

## Chapter 4

# Planning and Preparations for Export

### *ASSESSING AND SELECTING THE PRODUCT*

Although the basic functions of exporting and domestic selling are the same, international markets differ widely because of great variations in certain uncontrollable environmental forces. These include currency exchange controls/risks, taxation, tariffs, and inflation, which happen to originate outside the business enterprise. Such variations require managers who are aware of global threats and opportunities.

If a company already manufactures a product or service, it is reasonable to assume that its product or service is what will be exported. However, companies must first determine the export potential of a product or service before they invest their resources into the business of foreign trade. To establish the export potential of a product, firms must consider the following factors: *the success of the product in domestic markets, participation in overseas trade shows, advertising, and market data.*

If a product is successful in the domestic market, there is a good chance that it will be successful in markets abroad. However, a careful analysis of a product's overseas market potential is needed. One could start by assessing the demand for similar products domestically and abroad, as well as determining the need for certain adaptations or improvements. Trade statistics provide a preliminary indication of markets for a particular product in most countries. For products or services that are not new, low-cost market research is often available that can help determine market potential. Products that are less sophisticated and that have a declining demand in developed countries' markets often encounter a healthy demand in developing nations because the goods are less expensive and easy to handle (Weiss, 1987).

Participation in overseas trade shows is a good way to test the export potential of products or services. A recent study commissioned by American Business Media found that seven out of ten business executives purchased or

recommended the purchase of a product or service after looking at an advertisement or promotion at a trade show (Schwartz, 2006). However, if an assessment of the actual and potential uses of the product or service indicates that it satisfies certain basic needs in the market place, initial sales can be made to establish demand as well as to determine potential improvements.

To achieve success, there must be a strong and lasting management commitment to the export business. The long-term commitment is necessary to ensure the recovery of high market entry costs related to product modification, legal representation, and advertising, as well as the development of an agent/distributor network (see Table 4.1).

Companies already operating in the domestic market need to consider the development of export markets through the allocation of financial and personnel resources or through the use of outside experts. In the absence of

TABLE 4.1. The Export Decision: Management Issues

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*Experience*

- With what countries is trade being conducted?
- Which product lines are most in demand and who are the buyers or likely buyers?
- What is the trend in sales?
- Who are the main domestic and international competitors?
- What lessons have been learned from past experience?

*Management and Personnel*

- Who will be responsible for the export department's organization and staff?
- How much management time should or could be allocated?
- What organizational structure is suitable?

*Production Capacity*

- What is the firm's production capacity?
- What is the effect of exports on domestic sales and production capacity and cost?
- Is a minimum order quantity required?
- What are the design and packaging requirements for exports?

*Financial Capacity*

- What amount of capital is tied up in exports?
  - What level of export department operating costs can be supported?
  - What are the initial expenses of export efforts to be allocated?
  - When should the export effort pay for itself?
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sufficient knowledge about exporting, it is often advisable for companies to hire consultants who would be engaged in the establishment of the department and the training of personnel.

An individual entrepreneur, acting as a middleman between the manufacturer and importer, can pick any product or service. The following are two approaches to selecting a product or service.

### ***Systematic Approach***

The systematic approach involves selection of a product or service based on overall market demand. An individual entrepreneur often selects a product line or service based on demand and growth trends by observing trade flows. A variety of statistical sources provide data (for products and services) pertaining to the major export markets, projected total demand, and U.S. exports in each market, along with the rank of the countries based on the projected import value. This process of collecting and analyzing information will enable the potential exporter to draw conclusions on the best line of products or services as well as promising markets. It is, however, important to select products or services based on familiarity and skill. A computer technician is in a more advantageous position to export computers, computer parts, software, and computer services than a graphic designer because of the former's prior knowledge about the product/service. This individual is more likely to be familiar with product and/or service-specific issues such as quality, technical specifications, adaptability to overseas requirements, and maintenance or after-sales service.

Other important factors to consider in product/service selection include proximity of the producer or manufacturer to one's home or office in order to maintain close personal contact and closely monitor/discuss product quality, production delays, order processing, and other pertinent matters. Once a potential product (service) for export has been identified, the individual must undertake market research to select the most promising markets based on import value and growth trends. Both in the case of manufacturing companies and individuals, one must consider if a given product has export potential before substantial time, effort, and capital are invested (Ball et al., 2006).

### ***Reactive Approach***

The reactive approach involves selecting a product based on immediate market need. Even though it is quite common to select the product and identify possible markets, certain exporters initially identify the consumer need and then select a product or service to satisfy the given market demand. A plethora of publications advertise products/services (exporters can also

advertise) that are needed in foreign countries by public- or private-sector importers. The first step would be to contact potential importers to indicate one's interest in supplying the product and to obtain other useful information. Once there is a reasonable basis to proceed (based on the importer's response), potential suppliers of the product/service can be identified from the various directories of manufacturers. In the United States, for example, the *Thomas Register of Manufacturers* is considered to be a comprehensive source of U.S. manufacturers.

In both cases (systematic or reactive), selection of the manufacturer depends on a number of factors including price, quality, proximity to home or office, as well as the manufacturer's commitment to export sales. There must be a long-term commitment from management to encourage the development of export markets, and this cannot be motivated by occasional needs to dispose of surplus merchandise. It is also important to consider the existence of export restrictions that limit the sale of these products to specific countries and their implications for sales and profits. Manufacturers may also impose certain restrictions when they have an agent/distributor or a subsidiary producing the goods in the market (see International Perspective 4.1).

