high in countries outside the U.S., once overcome there is greater momentum in the longer term. This momentum now becomes a source of pressure on the U.S. firm to go ahead with the initial idea and establish a licensee relationship.

4. VIEW OF THE FUTURE

Boice Dunham's view of the future is an optimistic one as the principals foresee an explosion of activity in the small business sector. In the short term this activity is expected to be uneven, in the sense that specific industries (e.g., electronics, computer-related businesses, and other "high-tech" areas) will comprise the bulk of the activity. In the medium to longer term, there will be a great impetus for smaller and medium-sized firms to increase their international activities in these industries.

There are a number of underlying dynamics that are perceived as being responsible for this development. One is that the executives leading these companies are usually sophisticated, educated, interested and informed about world affairs and business in general. The idea that a small business should be perceived within a global context is not as outlandish an idea to these businessmen as it may have been to preceding generations.

Another factor is the greater degree of segment marketing to countries overseas. The industrializing process which had been underway for a number of years in the developing world has produced results in that, while many countries still display primitive economies, many other countries are no longer "less developed," but now may be classified as "industrializing." This means that they can offer skilled workers, reliable infrastructure support systems, more sophisticated and entrepreneurially-oriented local management talent and similar types of support necessary for business operations. Also, businessmen in these countries are becoming much more aggressive in seeking projects and co-venture relationships on their own. Direct solicitation from overseas businessmen is increasing, and this has a "pulling" effect on small and medium-sized businesses in the U.S..

A third factor is the well-financed, long-term oriented entry of Sears World Trade and other large U.S.-based trading companies into many less-traveled areas of the international business environment. The entry of a Sears, for exmaple, has the effect of reducing the perceived risk for small and medium-sized businesses. In effect, the activities of firms like Sears World Trade have a kind of "legitimizing" effect for smaller businesses, the idea being the "if Sears is in it, it must be OK". Furthermore, a small business that has established relationships with these larger firms can expect to benefit from a great deal of marketing, product development and expertise the latter's executives have acquired over many years of doing business internationally and of developing products for specific markets. The entry of U.S.-based trading companies in this area is a kind of "wild card" in the game. It is difficult to predict all of the ways in which this new element may affect small and medium-sized businesses' international activities; and this is a development that should bear close monitoring and analysis.

The most important element that Boice Dunham perceives as being a motivating factor in stimulating the greater involvement of small and medium-sized businesses overseas is the explosion of personal computers and software with business applications. One effect is direct in that these computers represent an area of growth in their own right. The continuing design and upgrading of the technology along with its manufacture and sales is a multi-billion dollar business. The growth and development of this hardware creates a continuing need for further development of software as computer programs become obsolete in a short time.

Although there are many manufacturers of complete hardware systems in this industry at this time, Boice Dunham predicts a "shake up" in the near future with only a few major manufacturers surviving. (They see this as analagous to the early days of the automobile industry when there were several competing technologies represented by dozens of small manufacturers, most of whom eventually went out of business or were absorbed by a few larger companies.) But at the same time, there will be a growing need for more software as the power and sophistication of whatever hardware devices the market selects continue to evolve. Software development is an area in which small overseas-linked firms have an advantage in that the cost of entry is low (compared to manufacturing), the product can be targeted to specific markets, the hardware market is growing, and the major cost incurred in the development of these programs is that of labor, with production or duplication being a minor cost.

In addition to the primary effects of growth in this industry, there are a number of secondary considerations that will have an overall beneficial effect on small and medium-sized businesses in the U.S. and overseas. One of these is that the increasing availability of hardware and more powerful and sophisticated software will bring general improvements in the management of small and medium-sized businesses. Management will have a relatively inexpensive tool available that will increase their sophistication in managing their small businesses. They will, for example, have current information -- properly organized and presented -- that will allow them to make more informed (and hopefully better) decisions in the management of their firms. Managing with information is an enormous change in comparison to "managing by the seat of one's pants" which is common in many businesses.

Along these same lines, we can expect to see many industry-specific programs that not only will provide better information handling/decision-making capabilities, but also will introduce new management concepts into these types of firms. For example, a rudimentary spreadsheet program which allows the manager to project various costs and profit figures at differing levels of sales introduces the concept of forward planning and goal-setting into the operation of the business. A more sophisticated, industry-specific program such as one that assists the manager in materials requirements planning, production scheduling and inventory control could have a profound impact on the performance and profitability of that company. It is these types of direct and indirect benefits resulting from the computer hardware/software industry that cause Boice Dunham to see this as the "driving industry" in the small and medium-sized business sector.

Another underlying factor that is perceived as stimulating the overseas activities of smaller and medium-sized firms is the new culture of consumerism that is rapidly evolving in the industrializing countries. Citizens of the countries who have more disposible income and are influenced by advertising and mass media communication have increased expectations and desires for consumer goods "as seen on TV," and so become target markets for projects that are specifically tailored to meet local needs. This creates many opportunities for smaller and medium-sized companies that have the flexibility and lower volume requirements to capitalize on these markets (as opposed to large companies that must make a more or less standard product in large volumes).

In this context, the groups' strategy in the short term is to offer a "window on the world" for its U.S. clients. Its knowledge of international markets and developments overseas represents a salable commodity to existing and new clients. In the longer term, the strategy is to offer the same "window" concept to overseas firms that seek to expand in the U.S. market. For most firms overseas, the U.S. market represents a major source of demand and a long-term source of sales and profitability. These firms require a great deal of assistance in preparing for and entering the U.S. market and Boice Dunham is in a position to provide the combination of professional skills and information that firms need.

Constraints to Growth

For firms operating as intermediaries in the small and medium-sized business sector, one problem they encounter is the expense and difficulty of identifying small and medium-sized companies, especially those that would be likely candidates for some form of overseas involvement. As this information is presently difficult to obtain, the cost involved in this basic research may be a limiting factor for many small intermediaries.

In this same vein, intermediaries are often unaware of each other and must work to learn the capabilities and professional standards of others in this emerging industry. As many projects and co-ventures require a combination of skills that extends beyond those of a single small intermediary firm, a structure and information dissemination mechanism is needed to facilitate the establishment of working relationships among intermediaries.

Another constraint to growth is that "intermediaries" differ significantly in their methods of operation and the services/skills they provide. Many intermediaries base their services on the skills of the principals, not on the client's needs. That is, there is a tendency to see the client's needs in terms of what the firm is selling and this may not be in the best interest of the client who may have different or broader needs.

Many intermediaries see themselves as brokers and do not have the requisite broader perception of their role. Boice Dunham defines the primary role to the intermediary as one of minimizing physical and cultural differences. Intermediaries don't "make deals," they create the context within which the principal parties to the venture "make a deal." The great range of intermediary services offered by the many firms and individuals working in this area, along with the limited understanding many intermediaries have in terms of their role and function, is perceived to be a limiting factor in the growth and professionalization of the private sector intermediary.

Another constraint is the difficulty of identifying and dealing with small and medium-sized businesses on a one-to-one basis. This is an inefficient and expensive method of operating for small intermediary firms with limited resources, especially when one considers the number of contacts required to produce one revenue-generating project. Thus, there is a need to aggregate firms on some basis, using either local development agencies overseas or industry/areas associates in the U.S..

In the broader sphere of international development and the integration of smaller and medium-sized firms in this process, Boice Dunham sees a need to replace the more impersonal large-scale contact programs with more intimate small-scale approaches that would bring potential co-venture candidate together. Personal contact is the first condition for establishing longer-term business relationships. These small-scale activities might include such things as plant tours, sponsoring visits to the U.S. (and vice versa) for small and medium-sized business owners in specific industries, providing small grants for projects and similar relationship-building approaches. At the same time, it should be recognized that consistency in the development and maintenance of these relationship will always be a factor in development, even though specific trade relationships may only last a limited time.

New Opportunities for Intermediaries

Boice Dunham sees a significant opportunity in the development of better intermediaries. This is an opportunity to develop the industry as opposed to discrete areas of opportunity for individual intermediaries. This could be accomplished by a broad-based, government-supported program that would provide intermediaries with basic training in such areas as trade logistics, industry standard terms and procedures, case models of various types of intermediary roles and functions, and similar "industry-specific" education and training.

Another component of this program would involve timely, up-to-date information support for intermediaries. This would encompass such needs as an overview of the industry, including the types and identification of firms/individuals who are functioning as intermediaries, information on small and medium-sized companies that would be likely prospects for some form of overseas involvement, and information on "opportunities in search of companies". This type of information and training support for intermediaries would be an important way to strengthen and professionalize this industry.

Boice Dunham emphasized that the intermediary role least effectively played at the present time is that of the various government departments, agencies and offices, as well as quasi-government organizations. These organizations all act as primary intermediaries in the international business sphere. Therefore, it might be apropos to ask how private sector intermediaries can assist AID and others in performing their intermediary functions, in addition to asking how the government might support intermediaries. The private sector intermediaries would be glad to demonstrate to their public sector colleagues how intermediary roles can be most effectively played to create economic growth here and overseas.

UPDATE AND CONCLUSIONS
AFTER ONE YEAR (1985)

Over the past year and a half, Boice Dunham has continued to pursue a business strategy that combines market research, access, consulting and intermediation. Approximtely 80 percent of their revenues result from work with companies in the developed countries, especially Europe and Japan. Although not limited to any one industry, much of their business activity is in consumer electronics and telecommunications systems.

They are finding intermediation in the developing world is being constricted to a large extent by the financial situation. Not only is the Latin American debt crisis a problem, but they are finding that the easing of lending restrictions and the availability of debt financing from U.S. banks and other sources is working against the formation of international business ventures in the developing world. In effect, it is easier to make larger amounts of money in the U.S.. The risk is certainly less, the markets are larger which affords greater debt leverage, and access to debt financing is faster than in the past. Boice Dunham sees more money being attracted to the U.S., while some government policies, the lack of stability, and the slower pace of developing countries makes them less attractive for new ventures and other opportunities. Time delays in many developing countries are a severe handicap. There are so many other opportunities available for a developed country firm that extensive time delays often cause them to lose interest and move on to other possibilities. The old adage "time is money" doesn't seem to be appreciated by many developing countries.

Boice Dunham is also beginning to see the greater availability of money and streamlining of access procedures happening in London and expect this to happen in Tokyo soon. This, in combination with a protectionist sentiment and the possibility of new legislation and restrictions in the U.S., will facilitate the creation of more new ventures between firms in the developed counties at the expense of the developing world. More highly leveraged firms must generate an increasing cash flow in order to service the debt, and this requires larger markets. Many developing countries' markets are too small and fragmented to support the operations of a highly leveraged firm, plus hard currency repatriation difficulties, devaluations and similar financial considerations make ventures in these countries less than attractive from a business point of view.

There is also a great deal of competition among the developing countries, especially coming from those in South East Asia. Korea, for example, offers a kind of "full service" capability to many developed country firms in that it can manufacture consumer and other elctronics products, garments, pharmaceuticals and more. Firms seeking lower production costs need not invest in capital improvements, need not license their technologies, and do not have to get involved in managing the factory. They supply the product specifications and in-process quality control requirements to the Koreans, have final inspection on the dock at port of entry, and often have 30 days to pay.

In commenting on the current state of intermediation, Mr. Boice pointed out the need for at least three distinct sets of skills (and personality types) required to span the various intermediary functions. There are those who scout for opportunities, bring the parties together initially, and set the stage for further development. Then there are the "deal makers" who function well in negotiating an agreement for the intermediary organization. A third skill/personality group is more managerial in orientation and has the ability to deal with all the practical matters of start up and ongoing problem solving. It is rare for one person to combine all the necessary skill areas, and so the intermediary organization must factor this need into its staffing strategy and build a team that can work together as an effective unit.

Mr. Boice also makes a distinction between those intermediary firms that focus on import substitution projects vs. those that have more of an entrepreneurial orientation. The former, he believes, work on only a few projects during the course of a year and basically attempt to replicate a more or less standard operating procedure from one project to another. The more entrepreneurially oriented intermediaries, on the other hand, generally must be more creative in their approach, must be prepared to take greater risks, must be able to sustain the cash flow requirements over the longer time horizon for these types of ventures, and must be able to handle a substantial volume of ventures at different stages of development as many fall apart for various reasons.

Mr. Boice also notes a change in perceptions of the international business environment. In the past, many deals were seen as being low cost with high risk and potentially high return. Now, this has shifted to a search for more stable investments with less risk, higher costs, and the need for larger volumes to generate the cash flow to service the debt. Hence the flow of investment funds into the U.S..

Their experience with large corporate clients indicates an internal organization shift as well. Whereas in the past many companies had an international department that was geographically organized and managed by people with administrative-type skills who had some country specific knowledge or experience, now these companies are more likely to organize around product groups under the management of a senior executive with less emphasis being placed on geographic or country considerations. Also, larger companies often choose to enter a new market (product or geographic) as a response to competitive threats from other large companies (as opposed to intrinsic market benefits or potential). For example, a firm may enter a market in which their share may be minimal if that action will "distract" the competition or prevent them from competing as effectively in another market in which the firm has a dominant share.

For the larger companies, Japan is perceived as a highly attractive market and many firms are attempting to find new alternatives that will facilitate greater market penetration. The emergence of China in the world market and their demand for technology, management skills, joint ventures and enhanced trading opportunities is, of course, of great interest to developed country firms. China's development strategy on smaller developing nations is something of a "wild card" in the game and its impact remains to be seen.

