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Timko Export Management Company: The Dynamics of International Entrepreneurship

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TIMKO EXPORT MANAGEMENT COMPANY: THE DYNAMICS OF INTERNATIONAL ENTREPRENEURSHIP

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CASE SYNOPSIS

The story of Timko Export Management Company offers a number of lessons to international entrepreneurs. First, economic risk is a reality that can have an enormous impact on a small to medium-sized business. It is not enough to simply recognize that economic risk is part of the landscape of international business. Businesses must be proactive in dealing with exchange rate fluctuations. They need to integrate safeguards that can mitigate exchange rate risk.

Secondly, payment structures involving cash transactions need to be placed into proper context. Timko should have required a deposit equivalent to the cost of the motorcycles. If a transaction was $100,000, the partners only asked their distributors to send $50,000. As a result, Timko had to make another $50,000 just to cover expenses. Currency swaps should have been used from the beginning as a way to hedge against exchange rate risk put into place early in the process. The firm should also have discounted the Letters of Credit in a much more concerted effort. This did not occur until very late in the business.

Ultimately the problem came down to arrogance. When a company is born out of the success of a previous venture, and is then wildly successful, its managers run the risk of adopting a mindset that says, "We are invincible. No matter what we attempt we will be successful." In 1994, in the wake of the Tequila Effect, Timko experienced what the partners thought to be a one-time event. When they became successful again – successful beyond their wildest imaginations with the opening of Africa and the bringing back of Latin American economies– they became arrogant, and were unable to recognize the media warning about the unraveling of the Asian economies were applicable to their company.

In summary, arrogance is something that an entrepreneur needs to guard against. Markets change and you constantly need to be vigilant in order to manage your activities in those markets.

CASE DESCRIPTION

This case would best be used in an international entrepreneurship class or a strategic management class at the junior or senior level. It should take about three hours of class time and a bit more time outside of class in preparation.

INTRODUCTION

In June of 1997, Tom Wilson and Dave Richards congratulated themselves on the success of their company, Timko Export Management. Thanks to their hard work, ability to read international markets, and willingness to risk millions of dollars in deals, their business was very successful. They were a formidable pair: Richards, 20 years older than Wilson, had already made a small fortune before they formed their dynamic partnership. Wilson brought three key assets to the table: several years of experience in international trade, fluency in Spanish, and an MBA that gave him an understanding of business management.

Timko Export Management had posted $30.7 million in pre-tax earnings in 1996 with sales of $127.5 million. At this rate of growth, they projected that their company would soon reach $200 million in sales.

Exhibit 1: Pro Forma Income Statement: 1992-1998 (in millions)							
	1992	1993	1994	1995	1996	1997	1998
	$	**$**	**$**	**$**	**$**	**$**	**$**
SALES (millions US$)	20.90	32.67	37.80	65.80	127.50	52.90	47.00
COST OF GOODS SOLD (millions US$)	11.70	17.68	19.70	38.90	78.80	49.80	55.60
GROSS PROFIT (millions US$)	9.20	14.99	18.10	26.90	48.70	3.10	-8.60
OPERATING EXPENSES.(millions US$)							
Employee Wages	0.51	0.51	0.53	0.63	1.70	1.90	1.90
Management Wages	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Health Insurance	0.25	0.25	0.26	0.36	0.59	0.59	0.62
Real estate taxes	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Utilities	0.04	0.04	0.04	0.04	0.05	0.05	0.05
Errors & Omissions Insurance	0.01	0.01	0.01	0.01	0.07	0.07	0.09
Bank fees	0.05	0.05	0.05	0.08	0.24	0.11	0.20
Postage / UPS	0.12	0.15	0.08	0.11	0.14	0.10	0.14
Telephone / Fax	0.29	0.27	0.15	0.45	0.65	0.74	0.69
Telex	0.04	0.04	0.04	0.03	0.03	0.03	0.03

