

Exporting as an Opportunity

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Objectives

After completion of the chapter, the reader should have possess a:

- Better grasp of the large potential for success for the entrepreneur through exporting;
- Increased ability to identify sources of information for international market analysis;
- Heightened awareness of the financing options available to the entrepreneur who exports;
- Improved ability to determine advantages and disadvantages of direct exporting and in-direct exporting, as well as the role of freight-forwarders;
- Strengthened knowledge of resources, governmental and private, to assist the entrepreneur in exporting efforts;
- Better comprehension of utilization of e-commerce by the entrepreneur who exports;
- Enhanced ability to understand various payment options used in export.
- Increased awareness of changing export controls/regulations

Introduction

- Exporting involves the sale of products manufactured in the one country (often the home or domestic country of the company) to consumers in another (foreign) country.
- Exports support over **11 million jobs** in the United States.
- In recent years, international sales have contributed to nearly **30% of domestic** growth.
- With **96% of the world's population and 67% of the world's purchasing power** living outside of the United States, it is not surprising that there is great potential for growth for US businesses.
- This participation in international trade is not limited to large companies, while the number of US firms that send products and services to international markets has tripled since 1990, fully two-thirds of that substantial growth results from firms having less than 20 employees!
- Given the incredible growth of the world market, the falling of trade barriers, and the advances in communication and transportation, exporting is no longer the venue of large multinational corporation. Exporting has become vital aspect of the operations of US business regardless of size. The globalization of the economy has created enormous opportunities for many small businesses. While there are a number of avenues an entrepreneur may pursue to 'go international', such as alliances with foreign firms or investing in the ownership of assets in a foreign market, this chapter will focus on exporting as this is commonly the initial foray into international trade.

Benefits associated with exporting

- Exporting can make the world the market the product or service of the entrepreneur.
- It can expand sales by opening new markets for the entrepreneur. Increasing sales is a prime reason for the entrepreneur to consider exporting. Entrepreneurs are now opening businesses with the intention to become 'global' at the very start of the venture.
- Foreign demand for the entrepreneur's product or service is also a viable reason for exporting.
- Exporting also allows the entrepreneur to have access to another (foreign) market without having the associated expenses of establishing and maintaining local operational facilities.
- Another reason is to increase the life of the product or service.
- Other considerations may include that the entrepreneur's exporting activity may be in response to the fact that significant domestic customers of the entrepreneur's product or service may have international operations (and/or may have moved to an international location entirely) and the entrepreneur seeks to maintain a commercial relationship with that customer so the entrepreneur now 'follows' the customer. Also the principle of diversification may prompt the entrepreneur to give serious thought to cross-border sales.
- As economic conditions may vary across the world, the entrepreneur may find it advantageous to pursue sales internationally when the domestic economy may be 'soft' or 'stagnant.'
- The same advances in technology, transportation and communication that reduce some of the barriers to exporting may in fact be vehicles to promote the product or service of the entrepreneur and facilitate international demand and sales.

Exporting Mindset

In order to benefit from exporting, there are a number of initial considerations that the entrepreneur must become aware of and/or familiar with.

- Commitment
- Analyzing your firm's capabilities
- Export potential of your product/service
- Locating foreign markets
- Market entry strategies
- Learning export procedures
- Processing an export order

Viewing foreign markets and international trade as a potentially valuable source of business activity will assist you in your efforts to develop a successful exporting operation.

Changing perspectives/ changing markets

- A new generation of entrepreneurs of various heritages may choose to sell their products/ services to consumers in the country(s)/region(s) of their cultural or ethnic background.
- Some of these regions boast enormous numbers of potential consumers. The combined populations of the nations of the Indian subcontinent nearly rival China's 1.2 Billion.
- Entrepreneurs and their businesses can take advantage of the North American Free Trade Agreement to expand the markets for their products/services by selling to our closest neighbors Mexico and Canada. The nations of South/Central America are also a growing market for the products/services of US businesses.
- Western Europe has always been a market for the products/services of American businesses. With its expansion to increased numbers of member nations, and the introduction of a common currency, the European Union will yield a very attractive market of nearly 500 million consumers (more than twice the size of the population of the United States.)