DATA SHEET

ORGANIZATION: PALMER NATIONAL BANK DATE: 1/11-18/84

ADDRESS: 1657 K Street, N.W., Washington, D.C. 20006

TEL: 202-293-6222 TYPE ORGANIZATION: Privately-held, for profit

INTERVIEW WITH: Mr. Stefan Helper POSITION: Chairman

WHEN FOUNDED: June, 1983

ANNUAL GROWTH RATE: N/A Total assets $20 million, Initial capitalization $3.5 million

MAJOR EXPENSE ITEMS: Rent, Salaries, Equipment leasing

NO. OF EMPLOYEES: 25 NO. LOCATIONS/OFFICES: 1

REGIONAL/AREA CONCENTRATIONS: Worldwide

INDUSTRY SPECIALIZATION: Concentrating in the areas of high technology/high growth, including agriculture, chemicals, health, computer technology/hardware

TYPES OF CLIENTS: Small and medium-sized U.S. companies; Individuals

MAJOR NETWORK AFFILIATIONS: Other banks (correspondents); U.S. Government agencies; Representatives of foreign governments.

ESTIMATED ANNUAL BUDGET: $1.5 million

H. PALMER NATIONAL BANK

1. BACKGROUND AND DEVELOPMENT

Palmer National Bank was founded in June of 1983 by its Chairman, Mr. Stefan Halper, in association with a small group of investors after a two-year planning and start-up period. Currently, this privately-held bank has 17 shareholders and total assets of $22 million (the bank was capitalized at $3.5 million). Palmer, with its headquarters in the heart of Washington, D.C.'s business and commercial district, has already established a reputation as one of the fastest growing comparable banks in the U.S.

Palmer was founded on the premise and observation that although many international business transactions were conceived and structured in Washington, the financing of these transactions typically went to New York banks as these institutions have the experience and expertise required to provide the financing, comply with filing and reporting requirements, and generally make other arrangements necessary for international business transactions.

In addition, the principals recognized that many potential business opportunities involving small and medium-sized companies are not realized. The big New York banks typically serve larger corporations, while small and medium-sized banks serve similar size companies. These smaller banks lack the expertise, experience, contacts and overseas presence to assist their customers to enter and/or expand in international markets.

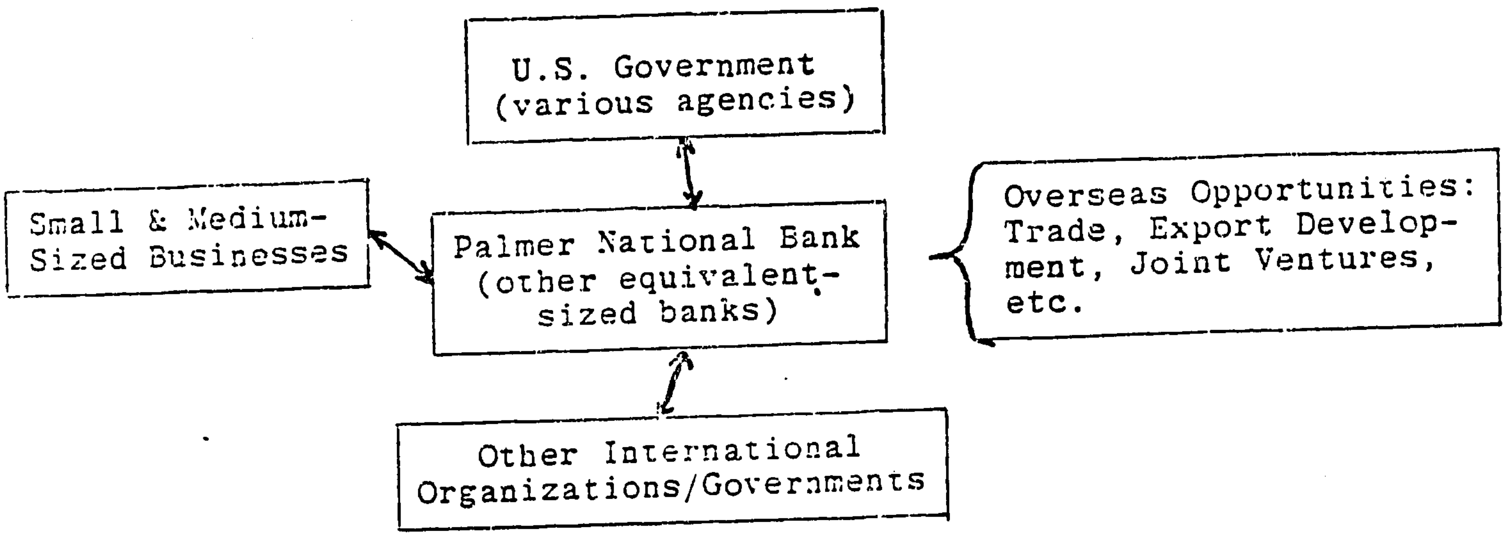
The net result is that even though there is a strong interest and great potential for increasing the international activities of small and medium-sized companies, the lack of expertise on the part of the smaller banks and the lack of interest on the part of the larger banks creates an effective barrier to the expansion of international business arrangements involving small and medium-sized companies.

Thus, in the eyes of Palmer's founders, there was a clear need for an internationally-oriented bank, located in Washington, to serve the needs of small and medium-sized businesses. In addition, this need was congruent with the principals' personal and career interests which included finding ways to help U.S. businesses to increase exports. In effect, there was a ready "fit" between the market need, the scarcity of banking resources to meet this need, and the interests of the founding principals, all of which coalesced in the founding of Palmer National and its subsequent rapid growth.

2. CURRENT STATUS/OPERATING PROFILE

Organizational Development Strategy

In the larger context in which PNB operates, management perceives the bank as a "dynamic linkage" in a system that encompasses small and medium-sized companies, various agencies of the U.S. Government, and other internationally-oriented organizations that may become involved in particular projects or business arrangements. All of these must work cooperatively and interactively in order to bring potential overseas business opportunities to fruition. The following diagram illustrates the bank's position in this system:


U.S. Government
(various agencies)
Small & Medium-
Sized Businesses
Palmer National Bank
(other equivalent-
sized banks)
Overseas Opportunities:
Trade, Export Development,
Joint Ventures,
etc.
Other International
Organizations/Governments

Management perceives the bank's role as being an integrating catalyst or dynamic linkage among the main components of this larger system. As such, its organization and business development strategy is based on the idea that market/system needs and conditions must form the bank. That is, PNB must adapt and orient itself to the needs and pressures in this system, and also must maintain a flexible method operating within it. This is a process Mr. Halper sees as continuing at least for the next two to three years, and it may even become an integral part of the bank's enduring philosophy and modus operandi. This willingness to allow market forces to form the bank differs substantially from the more traditional banking practice of finding a market niche and operating within its limited confines.

Another important dimension of PNB's organizational development strategy is the building of a correspondent bank network. Correspondent banks are PNB's "eyes and ears on the ground" overseas. They provide first-hand information on market conditions, political developments, industry outlooks, the status and reputation of potential business partners and associates, and other information that may affect the level of risk and viability of anticipated business ventures. They also, of course, provide a way of delivering the normal range of banking services to PNB clients overseas, and may also participate in the syndication of large loans that exceed PNB's federally-regulated lending limit (currently $.5 million on any single loan).

Generally, the process of identifying and ultimately establishing a corresponding bank relationship begins with Palmer's need or desire to do business in a particular country. An initial contact is made, usually with that country's ambassador or other high-ranking official, to determine his interest in stimulating international business relationships, his government's aims and policies in this area, and other information that would be helpful to the bank and its customers. This contact also provides Palmer with a point of reference and entry into that country's political, economic, social and other systems should the need for advocacy or assistance be required in the future. Normally, the ambassador/official is able to recommend a bank in his country that could be a suitable correspondent for Palmer.

The next step in this process is for Mr. Halper to send a letter of introduction to the chairman of the recommended banks. This letter describes Palmer, its general aims, and desire to establish a correspondent relationship. Should the response be positive, further communication is initiated and, if all goes well, a correspondent relationship is established. This is usually formalized by the opening of reciprocal accounts and is further developed as needs dictate. Currently, Palmer has established correspondent relationships with banks in England, Luxembourg, Hong Kong, Egypt, Singapore and Venezuela and plans to expand this network substantially in the future.

Legal Structure

Palmer National Bank is a wholly-owned subsidiary of Palmer National BanCorp, Inc., which owns three other companies in addition to the bank. These are the Small Business Investment Corporation (SBIC) which can take an ownership position in promising new or expanding companies; World Trade in Computers, an export trading company that specializes in exporting American high-technology products to Western Europe; and Palmer Technical Services, which provides assistance in fund-raising/mail solicitation.

The establishment of these other organizations under the Palmer National BanCorp umbrella provides a greater degree of flexibility and a vehicle for developing opportunities that would fall outside the bank's charter and/or those regulations governing bank operations. (The Office of the Comptroller of the Currency in the Treasury Department is the principal agency that regulates the banking industry.)

Sales and Marketing

Following the strategy of allowing the market to form the bank, Palmer has not mounted any structured program for identifying and soliciting business from any particular group of corporate customers. Rather, business development is stimulated by the high profile the bank has established during its first six months of operation. This high level of visibility is a function of several factors--the bank's prime location at 17th and K Streets in Washington; the reputations and connections of its shareholders and advisors; extensive press coverage and newspaper articles (for example, articles have appeared in The Washington Post, Washington Times, Washington Business Journal, USA Today, and other publications); and the bank's word-of-mouth reputation and identity as being "well-connected" with an ability to put difficult deals together.

Thus, without the benefit (or expense) of any direct sales program, Palmer receives some six to eight inquiries a day, which represent potential business opportunities for the bank. A difficulty arises, however, in selecting those potential opportunities that warrant further investigation and serious consideration. As the bank is new, and because of its open-ended development strategy, no firm evaluation and selection criteria have so far been established to pre-screen potential opportunities. Management, therefore, finds itself up against severe time constraints and limitation, as the bank cannot afford the large staff and the time required to perform an in-depth analysis of every potential opportunity that arises.

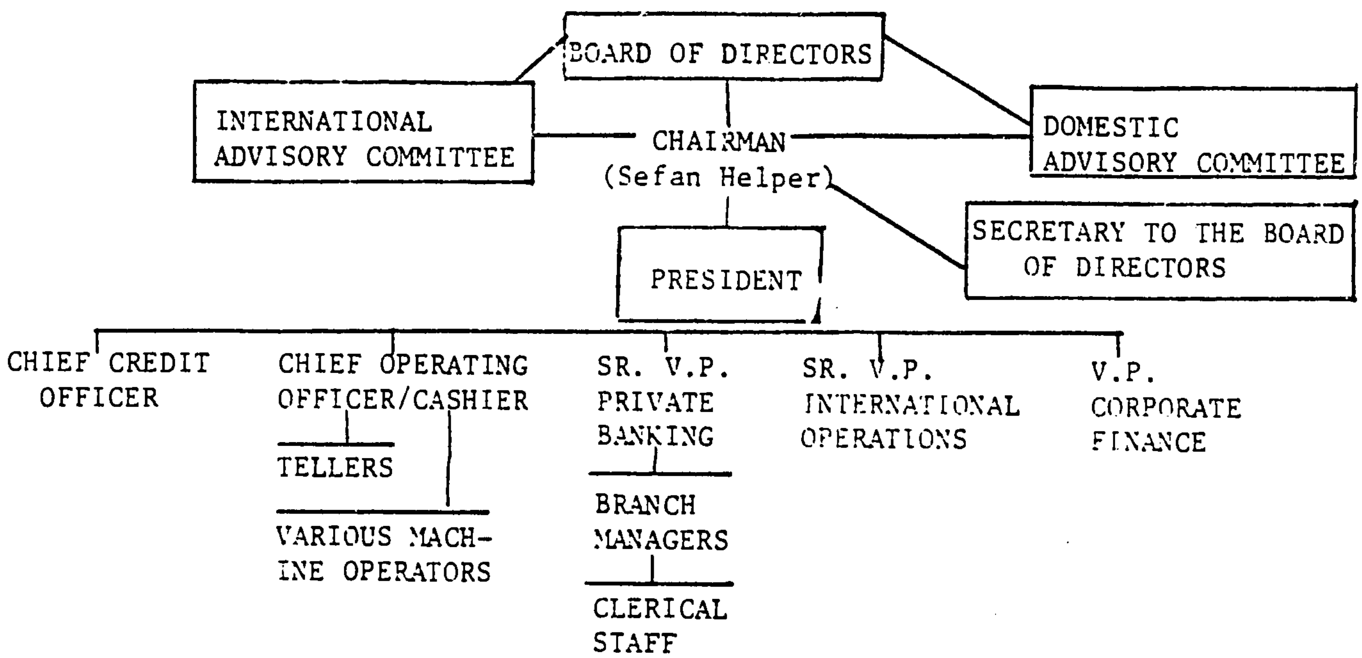
In effect, most of these opportunities appear risky at best and so those that appear to be the most viable are normally given further attention, while others fall by the wayside. Thus, the process leading to a decision to fund or not fund a particular project may be somewhat arbitrary in the sense that potentially viable projects are ruled out by other factors (e.g., the time and effort required compared to the bank's limited resources, and potential remuneration for the work involved). This process is inefficient from a development point of view as non-funded projects may have a greater development utility for a country or industry than those that receive funding.

Services and Operations

Palmer offers the normal range of banking services to its customers, which include individuals as well as companies and other organizations. These services include loans, letters of credit, checking accounts, certificates of deposit, IRAs, passbook accounts, commercial and political risk insurance, and other business-related services necessary for both domestic and international operations.

Revenues are generated primarily from depositors, interest on loans, and transactions fees. Approximately 90 percent of Palmer's business is domestic, while 10 percent is international.