The reactive approach to selecting a product has certain disadvantages for the individual entrepreneur who acts as an intermediary between the manufacturer and importer:

1. *Lack of focus on a given product or market.* Chasing product orders in different markets impedes the development of a systematic export strategy. This approach ignores the idea of niche exporting, which is critical to the success of any export-import enterprise. It leads to exports of unfamiliar products and/or sales to difficult markets, which hampers the long-term growth and profitability of export businesses.
2. *Absence of long-term relationship with the importer.* Selling different products to different markets impedes the development of a long-term relationship with importers. It also creates suspicion on the part of importing firms about the long-term reliability and commitment of the firm to exporting.

### ***INTERNATIONAL MARKET RESEARCH***

International market research deals with how business organizations engaged in international trade make decisions that lead to the allocation of resources in markets with the greatest potential for sales (Ball et al., 2006). This process of market screening helps to maximize sales and profits by identifying and selecting the most desirable markets.

### **INTERNATIONAL PERSPECTIVE 4.1. Important Factors to Consider in Selecting the Export Product**

*Shifting spending patterns:* Basic determinants of how much a consumer buys of a product are the person's taste and preference, as well as the price of the product relative to the price of other products. Another major influence is the consumer's income. If the consumer's income increases, demand for most goods will rise. However, the demand for goods that people regard as necessities, such as fuel, tobacco, bread, or meat, tends to decline and exporters of such products are not likely to greatly benefit from rising consumer incomes in other countries. The demand for luxuries, such as new cars or expensive food, expands more rapidly. Therefore, exporters should generally put more emphasis on goods that consumers regard as "luxuries," due to shifting spending patterns in response to rising incomes.

*Products to be excluded from the list:* Individuals starting an export-import trade should initially work with small to medium-sized manufacturers because large companies, such as Motorola, have their own export departments or overseas subsidiaries that produce the goods in those markets. Products that compete with such large companies should not be considered at this stage. It is also important to avoid products/services that require too many export/licensing requirements as a condition of executing an international business transaction. Also, the fashion-oriented market is too volatile and unpredictable to warrant a full commitment until a later stage. This also extends to multimillion-dollar contracts for overseas government projects, as well as sophisticated products that often require the development of training facilities and a network of technicians for after-sales service.

*Emphasis on quality and niche marketing:* Several studies on export-import trade indicate that firms that have shown a sustained increase in their sales and overall profits have often emphasized quality and concentrated on niches. In this age of diversity, marketers are being awakened to the erosion of the mass market. Traditional marketing methods are no longer as effective as they used to be and a new emphasis on quality and niche marketing is proving successful. Even after the elimination of textile quotas in 2005, many European textile producers have maintained steady growth in their exports because of their emphasis on high fashion items with special brand identity.

### ***Why Conduct International Market Research?***

International market research is needed because export/investment decisions are often made without a careful and objective assessment of foreign

markets and with a limited appreciation for different environments abroad. This is often a result of the perception of other markets as an extension of the domestic market and that methods/practices which work at home also work abroad. The cost of conducting international research is seen as prohibitively high and managers make export decisions based on short-term and changing market needs (reactive approach). Environmental scanning is viewed as a prerequisite for the successful alignment of competitive strategies (Subramanian, Fernandes, and Harper, 1993; Beal, 2000).

The purpose of international marketing research is to: (1) identify, evaluate, and compare the size and potential of various markets and select the most desirable market(s) for a given product or service, and (2) reassess market changes that may require a change in a company's strategy. A firm may research a market by using either primary or secondary data sources.

Primary research (using primary data) is conducted by collecting data directly from the foreign marketplace through interviews, focus groups, observation, surveys, and experimentation with representatives and/or potential buyers. It attempts to answer certain questions about specific markets such as sales potential or pricing. Primary research has the advantage of being tailored to the company's market and therefore provides specific information. However, collection of such data is often expensive and time-consuming.

Secondary market research is based on data previously collected and assembled for a certain project other than the one at hand. Such information can often be found inside the company or in the library, or it can be purchased from public or private organizations that specialize in providing information, such as overseas market studies, country market surveys, export statistics profiles, foreign trade reports, or competitive assessments of specific industries. Although such data are readily available and inexpensive, certain limitations apply to using secondary sources:

1. The information often does not meet one's specific needs. Because these materials are collected by others for their own purpose, they may be too broad or too narrow in terms of their scope of coverage to be of much value for the research at hand. Also, such information is often out of date.
2. There could be differences in definition of terms or units of measure that make it difficult to categorize or compare the research data.
3. It is difficult to assess the accuracy of the information because little is known about the research design or techniques used to gather the data.

## **INTERNATIONAL MARKET ASSESSMENT**

International market assessment is a form of environmental scanning that permits a firm to select a small number of desirable markets on the basis of broad variables. Companies must determine where to sell their products or services because they seldom have enough resources to take advantage of all opportunities. Not using scanning techniques may create the tendency to overlook growing markets. For example, European companies have often neglected the fastest growing markets in Southeast Asia while expanding their traditional markets in North America. Assessment of foreign markets involves subjecting countries to a series of environmental analysis with a view to selecting a handful of desirable markets for exports. In the early stages of assessment, secondary data are used to establish market size and level of trade, as well as investment and other economic and financial information.