Brief Summary of benefits of exporting

- Increased market share
- Extending the life cycle of the product/service
- Increased profits
- Offsetting the seasonality of products
- Increased productivity
- Better utilization of company personnel

“Proactive” efforts to engage in exporting

- Being “proactive” suggests that the entrepreneur has decided upon active engagement in international trade via exporting.
- The entrepreneur makes a concerted effort to search, identify and explore a foreign market(s). This is a planned activity with a recognized commitment of the resources of the entrepreneur and his/her firm.
- The entrepreneur in pursuing such a course of action is well served by developing an international business plan. This document assists the entrepreneur in comprehensively addressing the international dimension of the enterprise. The international business plan is a highly valuable document for the entrepreneur considering any kind of international operation, but can be of particularly use in, and for, exporting. Based upon this information the entrepreneur can better match the enterprises’ abilities, and the resources which are available to the entrepreneur with the opportunities presented internationally.

“Reactive” Efforts to engage in exporting

- “Reactive” exporting occurs when a firm responds to product inquiries from foreign consumers. In such cases the entrepreneur does not employ an active search for (new) foreign markets or demand for the entrepreneur’s goods.
- Similarly, the entrepreneur may respond to demand for products/services from past domestic customers who have located their facilities in another nation(s).
- The entrepreneur who engages in online marketing may find that the internet (given its global nature) may yield contacts with/from consumers outside of the country of the entrepreneur. The entrepreneur may choose to follow through with such contacts and find that this passive approach to sales generation may yield a foreign market that may be served via export.

Costs associated with exporting:

- Some considering adding an international dimension to their small business may hesitate due to the added costs often associated with exporting.
- Licenses, fees, insurance, overseas shipping, customs agents, bills of lading all are examples of potential costs. The entrepreneur may also consider opportunity costs, as exporting is a process that is likely to require a large investment of time (especially when initiating an export activity.)
- International trade does have costs beyond those of a purely domestic trade, yet the costs may not be as arduous as the entrepreneur examining exporting may initially anticipate.
- An additional “cost” may be that the entrepreneur has no knowledge of international markets and no prior experience in international trade, this may make the entrepreneur feel that exporting is beyond his/her skill or ability. This perceived cost may make the entrepreneur much less likely to pursue exporting as a viable option for the growth and development of his/her business.

Advantages of the entrepreneurial/small firm in international trade

- Small firms have a number of advantages that large firms may not have, for example, being able to more rapidly respond to changing demands from the market place. This flexibility, of being able to respond and adapt to changing market conditions in a relatively short amount of time is often a key asset of an entrepreneurial venture.
- Yet, large firms have the advantage of size. A large firm is more likely to be able to have personnel and resources it can dedicate to exploring international markets and to run its export operations. The smaller firm may not be able to draw upon such internal resources. This may be a factor which limits the participation of smaller firm in international trade/export.
- However, small and medium-sized firms can work cooperatively to facilitate export success and assist each other in achieving their goals. State, local, and regional entrepreneurial support organizations often sponsor programs available to small businesses to ease their entry into international markets. These organizations can be governmental or private and can provide substantial pathways and ways to work together

Resources to Support the Entrepreneur in Exporting and Market Assessment

- As attractive as international trade may appear for the entrepreneur, it is very important that the entrepreneur carefully assess whether or not a market exists for his/her product or service and if there is potential for market growth and determining if the product or service will be able to be competitively priced.
- If this sounds similar to what was done in the creation of a domestic based business plan for the enterprise, it is. The variable(s) here are
 - the international market,
 - the factors affecting transportation and distribution, as well as
 - access to information.
- Assessing an international marketplace may not be as easy as investigating a market in your own city or state, or nation for that matter, but it is not as difficult as it may seem as a result of the large number of assets the American small business/ entrepreneur has when looking into a foreign market.
- The US Small Business Administration (SBA) and US Department of Commerce have many resources available to assist in market determination from on-line items and databases to the face-to-face assistance provided by Export Assistance Centers (EACs), local/regional organizations comprised of US Department of Commerce Trade Specialists and others who concentrate in international trade.