Palmer is organized along the lines of its main functions and customer groups. The following diagram outlines this structure:


BOARD OF DIRECTORS
INTERNATIONAL ADVISORY COMMITTEE
CHAIRMAN (Sefan Helper)
DOMESTIC ADVISORY COMMITTEE
SECRETARY TO THE BOARD OF DIRECTORS
PRESIDENT
CHIEF CREDIT OFFICER
CHIEF OPERATING OFFICER/CASHIER
TELLERS
VARIOUS MACHINE OPERATORS
SR. V.P. PRIVATE BANKING
BRANCH MANAGERS
CLERICAL STAFF
SR. V.P. INTERNATIONAL OPERATIONS
V.P. CORPORATE FINANCE

In addition to its Board of Directors, Palmer has established two advisory committees for domestic and international operations respectively. The Domestic Advisory Committee is headed by Mr. Frederick Malek, Executive Vice President of the Marriott Corporation. Mr. Walter Stoessel, former U.S. Ambassador to Germany, Poland and Russia and former Deputy Secretary of State, heads the International Advisory Committee.

Special Skill Requirements

It is interesting to note that Palmer's chairman, Mr. Halper, is not a career banker. Rather, his experience spans both government service and business. He served as Director of Program Evaluation and Implementation, Office of Management and Budget; Staff Assistant to the President, Office of the Chief of Staff, the White House; and Senior Manager of International Operations for Price Waterhouse and Company. He also worked on the Joint Economic Committee in Congress, was Policy Director for the George Bush for President Campaign and Director of Policy Coordination for the Reagan-Bush Committee. Prior to becoming Chairman of Palmer, he was Deputy Assistant Secretary of State.

This lack of direct banking experience is not perceived as a handicap, however, Mr. Halper makes a clear distinction between two different groups of skills and knowledge requirements in the operation of the bank. One group encompasses the "nuts and bolts" knowledge of technical procedures (especially those involving international transactions), while another complementary group includes the ability to function as an "articulate advocate" for specific projects that works within the often confusing and overlapping jurisdictions of various government agencies (both U.S. and foreign) to gain their cooperation and support for a proposed project or business arrangement. Palmer is uniquely qualified in this regard as a result of Mr. Halper's high-level government service, as well as from those connections he and other shareholders have developed.

Due to the bank's open-ended development strategy and its willingness to adapt to the needs and demands of the market, the range and variability of potential business opportunities the bank might consider are extensive. Thus, management finds itself involved in extensive counseling sessions with present and potential customers regarding particular projects and proposals. The ability to fashion these into workable plans within defined constraints (as well as to modify these constraints via advocacy) is another area requiring considerable skill and expertise.

An acute problem here is one of time and expense. Palmer (and similar-sized banks) do not have the resources required to carry the heavy overhead burden this educational effort represents. The time constraint is even more critical in the international sphere, as this area is more complex and difficult than that of a purely domestic proposal or business arrangement. Therefore, even though only 10 percent of Palmer's business is international, some 40 percent of Mr. Halper's time, plus that of a full-time senior vice president, is spent on international business. This time is not charged directly, so this overhead must be factored into loan rates and transaction fees. There is a limit, of course, to the interest rates that can be charged, as the bank must compete (especially on the domestic side). The point is that even though Palmer is unique in being able to offer an internationally-oriented resource to small and medium-sized companies, it is difficult to find ways to finance the extensive time and effort required to put these deals together.

Examining the process Palmer follows in assessing a loan request gives a further indication of the skills and knowledge required, as well as providing additional insight into this important area of bank operations.

The first question asked is: Is the project or proposal rational? That is, does it make sense in light of industry trends, country aims (policies and development goals), the amount of time and resources required on all the principals' parts, the capabilities of the organizations involved, and similar "common sense" factors.

Second: Is the project or proposal viable? Is the risk within an acceptable range and do potential rewards sufficiently cover the risk, time and effort involved? (When dealing with scarce resources, such as time-limited expertise, opportunity costs are always a prime consideration.) What are the "best case" and "worst case" scenarios?

Third: What is the country risk outlook? What factors or trends operate in the political, economic, amd social systems that would have a bearing on business in general and the proposed project in particular?

Finally: What interest does the U.S. Government have in this project? This concerns the degree and type of advocacy that is likely to be required in eliciting the cooperation, support, or approvals that may be necessary.

These two areas, country risk assessment and advocacy, are normally handled directly by PNB's chairman. His extensive range of contacts in government, industry and academia provide a ready source of up-to-date information on country factors, trends and developments, while similar established relationship among the various governmental and quasi-governmental organizations involved in international business and trade provide ready access and opportunities to perform in an advocacy role as required.

This is a great strength of Palmer National Bank and a capability that sets is apart from most small and medium-sized banks serving the equivalent business sector. (This lack on the part of other small and medium-sized banks severely constrains their ability to assist their customers in overseas endeavors and is explored in more detail later in this report.)

Finally, in regard to success criteria used by PNB, management believes that the chief executive office must be involved in determining how profit can be earned on each loan and that the following represent important factors: financial viability/return; utility for the country; adequate compensation to the bank for its contribution; and generally circulated knowledge that Palmer was instrumental in putting the deal together (especially when it was complex and difficult).

Constraints and Operating Problems

Two significant constraints on Palmer's operations have already been mentioned. One is how the banks' limited expert staff time should be used so as to increase the likelihood of achieving successful project outcomes. A second, and related, difficulty is the time required to counsel customers. this is an educational function the bank performs, but is not compensated for directly.

Some consideration has been given to charging for this counseling, but management believes this would act as a deterrent to new business development. Thus, the scarcity of expert staff time, the extent of customers' needs and demands (especially in the international area), and the bank's reluctance to charge fees for counseling/consulting-type activities all combine to make this a significant operating and growth constraint. (It should be mentioned that this situation is not unique to Palmer, but also affects other small and medium-sized banks and is a significant deterrent to increasing international orientation and activities.)

Another constraint centers around the U.S. Government's involvement in the international business and trade environment. Government efforts and programs are fragmented among a wide variety of departments, bureaus, offices, quasi-government organizations and other agencies. A great deal of confusion results from overlapping jurisdictions, competing programs, poorly communicated changes, and, in many instances, a lack of clearly-stated aims and objectives.

This situation presents a barrier to obtaining government assistance and information, especially on the part of small businesses and banks. Although one of Palmer's strengths is an intimate knowledge of this terrain, along with access to government decision-makers, this is not the case for those regional banks outside of Washington. These small and medium-sized banks, with their limited experience in the international sphere, may easily find the prospect of dealing with the government to be an overwhelming and costly effort as opposed to a source of information and assistance.

Some initiatives have been taken to integrate these diverse government programs and organizations into a single department similar to the Japanese and French Ministries of Trade. However, there is no real chance of any reorganization at this level in the foreseeable future. (While with the Joint Economic Council, Mr. Halper played a role in drafting the Roth Bill, legislation that would have created a single agency along these lines.)

Mr. Halper believes that small and medium-sized banks are the key links and most important institutions for stimulating the international activities of small and medium-sized companies and as such, top management of these banks must be encouraged to become more active in this area. A recommended program of education and orientation designed to familiarize these bankers with government activities, initiatives and aims in the small and medium-sized business sector is included later in this report.

3. PROJECT EXAMPLES

Palmer management sees the small and medium-sized business sector as having tremendous potential both as a source of business for PNB and as principals in the development process internationally. These companies are the largest employers and creators of new jobs and their managers are more effective in accomplishing results (possibly as a result of their not being overly constrained by a large organization hierarchy and/or because they either ar effective or they don't survive).

The recent "discovery" of the potentially significant impact of small and medium-sized companies seems to be the result of several factors. One is an increase in the general awareness of international business opportunities. There is more reporting of foreign business news, profit opportunities abroad are increasing, and there seems to be a general breakdown in business isolation as the world economy becomes increasingly interrelated. In addition, the development process which has been taking place over a period of years has increased the purchasing power of many countries outside the U.S. and American business is more aggressively marketing its high technology (white collar labor) with the decline of the so-called "smokestack" industries.

Another factor is that small and medium-sized firms appear less threatening to national governments (compared to many multinational corporations) and the "fit" between small and medium-sized businesses here and abroad is more conducive to the establishment of effective working relationships (compared to the imbalance that occurs when large and small organizations attempt to work together).

These and other factors, then, would appear to have a direct causal relationship to the "discovery" of small and medium-sized businesses, their growth potential, and their potentially significant impact on the development process internationally.

Currently, Palmer is concentrating its efforts in those areas and industries that are characterized by "high tech" sophistication and also represent promising areas for growth. These include, among other things, agriculture, chemicals, health-related products and equipment, and computer equipment.

For example, one loan involved an increase in capital for a U.S. company that manufactures computer equipment. This company was already exporting to Europe and required an infusion of additional capital to establish a new division (with new products and services) that would expand this export capability. In this case, PNB provided highly competitive interest rates in exchange for warrants to purchase a portion of the company at a future date should it grow according to expectations.

In another instance, a customer had secured a contract to supply several million dollars' worth of high technology equipment to a Latin American government. An added complication arose when the country requested a $10 million loan to permit the customer to purchase this technology. PNB arranged for the syndication of the loan through Swiss and Hungarian banks, and also acted as an advocate for the project.

Another loan was arranged for a U.S. company that specializes in a type of horse breeding apparatus incorporating advanced technology. Here the need was for money to increase inventory and to establish a contact and distribution network for horse breeders in England and Ireland.

In another instance, a $150 million loan was sought by an African country to buy barges that would increase the utility of its inland waterway system. However, the country had a credit problem with the IMF and the Export-Import Bank would not consider the application as long as the IMF would not approve. Here Palmer acted as counselors and advocates. A meeting was arranged with that country's ambassador who then agreed to strongly urge payments on outstanding loans. This set a process in motion that improved that country's relationship with the IMF. Once this was accomplished, the Export-Import Bank moved to reconsider the application.

What is interesting in this case is that Palmer was not a party to the loan request and did not receive any fees for its services. There is the possibility, of course, that the country will establish an account with the bank and that the goodwill generated by this intervention could pay off in the future.

This instance points out the problem of acting as an advocate and counselor, generally in terms of being compensated. Small banks, even with Palmer's expertise, are certainly limited in the number of these types of situations they can handle. Again, this points up the difficulty of international activities: the time involved and the effort required will certainly act as a barrier to small and medium-sized banks becoming more involved in international transactions.

4. FUTURE OUTLOOK

Generally, PNB regards the future evolution of international business relationships that involve small and medium-sized enterprises as having tremendous potential for the reasons already mentioned. Its development plan and strategy is to focus on those areas of high tech/high growth in the U.S. economy and to provide funds and other assistance to U.S. companies seeking to expand exports.

Palmer has a 1984 business plan, but it is too new to rely to any great extent on this plan as a solid guide to action. In fact, the concept of a plan at this stage in Palmer's evolution contradicts the open-ended development strategy of allowing the market to shape the bank.

The key issues and constraints to growth include the scarcity of staff time and expertise and the best way to direct these to achieve successful project outcomes. Another is the extensive time required to counsel individual customers regarding specific proposals and, as the bank intends to remain open to considering a wide array of potential business opportunities, this time demand is likely to increase substantially in the future. At some point, probably in the not-too-distant future, the bank will be forced to either invest in the additional staff expertise required to meet this demand, establish pre-screening criteria that would automatically rule out particular types of projects or proposals, or institute some form of payment policy for counseling services.

Recommendations for Action

The greatest constraint for small and medium-sized banks operating in the international business environment is the greater difficulty and complexity involved in international transactions compared to domestic business. This greater difficulty and complexity translates into a bank's need for more (and more expert) staff, increased salaries and other expenses, and greater risks, without necessarily realizing an equivalent increase in rewards. The question is: Should a small or medium-sized bank increase its involvement in international areas when it is easier and even more profitable to stay within the confines of its existing domestic business?

Mr. Halper's response is an emphatic "Yes" for two reasons. One is that even though this area may be more difficult and present greater challenges, it also offers opportunities for growth and increasing bank revenues. Furthermore, the initial difficulties a bank may experience when increasing its international activities are normal in any new undertaking. A learning curve exists and once these international activities become more systematized and routine these initial difficulties are surpassed.

A second reason for banks to become more involved in the international sphere is that their participation is critical in the development process. International involvement represents an important way to make a contribution to the overall development process in general and to the small and medium-sized business sector in particular.

Mr. Halper believes that small and medium-sized banks are the key institutional linkages for assisting equivalent-sized businesses to become more active internationally and a concentrated effort on the part of the U.S. Government is required to encourage leaders of these institutions to take a more active part in fulfilling this role. The following discussion outlines his ideas and recommendations for such a program.

The overall purpose of this effort would be to set a national program in motion that would bring these banks more into the mainstream of the development process as the dynamic linkages between government, businesses and overseas opportunities.

The needs upon which this program should be based include:

1) The government system/network is fragmented with various programs and initiatives dispersed throughout several departments, offices, agencies and quasi-government organizations. This situation can be extremely confusing and overwhelming for a bank that seeks or requires government services, information, and other forms of assistance. This effectively raises a barrier to bank participation as it increases the effort and costs associated with international business.

Thus, one of the goals should be to educate and orient leaders of these institutions to the government system, the purposes and functions of the various organizations involved, and the policy initiatives and programs that are in effect. At the same time, this program should be set up in such a way as to establish individual, personal contact between bankers and key government officials. It is extremely important for a banker (or anyone, for that matter) to have someone to call who either can provide direct assistance or can steer that person in the right direction.

2) Banking tends to be a conservative industry and the nature of the business is governed by the primary value of minimizing risk as much as possible. This often translates into staying with the known and avoiding the unknown...staying within the confines of a bank's existing business and services, and more or less automatically ruling out those areas which fall outside its traditional practices.

Thus, another goal of this program should be to motivate bankers to become more active in the international sphere. This motivation can be kindled from several sources...a "call to arms," so to speak, as a message from the highest levels of government, emphasizing the importance of developing small and medium-sized businesses through international involvement and the banks' critical role in this endeavor. Another source would be to provide bankers with case examples of actual transactions that were accomplished and the benefits realized. Certainly, showing bankers that international business can be a profitable area would be another motivating factor.