### ***Preliminary Screening (Basic Need and Potential)***

The first step in market assessment is the process of establishing whether there is a basic need for the company's products or services in foreign markets. Basic need potential is often determined by environmental conditions such as climate, topography, or natural resources. In situations in which it is difficult to determine potential need, firms can resort to foreign trade and investment data to establish whether the product and/or service has been previously imported, its volume, its dollar value, and the exporting countries.

After establishing basic need potential, it is important to determine whether the need for the product or service has been satisfied. Needs may be met by local production or imports. If there are plans for local production by competitors, imports may cease or be subject to high tariffs or other barriers. Market opportunities still exist for competitive firms if a growing demand for the product cannot be fully met by local production in so far as governments do not apply trade restrictions in favor of local producers or imports from certain countries. If the research indicates that market opportunities exist, it is pertinent to consider the market's overall buying power by examining country-specific factors such as population, gross domestic product, per capita income, distribution of wealth, exports, and imports. While considering these factors, one should note that (1) per capita income might not be a good measure of buying power unless the country has a large middle class and no profound regional disparities, and (2) imports do not always indicate market potential. Availability of foreign currency, as well as change in duties and trade policies, should be monitored to ensure that they are conducive to the growth of imports in the country.

### ***Secondary Screening (Financial and Economic Conditions)***

Secondary screening involves financial and economic conditions such as trends in inflation, interest rates, exchange rate stability, and availability of credit and financing. Countries with high inflation rates (as well as controlled and low interest rates) should be carefully considered because they may limit the volume of imports by restricting the availability of foreign exchange. There is also a need to verify the availability of commercial banks that can finance overseas transactions and handle collections, payments, and money transfers.

Economic data are also used to measure certain indicators such as market size (relative size of each market as percentage of total world market), market intensity (degree of purchasing power), and growth of the market (annual increase in sales). Countries with advanced economies, such as the United States or Germany, account for a large percentage of the world market for automobiles, computers, and televisions. Their high per capita incomes reflect the attractiveness of the market and the degree of purchasing power. Such information will help in selecting countries with rapidly growing markets and high concentrations of purchasing power.

### ***Third Screening (Political and Legal Forces)***

It is important to assess the type of government (democratic/nondemocratic) and its stability. Countries with democratic governments tend to be politically stable and favor open trade policies, and are less likely to resort to measures that restrict imports or impede companies' abilities to take certain actions. Political instability may also lead to damage to property and/or disruption of supplies or sales. It could be as a result of wars, insurrections, takeover of property, and/or change of rules. Consideration should also be given to legal forces in these countries that affect export/import operations. These include the following:

- *Entry barriers:* Product restrictions, high import tariffs, restrictive quotas, import licenses, special taxes on imports, product labeling, and other restrictive trade laws.
- *Limits on profit remittances and/or ownership:* Imposition of strict limits on capital outflows in foreign currencies, restrictions on or delays in remittance of profits, and ownership requirements to establish a business.
- *Taxes and price controls and protection of intellectual property rights:* The existence of high taxes, price controls, and lack of adequate protection for intellectual property rights should be considered.

#### ***Fourth Screening (Sociocultural Forces)***

This involves consideration of sociocultural forces such as customs, religion, and values that may have an adverse effect on the purchase or consumption of certain products. Examples include sales of pork and its derivatives and alcohol in Muslim countries.

#### ***Fifth Screening (Competitive Forces)***

It is important to appraise the level and quality of competition in potential markets. The exporter has to identify companies competing in the markets, the level of their technology, the quality and price of the products and/or services, and their estimated market shares, as well as other pertinent matters.

#### ***Final Selection (Field Trip)***

This stage involves a visit to the markets that appear to be promising in light of the market assessment technique. Such visits could be in the form of trade missions (a group of business and government officials that visit a market in search of business opportunities) or trade fairs (a public display of products and services by firms of several countries to prospective customers). The purpose of such visit is to:

- corroborate the facts gathered during the various stages of market assessment; and
- supplement currently available information by doing research in the local market, including face-to-face interviews with potential consumers, distributors, agents, and government officials.

This will facilitate final selection of the most desirable markets as well as the development of a marketing plan, product modification, pricing, promotion, and distribution.

### ***DEVELOPING AN INTERNATIONAL BUSINESS PLAN***

A business plan involves a process in which an entity puts together a given set of resources (people, capital, materials) to achieve defined goals and objectives over a specific period of time. In addition to providing the direction necessary for success, a sound business plan should be flexible to take advantage of new opportunities or to allow adjustments when certain assumptions

or conditions change. This plan should be reviewed and progress assessed (perhaps once every three or four months) to ensure that implementation is consistent with overall goals and objectives laid out in the business plan.

Developing a business plan is an important factor for success regardless of the size, type, or time of establishment of the business. Even though some export-import companies start a business plan after they have reached a certain stage, planning is needed at all stages of business development from inception to maturity (Williams and Manzo, 1983). It is a roadmap to one's targeted destination. By allowing for critical evaluation of different alternatives, a business plan forces entrepreneurs to set realistic goals, predict resource allocation, and project future earnings. Such a practice assists in avoiding costly mistakes and enhances the decision making abilities of businesses (Silvester, 1995). A written business plan is the basis on which other parties (e.g., bankers, potential partners, etc.) assess the overall business concern. It is used for obtaining bank financing, seeking investment funds, obtaining large contracts to supply governments or companies, or arranging strategic alliances to conduct joint marketing and other activities.

