

Going Global

State support is helping Idaho companies tap international markets By Martin Johncox

After this magazine has fulfilled its primary mission of informing and entertaining readers, it might enjoy a second career as insulation for a Chinese apartment or office building.

Idaho's Hamilton Manufacturing Inc. is doing brisk business selling insulation made with newspapers, phonebooks and other publications to a real estate developer in Shanghai. Insulation is in demand because China is experiencing a building boom, and over the past two years, acceptance of wood-frame buildings has grown tremendously, says Tamara Harney, who with her sister, Christy Hamilton-Eames, and brother-in-law, Tom Eames, heads Hamilton's international efforts. The company was started in 1962 by Harney and Hamilton-Eames' parents, Gene and Gloria.

IDAHO'S TOP EXPORT MARKETS 2003

1. Canada, \$361.9 million
2. United Kingdom, \$349.6 million
3. Japan, \$269.4 million
4. People's Republic of China, \$213.3 million
5. Singapore, \$204.2 million
6. Taiwan, \$131.4 million
7. Philippines, \$78.4 million
8. Malaysia, \$77.6 million
9. Korea, \$61.9 million
10. Mexico, \$55.6 million

Courtesy of Idaho Commerce and Labor

The insulation market is growing thanks to U.S. efforts to convince Chinese builders that wood-frame homes—which require insulation—are as viable as concrete homes, Harney says. There is also a growing interest in using insulation to provide energy efficiency.

Hamilton is one of numerous Gem State companies that have found a treasure trove of international-trade opportunities over the past five years. Led by an aggressive effort from the Idaho Commerce and Labor department, state businesses are thriving in the world marketplace, where they are selling everything from potato-storage systems popular in Argentina to utility billing software popular in Newfoundland.

In 2003, Idaho exported \$2.1 billion in products to foreign countries—a 30 percent increase over 1998. The jobs of more than 50,000 people, or more than 8 percent of Idaho's workforce, are tied to international trade.

"Economic development is the governor's No. 1 priority, and international trade is exceptionally important to Idaho," says Roger Madsen, director of Idaho Commerce and Labor. "The opportunities aren't just for world-class companies such as Micron Technology [a large memory-chip manufacturer] and Simplot [an agribusiness famous for inventing frozen french fries]. Smaller companies are also improving their profitability and strength by exporting."

Efforts to build Idaho's international trade were boosted in 1985, when the state established the Department of Commerce, with one person working part-time on inter-

national trade. In 1987, the Department of Commerce (which this year merged with the Department of Labor to become Idaho Commerce and Labor) added five full-time positions for international trade.

Canada and the United Kingdom are the state's top-two trading partners, with the next seven all from Asia, Madsen says. China is an especially desirable market. It's literally 1,000 times the size of Idaho, with 1.3 billion people, compared with Idaho's 1.3 million. Mexico, the No. 10 trading partner, is favorable because it's nearby, and Governor Dirk Kempthorne has good relationships with its leaders, fostered via trade missions.

Hamilton Manufacturing's success in China is an example of how Idaho's natural-resources-based businesses, not just its technology companies, are benefiting from global trends, says John Nordstrom, trade specialist for Idaho Commerce and Labor. "In Asia, the market for U.S.-type housing is really skyrocketing, and they really want American-type building materials."

Some Idaho companies involved in natural-resources-related endeavors, such as Boise Cascade Corporation, have been well-known for decades in international circles, but now smaller companies such as Hamilton are finding a trade niche, too.

For more than 40 years, Twin Falls-based Hamilton has been turning old newsprint, phonebooks and other paper into hydroseeding mulch and building insulation. All that went for American buildings and lawns until the 25-employee company began trading internationally in 1998 as a strategy to increase sales. Foreign trade is now 20 percent of its business.

Although Hamilton started shipping to the United Kingdom six years ago, the company's international-trade business really took off after a 1999 Idaho Department of Commerce trade mission opened doors with Yongye Enterprises, a large developer based in Shanghai.

Hamilton has developed a good relationship with Yongye, says Tamara Harney. During the 1999 trade-mission visit, Mr. Wu, head of Yongye, brought his entire board of directors to meet with Harney. (In the more formal Chinese business culture, people use titles, and Harney always refers to Yongye's top executive as "Mr. Wu.")