The suggested format for this program is that of a seminar or workshop with small groups of 10-12 people, avoiding the "cast of thousands" approach that is often used. The content of these workshops would include presentations (education and orientation to the government network), case study examples of what has been accomplished, and perhaps a simulated case that would allow participants to gain some first-hand experience and familiarity with an internationally-related venture or arrangement.

It is also important to gear the program to chairman and presidents of these banks. These people are the leaders who set the direction and tone for their organizations. Of course, the heads of the international departments could also be included, but real motivation and change toward any bank's greater involvement in this area must come from the top.

A further consideration is to pay people to attend. This would include their travel and lodging and should also include some payment for their time. This is important because it shows a sensitivity to the limited time a small or medium-sized bank has available (the opportunity costs and the quesiton of where and how to spend this scarce and valuable resource), and it also underscores the importance placed on these banks' participation in the overall development effort (i.e., "It must really be important if they are willing to pay for it).

Finally, consideration must be given to the location and scheduling of these meetings. One approach would be to have an initial series in Washington with follow-up sessions (six to eight months later) in various regions around the country. These follow-up sessions would be important to assess the degree to which these bankers have expanded their international activities, as well as to work with them regarding the actual experiences they have had and difficulties they may have encountered.

DATA SHEET

ORGANIZATION: TRADE AND DEVELOPMENT INTERNATIONAL DATE: 3/2/84

ADDRESS: 16 Eaton Square, Needham, MA. 02192

TEL: 617-444-4326 TYPE ORGANIZATION: Corporation, Privately held

INTERVIEW WITH: Mr. Cameron Smith POSITION: Principal

WHEN FOUNDED: 1981 ANNUAL GROWHT RATE: N/A

TOTAL REVENUES: $100,000 EXPENSES: 100,000

MAJOR EXPENSE ITEMS: Salaries, Interest on borrowed funds, Telephone and communications

NO. FULL TIME EMPLOYEES: 2 OTHERS: 0

NO. LOCATIONS/OFFICES: 1

REGIONAL/AREA CONCENTRATIONS: Firms in New England, Developing countries (primarily Latin America)

NO. OF COUNTRIES: 6 (last year)

INDUSTRY SPECIALIZATIONS: consumer projects (food and pharmaceuticals); Banking; Computers

NO. OF PROJECTS SINCE INCEPTION: 15 NO. CURRENT: 2 (+3 Contracted)

TYPE OF CLIENTS: AID, World Bank, Development Foundations, Small and medium-sized companies

TYPES OF AFFILIATIONS/PARTNERS: Other industry specific consultants

IS INTERMEDIATION A PRIMARY OR SECONDARY ACTIVITY: Secondary and shifting to primary

MAJOR OPERATING PROBLEMS/CONSTRAINTS TO GROWTH: Lack of working capital, overseas travel which interferes with principals developing new business opportunities in the U.S.. Other traditional problems of a small consulting business (e.g., need for talent and inability to pay for it, difficluty in gaining access to decision makers in companies/cold calls/marketing and sales strategies; difficulty matching personnel requirements with changes in level of work -- TDI had to turn down some business).

I. TRADE AND DEVELOPMENT INTERNATIONAL CORPORATION

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

Trade and Development International specializes in assisting small and medium-sized businesses to access overseas opportunities and to structure custom-tailored approaches for realizing these opportunities. The firm also works with U.S. Government agencies and private development foundations to set up small business assistance programs in the developing world.

The firm was founded in 1981 by Mr. Bruce Tippett who was joined by Mr. Cameron Smith in 1982. Both Mr. Tippett and Mr. Smith have extensive backgrounds in international development and business. Mr. Tippett spent 15 years in Brazil and other Latin American countries with Accion where he started a number of small business assistance programs and was involved in securing access to venture capital for new business ventures, and in establishing a venture capital firm with local and international investors.

Mr. Smith worked for Warner-Lambert Pharmaceuticals, initially in Canada, and later in Guatemala and Thailand where he was the general manager of that company's Thai operations. Subsequently, he was the general manager of Warner-Lamberts (Holland), and worked for Arthur D. Little and Company as a food and agribusiness specialist prior to joining Trade and Development International.

Historically, TDI has operated on a consulting firm model in both its small business and government/foundation work. Recently, however, it has begun to shift its strategic focus towards "discrete project packages" which emphasize the grouping of small companies with common needs (e.g., computer software developers), and then providing them with a common package of services that would assist them in modifying their products and marketing these overseas. This approach also includes the bringing together of other firms that would provide necessary resources and expertise required to implement this strategy (e.g., in-country distributors of computer-related items and hardware).

Trade and Development International sees itself as functioning in the capacity of an international department for small and medium-sized firms that do not have this capability. The extensive international background of the principals, with the idea of having "one foot in both cultures," provides a necessary perspective for this role. In addition, technical skills and competence in standard business functions (i.e., marketing, operations, finance) along with experience in managing businesses in the developing world is a requisite source of knowledge and understanding in this area.

2. OPERATING PROFILE

Founded in 1981, the firm expects to generate total revenues of $100,000 in 1984. The firm is staffed by the two principals who are personally responsible for delivering services to clients both in the U.S. and overseas. The firm has one office in Needham, Massachusetts, and is concentrating on building its business in the New England area. TDI is a privately-held, for-profit corporation that has completed some 15 projects since its founding. Currently, it has two projects in process with another three contracted. Clients include small and medium-sized companies, banks, U.S. Government and multinational agencies, and private development foundations.

Intermediation has been a secondary activity with consulting providing operating revenues and travel opportunities. Recently, the firm has begun to shift its strategic focus to concentrate on "discrete project packages", described previously, as the principals perceive a lack of potential in working with individual companies on a one-on-one basis to help them expand their international business activities. This does not mear that no potential exists in this market. Rather, the marketing and sales cost for TDI to develop this source of business are high, and most small and medium-sized companies are unwilling to risk the up-front expenditures required to identify and assess potential overseas opportunities.

Services Offered

TDI offers a range of services that are consonant with its primary aim of helping small and medium-sized firms to expand internationally, and working with development organizations to set up small business assistance programs. The firm does, for example, identify potential opportunities overseas and seeks out firms in the U.S. and elsewhere what would be appropriate sources of technology, products or services for these markets; assists these firms in modifying their products/services/ technology to meet particular in-country needs and markets; seeks joint venture candidates and assists a firm in evaluating and selecting one; assists in finding domestic and overseas sources of venture capital; assists in international personnel searches; and functions as trouble-shooters overseas.

The firm is also able to provide market research services, opinion surveys and feedback, and owns a proprietary strategic planning process model that emphasizes consensus building, data research and feedback to participants. The firm also has the ability to design and deliver specialized training programs to build managerial capability and other areas of expertise in small and medium-sized companies in the developing world.

Marketing and Sales

TDI employs many of the traditional approaches used in the consulting industry to build its client base. For example, the principals have participated in workshops and seminars which offer opportunities for public exposure and provide informal contacts with potential clients; have published articles in various journals and professional publications; and have joined the Smaller Business Association of New England which provides similar opportunities.

One of the constraints to new business development is the fact that both principals have spent most of their working careers overseas. Therefore, they do not have an extensive U.S. contact network upon which to draw and are in the process of building a system of contacts in both the public and private sectors, as well as among other consultants. They are also members of the Consultants' Exchange, a marketing service that matches consultants' expertise with company needs and special projects.

TDI also publishes periodic newsletters which detail the firm's activities, and these are either general or aimed at a particular industry or business sector. For example, a recent newsletter was sent to banks in the New England area and described some of the ways TDI could be of assistance to bank customers seeking to expand internationally. The firm also uses the "cold call" technique on rare occasions as a means of introducing itself to New England firms that were targeted as potential candidates for overseas development.

The majority of these approaches have not produced direct results in terms of securing new clients or business, with the exception of the Consultants' Exchange which has produced some activity. Work coming into the firm has mainly been as a result of those personal and professional relationships established by the principals over time during the past.

Operating Problems/Constraints to Growth

Certainly a primary operating problem and constraint to TDI's growth lies in the area of marketing and sales. As the principals have spent the majority of their working careers outside the U.S. and so have not developed an extensive contact network, they must build this network in the present. This takes an extended period of time.

Also, as they travel overseas extensively on current projects, the lack a sustained U.S.-based effort for new business development. The importance of momentum in this area is critical, and the need to continually stay on top of potential opportunities with steady follow-up cannot be realized when frequent absences from the U.S. are routine. At the same time, overseas travel does not provide much opportunity to "piggy-back" new business development efforts on current projects as is popularly assumed by many international consultants. TDI's experience has been that the project-related work itself, particularly when performed for the public sector, takes so much time and effort that little is left to devote to developing new business in the private sector overseas. In addition, family responsibilities and general management demands of the business are such that extending overseas trips for this purpose is not a viable business development strategy.

As the firm seeks to expand into new areas, such as acting as an intermediary to develop and package new business opportunities, it has little in the way of a track record as a firm (the principals have such a track record under previous employers) upon which to build or establish credibility with prospective clients and partners. The firm's lack of demonstrated success is a kind of "catch 22" dynamic in that it hinders the firm's ability to enter new areas, as previous experience in these areas is almost essential. It therefore tends to restrict initial work in developing new business opportunities to those related to pre-TDI professional contacts, most of which are located overseas.

Another area that represents a constraint to growth is a common one for small firms but particularly so for international intermediaries serving small and medium-sized enterprises. This is the lack of working capital to finance new ideas and programs and/or hire the talent needed to develop new areas of business. Essentially, the problem is that a two person firm cannot generate sufficient revenues to cover current operating costs and reserves (retained earnings) that could be used for expansion. The alternative is for the principals to personally incur debt, and to risk this money on expanding their business. Depending on the amount of capital needed, this may reach a level of risk that few would-be entrepreneurs are willing to take, especially without some outside capital (co-financed studies, venture capital, etc)

Other constraints include the difficult task of finding suitable individuals in-country who would work in a partnership-type arrangement with the principals. Trustworthy individuals with the necessary skills are not only difficult to find, but the "search and development" costs may be prohibitive, especially for smaller firms such as TDI.

Perhaps the most constraining force on TDI's growth and development is that of convincing owners/managers of small and medium-sized firms that they need the type of services TDI offers. The frequently encountered "stay at home" attitude, reluctance to spend the up-front monies required to investigate these opportunities, the general health of the U.S. market and ease of doing business here, and other factors discussed throughout these case studies suggest that the "internationalization" of the small and medium-sized business sector in the U.S. may take an extended period of time to evolve to a point at which overseas ventures are perceived as "normal" strategies of these firms. One exception might be specific industries that are feeling an economic or other "pinch," and so are forced to consider overseas options, (e.g., to reduce labor costs or avoid import/export restrictions.) One encouraging approach is to work with/through venture capital and other intermediaries who may provide both "attitude support" and funds to companies to develop international markets. TDI is working on one such project now and foresees growth in this area.

Pricing Structure

Primarily, TDI bills on a time and expense basis. Generally, they give an overall project price in a proposal that includes the work to be done and an estimate of other expenses. They will, however, make other arrangements such as negotiating a finder's fee for securing financing, and may take an equity position in a new venture should it appear promising. The firm is flexible in its approach, but rules out working on a purely speculative basis, unless TDI becomes a joint venture partner in specific ventures.

3. PROJECT EXAMPLES

TDI is currently working on a project for a California subsidiary of a German high technology firm that manufactures a device for testing micro circuits (chips) and computer systems. These testing machines can be used as part of a chip or computer manufacturer's quality control program or as part of a large "end user" maintenance program. The project opportunity came to TDI through a personal friend of Mr. Tippett's who is a venture investor in the firm. He recommended TDI to the client.

The initial phase of this project is an investigation of opportunities in Brazil for the client firm. Specifically, the client thinks Brazil is a prime market for his product and desires a more in-depth analysis in order to confirm his assumptions and answer some specific questions regarding various approaches to pursue. The client wants to know, for example, who manufactures chips in Brazil and how are they tested now (i.e., is there a market of his machine? Does his machine have a competitive advantage?). He wants to know if his machine can be imported into the country, or if he will have to set up a co-venture arrangement with a Brazilian partner. If so, who are reliable candidates for a coventure, and how might this be structured under Brazilian regulations? He also wants to know if

Brazil is a base for access to other Latin American countries utilizing computers?

Essentially, TDI's task is to answer these questions and advise the client on entry strategies into the Latin American market. At the present Mr. Tippett is in Brazil to gather basic information and assess the potential opportunity in the country.

In the area of developing discrete project packages which address the common needs of an industry grouping of small businesses, TDI is working to help software companies in New England to introduce their products in overseas markets, especially in the developing world. Their initial focus is on Latin America.

TDI's perception of the situtation is that companies in these countries need the type of software for personal computers that is now available in the U.S.. These are primarily business-related programs. Several things are required in order to transfer this technology to developing countries. One is that the user must be able to interact with the machine in his native language (or at least the output of the program must be in that language). Another modification is that the number of fields have to be expanded (i.e., to accommodate millions of cruzeiros as opposed to thousands of dollars).

At the same time, the introduction of this new technology to companies overseas will yield an organization and business development benefit that should strengthen the management of these companies to a considerable degree, and is also expected to have the effect of increasing the competence of middle-level managers and supervisors as they learn to manage their organizations with better information. This dimension ties into TDI's extensive experience in small and medium-sized enterprise development programs.

Thus, TDI is seeking to act as an intermediary between the producers of computer programs in the U.S. and potential users of these programs in the developing world. This involves establishing a means of modifying these programs to suit local needs and conditions, identifying potential users of these programs (in both general and industry-specific applications), determining functional types of programs that would have a sufficient broad appeal to warrant the costs and effort involved (e.g., programs that would produce dunning letters when accounts receivable were past due, business solicitation letters, and similar common business routines that could be automated); and establishing in-country marketing, sales and distribution systems that would maximize sales during the relatively short life new computer programs have (which is approximately two years).