The structure of a typical business plan includes the following components (see Figure 4.1): executive summary, description of the industry and company, target market, present and future competition, marketing plan and sales strategy, management and organization, long-term development and exit plan, and the financial plan (Cohen, 1995). Some plans also include critical risks/problems and community benefits.

### ***EXPORT COUNSELING AND ASSISTANCE***

A number of assistance sources are available to U.S. exporters.

#### ***The U.S. Department of Commerce***

Through the local district office, the exporter has access to all assistance available through the International Trade Administration (ITA) and to trade information gathered overseas by the U.S. and foreign commercial services. The U.S. Trade Information Center serves as a single source of research support, trade information counseling, and industry consultation. A valuable source of trade information while conducting foreign market research is the National Trade Data Bank (NTDB). The NTDB provides specific product and country information as well as a list of foreign importers in specific product areas. The Department of Commerce also has the Trade Opportunities Program (TOP), which helps U.S. exporters with current sales leads from foreign companies that are interested in buying U.S. products or representing



FIGURE 4.1. Structure of An International Business Plan

U.S. firms (STAT-USA). U.S. exporters can also advertise in *Commercial News USA*, a bimonthly magazine that promotes U.S. products and services overseas. It is distributed throughout the U.S. embassies and consulates in over 140 countries (International Perspective 4.2).

The following is a list of some of the major programs offered by the Department of Commerce.

- *Market Access and Compliance (MAC)*: MAC specialists monitor foreign country trade practices and help U.S. exporters deal with foreign trade barriers.
- *U.S. and Foreign Commercial Service (U.S. & FCS)*: U.S. commercial officers in foreign countries provide important trade and investment information on foreign companies. This includes but is not limited to conducting market research, finding foreign representatives, etc.

- *Trade Development:* This unit offers extensive support to U.S. exporters by providing critical information on market and trade practices overseas, including industry analysis and trade policy. Industry-specific trade development includes aerospace, automotive, consumer goods, e-commerce, and energy, and so on. Industry officers identify trade opportunities by product or service, develop export marketing plans, and conduct trade missions.
- *Gold Key Service:* This services U.S. exporters by prescreening potential distributors, professional associations, etc. It is available in many countries.
- *Trade events:* The Department of Commerce organizes various trade events (trade fairs, trade missions, international catalog exhibitions, etc.) in order to help market U.S. products or locate representatives abroad.

## INTERNATIONAL PERSPECTIVE 4.2. Contact Programs for U.S. Exporters

The United States government provides several services to U.S. exporters. The business contact programs provided by the Department of Commerce include:

**Agent/Distributor Service (ADS):** The commercial officers of ADS act on behalf of U.S. export firms in order to locate foreign agents and distributors. U.S. firms provide ADS with their product information, who then search and prepare reports that include six foreign prospects or firms who have expressed an interest in the product(s). The ADS then provides U.S. exporting firms with the proper contact information of the interested agents.

**Commercial News USA (CNUSA):** The CNUSA program allows U.S. firms to receive global exposure through its catalogs, magazines, and electronic resources. The catalog and magazines are distributed throughout the U.S. embassies and consulates among 152 countries, specifically for business readers. All published products must be 51 percent U.S. made (parts), with 51 percent U.S. labor. The leads obtained by the program are redirected to the U.S. exporting firms and include detailed contact information, including sales, representation, distributorships, and joint ventures or licensing agreements that help these firms identify potential markets. Inquiries from abroad do not come through the CNUSA channels as they are directly reached to the exporting firms.

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**Gold Key Service:** The Gold Key Service is a matching service that sets appointments in foreign markets with prescreened partners for U.S. exporters. The service provides orientation briefing, market research, a debriefing with trade professionals after meetings to discuss the results of the meetings, and also offers assistance in generating follow-up strategies for exporting firms. The service is offered by the Commercial Service with a fee ranging from \$150-\$600.

**International Company Profiles (ICP):** The commercial officers of the ICP prepare background reports of foreign firms who are interested in working with U.S. exporters. Each report includes information on a foreign organization's bank and trade references, principles, key officers and managers, product lines, number of employees, financial data, sales volume, reputation, and market outlook. The ICP is only offered to countries that are in need of providers who offer background information on local companies in the private sector. Credit reports from private-sector resources are generally available on nearly all foreign firms.

**Trade Opportunities Program (TOP):** This is a service program that is headquartered in Washington, DC, where U.S. commercial officers attend international trade shows to gather leads through several local channels on foreign firms that seek to purchase or represent U.S. products and services. The leads normally include specifics on quantities and end use. The reports are available electronically. In order to help U.S. exporting firms expose their products, the Department of Commerce holds trade events on an annual basis that allow foreign firms to examine the products in person, especially those that are difficult to sell due to their nature. Trade events include trade shows, fairs, trade missions, matchmaker delegations, and catalog exhibitions.

### ***Small Business Administration (SBA)***

The SBA provides free export counseling services to potential and current small business exporters (through its field offices) throughout the United States.

- *SCORE/ACE programs:* Members of the Service Corps of Retired Executives (SCORE) and the Active Corps of Executives (ACE), with years of practical experience in international trade, assist small firms in evaluating export potential, developing and implementing export marketing plans, identifying problem areas, etc. "SCORE" has a new acronym, Counselors to America's Small Business or "CASB." Since

its inception, the organization has worked with over seven million entrepreneurs.

