WHITE PAPER

A GLOBAL MARKET PERSPECTIVE

Distributed By:

AssureBuy
1340 Remington Road – Suite E
Schaumburg, Illinois 60173
Phone: 847-843-7400
Fax: 847-843-7676
URL: www.assurebuy.com

Author:
Dr. James C. Zoda
July, 1995

A GLOBAL MARKET PERSPECTIVE
<u>A White Paper By</u>
Dr. James C. Zoda Ph.D. International Economics

The past two decades have seen drastic changes in the world economy:

1. The movement towards flexible exchange rates and the increasing volatility of exchange rate movements has made sales, and therefore earnings, of firms with only domestic sales, very erratic. Year to year changes in earnings can be substantial. Diversification of sales will somewhat protect a firm's earnings from adverse exchange rate movements. The sharp decrease in the value of the dollar over the past decade (the dollar dropped from about 3 DM/$ to under 1.5 DM/$ in the past decade for example) has made U.S. goods very competitive in foreign markets, it makes sense for a firm to position itself to take advantage of situations like this.

2. Increased growth in the computer and telecommunications industries has increased the flow of information across national borders. The improvements in technology in these industries have reduced the costs of selling via these methods (i.e. the Internet and World Wide Web). Typically the cost of advertising a product on the Internet, coupled with the market exposure, has been less than traditional sources. What has been lacking is a method of easily and simply completing the transaction for both the customer and the provider. In order to utilize the global communications facilities fully, the ability to order and pay for the goods or service must be easily accomplished for the customer, and advertising in multiple languages, accepting multiple types of payments in multiple currencies, and an awareness of jurisdictional issues is necessary for companies.

3. The volume of international trade and investment has increased significantly in recent years. By 1987 the volume of world trade, in goods and services measured in current dollars, exceeded <u>three trillion dollars</u> (less than two trillion dollars worth of goods and services were exported worldwide in 1985). The number has increased substantially since then. The value of international trade has, on average, outgrown production during the past three decades. This rate of growth in exports can be expected to accelerate in the future because of long-term increases in GDP percapita, coupled with increasing life expectancies and education levels in developing countries and the continued increased share of exports as a percentage of GDP in developed countries. Actually, U.S. firms are <u>losing market share</u> of the expanding world export market to the NIC's (newly industrialized countries - such as Taiwan, Singapore and South Korea) as well as Japan and Germany. Even so, U.S. business in 1992 sold over 12% of domestic production overseas, up from only 6% in the 1960's.

4. The world is moving toward freer exchange of goods and services and of ideas. The collapse of the Soviet Union and Eastern European reforms have moved these countries toward market economies. This, along with the EC, NAFTA, and GATT, will open up more markets. To increase profit opportunities, a firm must position itself to market aggressively in the countries covered by these treaties as well as other emerging markets.

5. Multinational corporations have expanded their operations and have taken a global outlook in terms of sales, production and investment. We basically have a one-world market and any firm that does not "go global" will not be able to compete in this market. Colgate-Palmolive Company recently has been selling more toothpaste and toiletries outside the U.S. that it is selling to U.S. consumers. Hewlett-Packard Company moved its PC headquarters to France because it feels that Europe represents the greatest potential for growth in sales of PC's in the 1990's. (Even now, over half of HP's sales are to foreign buyers.)

6. Sourcing funds abroad can reduce the firm's weighted average cost of capital (WACC). Large, purely domestic firms can theoretically achieve the same benefits from global sourcing of capital, but lack of a physical presence overseas is often a barrier to attracting foreign investors. Marketing abroad can make potential investors aware of your company and increase "name recognition".

The above changes have made it mandatory for a firm, regardless of size, to have a global perspective in all areas of doing business. In this global competitive environment, the life cycles of products and services are getting shorter. One way to increase the life cycle is to expand the available market. It is costlier and more difficult to develop new products, companies should not limit their markets for these costly investments. To survive, a firm must develop new products and bring them to global markets much more quickly than before (what can be faster than marketing through the Internet). A purely domestic company will not survive in the increasingly competitive global market.

How To Reach Us
AssureBuy, Inc.
1340E Remington Road
Schaumburg, IL 60173
800-684-4621   847-843-7400
Email us at info@assurebuy.com
www.assurebuy.com