Exhibit 1: Pro Forma Income Statement: 1992-1998 (in millions)							
	1992	1993	1994	1995	1996	1997	1998
	$	**$**	**$**	**$**	**$**	**$**	**$**
Depreciation	0.10	0.10	0.10	0.10	0.10	0.10	0.01
Travel	2.80	2.80	1.10	1.90	4.60	5.90	4.70
Regional Distributor Conferences	0.00	0.00	0.25	0.70	1.70	1.90	1.70
Legal Expenses	2.60	2.60	1.60	3.40	3.20	2.10	1.95
Miscellaneous	1.70	1.70	2.50	3.90	4.50	3.20	2.70
TOTAL EXPENSES	8.94	8.95	7.12	12.12	17.99	17.21	15.21
PRE-TAX PROFITS (millions US$)	0.26	6.04	10.98	14.78	30.71	-14.11	-23.81

They could not believe their good fortune. What they did was fairly simple. They saw an opportunity to export low-cost motorcycles to Latin America and Africa. In order to achieve this opportunity, they created a partnership with a Chinese manufacturer and developed an international distribution network.

In June of 1997, when they decided to send $5 million to the manufacturer in China for their next order, they appeared to be lucky, brilliant, and successful entrepreneurs. Unfortunately, they had no idea that several large financial institutions in Thailand were about to default on loans that they had taken from international banks. Nor did they know that foreign investors would soon begin a selling spree on the Thai stock market, which would lead to a perception of risk everywhere in Asia. Soon, everything would change.

In July, most of the economies of Southeast Asia suffered a major, meltdown, later called the Asian Flu where currencies plummeted in Asia, Africa, and Latin America. Wilson and Richards soon realized that their situation had become desperate. The devaluation in the currencies meant that the market for imported motorcycles had vanished virtually over night. Unfortunately, they had the $5 million in inventory that they had already paid for, with no prospects for recuperating their investment. When the partners met in December, it soon became clear that they only had three options:

1. They could sell their stake in their joint venture to their Chinese manufacturing partner for pennies on the dollar.
2. They could ship the motorcycles to their distributors, who would be compelled to take the merchandise -- effectively dumping it on their customers -- even though they would not be able to sell anything in the foreseeable future. While this move could result in a rebound, it also had the potential of failure and the appearance of being unethical.

3. They could do nothing and simply absorb the costs associated with the disaster, which would mean losing millions of dollars.

As 1997 came to a close, the partners asked themselves how they could have gone from being brilliant successful businessmen to being distraught and desperate. What could they have done? More importantly, what should they do next?

HISTORY OF TIMKO EXPORT MANAGEMENT COMPANY

Timko Export Management Company was founded in January 1992. It was the second company that evolved out of a partnership between Wilson and Richards.

Wilson and Richards were very different people. Richards, 46 years old, was 20 years older than Wilson. A high-school dropout, Richards was the quintessential "up by your own bootstraps" story. Leaving an abusive family in the Midwest when he was only 16, Richards headed to California in search of a better life. He pumped gas, washed dishes, parked cars, and even walked dogs. At 18, he took a job as a salesman at a truck parts outlet in Los Angeles. He excelled. Richards possessed an uncanny ability to read customers and their needs within a few seconds. Within a year, he was made sales manager. Working sometimes 20 hours a day, Richards doubled the sales of the company within 18 months. Eventually, Richards became frustrated with the office politics and left to start his own company. He quickly built one of the largest firms specializing in wholesale truck parts on the West Coast. By age 30, Richards was a multi-millionaire.

When interviewed Richards had this to say, *"Frankly, I never thought about becoming wealthy. I loved to work – and still do. I started my own company because I really thought I could do things better and wanted to control my own destiny."*

As his sons became older, they began racing motorcycles. Frustrated by the poor level of service from the local motorcycle dealerships in Los Angeles, Richards bought one. The first shop, in Torrance, was a representative of Honda, Yamaha, Suzuki, and Kawasaki. Richards jumped in with both feet and turned the store into one of the most profitable in Southern California. He later bought two more dealerships, and by the early 1990's, was one of the biggest motorcycle dealers in the entire country.