The need on the producers' side is to maximize sales and distribution during this period in order to cover the development costs before the program/hardware is superseded by more advanced technology. On the demand side, there is a "pull" in the developing world for business-related programs that are modified to meet local needs. As the cost of hardware continues to decrease, it is expected that this demand will increase even further.

TDI is seeking investors and/or sources of funding that would provide the financing needed to take the next steps. The first of these steps is to conduct a market survey to determine sales potential, distribution, the feasibility of in-country modification of programs and production facilities, and similar marketing and logistical questions. It is estimated that this survey would cost $50,000. A second phase, which would involve TDI in an operational capacity, is estimated at $250,000.

Through this strategy of developing specific ventures, TDI expects to create the "critical mass" necessary to effectively market and implement international business development opportunities for selected types of small and medium-sized enterprises -- as the intermediary, but one taking the initiative.

4. VIEW OF THE FUTURE

The prevailing view at TDI is that the "internationalization" of the small and medium-sized business sector will grow quickly with an increasing number of firms having some form of international involvement in the near future. Several factors and development are cited in support of this perception. One, for example, is the penetration of U.S. markets by overseas manufacturers that may have a specific competitive advantage such as lower labor costs or perhaps a nationwide marketing and distribution system. This increases the competitive pressures on domestic producers who must then seek alternatives for countering these competitors, and an international arrangement of some sort (e.g., overseas sourcing of components) must seriously be considered by these domestic firms.

Another factor is that viable opportunities exist overseas for U.S. companies in the small and medium-sized sector. These may be in the form of new markets for existing or modified products or services, or may involve the overseas sourcing of various factors of production. This, in combination with the fact that significant changes are taking place in international business support systems, facilitates conducting business overseas. For example, an increasing number of areas have direct dial telephone service to exchanges overseas and the cost of an international call has dropped considerably over recent years. Also, Federal

Express and other courier services ar able to handle small package deliveries overseas, providing a service similar to that available domestically. Growth and new developments in communciations technologies and systems will greatly increase the ease and convenience of doing business on an international basis.

Along these same lines, the Export-Import Bank is under Congressional mandate to shift the services it provides to regional and local banks. This makes access to services such as risk insurance and international financing more accessible to smaller and medium-sized firms around the country.

Furthermore, government and Chamber of Commerce programs aimed at the small and medium-sized business sector are proliferating. These programs not only serve an awareness/educational function; they also provide systematic approaches for assisting these firms in exploring new opportunities and taking the next steps required to realize many of these opportunities.

The fact that small business owners/managers are becoming more aware of international developments and business growth, as a result of mass media communications, travel, conferences, and other means, promotes a new level of familiarity, in the sense that the perceived "foreignness" of other countries is reduced to some extent. For example, American businessmen have been inundated with information on Japanese management methods and forms of organization, which places a heavy emphasis on business and so creates a kind of "common ground" upon which to consider forming a business relationship. In a sense, the common identity of being "businessmen" has a tendency to take precedence over the foreign elements of the two cultures. Also, as English has become the international language of business, this reduces another barrier perceived by U.S. businessmen.

The interaction of these factors and developments suggest the possibility of a fairly rapid amount of growth in the number of small and medium-sized businesses that will engage in some form of international activity. This reinforces TDI's plan and strategy to provide the type of international assistance these firms would not ordinarily have in-house, and which would, at least initially, be too costly to develop internally. As discussed previously, the firm's business plan and strategy is oriented toward the small and medium-sized business sector, both in terms of assisting individual companies to expand abroad and in structuring discrete project/product packages that would provide a "bundle" of common services that could be accessed by many companies with more or less common needs.

<u>Key Issues and Constraints to Growth for Intermediaries</u>

Specific operating problems and constraints to growth discussed previously can be generalized to other, similar intermediaries, that is, small companies with limited amounts of working capital that are seeking to provide a specialized service or group of services to small and medium-sized companies. These constraints include such issues and problems as convincing the small business owner that he should think internationally, that he has a definite need for TDI's services and expertise, and that he should invest some up-front monies without any definite prospect that this investment will produce a gain. This is a very hard (and expensive) sell for smaller, specialized intermediary type firms. It also requires a level of selling skills (i.e., intangible sales) that is rare and takes a long time to acquire.

The constraint imposed by a lack of working capital or other funds to invest in business development (e.g., travel, building support and contact networks, marketing and direct sales expenses) cannot be overstated. The small firm that seeks to finance its own growth out of current operating revenues is confronted with the problem of not having sufficient surplus to finance new or expanding business development programs. A well designed mechanism to finance intermediary business development -- possibly through commercial or venture capital firms -- should be considered.

A third major issue is one of competition. There are a great number of firms that currently provide some type of intermediary service to small and medium-sized enterprises. These include export agents, trading companies, law firms, technology transfer consultancies, licensing experts, and many more. Often, intermediation is an adjunct service as opposed to a primary one, and so may be included in an overall package. For example, a law firm that is primarily being paid to structure and negotiate an international business agreement may also help to find financing, coventure partners in other countries and more -- all of which are subsumed under the general cost of the legal work involved. This can make it extremely difficult for an intermediary to sell a service to a potential client who may perceive this service as being available elsewhere at "no cost," or at least at no additional cost.

Another source of competition is from private voluntary organizations and government agencies that act in an intermediary capacity. These organizations may not charge for this service, or the cost may be minimal because they are being supported by grants or other sources of revenues that are not directly tied to their services. The questions any businessperson is likely to ask is "Why engage an intermediary or consultant when there are other, lower cost options and alternatives available?"

New Opportunities for Intermediation

In addition to forming discrete project packages to meet the common needs of a group of similar companies, which TDI perceives as an area of opportunity, the firm sees the entry of Sears World Trade and other large trading companies as creating new market niches for smaller, highly specialized companies such as TDI. As these large companies become increasingly active, they may almost inadvertantly create new opportunities in areas that are not large enough to warrant their direct involvement. At present, no specific area of opportunity has be identified; however, this is an area that TDI intends to monitor closely in the near future.

UPDATE AND CONCLUSIONS AFTER ONE YEAR (1985)

As of October 1985, this partnership continues to follow a basic business strategy that combines consulting with intermediation. They operate in both the developed and developing world and made these comments with respect to their recent past experience in the field.

They are finding that strength of the dollar, which is making exports more difficult for U.S. companies, is also having a general negative effect on these companies' perceptions of international opportunities. It seems that U.S. companies equate "international business" with "exporting," and become discouraged in pursuing international ventures when exports sales decrease. It is difficult to convince companies to manufacture offshore, for example, as all international activities are perceived negatively through the "lens" of their export experience.

Another development is an increasing wariness on the part of developed country firms where transfer of technology arrangements are involved. The thinking seems to be that foreign manufacturers may use this technology to compete with the U.S. technology supplier in the U.S. market. However, TDI recounted a recent experience in which they were involved as consultants to assist a German manufacturer of sophisticated electronic testing equipment in structuring a transfer of technology agreement with a Brazilian manufacturer and supplier to the Brazilian market. This agreement was negotiated in such a way that the German licensor's technology was protected.

Essentially, the agreement called for the Brazilian manufacturer to produce most of the parts required for this equipment with the exception of certain critical components supplied by the German company. These components were imported into Brazil at a transfer price that included the licensing fees and that portion of the joint venture profits accruing to the German company. This strategy avoided repatriation of profits and hard currency issues, protected the German company's valuable proprietary technology, and generally made the deal simpler from an accounting and tracking point of view. At the same time, the longer term stability of the relationship was strengthened by the fact that the German company, with its heavy emphasis on research and development, was a continuing source of new technology and innovations in this area. The Brazilians would be manufacturing and marketing third generation equipment, for example, while the Germans were introducing fourth generation products into developed country markets. All in all, this arrangement meets the needs of all the parties involved and represents a workable international business relationship.

Like other intermediaries, Trade and Development International is finding it difficult to sell research, planning, networking and other services of this type. Often, potential clients want to tie compensation for this up front development work into the longer term financial viability of the venture, usually in the form of a percentage of sales volume. There are several problems with this proposition as we have noted elsewhere in this report, one being the fact that smaller firms cannot support the expense over the normally long time period required for a venture to mature and begin to generate a positive cash flow. There is the added problem that the intermediary may not receive commissions even if the venture does prove successful. There are few effective means of protection against this possibility and little recourse.

One negative consequence of this situation is that some intermediaries become involved superficially in a number of possibilities. Because they are not being paid and because there is a high "mortality rate" for these types of ventures, the research and planning work is not well developed or thought through. Thus, when a venture moves to a more advanced stage, a variety of problems may surface that effectively kill the deal, a kind of self-fulfilling prophesey.

Recently, TDI has received a number of inquiries from foreign nationals who are seeking investment opportunities in the U.S.. Although most of these are from other industrialized nations, some are coming from the developing world as well. The attraction seems to be the stability of the U.S. along with the variety of investment opportunities available here.

DATA SHEET

ORGANIZATION: TRANSTECH SERVICES USA DATE: 1/25/84

ADDRESS: P.O. Box 311, Olde Towne Station, Alexandria, VA 22313

TEL: 703-548-8543 TYPE ORGANIZATION: Sole Proprietorship, For-Profit

INTERVIEW WITH: Dr. William B. Miller POSITION: President

WHEN FOUNDED: 1979 EXPENSES: $7,500/yr

MAJOR EXPENSE ITEMS: Telephone/Communications; Professional Dues; Advertising

NO. FULL TIME EMPLOYEES: 1 OTHERS: 1 Associate

NO. LOCATIONS/OFFICES: 1

REGIONAL/AREA CONCENTRATIONS: Latin America, Europe, Asia, Africa

NO. COUNTRIES: 7 - 10 INDUSTRY SPECIALIZATION: Manufacturing

NO. PROJECTS SINCE INCEPTION: 0 NO. CURRENT: 5

TYPES OF CLIENTS: Universities, Small businesses, Individual Inventors

TYPE OF PARTNERS/AFFILIATIONS: Professional associates, Licensing Attorneys

IS INTERMEDIATION A PRIMARY OR SECONDARY ACTIVITY: Primary

MAJOR OPERATING PROBLEMS/CONSTRAINTS TO GROWTH: Lack of working capital to finance expansion of contact base, provide staff. New business start-up problems.

COMMENTS: TransTech Services is a relatively new endeavor with 5 projects in process. It has not, as yet, generated any revenues from intermediary activities, and provides an illustration of the start-up and other problems assoicated with a new intermediary-type business venture.

J. TRANSTECH SERVICES USA

1. BACKGROUND AND OVERVIEW OF DEVELOPMENT

TransTech Services USA was established by Dr. William B. Miller in 1979 with the general purpose of providing small and medium-sized companies with a wider array of options for expanding their international business activities, an operating philosophy and approach Dr. Miller calls "international marketing." International marketing refers to the need for U.S. companies to go beyond the more traditional export strategies to consider licensing, co-ventures, and other means of selling American products and technologies overseas so as to compete more successfully in a dynamic and rapidly changing world market.

Dr. Miller has more than 30 years' experience in the international business and trade environment. A career Foreign Service Officer with the U.S. Department of State, he has been assigned to posts in Latin America, Asia, Africa, Europe and the Soviet Union in a variety of functional capacities (e.g., Commercial Attache, Deputy Chief of Mission). He is multilingual and knowledgeable in risk analysis, overseas business problems, government relations and related international business areas.

The germinal idea that later evolved into TransTech Services came about as a result of Dr. Miller's experience as the Commercial Attache assigned to Ecuador in 1961. One project involved assisting the Ecuadorians in establishing a glass manufacturing plant that would supply that country's needs for glass containers for processed foods, beverages, cosmetics and similar products. In contacting large U.S. companies to assess their interest in such a venture, he found that the weekly production from the smallest plant these companies would consider economically viable would supply Ecuador's needs for a year. The market in Ecuador was not large enough to warrant any serious consideration on the part of large U.S. companies in this industry. However, further investigation, including contact with a Commerce Department trade mission to Ecuador, revealed a Mississippi-based regional manufacturer that supplied most of the glass container market for that state. The size of this market was on a par with Ecuador's.

This project did not materialize for a variety of reasons, but it did result in two fundamental insights that provide the conceptual logic for TransTech Services. One is that many developing nations have markets and economies that are on a par with states (i.e., are "state-size"). However, there is an almost automatic tendency to overlook this fact, and to think in terms of an unwarranted large scale when dealing with these nations. That is, the label "nation" leads to a tendency to over-estimate the magnitude of these countries markets. The practical implication of this recognition is that small and medium-sized businesses may be more appropriate partners in international development than large multinational corporations that require extensive markets/volume to make their operations economically viable and profitable.

Secondly, Dr. Miller recognized that a large gap separated the Mississippi glass manufacturers from their Ecuadorian counterparts, and that a type of assistance was needed that would help bridge the gap and increase the likelihood of a successful co-venture. Furthermore, the U.S. Government was constrained in a variety of ways, and so could not provide the type of direct intervention and facilitation required in this private business transaction. Thus, it was through this experience that the role and potential value of an intermediary-type organization and service was clearly recognized. This recognition, combined with the idea that smaller and medium-sized businesses could be more appropriate partners in the development process, provided the foundation for the subsequent establishment of TransTech Services some 20 years later.

2. <u>STATUS OF CURRENT OPERATIONS</u>

TransTech Services USA is a sole proprietorship with no employees other than its owner, Dr. Miller. Currently, the company has five projects in process, but to date none have produced any revenues. The annual operating budget is less than $10,000, which is partially offset by consulting fees with the balance covered by the owner's equity. Major expenese items include telephone and communications, professional organization dues, advertising and a variety of start-up expenses (i.e., brochure design and printing, stationery, office equipment, etc.).