Other organizations that can help

- Many entrepreneurs can receive skilled managerial and trade assistance from the
 - Service Corps of Retired Executives (SCORE) and
 - Small Business Development Centers (SBDCs).
 - Small Business Institutes (SBIs) affiliated with colleges and universities can work with the entrepreneur to perform market assessments and analyses.
- Using these resources will help the entrepreneur better identify a foreign market and determine whether or not it will be a viable market for that entrepreneur. In order to make this determination the entrepreneur needs to do the following:
 - Classify his/her product;
 - Find countries with the largest and fastest growing markets for his/her product;
 - Determine which foreign markets will be the most penetrable;
 - Define and narrow those markets he/she intends to pursue;
 - Talk to US customers doing business internationally;
 - Research export efforts of US competitors

Export Options

- **Direct exporting**
 - The enterprise engages in the complete export process by itself. Often it will utilize a representative to sell product/service to distributors or retailers or to end-use consumers.
- **Indirect exporting**
 - The enterprise utilizes the services of a third party, 'trade intermediary' to arrange for sale and shipment of goods/services
- **The Use of third party trade intermediaries and trading companies in exporting”**
 - Export Trading Company
 - Export Management Company
- **International Distributors**
- **Freight Forwarders**
- **E-Exporting**

Export Management Company

- An **Independent private firm** that acts like an export department for several non-competing manufacturers and producers. Export management companies can be quite varied; they can be either local or foreign-owned, and operate on either a commission or a fee basis. A company may solicit orders from foreign buyers on behalf of its clients or take possession and title of their goods for direct export. The company also has the ability to appoint sales representatives in importing countries, promote goods and services of its clients, arrange for transportation, provide warranties and after-sales-service, and extend importer credit. also called export trading company.
- assists in the export of the product/service of the business that is seeking to export its items to an international market.
- functions as the department of the business that handles the exporting operation for their client. The EMC will contact foreign sales representatives and/or distributors on behalf of their client.
- generally will provide foreign market research, select international distributors, conduct marketing, sales, ordering, and transportation activities involved in the export of the product or service.
- Another feature is that the EMC may obtain and review credit information as well as be a source of advice on foreign accounts and payment terms. Services such as these may make the Export Management Company an attractive option for the small firm entering the export waters.
- However, there is a concern in that as the EMC is an independent agent, the firm working with the EMC may lose control over its product or service and may not be actively involved in the item's promotion or sales.

Export Trading Company

- An Export Trading Company (ETCs) is another trade intermediary that the entrepreneur may choose as a means of indirect exporting.
- The ETC usually purchases the product or service from the entrepreneur's business and then proceeds to transport and sell the item in an international market(s).
- Often the ETC will obtain orders from international consumers for the product or service prior to its purchase of those items. While this does present another venue for exporting of the product or service, the entrepreneur must again consider whether the loss of control of its product or service, and its international distribution, is balanced by the savings of the labor and involvement in direct export.
- An ETC can provide smaller enterprises that export the ability to access new markets, the assistance with making personal connections with interested buyers in foreign markets and the expertise of the ETC regarding the competitive situation in foreign markets.

International Distributors

- International distributors already have relationships with overseas stores and consumers.
- The international distributor will purchase the entrepreneur's product, make use of the sales team of the distributor and identify foreign buyers.
- This can facilitate entrepreneur's goal of getting his/her product in the hands of foreign consumers and can be very helpful in the export process. However, as with all intermediaries, the entrepreneur is best served by carefully examining potential international distributors before making a final choice.
- Rules to be Followed When Selecting an Overseas Distributor
 - Examine potential distributor's ability to provide the service/support needed..
 - Prior to signing an agreement, learn about and become familiar with the distributor and the professional relationship you will establish. Involve an attorney in the formation of the contract/review of documents.
 - Examine cultural differences
 - Review/ be aware of local laws in the country(s).

