Is Exporting For Me?

Summary

In this first session, we'll start with the basic question, Is Exporting for Me? We'll cover what is exporting and how exporting compares and contrasts with your current domestic selling strategies. We'll also discuss why you should be exporting and what the costs, risks, and benefits are. Last, we'll explore the reasons why many companies resist exporting despite the benefits.

Introduction

Welcome to the LA Export Series podcasts brought to you by the El Camino College Center for International Trade Development. Each podcast will focus on a specific export topic presented by an industry expert. Our complete series will walk you through all phases of the export process, from getting started to getting paid and delivering the goods. Throughout the series, we'll share resources that can help motivate and prepare you to export successfully, including free Web resources and further reading.

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Presenter: Maurice Kogon

Our Presenter is Maurice Kogon, Director of the El Camino College Center for International Trade Development. Maurice has over 49 years of experience in the international business field as a U.S. government official, business executive, educator, and consultant. He has written, lectured, and trained extensively on international trade and has developed numerous Web-based export tools now used throughout the world. He is also a past President of NASBITE and has served on the NASBITE Board of Governors since 1999. Maurice obtained both his Master's and Bachelor's degrees in Foreign Affairs from George Washington University.

What Is Exporting?

If you're thinking about exporting, but not quite sure if it makes sense for your company, this session is for you. You'll see that exporting could become a key element of your growth strategy, and that you'll want to learn more to make that happen.

In its simplest sense, an export occurs when a product or service is sold to a buyer in another country. For example, if you sell to a buyer in Canada, it's an export to Canada. If the Canadian buys the item in California, but takes it back to Canada, that too is an export.

Why Export?

What happens when you expand from a smaller home market to the much bigger pie of the world market? The result can be many more orders and new opportunities. Over 95% of the world's consumers are outside the United States and 2/3rds of the world's purchasing power is also outside the United States. Yet, 85% of all U.S. manufacturers do not export at all, and over half of the 15% that are exporting, sell only to two countries – Canada and Mexico.

Does it make sense for 85% of U.S. manufacturers to sell to only 4% of the world's consumers, when they could be selling to the other 96%? Does it make sense for over half of the companies that do export to sell just to two countries, when they could also be selling to the nearly 200 other countries that may also want their products? Of course not. Well, perhaps they think that exporting would be so much different from how they sell domestically that they could not make the adjustment. Let's take a look at the similarities and differences. You'll see that there are many similarities and that you can learn to deal with the differences.

Selling Similarities

Exporting is like domestic selling in many ways. The product you export is essentially the same product you sell domestically. You typically quote prices, invoice customers, and get paid in dollars when you export, just as you do domestically. You arrange to transport your product to the customer's location, which happens to be in another country rather than here.

You'll use the same best practices for export that you use domestically; such as Research and planning to assess the market and develop market strategies, Use the Web, E-mail, the trade press, and trade shows for product marketing, and Set up regional sales and distribution networks. In short, with exporting, you're doing many of the same things that you do here, just in another country.

Selling Differences

Although there are many similarities between exporting and domestic selling, there are also important differences. These should not be deal-killers just because they're new to you. You'll see that you can get lots of help to routinely handle these differences. Here are the main differences:

One difference is that exports are more often channeled through agents or distributors in each country, not sold directly to end-users. These middlemen are assets for you, not extra layers, because they know the market best and are well connected with the end-users of your product.

A second difference is that exports are usually paid for by converting foreign currencies into dollars. For example, if you quote a price in U.S. dollars, the importer will exchange an equivalent local currency amount into the dollar amount you quoted. In the end, this conversion is routinely handled by the banks, and you get paid in dollars.

A third difference is that different payment methods are used for export sales. Advance payment is rare. You will most often get paid after you ship the goods. These payments are typically processed through banks at both ends, rather than directly from buyer to seller. The banks add a level of protection against buyer default.

A fourth difference is that exporting involves more and different paperwork, such as commercial invoices, bills of lading and certificates of origin. Many exporters use professional freight forwarders to handle all their export documents.

A fifth difference is that exporting often involves added costs to deliver the goods from the exporter's country to the importer's country. If so, a freight forwarder can advise on shipping and insurance costs and handle all arrangements to transport the goods to the end destination.

A sixth difference is that exports are subject to customs duties and taxes in the importing countries. However, these costs are borne by the buyer, not you.

A seventh difference is that exports are also subject to a variety of regulations in the importing countries, such as health, safety or technical standards. Although you must comply with these regulations, your freight forwarder can tell you what they are and how to comply.

An eight difference is that exports must clear customs at the destination point before the importer can take possession. However, it's the importer's responsibility to clear the goods, not yours.

A final difference is that the countries you export to have widely varying cultures and business practices, including different languages, religions, negotiating styles, concepts of time, preferences or phobias about colors and symbols, attitudes toward contracts, and the like. These can make a difference in how well you, or your product literature, or your product itself, is received in the market. By learning about these differences in advance, you can take steps to adapt as needed to boost your receptivity and avoid offending your customers.

Benefits of Exporting

So far, we've discussed how exporting can greatly expand your sales potential, and is more an extension of your domestic business than an altogether new and different activity. Now, let's take a closer look at the benefits of exporting, as well as the costs and risks, starting with the benefits.