Clients are universities, small businesses and individual inventors. Services are offered to both U.S. and overseas clients with the main emphasis on assistance in licensing and co-venture agreements.

An informal advisory board of three associates provides a talent pool that can be drawn upon to provide specific expertise as required on a project basis. Knowledge of overseas markets and cultures is regarded as more important than industry or product knowledge, as the client company is regarded as the industry expert and industry-specific expertise is considered easy to locate.

The current organization development strategy is one of survival. Operationally, this means keeping the overhead expenses as low as possible and carefully considering any additional expenses prior to embarking on any course of action (e.g., travel to expand the contact base). The business development plan is to limit growth and expenses while project opportunities currently in process mature to the point where they begin to provide revenues. Generally speaking, the length of time required for a project to mature to this point is measured in years and varies greatly from one project to another. Thus, revenue projections or estimates become highly speculative and uncertain. This places a severe strain on the operation as the enterprise must be supported from external sources of financing for a long period, and it has the further effect of curtailing innovation and experimentation.

The lack of working capital is the primary constraint to growth for this organization, and is a problem that probably can be generalized to other intermediary-type organizations that are relatively new, are partnerships or sole proprietorships, and have intermediation as a primary business activity (as opposed to an adjunct to a more established business).

Marketing and Sales

The marketing and sales strategy has been oriented towards making TransTech's existence and range of services generally known, as well as establishing an organizational identity. A variety of methods have been used for this purpose. For example, Dr. Miller is a member of the Licensing Executives Society and Alexandria Chamber of Commerce, chairs the International Trade Committee and serves in other professional international trade organizations. This provides a means of establishing contact with others in this field, and provides opportunities for speaking engagements and other forms of public exposure.

The publication of articles is another dimension of this marketing approach. Dr. Miller has published articles in "Les Nouvelles," Journal of the Licensing Executives Society, on such topics as the need for governments to develop incentives to encourage co-ventures, and the need for the U.S. Government to establish a set of policies on licensing. He has also been the subject of articles published in the "Washington Business Journal," the "Hampton Roads Shipping News," and various other publications. He has written "An Introduction to International Marketing for Small Business Through Technology Transfer" for the International Trade Association of Northern Virginia, and offers a low-cost seminar to small and medium-sized businesses on foreign trade, joint venturing, licensing and technology transfer.

Advertising, along with the production and selection distribution of a professionally designed brochure and logo, adds to the marketing effort. TransTech Services' advertisement appears in "Third World Development," a commercially-oriented publication of Grosvenor Press. In sum, TransTech Services is pursuing a variety of general marketing approaches, all of which are aimed at establishing a measure of recognition and identity for this company.

The question, however, is how to build upon these marketing efforts to produce sales. (Sales would be either fee-for-service contracts or performance-payment contracts.) Currently, Dr. Miller is considering methods of targeting likely U.S. companies for international expansion in the Baltimore/Washington/Virginia area, and initiating a cold call contact effort to acquaint these companies with different types of international business opportunities and TransTech's services. The selection of this geographic area is primarily a function of the need to minimize expenses, and illustrates how working capital constraints become paramount considerations in small business decision-making.

Services Offered

TransTech Services USA offers assistance to both U.S. and overseas firms. On the domestic side, its operating model and approach is segmented into four phases. The first is to assist the company president in making a "go/no-go" decision. This involves a consideration of the resources the firm has available to devote to an international effort, an assessment of competition in various overseas markets and identification of the most likely markets for the company's products/technologies, and similar considerations that must be taken into account in making this basic decision.

The second phase, assuming a "go" decision has been reached, involves the formulation of an overseas strategy and business plan. This phase includes such considerations as potential overseas partners; the form of expansion (exports, licensing, co-ventures, other means); researching government regulations, restrictions and other requirements relating to the form of expansion; preparing the negotiation strategy for approaching potential licensees or co-venture partners; and similar considerations.

Phase three introduces the legal dimension. TransTech Services has access to a highly-specialized and experienced group of attorneys who are experts in structuring the terms and conditions of co-venture and licensing agreements. (Dr. Miller stresses the need to bring these experts into the process at the proper time. The basic decision to expand international activities should be made by the company's president on the basis of sound business considerations and profit potential.)

Phase four involves follow-up and facilitation, to expedite the process as much as possible and keep the parties on track. This may include a wide variety of activities, including representing the client overseas, working with government officials, assisting in determining/complying with reporting requirements, and similar matters.

For its overseas clients, TransTech Services offers "Techology Opportunity Searches," the location of potential U.S. licensing and co-venture partners for importing foreign technology. This service includes basic research to locate potential partners, assembling information on these businesses, visiting plants, preparing written evaluations of the most likely U.S. candidates, and arranging initial contacts and visits as required.

Payment for services may be negotiated on a fee-for-service basis similar to consulting services, or may be a performance-related payment such as a percentage of royalties/other compensation received by the licensor. Other forms of payment include a project flat fee, retainer arrangement, and/or a phased approach where payments are tied to specific milestones or accomplishments. At this time, TransTech's policy is not to take an equity position in any client company.

Operating Problems and Constraints

As already mentioned, the lack of working capital is a primary operating problem and constraint. This lack has a number of secondary effects. For example, it severely restricts overseas travel which is required to build and maintain a contact base, seek out new opportunities, and generally replenish the information base or supply of current news in the field which is an intermediary's "stock in trade" to a considerable extent.

In addition, the lack of working capital makes it extremely difficult to hire the support staff and other talent necessary to build TransTech's capabilities and increase the activity level. Along these same lines, this lack also constrains the transformation of new ideas and creative approaches into action programs. These ideas may relate to new services, new delivery systems, new business development programs and the like which could potentially have a profitable return. However, without the funds to finance these ideas, they are not implemented (or only partially implemented), and this has an overall constraining effect on the energy, momentum, activity level and sense of accomplishment that are necessary to "fuel" any individual or organizational effort.

A second and closely related area involves the lack of an established business base to support intermediary activity. In this case, intermediation is a primary business activity without the benefit of having evolved from an existing business (a private professional practice or an export trade agency, for example). TransTech Services is a relatively new company, the type of projects currently in process have extensive development horizons, the risk factor is high in terms of the likelihood of commercialization of any one project or technology, and the burden for supporting the entire endeavor falls on a single individual.

If we contrast this with a situation in which intermediation has evolved from a related and established business, this business would support the administrative and overhead burden, probably provide "subsidized" travel opportunities, provide some surplus cash flow to support intermediation programs, provide a logical connection from the established business to intermediation, and likely have a group of skilled people in place who could provide at least some time and support to intermediary activities.

Although limited, this comparison illustrates the types of constraints that would be encountered by any entrepreneur who set out to establish an intermediary-type business "from scratch" without the benefit of an established business base from which to build.

Another type of operating problem and constraint is the difficulty involved in locating "seed money" that can be used to promote the development of new technologies or applications that appear to have commercial potential. Access to this kind of source(s) would go a long way toward making the intermediary's role more valuable, as well as providing him with something more tangible (and powerful) than mere information and a range of expertise and contacts.

For example, one of TransTech's projects is a technology for making hardboard from waste rice straw. Several individuals and organizations in Korea, Japan, Panama and elsewhere have expressed a strong interest in this process. However, there are no samples of this hardboard available and it will cost some $2,000 to set the equipment up to produce these samples. Without samples, it has proven difficult to interest potential overseas clients who want to "see before buying." Thus, the lack of $2,000 is one factor that has effectively contributed to stalling a project that may have significant commercial value, not to mention the standard of living improvements and development potential inherent in a low-cost building material.

Special Skill Requirements

As TransTech Services concentrates on licensing and co-venture agreements, technical skills and experience-based knowledge in these areas are basic requirements. This would include such things as familiarity with the wide range of licensing and co-venture options available, government regulations and approval mechanisms, government relations (both in the U.S. and overseas); the ability to assess political/economic and other risks; knowledge of the legal structuring and contingencies to include in agreements; and similar "nuts and bolts" know-how.

Another group of skills includes the ability to find new technologies, assess potential applications in various markets, determine commercial potential and value, and move these new technologies/applications through a process towards commercialization. Managing this commercialization process requires the ability to generate interest, enthusiasm and action on the part of potential users and others; the ability to find seed money; and an ability to see (and sell) potential that may be realized far in the future (if at all). If patience is a skill, this should be included here.

3. PROJECT EXAMPLES

TransTech Services is currently working on a variety of projects that involve bringing new technologies to market. One of these is a new type of sponge material developed by a leading university which holds the patent rights. This sponge material can be treated with a variety of chemical agents for specific applications, and it has the added benefit of providing a "time release" capability. Thus, one application is to treat this sponge material with a combination of charcoal and iodine which makes it an effective means of producing potable tap water. This is a potentially important application in many developing countries where the water supply is subject to contamination. Another application is to treat this material with cleaning and disinfecting agents so that it can be used by commercial cleaning companies (e.g., in hospitals). This product could also have potential as a consumer item.

TransTech Services' role here has been to bring the university's technology to the attention of potential industrial buyers, to assist a cleaning company in formulating its international business plan, to bring the principals together, and to keep the project on track. In addition, it includes seeking out other commercial applications for this product.

For example, a new high-technology firm has developed a tactile hearing device that translates sound waves into tactile impressions on the skin of the wearer. This device is worn on the wrist and requires a non-irritating cuff to avoid skin irritation while not interfering with the tactile impressions produced by the device. The bio-sponge offers an effective solution to the problem. TransTech's role here is to make the sponge technology known, as well as to seek out possible sources of financing for the hearing device company.

Another project involves the marketing of an improved liquid-gas separator which is used in the oil industry to separate impurities and by-products from crude oil and natural gas at the well site. This device also has potential applications in geothermal energy production. TransTech's role here is to assist in setting up a marketing program, to seek financing and to search out other potential applications for this new method.

TransTech Services is also working on another university-owned technology, a low-velocity windmill. This windmill requires no tower, can operate in winds of 5 mph, costs $50-100 to manufacture, and can lift water from a depth of 25 feet. The potential for licensing this technology overseas, especially in developing countries, appears promising. TransTech located this technology, is working with the university on a plan to market it overseas, is working with O.E.R.I., one of the offices of the National Bureau of Standards that provides free testing and evaluation, and has located a potential partner in Africa. Once this windmill is tested and found to operate according to specifications [illegible]e next phase in this project will be initiated.

TransTech is a[illegible] working with a private development corporation that can take an equity [illegible]osition in new ventures, and is acting in a new technology sea[illegible] capacity for this organization.

Although the company is involved in a number of different projects, they all involve bringing new technologies to market, and all require an extended period of time to develop (not to mention the risk factor as many, or all, may prove to be commercially non-viable). Again, this highlights the difficulty of the entrepreneur with limited working capital, who seeks to function in an intermediary role in the technology transfer process.

It has been Dr. Miller's experience that many U.S. technologies may have a better initial market overseas. This potential for new technologies/applications is not always recongized in the U.S., especially by those smaller and medium-sized firms that lack awareness of overseas market needs, particularly in the developing world. One possible remedy would be for the government to publish a list of market needs overseas to promote this awareness. Access to small amounts of seed money or risk capital may be as important a factor as access to technology in many countries in promoting the development and adoption of these technologies overseas.

4. FUTURE OUTLOOK

Generally, Dr. Miller sees the future evolution and potential of international business agreements involving small and medium-sized companies as holding significant promise. One of the founding constructs of TransTech Services is that many developing nations are "state-size" and so are on an order of magnitude that is compatible with these smaller firms. At the same time, he sees a greater need for state awareness of the benefits of expanding small business involvement overseas which includes additional employment and expansion of the tax base, to mention only two benefits. There is considerable room for increasing activities by competition with the private sector intermediary.

At the same time, however, there is a general lack of information being provided to this business sector in terms of the types of opportunities in the international sphere and the methods or tools for capitalizing on these potential areas of new business. The traditional "export in time of recession" strategy that many companies have employed in the past is rapidly becoming outdated as greater interdependencies and competitive pressures act to change the domestic business environment, making it more international. Again, the second founding construct of TransTech Services is to provide small and medium-sized businesses with options other than exports for developing their international strategies.

Dr. Miller also recognizes the potential for a "reverse flow" of products and technologies from overseas to U.S. businesses, and has updated his brochure and other marketing materials to reflect this orientation. Many inquiries are initiated by overseas firms that have a specific technology or specialized application of a prevailing technology they wish to develop further through a co-venture or licensing agreement with a U.S. firm.

There is, then, a potentially significant role for various types of intermediaries to provide information, guidance, contacts, business planning services, licensing, coventure assistance, and a whole range of other services to both domestic and foreign firms. However, intermediaries' activities and growth in the number and size of intermediary-type businesses may be constrained by several factors. One is the extensive educational effort required to acquaint traditional, domestically-oriented U.S. businesses with overseas opportunities and approaches for accessing these markets/sources. This educational effort is costly, time-consuming, not generally perceived as worth paying for, and in many cases runs counter to a long-established tradition among small and medium-sized businesses that the domestic market is quite satisfactory for their business needs and further growth. Thus, a constraint that comes into play is that the U.S. business person does not perceive the need for these intermediary-type services. It is extremely difficult to sell a service when the potential buyer doesn't see that he has a need which the service can meet.

The implication is that a great deal more education is required, and this will take time. In addition, the "selling" of intermediary-type services, under conditions where the need is not felt by the potential buyer, requires a two-stage process:

the need has to be "sold" before the services available to meet that need can be brought into the picture. This requires a very sophisticated level of selling ability which is scarce and therefore, expensive. Furthermore, should the intermediary not have these skills and have to recruit a salesperson from the labor market, it would seem difficult at best to be able to offer this person the type of compensation and "fast track payoff" he or she can find in other areas of intangible sales.