Richards added, *" I got into the motorcycle business on a whim. I spent a lot of time and money at these dealerships; a small fortune on parts, accessories, and repairs, and got lousy service in return. I knew that I could run a business better than they did."*

Wilson, on the other hand, was an army brat. His father was a logistics officer who moved the family 10 times in his 22 year career. Richards and Wilson were introduced to each other through Richards' sister, an army wife whose best friend was Wilson's mother. Wilson was an ROTC cadet in college for two years before deciding that a military career was not for him. He decided, instead, to study economics, and by the time he was 22, had a Master's Degree. Wilson also learned several languages as a child. He was a product of the elitist culture found in the officer corps of the military.

Wilson noted, *"I was a cocky young kid who had grand visions. I really thought I could do anything. My family taught me that with hard work, anything was possible."*

In early 1991, the two began to export Japanese brand motorcycles out of Richards' three motorcycle dealerships in Los Angeles, California. The motorcycles they exported were initially targeted for sale within the U.S. dealer network. However, Wilson and Richards saw opportunities elsewhere. The first country that they targeted was Argentina. Argentina had closed its borders to motorcycle imports as well as almost every other consumer product, for many years. These restrictions began to ease up in early 1990 as the military junta, which was in charge of the country, changed to a more democratic and open trade policy.

Figure 1: Example of Motorcycle Sold

Pent-up demand in Argentina for the high-end, Japanese-made bikes was exacerbated by the fact that even after the import restrictions had been eased, availability of the product within the country's distribution network was extremely limited. For Timko Export Management Company, the timing could not have been better. The U.S. dealer network had an abundance of available Japanese motorcycles. Evidence of the demand in Argentina was the number of Argentines who would travel to Los Angeles with suitcases full of cash to purchase motorcycles from local dealers at prices often 30-40 percent above manufacturer's suggested retail price (MSRP)!

Seeing this tremendous opportunity, the partners quickly decided to "go direct". Wilson got ready to leave for Buenos Aires where he set out to establish a small import office. Still, the partners were clueless when it came to knowing how to accomplish this. Neither one had set up a foreign company before. Although Wilson was bilingual and had lived many years across South America, the company needed to build the infrastructure necessary to begin receiving the U.S.-spec Japanese-manufactured motorcycles from Richard's dealerships.

Ultimately, they reached out to their bankers in the U.S. – ABN AMRO- and explained what they wanted to do. ABN AMRO was and remains one of the most global of all banks. This turned out to be a brilliant move. In international business, it is extremely difficult to build mutually beneficial relationships. For many companies, this becomes a major cause of failure in their global ventures. By aligning with their bank – an already-existing strategic alliance partner- they were able to tap the tremendous resources of ABN AMRO and get a business created in Argentina in a very short period of time.

The U.S. branch introduced the partners to the Buenos Aires office, which facilitated the proper introductions with the right law firms, accountants, and governmental officials. Both parties benefitted. The partners were able to seamlessly lay the foundation they needed, and the bank took care of an important client who would make them a lot of money in the coming years.

Even with this forward-thinking strategy and the fact that every motorcycle they imported sold within hours at two or three times the price in the U.S., they still had seriously underestimated the market. Timko imported and sold nearly 3,000 motorcycles in six months – and could have easily sold more than 4,000.

According to Richards, *"There was no way in our wildest dreams that we could have anticipated the demand for these bikes. My gut instinct said that there had to be a market, but I had no idea of the magnitude of the built up demand. Sometimes being an entrepreneur has to do with a little luck; being in the right place at the right time."*

By the end of 1991, the supply /demand curve began to stabilize. However, Richards and Wilson would continue to sell Japanese-made motorcycles in Argentina for the next several years at a nice level of profit.

The initial revenue generated from Argentina prompted the partners to consider expanding their operations. Based on their initial success in Argentina, they formed a company called the Timko Export Management Company.