The main benefit is the opportunity to make more money. By increasing sales to the much larger world market, you'll likely increase production and retain or hire more workers to fill the new orders. Higher production runs allow you to reduce unit costs. The combination of increased sales and lower unit costs means more profits to reinvest in the business.

Exporting can also extend the life cycle of your products. For example, if you make seasonal products, you can continue to sell to countries whose seasons are just starting when yours are just ending. Also, if you're in a fast-moving technology, older versions of your products may still find demand in many less developed countries.

Exporting is also a way to reduce your dependence on just the home market, particularly in recessionary times. Rather than idling capacity or laying off workers when home demand falls off, you may find that the demand for products like yours is still strong or even growing in other countries that are not in recession.

Costs of Exporting

So far, we've talked about the benefits of exporting. However, a key question with any new venture is, do the benefits outweigh the costs and risks. We think they do. Not only that, but the costs and risks are also manageable if you know what to do. Let's talk first about the costs. Bear in mind that, except for personnel costs, many costs are the same for export as for your domestic activity – just more of the same as you expand to other markets. Moreover, these added costs for exporting are passed along to your foreign customers, with appropriate profit margins, just as you do here.

The most important cost is for export expertise. You'll need that expertise to avoid mistakes as you take on new markets. There are three basic ways to acquire the needed expertise:

1. train one or more of your current staff on exporting; or
2. hire someone with export experience; or
3. outsource the export function, typically to an Export Management Company (EMC). An EMC will act in your behalf for export, do all the work to find the buyers, and get paid only if a sale results, usually on a commission basis as a percentage of the sale. The commission is deducted from the proceeds. This may be a good start-up option if you don't want the bother or cost of doing it all yourself.

The non-personnel costs of exporting are optional and variable, depending on how important the activity and how much you want to spend. You'll see that many of these exporting costs are the same or similar to the costs you've already experienced in your domestic business, such as costs:

- costs for research on the best export markets and marketing strategies, or
- costs to adapt your Website to appeal to a broader global audience, or
- costs for new marketing materials, such export brochures, catalogs and price lists, or
- costs for advertising and marketing in target countries, or
- costs to travel to potential markets and meet with customers, or
- costs for booths at overseas trade shows, or
- costs to modify your product, or your product literature, to comply with requirements or customer preferences in your target markets.

Risks of Exporting

What about the risks of exporting or, put another way, is exporting too risky for a company like mine? There's no doubt that exporting can be risky, and we know that many companies choose not to export out of fear of the perceived risks, such as:

Fear of not getting paid or losing money, or
Fear of patent, trademark or copyright infringement, or
Fear of violating some unfamiliar law or regulation
Most risks of exporting are self-inflicted and therefore avoidable, usually the result of ignorance, gullibility, or lack of due diligence, such as:

Trying to pursue too many or the wrong markets; or
Using sales literature that unwittingly offends; or
Applying U.S. marketing methods not common in other countries; or
Appointing incompetent overseas distributors; or
Failing to protect intellectual property; or
Agreeing to unnecessarily risky payment methods or terms; or
Trying to handle all the export shipping and documentation yourself.

Subsequent Podcasts will address exporting risks in more detail. For now, you should know that these and other risks of exporting are manageable if you know how. There are also many tools, resources and service providers to help mitigate both commercial and political risk.

Exporting Myths

Despite all the benefits of exporting, over 85% of U.S. manufacturers still don't export. They sell only to the 4% U.S. market, and ignore or avoid the 96% of world consumers outside the U.S. Why is this? Why do they write off this huge potential for many more markets and increased sales?

- One reason is, IGNORANCE. They're just not aware
- Of their own export potentials, or
- Of the benefits of exporting, or
- Of how to export, or
- Of all the help they can get to make it happen.

A second reason is FEAR of exporting. Fear of the unknown, or of Getting ripped off, or Making costly mistakes. They assume the worst and resist even trying. A third reason is DOUBT that exporting is for them, based on common misconceptions, such as I'm too small to export, or It's too complicated, or It's too risky, or It's too expensive, or I just can't compete internationally. These are myths and excuses. For example, I'm too small to export. Wrong. Over 97% of all active U.S. exporters are small businesses – many with fewer than 20 employees. Exporting is too complicated. Wrong. The more complicated aspects of export regulation, documentation and finance are routinely handled by your freight forwarder and banker, not you.
Exporting is too risky. Not necessarily. There are ways to mitigate the three risks of most concern:

- To guarantee you get paid for your export sales,
- To help you comply with all relevant trade regulations, and
- To protect your intellectual property in foreign markets.

Exporting is too expensive. Not necessarily. There are many low cost ways to help you get started, find the best markets, and find interested foreign buyers. I just can't compete internationally. Not likely. If you're selling your product successfully in the highly competitive U.S. market, you have already met the same U.S. and foreign competition you will face internationally. So, enough about excuses. Let's get you "ready to export," the topic of our next Podcast.

Credits

Thank you for listening and special thanks to Maurice Kogon for sharing his time and international business insights. Check out our full line of LA Export Series podcasts on our website www.exportassist.org, where you will find information on additional export topics with complementary tools and resources.

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