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## Eastern frontier beckons

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### Tucson firms break into growing Asian markets

By Kyle Schliesman

*Inside Tucson Business*

Opportunity knocks in Eastern Asia and some Tucson businesses hope to capitalize.

Over the past few years, more and more U.S. companies have opened up operations in various parts of Eastern Asia. These markets include large consumer bases and relatively inexpensive labor pools. Now, even more local firms are beginning to see untapped potential in the region.

"There is a ton of opportunity over there," said Eric Nielsen, manager of the Tucson Export Assistance Center, which helps local firms establish foreign trade opportunities. "There is definitely a lot of manufacturing going on there, so there is a lot of interest in supplying. Obviously, the consumer markets are huge. There is a great degree of technological sophistication in vast parts of Asia."

The needs in Asia range from computer-related items to manufacturing and even medical equipment. Some Asian markets have a large need for environmental products, such as solar energy solutions. CTrade, a local environmental technologies firm, has a contract with the United States/Asia Environmental Partnership, a nonprofit organization promoting renewable resources in Asia.

"This is to do a pilot study using renewable energy for rural electrification. In the pilot study, we used a couple of Arizona products," said Prabhu Dayal, the chief executive of CTrade. "These are green technologies that there is a need for. You cannot put a coal-fired power plant and you can't put wires to some of these places."

The infusion of new technologies into Asia is big business and is largely supported by international banks and large government grants. However, within the past year, many of these grants are being diverted to projects in Iraq and other parts of the Middle East. There are still contracts available, Dayal said, but companies may find themselves in tight competition with other international firms.

Competitive Engineering, a local precision manufacturer, is getting into the Asian market on behalf of customers who have operations there. One customer, the large, Tokyo-based manufacturer Hitachi, recently sent Competitive Engineering President Don Martin on a trip through China to access expansion possibilities. Competitive Engineering also works with Hitachi in other foreign markets.

"We've been doing this for four years," Martin said. "They want suppliers who will follow them around the planet."

Many manufacturers are interested in establishing operations in Asia due to the low cost of labor and other factors. This is especially important to businesses

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that mass produce less complex products, Martin said. For these firms, it makes financial sense to seek out cheaper solutions.

"Internationalization is good for the industry. But take the textile industry; I don't know if there is a textile job in the United States anymore," Martin said. "There are lots of industry that used to have a presence in the United States and unfortunately do not any more."

However, for companies that have low volume needs for high-tech products, internationalization may be more expensive than production within the United States. Most Tucson manufacturers fall into this category, Martin said.

While internationalization has not taken business directly away from precision manufacturers like Competitive Engineering, it has created more competition in the market. Some businesses look to foreign markets to remain competitive, but this is not an easy or largely desirable solution for smaller firms, such as the majority of those operating in Tucson.

"For the small guys, the international marketplace is brutal," Martin said. "Nine out of 10 people that I know in the industry wouldn't go across the border to have lunch, much less to start a business. Most people just don't have the desire to travel that far, especially to start up a business in a foreign company. For the most part, the desire is not there."

Doing business in Asia can require a lot of preparation. This means not only researching the markets, but also cracking open a few books about the culture, said Kathleen Perkins, chief executive officer of Breault Research Organization, a local optics firm. Too often, companies enter the market without the prep work and end up pulling out early despite substantial losses, Perkins said.

"It requires a concerted effort, but so does Mexico. Every market does," Nielsen said. "For the typical small- to medium-sized company in Tucson, it is a big commitment to look at Asia. That means they need to be prepared to invest quite a bit of time and money to open up the market."

Breault's business in Asia typically involves optics companies interested in software tools but not expert advice. The company's high-end optical software attracts major buyers such as Sony, Cannon, Nikon and others, who do not necessarily need anything beyond the tools.

"They come to us for software, but they have not transcended that to a lot of contracts," Perkins said. "They want our technology, but we don't work with them on it. They buy it, they own it, they go to work with it."

Breault's business in Asia is doubling every three years. Establishing that success took time, because American companies have to work harder to establish a reputation in Asian markets, Perkins said.

"You don't get that right out of the box. The first one, two, three years, you work for every sale," Perkins said.

Showing a major commitment to the region, Breault has one product support employee, senior scientist John Schweyen, who spends nearly three-quarters of his time living in Tokyo and working directly with Asian companies. This was not easy to establish, because a lot of red tape stands between a U.S. resident and a Japanese residence, Perkins said.

"You can't even get a phone hooked up if you are over there and you don't have a Japanese company vouching for you," Perkins said. "They don't want Americans living there, basically. But, once you are there, you can make it work."

Breault made it work because Schweyen is a top-notch optical scientist. Schweyen even learned Japanese, which has endeared him to some of the companies he has worked with. Likewise, Breault endeared itself to these customers by making this level of commitment.

"It is something that not too many companies will do and certainly not too many countries will do," Breault said. "It makes an enormous statement about your willingness to work with them."

A commitment to an Asian market may mean finding employees willing to work full-time in the region. This also can mean finding employees who are trustworthy enough work without direct supervision.

"What is really important in Japan is long-term relationships. When they talk long term, they mean 100, 200 years, because their companies go back many, many, many years," Perkins said. "My distributor in Japan has been in business for 140 years."

One of the biggest mistakes that companies can make is considering the whole Eastern Asia region as a single market, Perkins said. In reality, each country is a market unto itself with different desires and ways of doing business.

For example, doing business in Korea is completely different than doing business in Japan, Perkins said. The Koreans want no part of long-term customer service/maintenance contracts, while the Japanese expect thorough customer service to accompany any purchase.

"Korea almost has a national policy that they won't buy maintenance contracts," Perkins said. "Whereas, in Japan, all of our customers are on maintenance. They consider that customer service. They expect it. Those are two very different mindsets."

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