"They have a cold climate in Beijing—just like Twin Falls," Harney says. "Mr. Wu took us to all his buildings that he's working on, to see what we could do.

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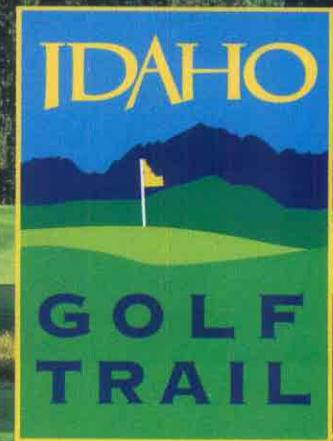
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"He's taken us under his wing and been a huge asset. Our little company does \$4 million a year in sales, and he's a \$500 million company that sees an opportunity and is trying to help us. Mr. Wu would say it's destiny."

Wu visited the Twin Falls plant to learn more about Hamilton's operations, and also sees potential for the hydroseeding mulch product, Harney says. Dusty air is a serious problem in Chinese cities. The mulch assists revegetation of barren land and helps keep dust down. In addition, demand for mulch is growing as more Chinese purchase single-family homes and more cities start creating parks with grass.

Hamilton also sells to other Asian countries, and to Europe and South America, and it is developing markets in the Middle East. But international trade can be challenging, Harney says. There is little standardization among Chinese ports, for example, and the company has had difficulty securing permission to bring insulation and hydroseeding mulch through some ports. Port officials are sometimes unfamiliar with the fibers and wrongly assume they could carry pests, a typical concern for wood products.

Also, insulation and mulch are expensive to ship. They're relatively low in value, yet take up a lot of space in shipping containers. It's unusual for an international insulation company to be located inland, but Harney says Idaho's relatively low cost of doing business, combined with strong international demand for building materials, makes it profitable to ship insulation such long distances.

Cascade Toboggan Rescue Equipment Company sells its products in 23 countries. The company moved to Idaho two years ago after deciding to expand.

Idaho is one of the 15 least-expensive states in the nation in overall business costs, including per-capita state and local taxes, energy costs and labor costs, according to Economy.com.

"It costs less to produce in Idaho, and we're close to our raw material source," says Harney. "It's extremely important for us to keep our costs down so we can stay competitive. We're so competitive, we also ship to California and Japan, which also produce paper mulch and insulation."

Another small company succeeding in international trade is Cascade Toboggan Rescue Equipment Company of Sandpoint. The company, which employs a dozen people and has annual sales of more than \$1 million, makes top-of-the-line rescue toboggans—sleds for transporting injured people. Ski resorts, ski patrols and other rescue teams are the main users of the toboggans. Occasionally, though, a member of the general public will buy one for sledding or pulling kids behind a snowmobile with a towbar.

Toboggans have long been used to rescue people. But in the early 1960s, Victor Bradley, a ski rescuer exhausted from lugging injured people on heavy steel-and-wood toboggans, began researching ways to build a lightweight toboggan. Bradley's

use of aluminum and fiberglass was innovative, and he began selling the toboggans in 1963.

Cascade has 98 percent of the U.S. market and 40 to 50 percent of the international market for rescue toboggans, says president Dana Jordan. The company has sold its products in 23 countries, including Spain, Chile, Japan, Austria, Australia, Canada, Russia and Israel (yes, there is snow in Israel). But because rescue toboggans are a relatively small market—Cascade sells around 500 toboggans a year—the company also branched into outfitting cold-climate rescue crews. It created its own line of clothing, and it resells electronic equipment such as avalanche rescue beacons.

Jordan attributes the company's ability to compete internationally to its history and reputation. "Our products are known and trusted, and that's important in international work," he says. "It's not uncommon to see one of our toboggans that's been in use for 30 years."

Cascade moved to Sandpoint from King County, Washington (the county in which Seattle is located) two years ago. The company needed to expand, but found that it would cost \$1 million in King County. Jordan says the company looked at about 10 other towns before picking Sandpoint. He says a can-do attitude from the Bonner County Economic Development Corporation and local leaders made the difference. Locals helped Cascade find property, find employees and start relationships with other local businesses whose work was needed to support toboggan manufacturing.