- *Small Business Development Centers (SBDCs)*: Additional export counseling and assistance is offered through the Small Business Development Centers (SBDCs), which are located within some colleges and universities. The centers are intended to offer technical help to exporters by providing, for example, an export marketing feasibility study and an analysis for the client firms. There is also an initial legal assistance program for small exporters on the legal aspects of exporting.
- *U.S. Export Assistance Centers (EACs)*: These are intended to deliver a comprehensive array of export counseling and trade finance services to U.S. firms. They integrate the export marketing know-how of the Department of Commerce with the trade finance expertise of the Small Business Administration and Export-Import Bank. EAC-trade specialists help U.S. firms enter new markets and increase market share by identifying the best markets for their products; developing an effective marketing strategy; advising on distribution channels, market entry, promotion, and export procedures; and assisting with trade finance. They are generally located with state promotion agencies, local chambers of commerce and other local export promotion organizations.

### ***U.S. Department of Agriculture***

The U.S. Department of Agriculture (USDA) provides a wide variety of programs to promote U.S. agricultural exports. Some of the trade assistance programs include promotion of U.S. farm exports in foreign markets, services of commodity and marketing specialists, trade fairs, and information services. Programs are available to expand dairy product exports, provide technical assistance for specialty crops, and so on.

### ***State Government and City Agencies***

Many states, cities, and counties have special programs to assist their own exporters. Such programs generally include export education, marketing assistance, trade missions, and trade shows.

### ***Private Sources of Export Assistance***

Commercial banks, trading companies, trade clubs, chambers of commerce, and trade associations, as well as trade consultants, provide various forms of export assistance (see Table 4.2).

TABLE 4.2. Private Sources of Export Assistance

<b>Private Sources</b>	<b>Services</b>
<i>Commercial banks</i>	Advice on export regulations, exchange of currencies, financing exports, collections, credit information and assistance
<i>Trading companies</i>	Market research and promotion, shipping and documentation, financing sales, facilitating prompt payment, appointing overseas distributors, etc.
<i>World trade clubs</i>	Education programs on international trade and organization of promotional events
<i>Chambers of commerce and trade associations</i>	Chambers of commerce provide the following services: Export seminars, trade promotion, contacts with foreign companies and distributors, issuance of certificates of origin, transportation routing, and consolidating shipments. U.S. chambers of commerce abroad are also a valuable source of marketing information. Trade associations provide information on market demand and trends and other information on pertinent trade issues through newsletters
<i>Trade consultants</i>	Advice on all aspects of exporting ranging from domestic/foreign regulations to market research and risk analysis

### ***OVERSEAS TRAVEL AND PROMOTION***

Once market research is conducted and the target countries are selected, the next step is to visit the countries in order to locate and cultivate new customers or to develop and maintain relationships with foreign distributors. As we enter the twenty-first century, the world has become one market, and this has naturally given rise to more intercultural encounters. The exporter has to be aware of certain important factors before embarking on a trip, not only to avoid embarrassment but also to be able to conclude a successful business arrangement (International Perspective 4.3).

#### ***Planning and Preparing for the Trip***

##### ***Making Prior Arrangements***

The most important meetings should be confirmed before leaving the United States. One should avoid traveling during national holidays, or

### **INTERNATIONAL PERSPECTIVE 4.3.**

#### **The Twelve Most Common Mistakes of Potential Exporters**

- Failure to obtain qualified export counseling and to develop a master international marketing plan before starting an export business.
- Insufficient commitment by top management to overcoming the initial difficulties and financial requirements of exporting
- Insufficient care in selecting overseas distributors
- Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth
- Neglecting export business when the U.S. market booms
- Failure to treat international distributors on an equal basis with domestic counterparts
- Assuming that a given market technique and product will automatically be successful in all countries
- Unwillingness to modify products to meet regulations or cultural preferences of other countries
- Failure to print service, sale, and warranty messages in locally understood languages
- Failure to consider use of an export management company
- Failure to consider licensing or joint venture agreements
- Failure to provide readily available servicing for the product

political elections in the host countries. Contacts can be made with the Department of Commerce country desk officers in Washington, DC, and/or U.S. embassies abroad to obtain current and reliable information about the target countries.

#### *Acquiring Basic Knowledge of the Host Country*

Exporters should know some basic facts about the history, culture, and customs of the host countries. Several books and magazines cover business manners, customs, dietary practices, humor, and acceptable dress in various countries. It is essential to exercise flexibility and cultural sensitivity when doing business abroad. The exporter should also obtain prior information on such important areas such as weather conditions, health care, exchanging currency, and visa requirements. Various travel publications provide such information (for a typical export procedure, see International Perspective 4.4).

## **INTERNATIONAL PERSPECTIVE 4.4. Typical Export Transaction**

**Step 1:** The exporter establishes initial contact by responding to an overseas buyer's advertisement for a product that she or he can supply. Such ads are available in various trade publications. The exporter's letter briefly introduces the company and requests more information on the product needed as well as bank and trade references.

**Step 2:** The prospective buyer responds to the exporter's letter or fax by specifying the type and quantity of product needed, with a sample where appropriate. The potential importer also sends his or her trade references.