Thus, it seems that, as in any pioneering effort, a great deal of "consciousness raising" type of education must be aimed at expanding the perceptions of the small and medium-sized business owner/manager so that he begins to think and act "internationally," as a precondition to the expansion or growth of intermediaries.

Another general industry constraint involves what Dr. Miller perceives to be a kind of government ambivalence toward intermediaries. Many government agencies and quasi-government organizations are already acting in an intermediary-type capacity. For example, the Department of Commerce, the Foreign Commercial Service, the International Trade Administration and others act in various intermediary-type capacities, and might easily be expected to view private sector intermediaries as an unwanted source of competition. The argument could be made that the government represents a form of "unfair competition" in this area as their services are paid for by tax revenues, and they have resources in terms of talent, time, money, access to information, credibiltiy and more, that far surpass that which might be marshalled by a private sector firm. It could also be argued that government is not as well placed as private intermediaries to provide the longer-term, continuing support necessary for small and medium-sized businesses which seek to enter the overseas licensing or co-venture field.

Along the same lines as the government's role in intermediation, technology transfer itself is perceived in both positive and negative terms by various quarters of the government. There is certainly no unanimity of agreement on supporting technology transfer initiatives and programs. Internal government concerns that differ from one department or agency to another, often lead to no action and stalled programs. The government sends out "mixed messages" in this area, which works against intermediary activity that is oriented toward bolstering the transfer process. For example, USAID is supporting private sector intermediaries while the Department of Commerce is acting directly as an intermediary in many cases.

Given this view of the international business environment and the role of small and medium-sized businesses, TransTech Services' strategy is to attempt to develop project opportunities in three time-frames. In the short term, the emphasis is on seeking consulting-type projects that are paid on a fee-for-service basis. This would provide a near-term cash flow to support ongoing expenses as well as provide some travel opportunities. Securing fee-for-service work would also provide TransTech with some "breathing room" to allow other projects in process to mature to the point where they begin to produce some revenues.

Dr. Miller estimates a four to five-year start-up period for TransTech Services. At that point, there should be a sufficient number of projects in process to provide greater stability with some current project beginning to generate revenues. However, being a relatively new organization without a demonstrated history of successfully bringing new technologies to market ("track record"), achieving this level of operation is difficult at best.

Again, the essential problem of the lack of working capital is a factor in this strategy. There must be a sufficient number of projects in process to provide "maturity payoffs" in the short-, medium-, and longer-term horizons, as well as to minimize the company's dependence on the commercial viability of any specific project. However, in order to secure additional opportunities, additional expenses must be incurred to find and develop them. To rely on current projects to pay off so as to provide the cash flow to secure new opportunities is a highly speculative strategy, no matter how promising any one project in process may appear. The high risk and extended development time of "new technology commercialization projects" would suggest the need for a "fair number" of projects in process so as to spread this risk statistically over a larger number.

This is a philosophical question that was raised in discussions with Dr. Miller: "Is it better to have a few projects or opportunities upon which the intermediary focuses his time and attention, or is it better to take the ¶statistical approach' and rely on the probability that if you have enough in the works, something will materialize?" This is a most important question for intermediaries, as it has implications for the entire management philosophy and operational orientation of the firm. In effect, if two intermediary-type firms answer this question in two different ways these two firms will be radically different types of intermediaries.

5. NEW OPPORTUNITIES

Dr. Miller sees the application of new communications and information processing technologies as representing new areas of opportunity for intermediaries. These include computerized data bases that can be accessed and tailored to meet a wide variety of individual and organizational needs; "opportunity banks" that contain profiles of potential buyers and sellers of new technologies or applications that have potential for being matched; and the use of videotaped presentations of various opportunities and educational programs. The use of this technology will not replace or supplant the need to be out in the field making personal contacts, exploring opportunities, structuring approaches, bringing the principals together for face-to-face dialogue and trust-building, following up to keep the parties on track and the process in motion, and all of the other personalized services required for effective intermediation.

Dr. Miller also sees the licensing of products, processes, management know-how and systems as an area that will become more popular and grow in the future as the "internationalization" of U.S. small and medium-sized businesses continues to evolve and new technologies/applications proliferate.

ADDENDUM TO TRANSTECH SERVICES USA CASE STUDY

SPECIAL CONSIDERATIONS FOR NEW INTERMEDIARIES

As the "internationalization" of smaller and medium-sized businesses continues to evolve and grow, it is reasonable to expect a corresponding increase in the number of new intermediary-type organizations which provide specialized expertise and services for these companies. Dr. Miller and TransTech Services USA is one type of intermediary currently functioning in this environment which might be expected to proliferate in the future (i.e., an individual or sole proprietorship).

If small intermediary organizations of this type are to be encouraged, then special consideration must be given to finding ways to support their growth and fiancial viability. Dr. Miller's experience provides some valuable lessons that should be shared with others who may be contemplating the startup of a new intermediarytype business venture.

This case amply illustrates the difficulties of starting a business of this type from scratch, particularly with respect to the long development times required for a project to mature to a point at which it begins to produce revenues, and the severe working capital constraints associated with a self-financed company. Another area that has not as yet been discussed concerns the personal level transition any individual would experience in starting a new venture of this type.

We might reasonably take Dr. Miller as a representative model for others who would be attracted to this area; that is, an individual with international experience and knowledge who has likely acquired such knowledge and special skills as a result of employment in a large organization (either government or business). Furthermore, this individual has recognized a need in the international environment that is currently not being met, and perceives an opportunity to convert his ideas for meeting this need into a viable business.

The question then becomes, "What constitutes some measure of adequate preparation for this individual, and what changes can he expect to make in his thinking and methods of operating in order to function effectively in this new capacity as a small business ownerentrepreneur-intermediary?" In order to answer this question, it is important to understand some of the ways in which working a large organization differs from managing a small business.

One of the first things this individual is likely to recognize is the meaning of the term "overhead". In a large organization, many resources and support services are provided that are normally taken for granted. These include such things as office space, communications systems, office equipment and supplies, furnishings, secretarial services and other support staff, and even janitorial services. Suddenly the new entrepreneur finds out that the things he normally took for granted become major decisions as well as major expenses.

A second significant area of change involves the social interaction, intellectual stimulation and peer relations that are an important part of organizational life. The new entreprenueur suddenly finds himself alone, and even though he may have a group of close associates and friends, this is not a substitute for the proximity and sense of mutual effort that comes from working closely with others on a daily basis. A large organization also provides the structure and momentum of programs and activities that are a source of motivation for the individuals involved. Now, instead of responding to external situations and events that are products of a large organization's environment, he must create his own structure and direction that will then produce organizational momentum and individuallevel motivation. In behavioral science terms he will have to change the balance from being more "outer directed" to becoming more "inner directed".

The new entrepreneur is likely to experience a lack of "legitimacy" that was provided by his former organization and his role and specialized function within it. He must be able to "legitimize," for want of a better term, the importance of his new venture and mission both to himself and others. He suddenly finds that he has to explain his business and activities in greater detail, and becomes much more conscious of how others react. He can no longer say, for example, "I am with the Department of State," and get immediate legitimacy and credibility.

Along these same lines, he has to become concerned with projecting an established, successful image. He suddenly finds all of the little bits and pieces of data that go into the creation of this image to be extremely important. Does he have an office? What is the address? Does he have a secretary who answers the phone or a service? How large is his company? How long has he been in business? Who are his clients? All of these and many more bits of data go into the company image and are an important part of the legitimacy/credibility issue. One of the "skills" the new entrepreneur must learn is how to present himself and his company in such a way that minimizes certain areas where he is lacking while capitalizing on strengths so as to project a successful, "established" image.

Perhaps one of the most difficult and important aspects of this transition involves the change from specialist to generalist, and a corresponding change in orientation from professional identification to businessman. In regard to the change from specialist to generalist, the new entrepreneur suddenly finds that he must perform a wide variety of functions and tasks that he may not enjoy doing, and may not do particularly well. He will find himself immersed in a variety of new areas, many of which are unfamiliar and unknown, all of which require him to make decisions under conditions of extreme uncertainty and risk. Furthermore, these decisions frequently require the expenditure of limited funds, and this adds to the level of pressure. (It's one thing to administer and control an organization budget, and quite another to "authorize" expenditures from your own funds.)

In regard to the change from professional to businessman, one major change here is that money comes first. The old adage, there is no business without a sale, is particularly apropos here. In effect, there must be a shift in the individual's value orientation to reflect the importance of money in a business. And even though the professional values remain (e.g., the individual is acting as an intermediary because he sincerely believes in the development process and desires to help those in developing countries to improve their standard of living), the need to generate revenues to support the business venture is primary. This can be a very difficult area of transition for many people who enjoyed the security of a regular paycheck that was not directly tied to their short term performance.

Sales, then, is a necessary function and activity the new entrepreneur must perform if he is to survive. As discussed previously, these are difficult skills to acquire and develop. Furthermore, many people have a negative perception and attitude towards sales which is unwarranted, unrealistic, and can be "fatal" if not changed.

Although brief and necessarily incomplete, this overview of some of the difficulties and changes faced by an individual making a transition from working as a specialist or manager in a large organization to the world of small business ownership provides some insight into the nature and magnitude of this adjustment. If the general aim is to encourage the growth of intermediaries operating in the small and medium-sized business sector, then some consideration must be given to finding ways to support these intermediaries (especially in the short term) in order to give them a chance to be successful and survive while project opportunities are maturing.

Some assistance that could be considered includes the following types of programs and activities:

1. Establish an organized method for sharing the experiences of people like Dr. Miller, to make this knowledge and learning available to others who may be contemplating some entrepreneurial/intermediary venture. Why "reinvent the wheel" when there are people who can provide a valuable educational function based on their actual experiences in this area?

2. Provide industry-specific consulting type assistance to new intermediaries. This could include critiques of their business plans and strategies, sales methods, marketing approaches, operating costs and methods, and other areas. Specific problem-solving assistance could also be included.

3. Establish an industry-specific training program for new intermediaries. This could be oriented towards the development of necessary sales and management skills, as well as other skills required for the successful operation of an intermediary-type business.

4. Provide assistance in obtaining fee-for-service project work (not grants) that would produce some revenue to offset start-up and operating expenses. This work might also provide travel opportunities and access to overseas markets. Furthermore, these projects could be geared to learning more about the general area of intermediation and developing individual intermediaries' knowledge skills. For example, a study of licensing agreements and partners' experiences with these agreements here and overseas would increase the general knowledge in this area, pinpoint problems and difficulties, provide travel opportunities, augment an intermediary's expertise, provide policy guidance and more.

5. Consider development of a business loan service to intermediaries to in effect provide conscessional financing to individuals or businesses willing to perform the intermediation function in areas where our foreign aid programs operate. Loan programs could be administered through foreign economic development organizations or through U.S. institutions. These programs would be at rates equivalent to those charged governments or agencies through our aid program, provide for a grace period of several years before repayment began, and require repayment from the proceeds of the intermediation activities. Repayments would be channeled to a revolving fund for further re-lending for the same purpose.

6. Offer qualified new intermediaries opportunities to work as business consultants to U.S. AID Missions in the field, with responsibility for developing the intermediation function with foreign small business projects. This could be

initially carried out on a six-month basis, or for periods of up to a year's assignment. This type of approach could fill a need at many U.S.AID Missions and would at the same time provide the intermediary with "hands-on" involvement in his line of work and in a specific geographic area. The intermediary would be expected to work both in the U.S. and abroad while on such an assignment.

UPDATE AND CONCLUSIONS
AFTER ONE YEAR (1985)

An update in Septeber of 1985, with Dr. William Miller, guided the following information. Transtech Services is continuing to pursue its basic business strategy of selective intermediation of new opportunities identified through contact networks and travel to developing countries which is supported by consulting assignments.

One issue that surfaced during the initial case research and preparation of TransTech Services was the question of the number of potential opportunities a small firm should be developing at any one time. Experience has shown that it is advisable to have a substantial number of possibilities in process as the "dropout rate" tends to be high, and because the time it takes to develop any one venture is extensive. As promising as any one venture may appear, the chances are that it will not come to fruition. One reason for this is that many factors, not under the control of the intermediary, may come into play in a negative fashion. Changes in political leaders, foreign exchange and credit problems, shifting markets and lack of demand, the loss of interest by one or the other of the parties involved, practical operating problems that become apparent as discussions progress, and more can all interfere with (and stop) further progress on a collaborative venture.

Reluctance to pay for up front research and planning services, especially in the developing world, remains a significant business development constraint for the smaller intermediary. This is compounded by the fact that many intermediary-type services are being provided through government supported auspices and not-for-profit organizations, making it difficult for intermediaries to sell these types of services when they are available elsewhere at less cost.

Experience has also shown that it takes time to build a business, especially when starting from scratch. The cost of building and maintaining contact networks is a substantial expense, and the length of time it takes for a venture to mature imposes a serious cash flow constraint.

XII. APPENDICIES

Appendix 1: Research activities.

Appendix 2: Data Collected and Sources

Appendix 3: Questionnaire Results

Appendix 4: Intermediary Examples: Costa Rica

APPENDIX 1:

RESEARCH ACTIVITIES

The research component of MTAP is designed to identify a broad variety of intermediaries involved in collaborative venture development. In addition, the project sought to qualify the factors that influence successful collaborative venture development, and to predict what type of collaborative venture would evolve over the next decade. The objective of this research was to develop information suitable for designing an appropriate test through which AID could further evaluate the usefullness of assistance to intermediaries which could stimulate new businesses, increase employment opportunities, enterprise productivity enhancement, and provide a demonstration effect regarding the value of intermediaries.