THE GLOBAL MOTORCYCLE INDUSTRY

The motorcycle was invented through a succession of experiments carried out in Europe and the U.S. in the late 19th century. A series of inventors strapped an array of motors onto bicycles until Swedish immigrant Carl Hedstrom, fitted a 1.75-horsepower single-cylinder engine to a bike thereby creating the first modern motorcycle. Hedstrom and his business partner George Hendee, began building and selling what was called the Indian Motorcycle in Springfield, Massachusetts, in 1901. In the same year, bicycle racer Glenn Curtiss also began making motorcycles and in 1907 he became the fastest man alive by strapping himself to a 40-hp V8 engine and then shooting down the road at 135 mph.

Soon motorcycles were the trend with over 50 new companies successfully building and selling this new form of transportation. Among this group was a firm founded by William Harley, an engineering student at the University of Wisconsin-Madison, and Arthur Davidson, a pattern maker in a railroad shop. The Harley-Davidson Motor Company, was incorporated in 1907 and was financed by the life savings of Davidson's 80 year old bookkeeper uncle.

The Harley Davidson Company marketed its motorcycle as a less expensive alternative to the popular motor car. The first model sold for $200, and got approximately 180 miles per gallon. By 1914, the firm was producing 1,600 units each year of its new 45-degree V-twin engine model.

Because the motorcycle had become popular in law enforcement circles, it was only natural that the military would see its wartime potential. General Pershing ordered 20 machine gun laden Harleys to the Southern border to drive Pancho Villa's raiding parties out of Texas. This was followed by a yearly deployment of a 20,000 bikes to the European theatre during WW I.

JAPANESE ENTRY INTO THE MARKET

The Japanese entry into the motorcycle industry began in 1938 when Soichiro Honda and Takeo Fujisawa began their business through the perfection of a piston ring in Honda's Japanese machine shop. In order to facilitate Honda's interest in motorcycle racing, the two formed a motorcycle production company called Honda Motor Company in 1948. A year later Honda's engineering genius paid off. Honda created a technological innovation that doubled the horsepower of the four-stroke engine used with Japanese motorcycles of the day.

In 1956, Honda decided to build a commercial motorcycle focused on a specific market segment, Japanese housewives. The Honda 50cc Super Cub featured a three-speed transmission, an automatic clutch, and most importantly, an automatic starter. By the end of the decade the bike was the bestselling motorcycle in Japan, with sales of $55 million.

The Japanese firm's introduction of the Super Cub was a new conceptualization of the motorcycle. Instead of being solely the purview of racers, warriors, police, stuntmen, and gangsters, the motorcycle was transformed into an inexpensive form of transportation for consumers around the world. By 1997, the company reached the production milestone of 100 million motorcycles produced during its 60 year history. By the late 1990s the firm was producing motorcycles in India, Vietnam, Turkey, Brazil, and Indonesia. Today, Honda is by far the largest manufacturer of motorcycles in the world (Honda Motor Co. Annual Report, 2007).

MOTORCYCLES AND EMERGING MARKETS

In most of the emerging markets in the world, motorcycles have historically been viewed differently. Motorcycles were treated as a means of basic transportation. Whether in India, China, South America, Sub-Sahara Africa, or Southeast Asia, small-engine motorcycles were widely held to be an attainable alternative to other forms of transport such as walking, burros, or buses. This was due to the fact that most people in these places did not have the financial wherewithal to purchase their own automobile. As a result, an affordable, low-end motorcycle became the primary option for people who sought to have their own motorized transportation. In 1992, it was estimated that 15-20 million motorcycles were sold all over the world. China sold eight million bikes domestically.

Viewing China as a viable export option in 1992 was not a popular choice. At that time, Japan, not China, was perceived as one of the biggest global opportunities for U.S. companies. China still had the political after effects of Tiananmen Square in the summer of 1989.

Still, the partners were convinced that China held the future, especially in the area of small, basic transportation motorcycles. Corporate decisions by Honda, Yamaha and Suzuki, were pushing those companies away from the manufacture of small motorcycles. Honda and Suzuki had decided to focus on building automobiles, while Yamaha shifted its emphasis to electric-domestic products.

The scaling back of these major players created a hole in the marketplace. At the same time there was rising growth in many emerging markets around the world. In Latin America, sub-Saharan Africa, India, and China, demand for inexpensive modes of transportation was rising.