"We thought that if we were going to have to move out of King County, we'd want to pick a place that we really wanted to live, and Sandpoint has been great," Jordan says. "They let us know they were interested in having our business. We acquired commercial property by the airport in a brand-new building with room to grow—all for 25 percent of the cost it would have been in Washington, and it's a nicer facility. Our business expenses are lower; our labor costs are lower; and our employees are happier."

Idaho also has good places to test prototype toboggan designs, such as nearby Schweitzer Mountain, Jordan says. Since moving to Sandpoint, annual sales have increased 30 percent a year, he says.

International business continues to play an important role in the growth of the state's technology industry. Micron Technology Inc. is the state's sin-



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Customers in Canada, Mexico and Argentina are turning to Hansen-Rice Inc. for an "air-envelope storage system" that ensures freshness for potatoes in storage.



gle biggest exporter, responsible for more than a third of the state's export business.

Micron is the second-largest memory-chip manufacturer in the world, with 18,000 employees—10,000 of them in Idaho. The company's 2003 sales were \$3.1 billion, with 55 percent of that international and 45 percent domestic. A good share of the worldwide sales dollars was for semiconductors and modules produced in Idaho.

The company's memory chips are in all kinds of consumer products, such as desktop computers, laptops, cameras, cell phones and PDAs, says company spokesman Dave Parker. A popular product is removable flash memory, which plugs into a computer's USB port, he says. It's about the size of a person's pinky and as easy to use as a floppy disk, but typically holds around 500 times as much information. Micron has also started making imaging sensors for digital cameras, which even competing memory-makers are buying. For example, Philips has started selling its own flash memory, installing a tiny Micron imaging sensor to create a simple 2-megapixel camera that's just a couple of inches long.

AMI Semiconductor is another company with a strong presence in the world marketplace. AMI—which specializes in making microchips for the medical, industrial and automotive sectors, and had 2003 sales of \$454 million—has 2,600 employees worldwide, with about half of those in Pocatello. Manufacturing facilities in the Philippines and Belgium, as well as small design centers around the globe, round out the company's international presence.

"We are continuing to grow—in Idaho and around the world—and we are continually looking for new international expansion opportunities," says company spokesman Arlen Wittrock. "We have a great

workforce and are happy with the climate Idaho provides for conducting business."

Sapidyne Instruments Inc., a Boise biotechnology company, is demonstrating that smaller technology companies can also grow their international operations. This past summer, Sapidyne, whose sales exceed \$1 million a year, launched a Japanese subsidiary, with three employees initially. Started nine years ago in Boise, Sapidyne makes testing equipment—such as devices that measure the speed and strength of biomolecular reactions—for drug manufacturers.

Sapidyne's client base includes some of the world's largest pharmaceutical companies, including Eli Lilly & Co., Biogen and Amgen. Sapidyne has customers in eight countries, including South Korea, Scotland and Ireland, as well as in the United States.

The company employs approximately 20 people, including its Japanese workers, says Sapidyne chief financial officer Pat Doneen. "We see Japan as a very important emerging pharmaceutical and biotechnology market," he says.

AMX International of Idaho Falls typifies a homegrown Idaho tech company that's carved an interesting niche in international trade. AMX's "Utiligy" division focuses on utility billing software that performs traditional tasks such as computing the bill, and also does more advanced things, such as recording online payments and integrating customer information with mapping systems.

But the real impetus for utilities to use the software is that they are expanding their product lines, says AMX spokesman Jace Davis. Public and private companies are scrambling to offer products and services such as cable TV, Internet access, renting out spaces atop water tanks for cell phone towers and even selling energy-

efficient lightbulbs and water heaters for profit.

"If they're in a regulated market, they're looking for ways to add profit centers and be a one-stop shop for several services," Davis says. "They need to be able to bill for all those utilities and services on one bill, and we have a flexible billing engine that allows them to bill for whatever they can come up with."

About 25 percent of AMX's work is international. The company has been serving foreign clients in various countries from the time it started, in 1989. Founders Jay Price and Andy MacKay began their business by helping customers in places such as Germany, Australia, Mexico and Canada operate complex business programs developed by other companies, and AMX still provides that service for clients that have bought programs such as those developed by PeopleSoft.

The Utiligy division was founded in 1999 and expanded to international work three years ago. AMX has sold its Utiligy software products and services in Qatar, Guam, Newfoundland, Latvia, Canada, Mexico, South Africa, Brazil, Saudi Arabia and Jordan.