Freight Forwarders

- Moving goods internationally is more involved than moving goods from one part of a city to another, from one part of the state to another, or for that matter, moving items from state to state.
- The freight forwarder is an organization that will transport the items of the exporting organization to the international destination. Such organizations are knowledgeable of the documentation and regulations (US and foreign) associated with export as well as being familiar with various methods of shipping items cargo to international locations.
- Freight forwarders can be good sources of information especially when the entrepreneur is new to export as they can supply information on the various procedures and costs associated with moving products internationally.
- The freight forwarder may also assist in working with the customs broker to make certain that all documents and customs documentation and regulations are complied with. If arrangements have not been made by the entrepreneur to transport the product(s) he/she is exporting to the cargo carrier (for example, ship or plane), the freight forwarder may assist the entrepreneur in this regard by moving the product(s) for export to the carrier to be loaded on the vessel.

E-Exporting

- The low cost of the internet, its relative ease of use (for the exporter and the buyer), and its global reach have made it an attractive alternative to aspects of the more ‘traditional’ export process. This low cost access to global markets is especially enticing for smaller firms which have been severely limited from participating in foreign markets largely due to the excessive costs that were involved.
- As the potential markets for e-exporting vary, so do the types of websites the enterprise can have to serve these markets. The costs of website construction and the various features which the site may have can vary widely, and the site may be customized to meet the specific demands of the target market and the exporting objective(s) of the enterprise. The variations in the sites have 3 general characteristics.
 - The **Transactional Site**: these sites offer a full range of services to the potential client. Searching, ordering, payment, even after sales service contacts are all done online. Some system can tie in with other systems such as accounting and inventory management.
 - The **Information Delivery** site: functions more to increase market awareness of the entrepreneur’s product or service rather than act as a venue for handling purchases. In many ways, this is an electronic brochure highlighting aspects of the enterprise’s product or service.
 - **E-Marketplaces**: these are “market makers,” these are sites that bring together buyers and sellers to make exchanges possible. Sites such as these include online auctions, and business matching services.

Financing for Small Business Export Initiatives

The US Small Business Administration has three loan packages for entrepreneurs participating in export, SBA ExportExpress, The Export Working Capital Loan, and the International Trade Loan.

- **SBA ExportExpress** is a potentially useful program that combines lending assistance with technical assistance in an effort to help the entrepreneur secure adequate financing. Technical assistance comes from the involvement of a representative from a US Export Assistance Center who will contact the borrower to offer aid. According to the SBA, this is its most flexible financing program yet. Among the uses of the proceeds of this loan package are use of the proceeds for supporting participation in trade shows, translating product literature, revolving letters of credit, and constructing or renovating facilities in the US to produce products/services for export.
- The **Export Working Capital Loan Program (EWCP)** is another vehicle to help the entrepreneur in securing sufficient capital for an export transaction. This particular package can be useful in situations when the entrepreneur has developed export leads but needs additional capital to complete the transaction. The proceeds from this instrument can be applied to, the acquisition of inventory for export, financing costs of US labor and overhead for service company exports, financing foreign accounts receivable, among other uses.
- The **International Trade Loan** can provide assistance to small business already involved in exporting, those becoming ready to engage in export, as well as those negatively impacted by import based competition. Uses of this package include the building of new facilities; the purchase of new or refurbishing machinery as well as making other improvements that will stay in the US for the production of goods or services.