Wilson pointed out the following, *"At that time, there was little confidence that China could build anything of quality, -except t-shirts. Everyone kept saying Japan, Mexico or South Korea. As a kid, I remember the famous shortstop Pee Wee Reese saying, Hit em where they ain't. The first time I went to China in 1991, I landed at Beijing International Airport. Our plane was the only flight. I remember the lights were turned on when we entered the immigration and customs area. Nothing was working. I saw this as an opportunity. Little or no competition."*

Wilson began a research project with the goal of identifying one or more markets where demand for motorcycles would be high. He was astonished to learn, in an examination of U.N. documents, that only about one out of five people on the planet had ever been inside an automobile. His reading further convinced him that the vast majority of people could not conceptualize a car as easily as they could a basic transportation motorcycle.

As incomes increased in those countries, consumers desired automobiles. However, because they could not afford cars, the pent up demand for individual means of transportation was focused upon motorcycles. Ironically, just as the Japanese started to phase out of the small motorcycle business, the demand for motorcycles began to take off. While demand was great, the supply was limited. Timko Export Management Company was at the right place at the right time.

In other words, the low-end motorcycle market that had served tens of millions of customers around the world for decades was undergoing a significant change. In light of this, the partners came up with a simple strategy; provide basic, low-end motorcycles for the people of the developing world using China as the manufacturing source. In late 1992, Timko Export Management Company reached an agreement with a joint venture partner after extensive market research and interviews with prospective motorcycle manufacturers in China.

Timko soon realized that the Chinese companies they spoke with were generally unsophisticated with regard to Western business concepts of service, consistency, and quality. They did, however, know how to build things at a very low price.

JOINT VENTURE WITH A CHINESE MANUFACTURER

In 1992, Timko established a joint venture with Shanghai Jaiek Motorcycle Limited in Shanghai. This company was part of the giant Shanghai Automotive Industrial Corporation (SAIC). Shanghai Jaiek Motorcycle Company was the first company in the history of China to go public on the New York Stock Exchange. Half of its holdings were owned by the Chinese government, or the SAIC division, and the other half of the company was held as a joint venture of CP Group in Bangkok.

Timko formed a joint venture with Shanghai Jaiek Motorcycle Limited for the production, exportation and ultimate distribution of a line of motorcycles. The motorcycles were very similar to domestic models, except they were modified to ensure higher performance and quality for the international market.

Timko knew the quality issue would be critical. If they could develop a quality product at an affordable price then they knew that success would be within reach.

The motorcycles were sold under the Jaiek brand, as they were in China. Timko initially exported motorcycles to existing customers in Argentina. Within a short time, the firm exported the motorcycles to other parts of South America, Central America, and Mexico. Leveraging previously established relationships, the firm rapidly built an exclusive distribution network. Business was very good throughout 1993 and the first half of 1994. Several exclusive distributors were established in Argentina, with others established in Brazil, Peru, Chile, Bolivia, Paraguay, Uruguay, Columbia, and Ecuador.

The firm then turned its attention to the Caribbean, and found distributors for its motorcycles in Haiti and the Dominican Republic. The biggest markets during the initial phase of operations (from 1993 to mid-1994) were Argentina, Brazil, Peru and increasingly Mexico.

The partners felt good about the timing of their venture. Not only had they jumped into the motorcycle business as the major players were pulling out, but their target markets were exhibiting new signs of economic growth and stability. Latin America was recovering from the debt crisis of the 1980s. For example, Argentina had beaten back inflation and was growing at an annual rate of 5.7 percent, Brazil replaced a military dictatorship with a democratic government, and Mexico initiated a privatization program and an attack on its age-old policy of import substitution (Hill 2006,

p. 358). It appeared that the partners had made the right move when they decided to meet the growing demands of emerging market consumers with a new line of motorcycles.