The 120-employee company has plenty

of competitors, but Davis says it remains secure in its market, thanks to its breadth of experience. "For example, we're able to talk to our customers in Qatar about some of the ideas that have been implemented in Guam, so they can consider best business practices in other areas," Davis says. "International business adds credibility to our organization and shows we have experience working in different cultural and business environments."

AMX, which is privately held and does not disclose sales figures, needs an educated workforce, and the company's proximity to the Idaho National Engineering and Environmental Laboratory means trained people are always close at hand, Davis says. In addition, Brigham Young University-Idaho in nearby Rexburg supplies interns, who often move into full-time positions at the company.

"Idaho Falls offers a good quality of life, and we can pay good wages, plus people's dollar goes a lot further in Idaho," Davis says. "We're 1 1/2 hours from Yellowstone and Jackson Hole, and two hours from Sun Valley, and if employees have young families, it's an especially good place."

Davis says Governor Dirk Kempthorne's annual trade missions have been helpful

in opening doors for the company overseas, including a pending deal in the Philippines that will double AMX's size.

For some companies, international work is a relatively small part of the business, but it's welcome work that contributes to the bottom line and adds to the cachet of the company when it seeks domestic work.

Hansen-Rice Inc., a construction company in Nampa, just west of Boise, started in 1983 and serves the agricultural, high-tech and wood-products industries. While the diversification puts added demands on the company, it has insulated Hansen-Rice from the ups and downs of any one industry, and the company has grown from fewer than 10 employees to between 100 and 500, depending on the number of contracts at any particular time.

Hansen-Rice prides itself on its reputation for integrity, and points out that it still has several of the clients it attracted when it was founded. These customers include a Washington state corrugated-cardboard producer that has hired Hansen-Rice for 37 major projects over the decades.

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storing potatoes, however, that has led to international business. The company's "air-envelope storage system" guarantees freshness for potatoes in storage by carefully controlling temperature, ventilation and humidity. Hansen-Rice's first international job was building a storage facility in Canada in 1993. In the potato industry, word-of-mouth still carries a lot of weight, and the company soon found itself building more air-envelope-storage buildings in Canada, Mexico and Argentina.

Chief operating officer Burke Hansen estimates that the international business is less than 10 percent of sales, which are estimated to be \$75 million this year, but foreign contracts help Hansen-Rice in other ways. International work adds to the company's reputation and helps it obtain domestic work, says Hansen, who is the son of founder Dan Hansen. The company does 80 to 85 percent of its work outside of Idaho, and has worked in 34 different states.

"We are unique for a construction company in how far we travel and chase jobs," Hansen says. "We tout that we can be a one-stop shop regardless of where they're building, and that we're capable of serving any of their needs. International work helps bolster the reputation of your company."

The state's most famous industry—potatoes—has not only helped Idaho companies get foreign business, it has attracted foreign companies to Idaho. Last year, German company Grimme, the world's single biggest manufacturer of potato planting, cultivating, harvesting and storage equipment, finished purchasing Spudnik Equipment Company, a potato-equipment manufacturer founded in 1958 in Blackfoot, which is between Pocatello and Idaho Falls. In January, Grimme, which employs 220 at Spudnik, opened a 120,000-square-foot factory/research/office facility in Blackfoot and is looking to expand production there. It plans to move some jobs from Damme, Germany, to Blackfoot.

"You hear about companies exporting jobs, but we're importing jobs, building more components and thinking about building more machines and components in Blackfoot," says company spokesman Frank Dorenkamp. "Idaho is the main area of potato production worldwide, and it gives us added credibility when we can say our equipment is manufactured here."