**Step 3:** The exporter checks with the consulate of the importer's country to determine (1) whether the product can be legally imported and if any restrictions may apply, and (2) any requirements that need to be met. The consulate may indicate that a certificate of origin is needed to clear shipment at the foreign port. The exporter also verifies the buyer's bank and trade references through its bank and other U.S. government agencies, such as the Department of Commerce.

**Step 4:** The exporter (if an agent) contacts manufacturers of the product to (1) establish if the given product is available for export to the country in question, and (2) obtain and compare price lists, catalogs, and samples.

**Step 5:** The exporter selects the product from responses submitted by manufacturers based on quality, cost, and delivery time. The sample selected is sent by airmail to the overseas customer to determine if the product is acceptable to the latter. In the meantime, the exporter prepares and sends a price quotation suggesting the mode of transportation and letter of credit terms. The price quotation should include commission and markup.

**Step 6:** The exporter obtains a positive response from the overseas customer and is requested to send a pro forma invoice to enable the latter to obtain an import and foreign exchange permit. The exporter sends the pro forma invoice.

**Step 7:** The overseas customer receives the pro forma invoice, opens a confirmed irrevocable letter of credit for the benefit of the exporter, and sends an order to the latter to ship the merchandise.

**Step 8:** The exporter verifies with its bank about the validity of the letter of credit and finds that it meets the agreed conditions in the export contract and that it will be honored by the bank if the exporter meets the terms. The exporter ships the merchandise and submits the required documents (such as bill of lading, commercial invoice, consular invoice, certificate of origin, packing list etc.) to the bank with a request for payment. The exporter is paid, the merchandise is in transit, and the transaction is completed.

### *Obtaining the ATA Carnet*

For exporters who take product samples, duties and burdensome customs formalities can be avoided by obtaining the ATA (Admission Temporaire-Temporary Admission) carnet. The United States is a member of the ATA carnet system, which permits U.S. commercial and professional travelers to take material to member countries of the ATA carnet system for a temporary period of time without paying duty. An exporter should check whether a host country is member of the ATA convention. The U.S Council for International Business handles applications for carnets. A bond, a letter of credit, or a cash equivalent (as guarantee for 40 percent of the value), will, however, be required to cover outstanding duties in case the samples are not returned to the United States.

### *Business Negotiations*

Negotiations should be entered into with sufficient planning and preparation. The exporter should establish the line or boundary below which he or she is not willing to concede. It is also advisable to draft the agreements since it will enable the exporter to include terms and conditions with important implications into the contract.

### *Documentation*

The exporter should document the various meetings at the end of the day to avoid confusing one market with another. It also provides a record for company files. Once the trip is over and the exporter returns home, there should be an immediate follow-up, with a letter confirming the commitments and timetable for implementation of these commitments.

### *Overseas Promotion*

Overseas promotion of exports is often designed to open new markets, maintain and increase existing market share, and obtain market intelligence. Such efforts must meet strategic marketing goals and achieve the greatest impact at the lowest possible cost. Effective promotion should go beyond enabling the potential buyer to receive the desired information. It must be strong enough to motivate him or her to react positively. This requires the conveying of a message that does not offend cultural sensibilities and one that is uniquely designed for each market. The exporter can choose one or a combination of promotional tools: direct mail, advertising, trade fairs/

missions, and publicity. The choice will depend on the target audience, company objectives, the product or service exported, the availability of internal resources, and the availability of the tool in a particular market (Czinkota, Ronkainen, and Moffett, 2003). Exporters may use the same promotional strategy in different foreign markets if the target markets vary little with respect to product use and consumer attitudes. In some cases, the product and/or promotional strategy must be adapted to foreign market conditions. For example, Tang sold in Latin America is especially sweetened and promoted as a drink for mealtime. In the United States, people drink it in the morning and the product is promoted as a drink for breakfast (Ball et al., 2006).

In certain developing countries where the rate of illiteracy is high, advertising in periodicals does not reach a broad audience. However, if the product or service marketed is intended for a small part of the population, such as the middle- or high-income consumers, using periodicals could be an effective way of reaching the target market. For products that are intended for a broader audience, such as soap or cooking oil, radios or billboards could be an effective way of reaching many consumers in these countries.

It is often stated that adapting a product to local conditions and accentuating the local nature of a certain aspect of the product in the promotional material tend to create a favorable image among the public and stimulate product sales. This means that exporters should consider ways and means of localizing a certain part of their activity, such as product adaptation to local conditions or assembly of parts, in the host countries. Such activities not only increase product sales, but also create employment opportunities in the local economy. For less sophisticated products, a firm could export the necessary ingredients or components into a host country, preferably into a free trade zone, and use local labor to produce or assemble the final product. In addition to being a good promotional tool for the product, such localization will enhance the competitiveness of the product by reducing cost.

### *Advertising*

Advertising is any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. Typically, no one vehicle reaches an entire target audience and hence, exporters must evaluate the many alternatives so as to meet their desired objectives. One or a combination of vehicles can be used (magazines, newspapers, TV, radio, direct mail, or billboards) to carry the advertisements to target audiences.

Exporters should be aware of regulations in various countries that govern advertising. In some European countries, for example, television sta-

tions allow only a certain percentage (12 to 18 percent) of advertising per hour. In many developed countries, the advertising of tobacco and alcoholic beverages is heavily regulated. In some Latin American countries, such as Peru, commercial advertising on national television should be domestically produced.