Payment Options

- The payment for the product or service of the entrepreneur becomes somewhat more complicated when considering international trade (primarily export). The entrepreneur has a number of payment options available and each has advantages and disadvantages, although these are not always readily apparent or determined by numerical figures alone.
 - **Payment in advance.** While this will eliminate the risk of the entrepreneur sending the product or delivering the service and not receiving payment, this may be the most practical option and may also result in lost business as many potential buyers may not have, or be willing to commit, the resources prior to receiving the item(s).
 - **Line of Credit (LC).** This is a financial instrument issued by a bank that is meant to reduce the risk of the exporter not receiving payment for the product or service transported to the international customer. The **Letter of Credit** is ‘opened’ by the importer, or buyer. An “irrevocable” Letter of Credit cannot be changed without the express permission of the exporter. The Letter of Credit is ‘confirmed’ by a US bank (usually a bank that is familiar with international trade, often it may have its own international trade/finance department or specialized personnel.) Once confirmed, the foreign credit risk to the exporter is nearly eliminated. The Letter of Credit also offers some protection to the buyer since payment is not authorized until the exporter supplies proof (documentation) that the terms and conditions of the Letter of Credit have been met.
 - **Documentary Collection (Draft)** is where payment for the items is not made until various documents are produced and received (this payment system, payment on collection, is similar to COD -cash on delivery.) With this format of payment, the buyer of the items shipped by the exporter will need to pay, or agree to pay, the exporter before securing the documents needed to take charge of the shipment. A benefit of this format for the buyer is that it gives the buyer extra time (the time needed for the shipment to arrive) to pay. During this time, the exporter still retains the title to the shipment until payment is received.

Terms of Trade -InCoTerms

- The common set of rules for international trade “Incoterms” (International Commercial Terms), have undergone several revisions and updating, but the entrepreneur who exports should be aware of these terms and familiar with their use.
- The objective of Incoterms is to mitigate the confusion over the control and insurance of products at the various stages of the shipping process. These terms also govern what is expected of the exporter and importer in terms of packaging for international shipment and clearance. It would be in the exporter’s best interest to employ the correct Incoterm when crafting a formal contractual relationship.
- As international sales are different from domestic sales the exporter should be aware of a number of factors that may impact the terms of the sale/ terms of payment. These factors include (but are not limited to) the following:
 - Price and payment terms
 - Including the currency of the transaction and when payment will be made
 - Competitive Pressures
 - Forwarder and Carrier Options
 - Opportunities for loss and damage
 - Previous experience with buyer
 - City and Country of destination
 - Customs clearance in buyer’s country
 - Formalities in seller’s country, if appropriate
 - Current economic and political situation in buyer’s country

Trade Missions (State, Regional, Federal)

- Trade missions are organized tours of foreign markets during which time, meetings with potential consumers are usually arranged.
- Trade missions are coordinated by state, regional or even federal officials/agencies and commonly involve a number of businesses, trade or governmental officials from the originating locale.
- Often trade missions are part of a more encompassing effort of economic development in the originating locale.

Massachusetts Governor Deval Patrick led a trade delegation to China along with various university, government and private sector individuals. He also led delegations to Israel, Ireland, Japan, and other countries



Governor Patrick, President Wilson, US Ambassador to China



Export Licenses/Controls

- Export licenses (or special permissions or “validated” licenses) are needed in situations involving, national security, foreign policy, crime control, items of potential threat or harm.
- The entrepreneur who exports would be well advised to verify that the product or service that is being exported does, indeed, not require a special license.
- There is, however, increased attention to preventing certain US - origin items/ technology from being acquired by rogue states/organizations/individuals.
- According to the US government, a small number of exports do require a license. In situations involving items related to national security, foreign policy, nuclear- non-proliferation, NBC (nuclear, biological or chemical) weaponry/technology, weapons of mass destruction (WMD), or items that may have ‘dual-use’ require licenses as do situations involving regional stability, crime control and terrorist concerns.
- The requirements for licenses depend upon the end use/end-user of an item, the destination, as well as the item’s technical characteristics. In order to verify if a license is required, the entrepreneur who exports should contact the US Trade Information Center (TIC), especially as licensing requirements may change.