The research activities were organized to observe four components of the intermediation system. On one side, we wished to examine developing country enterprises, and on the other, small U.S. enterprises. Our model also directed us to examine how the intermediary brought these companies together and what kind of collaborative venture project would result.

In order to examine the different parts of this system, we characterized the individual components of the system in terms of aspects which could be studied and evaluated through a variety of data collection methods. At the enterprise level, we were concerned with how firms carried out their decision making and what the role of intermediaries were in terms of affecting their planning, organizing and executing of project development. For these types of projects, we wished to review industry characteristics, payment formats, services rendered and several other functional descriptors associated with these types of projects. We analyzed the intermediary in terms of its organization, long-term growth strategies, operating characteristics, remuneration methods and factors which affected the success of its operations.

The enterprises and the intermediaries work within a complex international environment. Thus, we viewed these actors as operating within an "open system" (i.e., they were influenced by both their internal characteristics and external environment). For the external environment, we needed to be alert to market issues, government policies, physical infrastructures, changes in technology and other issues. Internally, we were concerned with their management systems, human resources, financial resources, enterprise experience and task technology.

Overall, our <u>conceptual models</u>, which guided the development of our research instruments, were matched against the actors and activities we wished to observe. In summary, our basic focuses included the following:

CONCEPTUAL MODEL: RESEARCH FOCUS

ACTORS & FUNCTIONS

U.S. enterprises

Developing Country enterprises

Intermediary organizations

Types of collaborative ventures

EVALUATION MODELS

Decision process
- Strategy development
- Needs analysis
- Evaluating alternatives
- Negotiation start up
- Ongoing decision making

External Environment
- Market
- Public Policies
- Infrastructure
- Financing Channels
- Technology

Internal Environment
- Task technology
- Management systems
- Human Resources
- Financial Resources
- Enterprise History

The above mentioned models were expanded so that we could observe and depict the behavior and status of the different actors and resulting projects. The planning of our instrumentation was directed toward assembling the various data so that we could achieve the following analysis:

- Define the basic system of intermediation (inputs, task activities, outputs).

- Define the decision making process of the actors in terms of future expectations, risks, and long term development opportunities.

- Identify and qualify the factors that impact successful and unsuccessful intermediation activities (external as well as internal factors).

A. ANALYSIS OBJECTIVES

To design an effective test program for the second stage of MTAP, the principal analysis goals were directed at the intermediary itself. Significant efforts were made to collect information on a wide variety of different types of intermediary organizations in the United States and in fifteen developing countries. To improve understanding of the enterprises that could be brought into collaborative venture activities, efforts were made to study different kinds of enterprises and their collaborative venture development process. Finally, from the initial examination of intermediary organizations, environments, and enterprises, ten different types of intermediaries were selected for detailed case study analysis.

B. DATA COLLECTION STRATEGY

The scope of data collection focused on unique planning and coordination efforts for the research activity. In order to be cost effective, as well as achieve a broad scope of observations, the research plan emphasized the use of experienced individuals for ongoing analysis and interpretation. The plan placed less emphasis on the statistical reliability of data collection. The data collection activity used a variety of collection devices to gather information that would be fed into a series of ongoing workshops and analysis groups. Major importance was given to allowing the analysis group to review a wide variety of data on a continuing basis. In order to accomplish this activity, research methodologies were planned that used senior team members in all stages of the research collection, in order to assure the application of the best possible interpretation and analysis capabilities. The research strategy can be summarized as follows:

1. Use of multiple instruments in a wide variety of environments.

2. Involvement of a core group of senior analysts in all aspects of data collection to encourage ongoing analysis and reformulation of conclusions.

3. The development of ongoing internal and external workshops to allow continuing evaluation of incoming information.

C. DATE COLLECTION TECHNIQUES

To generate the appropriate information, the research program began with a broad scale search for intermediaries. This program was paralleled by a combination of telephone and direct

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interviews developing information on the factors which affected successful intermediation activities. The information from these initial data collections were fed into a series of internal analysis meetings and ultimately a major analysis workshop held in Washington in December of 1983. A variety of international trips (twelve) allowed identification of foreign intermediaries, and further refine the characteristics of intermediation taking place in developing countries. Internal workshops designed guidelines for the detailed cases which were then undertaken and completed over a period of three months. Our data collection strategy included the following:

1. Broad based identification of intermediaries in the U.S. and developing countries. (Qualification of 600 in the U.S. and 200 in developing countries.)

2. Telephone and direct interviews for identifying factors and characteristics of intermediaries (94 interviews).

3. A mail survey in the U.S. and abroad to identify key characteristics of intermediation activities.

4. Internal and external workshops to analyze data. (4)

5. Two telephone and detailed mail surveys of U.S. associations and IESC volunteers in the United States to confirm the evolved understanding of characteristics and factors affecting intermediation.

6. Detailed outlines for case development on differing types of intermediary organizations.

7. Design of test guidelines for the field trials.

D. DATA COLLECTION PLAN

As stated earlier, the principal focus of our data collection was as broad a contact activity as possible, with emphasis on identifying different types of intermediaries. This activity had to be paralleled with interview material and collection of information on factors that affect intermediaries and collaborative venture activity. Finally, emphasis had to be placed on gaining an understanding of the type of collaborative ventures that would most likely to evolve in the near future.

In terms of data requirements, the overall plan called for three major strategies. First, the program would identify and inventory intermediary activities in the United States and a selected group of developing countries. This would be paralleled by interview collection on the process characteristics and factors that affect the intermediation process. During this initial stage, a combination of data collection techniques would allow involvement of the individual so that he would be engaged in the ongoing analysis activity. Finally, case studies would be organized to further expand and describe different types of intermediation in greater detail. The stages of data collection can be summarized as follows:

1. <u>Identification and inventory of intermediaries</u>

   - Mail survey
   - Semi-structured telephone survey
   - Internal workshops at IESC and Arthur Young
   - Formal workshop in December 1984
   - Newspaper advertisements in U.S. and 12 developing countries

2. <u>Continuation and refinement of survey process</u>

   - Continuation of structured telephone interviews
   - Continuation of structured direct interviews
   - Continuation of brainstorming and analysis through internal workshops
   - Mail and telephone survey of U.S. associations
   - Mail survey of IESC volunteers regarding U.S. enterprise needs and opportunities for collaborative venture development

3. <u>Case studies to detail different types of intermediaries</u>

   - Direct interviews and records review
   - Group analysis of different initial case characteristics
   - Review with intermediaries initial draft
   - Finalizing draft
   - Analysis of overall case characteristics

Throughout the data collection plan, all senior team members were involved in direct interviews, mail survey analysis and case studies. This was an essential characteristic to insure the most effective use of internal analysis and brainstorming activities which would lead to the design of field trials. Less emphasis was given to collecting statistically valid data for inferential analysis. Only one instrument was designed for scalar data development. Telephone and direct interview formats were collected but not measured with continuous interval scales.

Due to the large scope of the initial data collection, and the emphasis on moving to a design for the field test, no effort was placed on developing formal sampling structures. Rather, the ongoing analysis and brainstorming activities were considered the key to identifying characteristics, guiding further data collection, continuing refinement of factor models and characteristic descriptions. Appendix 2 describes how the three data collection stages were organized, and the general size of data collected.

APPENDIX 2

DATA COLLECTION PLAN - PHASE I "INVENTORY"

	OCTOBER	NOVEMBER	DECEMBER	JANUARY	TOTAL NUMBER
Mail Survey					
IESC Country Directors	12	21			33
Personal Contacts		156	41		197
A. Young Field Networks		12			12
Washington Based Org.	26	18			44
Informal Telephone Survey					
Identify U.S. Brokers (non-Washington)		32	41	10	83
Key Business Associations					
Key Wash. Based Organizations		5	5	6	16
Other Identified Broker Org.	5	15			20
Some U.S. SMEs-(non-IESC access)	10	5	5	3	23
Informal Workshops					
Washington		1	1	1	3
IESC-Stamford	1	1	1		3
Newspaper Advertisements					
U.S. Wall Street Journal		3			3
Department of Commerce		1			1
Foreign Local Papers (via IESC CDs)		12			12
Semi-Structured Interviews					
New York Based Org.	4	13	9	7	33
Washington Based Org.	2	11	8	4	25
Other Region Org.		13	3	12	28

DATA COLLECTION PLAN - PHASE II "ANALYSIS AND INVENTORY"

	NOV	DEC	JAN	FEB	MAR	APR
ail Survey						
Business Associations					75	
US-IESC Executives						55
elephone Survey						
Business Associations						45
S Chambers Discussion Groups						
Panama			1			
Costa Rica			1			
Peru			1			
usiness Seminars/Workshops						
Thailand	1					
Indonesia	1					
ield Interviews-LDC						
Panama			6			
Peru			4			
Costa Rica			6			
Dominican Republic					3	
Ecuador					1	
Morocco		7		3		
Tunisia		9				
Sri Lanka				5		
Indonesia		5				4
Thailand	3					3
Philippines	5			6		4
Malaysia						2
Subtotal 76						

DATA COLLECTION - PHASE III - "CASE STUDIES"

	DEC	JAN	FEB	MAR	APR	MAY
iles and Records Review						
New York Area Intermediaries	X			X		
Washington Area Intermediaries	X			X		
Other Geographic Area Intermediaries			X	X		
elephone Interviews						
New York	X				X	
Washington	X				X	
Other Geographic			X		X	
ite Visits - Direct Interviews						
New York		X		X		
Washington		X		X		
Other Geographic			X		X	
uestionnaires used to gather ata at all site interviews as well						
Draft Submissions			X	X	X	
Draft Review by Subjects				X	X	
Final Rewrites of Cases					X	X

APPENDIX 3:

RESULTS OF CONFIRMATION SURVEY ON FACTORS
INFLUENCING COLLABORATIVE VENTURE DEVELOPMENT

Statement	Agree Strongly				Disagree Strongly
LDC enterprise lack the ability to identify opportunities for collaborative ventures with U.S. firms.	27	20	4	2	0
LDC enterprises require intermediaries to: - identify collaborative venture partners.	30	21	1	1	0
LDC enterprises require intermediaries to: - develop plans for collaborative ventures	25	17	8	3	0
Many collaborative ventures fail as a result of poor business planning.	13	28	10	2	0
Most effective intermediaries provide extensive follow up efforts.	23	23	2	3	1
Effective intermediaries must have credibility with both LDC and U.S. firms.	32	18	3	0	0

APPENDIX 4

INTERMIEDARY EXAMPLES: COSTA RICA
(As listed in the U.S. Chamber of Commerce membership list)

AMPRISE, S.A. - Investment administration

BANCO INTERNACIONAL DE COSTA RICA, S.A. - Commercial banking

BANK OF AMERICA, S.A. - Sale and purchase of foreign currency, investment in local currency

BUFETE MADRIGAL NIETO Y ASOCIADOS, S.A. - Law office

CITICORP, S.A. (COSTA RICA) - Affiliate of Citibank, N.A.

CONSULTORIA INTERDISCIPINARIA EN DESARROLLO, S.A. - Marketing public opinion research, advertising, program evaluation

DELOITTE HASKINS & SELLS (COSTA RICA) - Auditing and managerial services

ESSOCHEM DE CENTRO AMERICA, S.A. - Marketing of chemical products

GARRETT Y ASOCIADOS, S.A. - Insurance agents and business consultants

INTERNATIONAL EXECUTIVE SERVICE CORPS - Consulting services

INTERPRO, S.A. - Management and investment consultant

INVERSIONES CARIARI, S.A. - Project, business, and financial consulting

WILLIAM R. J. LAING - Development finanicing of private and public sectors

BANANA DEVELOPMENT CORP. OF COSTA RICA - Banana and export

BANCO AGRO INDUSTRIAL Y DE EXPORT ACIONES, S.A. - Trading company, credit, and banking services

BUFETE DAREMBLUM - Attorneys-at-law

CINTA AZUL, S.A. - Food products

COMPANIA FINANCIERA DE LONDRES, LTDA. - Financing company

CORPORACION INTERNACIONAL DE BOSTON - Investments, financing services

EMPRESAS BRISTOL DE COSTA RICA, S.A. - Import and distribution of pharmaceutical products

ALBERTO H. GARNIER, S.A. Advertising and public relations

GENERAL INMOBILIARIA, S.A. - Financial consultants, investment managers

INTERTEC TRADING COMPANY - Trading company

INVERSIONES DEL OESTE, S.A. - Investments

McCANN-ERICKSON CENTROAMERICANA (COSTA RICA) LTDA - Advertising agency

PACHECO COTO LAW OFFICES - Attorneys

JEAN-PIERRE PETIT
Trade commissioner, int'l trade promotion, financing and investment

REVUELTA, MONTOYA Y ASSOCIADOS, S.A. - Finance, administration and economic consulting

SUGARMAN ASSOCIATES, INC - Specialized investment banking and management services

TOWERBANK OVERSEAS INC. - Banking services

VON BREYMANN, TORRES Y ASOCIADOS, S.A. - Management consulting

BANCO COSTARRICENSE DE LA COOPERACION, S.A. - Banking

BANCO INTERFIN, S.A. - Credit and banking services

EMILIO GARNIER - Independent consultant

KOREA TRADE CENTER - Korean Gov't Institution for int'l trade

PEAT, MARWICK, MITCHELL & CO. - Accounting, auditing, financial management

PRICE WATERHOUSE - Certified public accountants

SERVICA - SERVICIOS DE CORREDURIA ADUANERA, S.A. - Customs brokers and consultants

TAX PLANNING COMPANY OF COSTA RICA, S.A. - financial consulting, agricultural, real estate financial investments, U.S. income tax planning

MONEY DOCTOR MANAGEMENT SERVICES - Registered trust, int'l financial consultants

CAPTIVA CORPORATION - Investment supervision

PARRA Y MYERS ASOCIADOS DE COSTA RICA - Economic, transportation and systems consulting