PAYMENT STRUCTURE

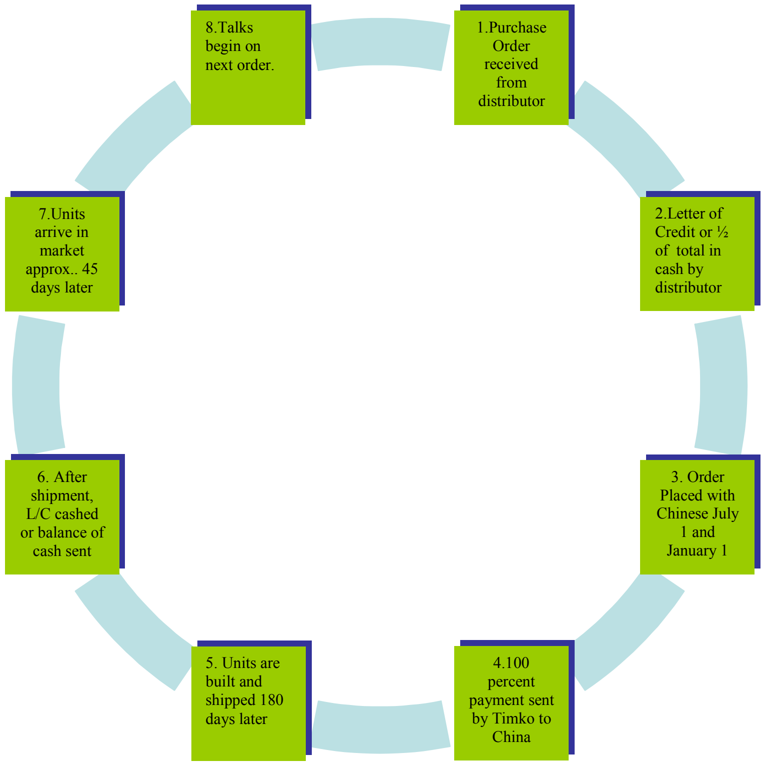
Figure 2 shows the Timko Export Purchase Order Processing Process. Timko set up a payment structure that was fairly conventional. A purchase order would be sent from a distributor, processed, and then submitted to the Chinese partner for production. After a formal purchase order was established and sent to China, production would begin. At the same time, the financing mechanism of the entire transaction, in U.S. dollars, was executed. Either a wire transfer cash payment or a letter of credit originating from one of the Latin American distributors would be sent to the United States. In order to enhance sales, Timko required distributors to provide on the front end only one-half of the cost of the motorcycles. They fronted the rest, waiting to cash the Letters of Credit after the shipment to receive the balance. This financing mechanism, it was believed, would give distributors the ability to sell more units and fill the pipeline much sooner. Having plenty of available cash on hand, the partners were willing to assume the risks in order to grow the business.

Calculating the gross profit was not complicated. The gross profit was simply the difference between what the distributor would send and the amount required by the Chinese joint venture partner to produce the motorcycles. Operating in this manner made it easy to handle the accounting and taxes. The Chinese were not sophisticated about global trade so they liked the simplicity of the arrangement.

The motorcycles were shipped on the first of July and the first of January. Purchase orders were obtained, money was collected, motorcycles were produced and manufactured, and then money was sent and the product was shipped. The letters of credit could be cashed after the shipment was confirmed by presenting the export documents to the negotiating bank.

The simple way of operating that Timko and its Chinese manufacturers adopted had left the partners vulnerable. With a letter of credit, a firm does not get paid until after a shipment is delivered. As a result, in many cases the partners would send on a bi-quarterly basis $5-10 million dollars in cash to China. This would pay for a shipment of motorcycles and cover the Chinese partner's expenses. Several months would pass before they were able to recuperate their money, including their profits. The partners were seemingly aware of the risks.

Figure 2: Timko Export Purchase Order Processing



ECONOMIC CLIMATE IN SOUTH AMERICA

In the beginning, the loose operational mode of Timko worked well. The countries of Latin America experienced economic stability throughout 1992 and early 1993. However, trouble was around the corner.

In the early 1980s the International Monetary Fund bailed Mexico out of a financial crisis. As a condition of the bailout the IMF forced the Mexican government to "peg" the peso to the dollar within a band of plus or minus three percent. The band was also allowed to "crawl" downward daily. This created an annual depreciation of the peso against the dollar of about four percent.