U.S. Export Control Legislation and Authorities

- <http://www.state.gov/strategictrade/overview/>
- The Arms Export Control Act (AECA) is the cornerstone of U.S. munitions export control law. The Department of State implements this statute by the International Traffic in Arms Regulations (ITAR). All persons or entities that engage in the manufacture, export, or brokering of defense articles and services must be registered with the U.S. government. The ITAR sets out the requirements for licenses or other authorizations for specific exports of defense articles and services. The AECA requires the State Department to provide an annual and quarterly report of export authorizations to Congress. Certain proposed export approvals and reports of unauthorized re-transfers also require congressional notification.
- The Export Administration Act of 1979, as amended, authorizes the Department of Commerce, in consultation with other appropriate agencies, to regulate the export or re-export of U.S.-origin dual-use goods, software, and technology. The Department of Commerce implements this authority through the Export Administration Regulations (EAR). In addition to export controls agreed in the multilateral regimes, the Department of Commerce also imposes certain export and re-export controls for foreign policy reasons, most notably against countries designated by the U.S. Secretary of State as state sponsors of international terrorism, as well as certain countries, entities and individuals subject to domestic unilateral or UN sanctions. Additionally, the Department of Commerce administers and enforces regulations that prohibit certain trade and transactions with certain countries, entities, and individuals by U.S. persons or from the United States under the Trading with the Enemy Act and the International Emergency Economic Powers Act.
- Various other U.S. agencies have licensing authority for different exports, for example:
 - Nuclear - Nuclear Regulatory Commission, Departments of Energy and Commerce
 - Trade embargoes & sanctions/Transactions - Department of the Treasury

Export Licenses/Controls contd.

- The reporting regulations, governing the identification of items exported from the US, have been updated. In 2005 many of the changes and reporting mechanisms reflect the increased attention to national security. and general increased oversight. Exporters will no longer be filing the Shipping Export Declaration (SED) as this will be passed out.
- Exporters will file Electronic Export Information via the Automated Export System (AES). This system allows for enhanced scrutiny by the various agencies which monitor US exports. “Perhaps the most significant change [of the updating of the reporting regulations] will be the broadening of enforcement authority, which will expand beyond the Census Bureau to include the Office of Export Enforcement (Bureau of Industry and Security) and US Immigration and Customs Enforcement (Department of Homeland Security).”
- In order to maintain compliance with the AES, the exporter should pay close attention to the classification of the products being exported (using the appropriate Export Commerce Control Number); the valuation of the products should be fair – not undervalued- (as US government authorities will be closely monitoring this); licensing should be consistent with the description of the product; ultimate consignee information (the end user of the product), authorities will be give this close attention so the exporter should also carefully review this and is required to inform the authorities of this information.

Illegal Exports: Lists To Check

Check these lists to insure your products are not being illegally sold to barred persons or entities.

- **Denied Persons List** - List of persons to whom export privileges are denied by written order of the Department of Commerce.
- **Unverified List** - includes names and countries of foreign persons who in the past were parties to a transaction with respect to which BIS could not conduct a pre-license check ("PLC") or a post-shipment verification ("PSV") for reasons outside of the U.S. Government's control.
- **Entity List** - These end users have been determined to present an unacceptable risk of diversion to developing weapons of mass destruction or the missiles used to deliver those weapons.
- **Specially Designated Nationals List** - Alphabetical master list of Specially Designated Nationals and Blocked Persons
- **Debarred List** - Defense Trade Controls List
- <https://www.bis.doc.gov/index.php/regulations/commerce-control-list-ccl>

Exporting – Summary

- The path to export of products/services may not be as arduous as some may think.
- There are a large number of resources to assist the entrepreneur in becoming an exporter. Many agencies and organizations are available to help promote the export of US products and services.
- In the appendix to this chapter in the Carraher text, you will find a listing of Export Assistance Centers, websites and organizations that provide information to the entrepreneur exploring exporting (both the beginner and the seasoned professional).
- Also, you should look into local or regional initiatives to encourage/support exporting by contacting your local chamber of Commerce, your local/regional SBA office, SBDC as well as the secretary of State of your state (or its Development Agency or equivalent) to learn about Trade Missions or such events that they may sponsor.