Grimme, with annual sales of \$170 million, holds 50 percent of the potato-equipment market outside the United States, and thanks to the acquisition of Spudnik,

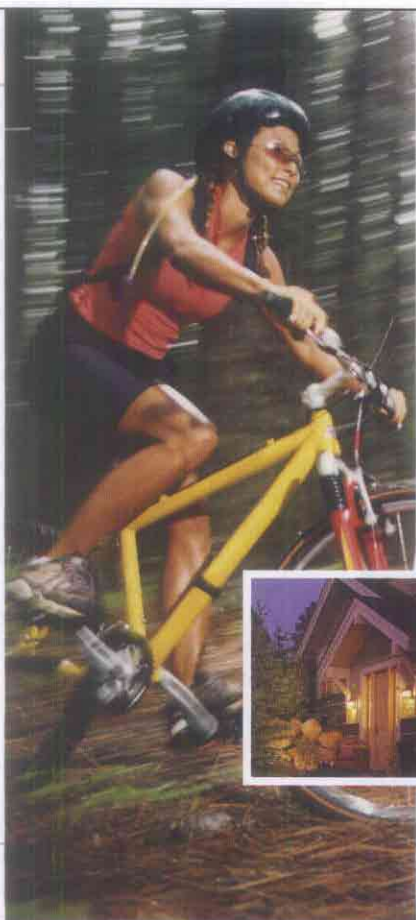
Grimme is also now the largest U.S. manufacturer. Prior to the acquisition, Grimme was No. 3 in the United States.

Grimme's German-made machines are more complex than those manufactured in Idaho, and the sophistication is necessary in sticky European soils that complicate harvesting. Spudnik's equipment, on the other hand, is simpler, higher volume and well suited to other kinds of soils.

"It's nice for us to be here, because Russia and China will use Idaho as a role model for distribution, since the state's potato industry is experienced in distributing across large geographical areas," Dorenkamp says. "Our global strategy is to react to market trends, and it makes sense for us to build the machines here."

Grimme isn't the only foreign company seeing opportunity in Idaho. The most famous example is Grupo Modelo, which is building a malting plant in Idaho Falls. Most Americans are familiar with Grupo Modelo's Corona beer, the top imported beer in the United States.

Grupo Modelo's presence in Idaho had its genesis in Governor Dirk Kempthorne's May 2001 trade mission to Mexico.



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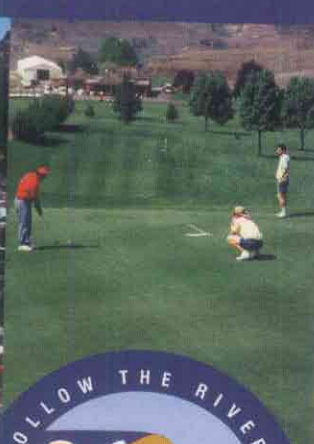


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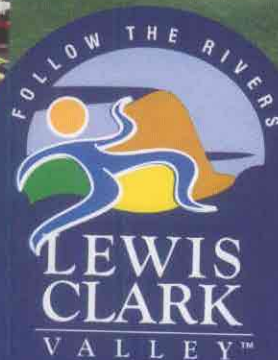
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State, federal and local agencies collaborated to create incentives for Grupo Modelo, including a commitment to spend \$500,000 to extend a spur off the main railway line to the Idaho Falls plant site and to spend \$600,000 to acquire land for the plant. The money came from the state-funded Rural Development Initiative and the Regional Development Alliance, a consortium of elected officials and business leaders from seven Idaho counties. The rail spur is under construction, and Grupo Modelo is spending an estimated \$80 million to build the plant, which is expected to be completed next year.

Grupo Modelo uses two varieties of malting barley for its brewing operations. One variety is available from farmers in Mexico and is malted by Grupo Modelo at several locations. The other variety is grown primarily in the northern United States. To ensure a consistent supply of malt, Grupo Modelo decided to build a malting plant close to the U.S. barley supply, says Jay Engstrom, administrator for the economic development division of Idaho Commerce and Labor. It is more cost-effective to ship the processed malt than to ship the barley to Mexico to be processed, he says. Idaho farmers produce a very consistent and high-quality malting barley, and that is one of the primary reasons that Grupo Modelo located the operation in Idaho.

The highly automated plant is expected to employ 25 to 30 people, but the real economic benefit will come from the plant's purchasing about \$17 million of barley a year from Idaho farmers.

"We're trying to promote Idaho as a place for business expansion, whether foreign or domestic," Engstrom says. "Idaho doesn't have a long history of foreign investment, but we look forward to doing more of that, and there's a particular opportunity in Mexico and the Pacific Rim. Any time you can increase the market for your products, the better off you are. And these days, the impact of the global economy hits everyone. We have to get our products on the international market if we're going to survive. Everyone from the farmer to the high-tech CEO recognizes that." ■

Martin Johncox is a Boise writer.

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