On January 1, 1993 the Mexican government instituted the Nuevo peso – the new peso – in response to the extreme devaluation that had occurred during the 1980s. One new peso was worth 1,000 of the obsolete Mexican pesos. In the international community, there was grave concern that the new peso was being artificially maintained by the Mexican government. Currency speculators began to put pressure on the Mexican government to float the peso on the open market in order to determine the true value of the currency, especially relative to the U.S. dollar. The partners did not pay attention to any of this.

The first half of 1994 was a great time for Timko Export Management Company. They were able to coordinate the shipment of three quarterly orders of motorcycles, $45 million to their distributors in Latin America. The partners had began to think of expanding into new markets with a broader product line. They had even drew up plans for opening assembly plants in local markets around the region. Unfortunately for them, the global economy was about to teach them a painful lesson.

Timko was approaching the quarterly manufacturing cycle. A shipment of motorcycles worth $3.3 million dollars was to be sent on January 1, 1995. Over the previous six-month period purchase orders had been received from distributors along with wire transfers and letters of credit. More than $10 million dollars had been sent to China to fund the manufacturing of the motorcycles.

During the second half of 1994, pressure began to be exerted against the Mexican peso *vis a vis* the U.S. dollar. The exchange rate, which was 3.111 Nuevo pesos to $1 U.S. dollar, was widely considered artificial and unsustainable. As Christmas approached, the Mexican government indicated that it might do something short of floating the peso. This timing was likely due to a slowdown in the financial markets during the holidays. On December 20, 1994, the Mexican government decided to devalue the peso by 13 percent. By the end of the month it fell another 15 percent. On December 20th the peso was worth 3.940, on March 19, 1995 it stood at 7.220 per dollar. Over the course of the previous several months, 50 percent of the value of the peso evaporated.

The sudden devaluation of the peso, and the subsequent realization that Mexico was in the midst of a currency crisis, sent shock waves throughout the Latin American distribution network of Timko Export Management Company. The problem was the motorcycles were bought and sold in dollars on the international market (by Timko, the Chinese, and the distributors) and were sold in local currencies in the home market (to retail customers). Projections in terms of pricing and financing were based on the valuations of those currencies prior to what had happened in Mexico. In what came to be called the "Tequila Effect", the Mexican financial crisis soon spread throughout Latin America. As a result, Timko's motorcycles became cost prohibitive for its distributors.

For example, in Mexico, the cost to the local distributor of the motorcycles before the peso devaluation was approximately 3,100 pesos (the sale price from Timko was US$1,000 per unit x 3.11 pesos). A few months after the devaluation, the cost to the local distributor had jumped to over 7,200 pesos. Although the sale price from Timko remained US$1,000 per unit to the Mexican distributor, the cost in the local market had increased by over 40%! This scenario repeated itself across Latin America, where currencies across the region fell spectacularly against the U.S. dollar.

After wallowing in self-pity over the holidays, the partners decided that the only solution to a warehouse full of motorcycles was to come up with new customers. Wilson thought back to a conversation he had with an individual he met on one of his trips to Brazil. James Boachie-Adjei

was a Ghanaian who had expressed an interest in selling Timko motorcycles in Africa. Because no other options came readily to mind, Wilson flew to Ghana and visited Mr. Boachie-Adjei.
After a long lunch, it became evident that Boachie-Adjei did not have the resources or capacity to do business. However, he did tell Wilson about an area in northern Ghana, on the border with Burkina Faso, where there was a huge market for small-end motorcycles, especially Japanese motorcycles. Wilson made the 18-hour trip in the back of a small pick-up. Wilson was encouraged by the consumer demand that he witnessed and began a year and a half of travels that took him to 50 countries throughout Africa.