The advertising process involves: (1) budgeting—how much it will cost and how much the exporter can afford, (2) determining the most effective and least expensive media to reach the potential customer, and (3) preparing the appropriate advertising package that emphasizes the important, but minimal, number of points.

Small exporters often use direct mail (correspondence and brochures) to reach their overseas customers. In Southeast Asian markets, direct mail is the most effective way of promoting the sale of industrial goods. Brochures have to be translated into the local language and accurate mailing lists have to be obtained. Mailing lists can be purchased from private firms—most libraries have various resources, such as trade publications and journals of various trade associations, from which a list of potential overseas customers can be obtained. In addition, such lists are available from the directory and catalog of trade shows and other government publications, such as *Foreign Trades Index*, *The Export Contact List Service*, and the *World Traders Data Reports* (WTDR).

The exporter can use one or a combination of the following media to advertise the product or service:

*Foreign media.* A product can be advertised in an overseas retailer's or distributor's catalog, or trade publication. Cooperative advertising, that is, a group advertising program, can be arranged by business associations and local chambers of commerce. Cooperative advertising is more effective for noncompeting and/or complementary products. The advantage of such advertising is that it reduces expenses, especially for small exporters, and also enables exporters to combine advertising budgets to reach a larger audience than is normally possible individually.

*Government-supported advertising.* There are many government-supported (federal and state) promotional programs for U.S. exporting firms that facilitate the marketing of U.S. products overseas.

*Commercial publications.* Many U.S. trade publications are widely read in many parts of the world. Advertising in such journals or magazines will enable the exporter to reach a broader market. Some of these publications include *Showcase U.S.A.*, *Export*, and *Automobile and Truck International*.

*The Internet.* The Internet provides the exporter with an additional global medium. Potential consumers can be reached through Web sites in key lan-

guages and e-mails. A number of products are being made available online. Data collected from customers can also be used for future marketing efforts.

Tuller describes the reasons that certain overseas promotional tools, such as advertising, fail to deliver: (a) the expected results were ill defined, (b) the time frame within which results could be expected was too short, (c) advertisements were inappropriately presented, or (d) the wrong media was used (Tuller, 1994, p. 225).

### *Personal Selling*

Personal selling is often used during the first stages of internationalization. It is also used for the marketing of industrial, especially high-priced goods. Personal selling entails oral presentations by sales personnel of the organization or agents to prospective overseas purchasers. Salespeople also collect information on competitive products, prices, services, and delivery problems that assist exporters in improving quality and service. In short, such media are used in cases in which advertising does not provide an effective line with target markets, the price is subject to negotiation, and the product/service needs customer application assistance. Avon and Unilever, for example, use personal sellers in rural villages in many developing countries to market their products.

### *Sales Promotion*

Sales promotion refers to marketing activity other than advertising, personal selling, or publicity. It includes trade shows, trade fairs, demonstrations, and other nonrecurrent selling efforts not in the ordinary routine (Asheghian and Ibrahim, 1990). Trade shows are events at which firms display their products in exhibits at a central location and invite dealers or customers to visit the exhibits. They are a cost-effective way of reaching a large number of customers who might otherwise be difficult to reach. Adding to their benefit, from a cost and efficiency standpoint, is that trade shows help exporters to contact and evaluate potential agents and distributors. Trade fairs also provide an important opportunity for exporters to introduce, promote, and demonstrate new products, cultivate new contacts, and collect market intelligence, as well as close deals with a number of attendees who often have direct responsibility for purchasing products and services.

Trade fairs can be organized by certain industries, trade associations, or chambers of commerce. For example, the Hanover Trade Fair in Germany organizes regional and national fairs and exhibitions in various product sec-

tors targeted at specialized audiences as well as the general public. Every year it organizes around fifty trade fairs and exhibitions which attract over 28,000 exhibitors and 2.5 million visitors from over 100 countries around the world. The Seoul International Gift and Accessories Show is one of the largest trade fairs for gift and fashion accessories in Asia. It attracts approximately 32,000 local and overseas visitors resulting in about \$15 million in sales.

Trade shows are also supported or organized by governments in order to promote exports. In the United States, the Department of Commerce (DOC) organizes various export promotion events such as exhibitions, seminars, trade missions, and other customized promotions for individual U.S. companies. Under the International Buyer program, the DOC selects leading U.S. trade exhibitions each year in industries with high export potential. Offices of the DOC abroad recruit foreign buyers and distributors to attend these shows, while program staff help exhibiting firms make contact with international visitors at the show to achieve direct export sales and/or international representation. The DOC, through the certified trade fair program, supports private-sector organized shows. Exhibitors use U.S. pavilions to create enhanced visibility and also receive the support of commercial services from U.S. embassies and consulates. The DOC and state agencies also jointly organize U.S. company catalogs/product literature to present to potential customers abroad and send the trade leads directly to participating U.S. firms. Many developed countries have similar programs to promote the sale of their products abroad.

Trade missions are another export sales promotion tool. Under a trade mission, a group of business people and/or government officials visits foreign markets in search of business opportunities. Missions typically target specific industries in selected countries. Events are also organized by private organizations or government agencies so that foreign buyer groups can come to the United States to meet individually with U.S. companies, exporters, or relevant trade associations. At these events, foreign businesses buy U.S. products, negotiate distributor agreements, find joint venture partners, or learn about current industry trends.

### ***Publicity***

Publicity is communicating with an audience by personal or nonpersonal media that are not explicitly paid for delivering the messages. This is done by planting commercially significant news about the exporter and/or products in a published medium or obtaining favorable presentation on the local media without sponsoring it. A carefully managed advertising and public

relations program is essential to the long-term success of an export firm. The public relations (publicity) program could include charitable donations to schools, hospitals, and other social causes; sponsorship of youth athletic teams; participation in local parades; or inviting the media to cover special events sponsored or supported by the export company.

## **CHAPTER SUMMARY**

### ***Assessing and Selecting the Product***

In order to establish market potential for a product/service, it is important to consider: Success of the product in the domestic market, participation in overseas trade shows, advertising in foreign media, market data.

Approaches to selecting a product for exports:

1. *Systematic approach*: Product selection based on overall market demand.
2. *Reactive approach*: Selection of a product based on immediate (short-term) market need.

### ***International Market Research (IMR)***

IMR helps business organizations in making business decisions that lead to the proper steps.

### ***Developing an Export/Import Business Plan***

*Typical structure of a business plan*: Executive summary, general description of industry and company, target market, marketing plan and sales strategy, management and organization, long-term development plan, and financial plan.

### ***Sources of Export Counseling***

*Public sources*: The U.S. Department of Commerce, U.S. Export Assistance Centers, and The Small Business Administration.

*Private sources*: Commercial banks, trading companies, world trade clubs, chambers of commerce and trade associations, trade consultants.

***Business Travel and Promotion Abroad***

*Planning and preparing for the trip:* Making prior arrangements, acquiring basic knowledge of host country, using the ATA carnet, preparing for business negotiations, and documentation.

*Overseas promotion:* Advertising, personal selling, sales promotion, and publicity.

***REVIEW QUESTIONS***

1. Discuss the two major approaches to selecting a product for exports. Why is it important to participate in overseas trade shows?
2. What are the disadvantages of the reactive approach to selecting a product for exports?
3. Explain the importance of the following factors in the selection of products for exports: shifting spending patterns, quality, and niche marketing.
4. Do a country's imports completely measure the market potential for a product? Discuss.
5. Why should an export firm consider financial and economic conditions in importing countries?
6. What is the importance of political and legal forces in international market assessment?
7. Identify the public sources of export counseling in the United States.
8. Discuss three private sources of export assistance. What is the gold key service?
9. Explain the steps involved in a typical export transaction.
10. What is SCORE?

***CASE 4.1. DEVELOPING EXPORT MARKETS***

A recent survey by Babson College and the London Business School on entrepreneurship noted that middle-income countries have a larger share of individuals engaged in business ventures with high growth potential than high-income countries. The study also notes that these countries have higher percentages of people starting businesses. This is partly attributed to the deployment of existing technologies to exploit their comparative advantages. High rates of early stage entrepreneurship, however, do not necessarily translate into high rates of established business. Rich countries such as Japan, for

example, have low levels of early stage entrepreneurial activity but a large number of established businesses. This is because the start-ups are opportunity-driven companies with lower rates of business failures than those in middle-income or poor countries that are largely motivated by the necessity to earn a living. In rich countries, there is also a tendency for entrepreneurial activity to shift from the consumer, such as retailing, to business services.

*Export of luxury tea from Argentina.* During the worst financial crisis in Argentina (2001), three young entrepreneurs founded a luxury tea business with just \$10,000. They focused on quality with a view to selling in high value export markets. The bags are a hand-tied sack of muslin that does not alter the flavor of the tea, containing one of the five types of organic tea: cedron, black-leaf tea, peppermint, patagonian rosehip, and mate lightened, for the overseas market. They traveled to different parts of Argentina to locate the best growers. After finding suitable suppliers, the partners agreed to create a premium product to be sold in up-market outlets and trendy stores. Over 75 percent of the output is sold in overseas markets: the United States, United Kingdom, Continental Europe, the Middle East, and Asia. Over the past few years, the company has registered substantial increases in sales.

The partners note that (1) exporting maximizes the benefits of selling from countries with weak currencies, (2) it is necessary to focus on quality materials, production, and packaging to charge premium prices, (3) high quality products should be sold in high quality outlets, and (4) it is important to disprove national stereotypes such as lack of punctuality, dishonesty, etc., with buyers and distributors.

*Exports by Rwanda's nascent entrepreneurs.* Rwanda is a small landlocked country with a population of eight million located in the Great Lakes Region of East-Central Africa. Despite the legacy of genocide and war, the country is showing signs of rapid development. J. Nkubana, one of a number of women entrepreneurs, sells over 5,000 Christmas ornaments and baskets to Macy's in New York. Another rising entrepreneur, Beatrice Gakuba, founder of Rwanda Floral, is the nation's largest exporter of roses. She sells over five tons of flowers a week at auctions in Amsterdam. Exporters, however, face a number of challenges in Rwanda: (1) regular electricity outages resulting in lost productivity, (2) Rwanda's landlocked status requires use of ports in neighboring countries and this delays shipments and delivery of exports, and (3) borrowing costs are high (17 percent interest on loans) and banks require 100 percent collateral. Public funding is almost nonexistent to promote exports.

*Questions*

1. Comment on the statement that “exporting maximizes the benefits of selling from countries with weak currencies.”
2. Based on the information provided, what is your advice to the government of Rwanda to increase exports?