According to Wilson, *"It was paradise! I knew we were going to make it. Of course the amount of work required was monstrous. But I was convinced we could survive."*

His mission was simple, set up new distributors and liquidate the inventory remaining in Shanghai from the Tequila effect debacle. By mid-1995, Timko sold its way out of the Mexican currency crisis by meeting the demand for low-end motorcycles in Africa. By this time, things were looking up in Latin America. Currencies in the region had stabilized and economic growth was beginning to take off. The Mexican economy had revived; Both Brazil and Argentina began to experience near double digit growth, and the Tequila Effect had rapidly dissipated.

The economic crisis hangover was gone, and with new African distributors on line, Timko Trading, in conjunction with its Chinese partner, had visions of expanding markets, increased revenue and fat profit margins. Things had never been in better shape – or so it seemed.

The partners remained convinced that they could overcome whatever obstacles the global economy threw in front of them. Richards called himself "The Terminator" when he closed a deal and Wilson began to think himself a kind of management guru in the making. They often joked about how "all the so-called experts never had the guts to do what they had done."

Despite the difficulties of the previous months none of the parties voiced concern over the payment structure. To better manage economic risk, the partners decided to change the product/payment sequence from six months to a three month cycle. In other words, motorcycles would be ordered, shipped, and paid for in three months instead of six. The Chinese were amicable, their customers were cooperating, and business was booming.

From 1995 to 1996 100,000 motorcycles were manufactured and sold. Spare part sales were in the millions of dollars. The company was approaching $200 million a year in sales.

ASIAN MONETART CRISIS

In 1997, the partners were once again so fixated on business, that they did not notice new rumblings in the international financial markets – rumblings about the valuations of the currencies in Southeast Asia, particularly in Thailand, Malaysia, Indonesia, and South Korea. Both partners were logging about 500,000 miles a year, flying all over the world. Wilson would be gone two-to-three weeks at a time in Africa or Latin America, only to return home for a few days, and get back out on the road. They were managing their Chinese partner, helping successful distributors grow their business, axing non-productive ones, and looking for new ones.

At this time, Wilson and Richards were thinking about how smart they had been. Having overcome the "Tequila Effect" they were sure that a billion dollar business was not that far off. They were already talking about an IPO and spin-offs around the world.

The Asian export boom of the 1980s had led to a boom in commercial and residential property investment. As the valuation of real estate in major Asia cities soared, a "bubble" was created. Heavy borrowing from banks financed huge infrastructure projects throughout the region. However, because the underlying economic fundamentals were unsound, pressure from international financial markets began to build.

In mid-1997 it became evident that several large financial institutions in Thailand were about to default on loans they had taken out from international banks for the purpose of financing local development. Sensing a financial meltdown, investors began a selling spree on the Thai stock market, with some individuals even shorting the Thai baht. Suddenly, investors began to perceive risk everywhere in Asia. What came to be known as "contagion" spread throughout the region, as investors sold their positions in Asian markets, demanded dollars, and exited the area. Because there were not enough dollars to cover the dollar-denominated debt, Asian governments began to rapidly devalue their currencies. The "Asian Flu" of 1997 had arrived.

It was déjà vu for Timko. Now shipping on a quarterly basis to their customers in Africa and Latin America, the partners had experienced a good first two quarters of 1997. In October, at the beginning of the third quarter as the partners waited for their motorcycles to arrive, the economies of Asia suffered their meltdown.

During the previous month, \$5 million had been sent to China. As the Asian Flu hit, currencies plummeted relative to the U.S. dollar, not only in Asia, but also in Sub-Saharan Africa and Latin America. Because of the millions of dollars that had been sent overseas during the previous month, Timko Trading faced an even graver, more dangerous situation than it had in 1993.

Timko now had to decide what to do. They had \$5 million in inventory, which they had already paid for and had no prospects for recuperating their investment. The partners narrowed their options down to three options:

1. They could sell their stake in their joint venture to their Chinese manufacturing partner for pennies on the dollar.
2. They could ship the motorcycles to their distributors, who would be compelled to take the merchandise -- effectively dumping inventory on their distributors -- even though they would not be able to resell any of it in the foreseeable future. While this move could result in a rebound for Timko, it also had the potential of failure and the appearance of being unethical.

3. They could simply absorb the costs associated with the disaster, which would mean losing millions of dollars.

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