APPENDIX 23

SBA

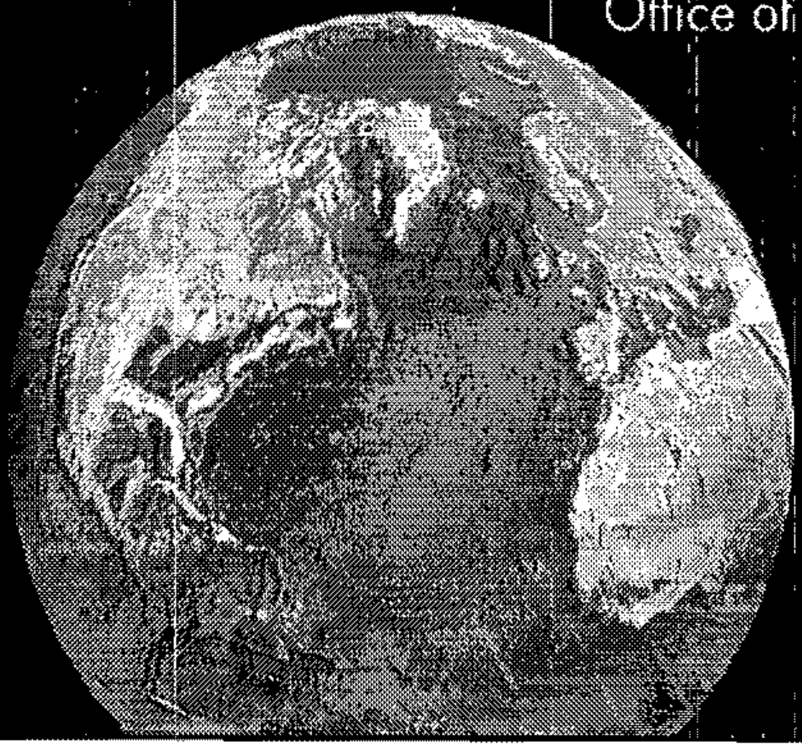
U.S. Small Business Administration

America's Small Businesses and International Trade: A Report

U.S. Small Business Administration

Office of International Trade

November 1999



AMERICA' S SMALL BUSINESSES AND INTERNATIONAL TRADE: A REPORT

Introduction

As we enter the 21st century, the face of America's small business community is changing. It is more diverse, more technologically driven, and much more global in scope than in the past.

In the last decade, the number of small businesses that export has tripled.[1] The dollar value of their exports has soared. Even with this rapid growth, America still faces a large trade deficit. And small businesses are very vulnerable to trade barriers. These are the challenges.

With 96 percent of the world's population and 67 percent of the world's purchasing power located outside our borders, the potential for small business growth in international trade is huge.[2]

To a large extent, technology has helped to level the playing field for small companies. Today, a small business in rural Maine can export machine parts to 38 countries, using the Internet. A woman in Mississippi can export food products to Canada. Handcrafted bowls from Colorado can be sold in Japan.

The U.S. Small Business Administration has been helping America's entrepreneurs start and grow their businesses since 1953. The Small Business Export Enhancement Act of 1980 directed the SBA to aggressively advance the interests of small business in international trade.

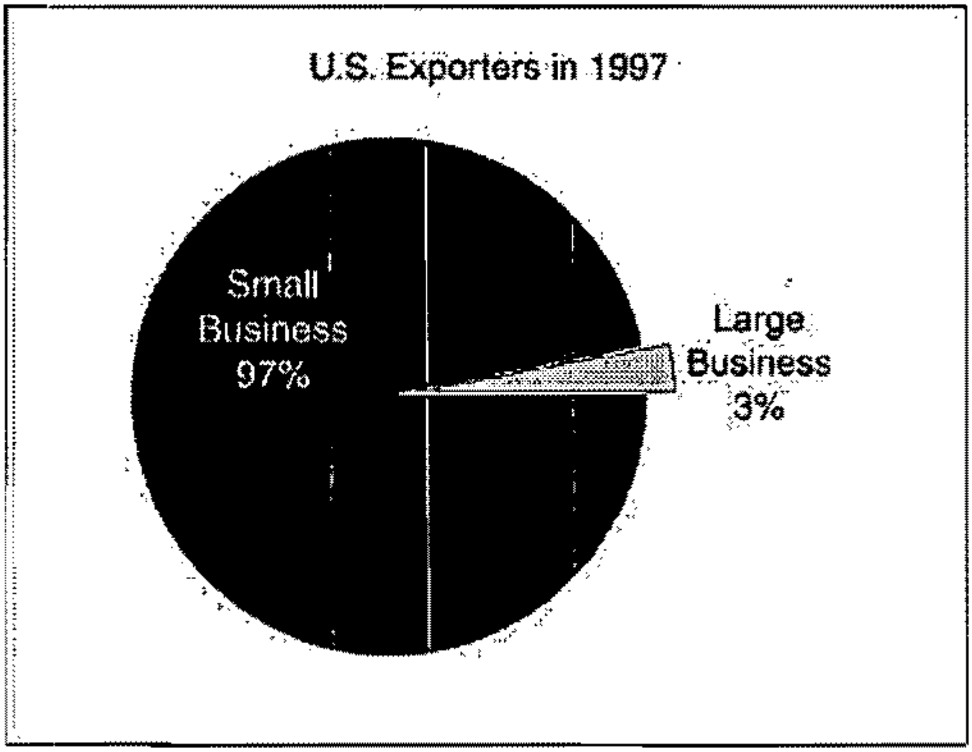
The SBA's mission is increasingly important today because small businesses are driving economic growth in the United States and are "going global" in record numbers.

This report is based on new research conducted for the SBA and the U.S. Department of Commerce.

Big News About Small Businesses

America's small businesses are big players in international trade — and their role is growing rapidly.

97 percent of U.S. companies that export are small businesses.[3]



In 1997 the total number of U.S. exporters reached 209, 500.[4]

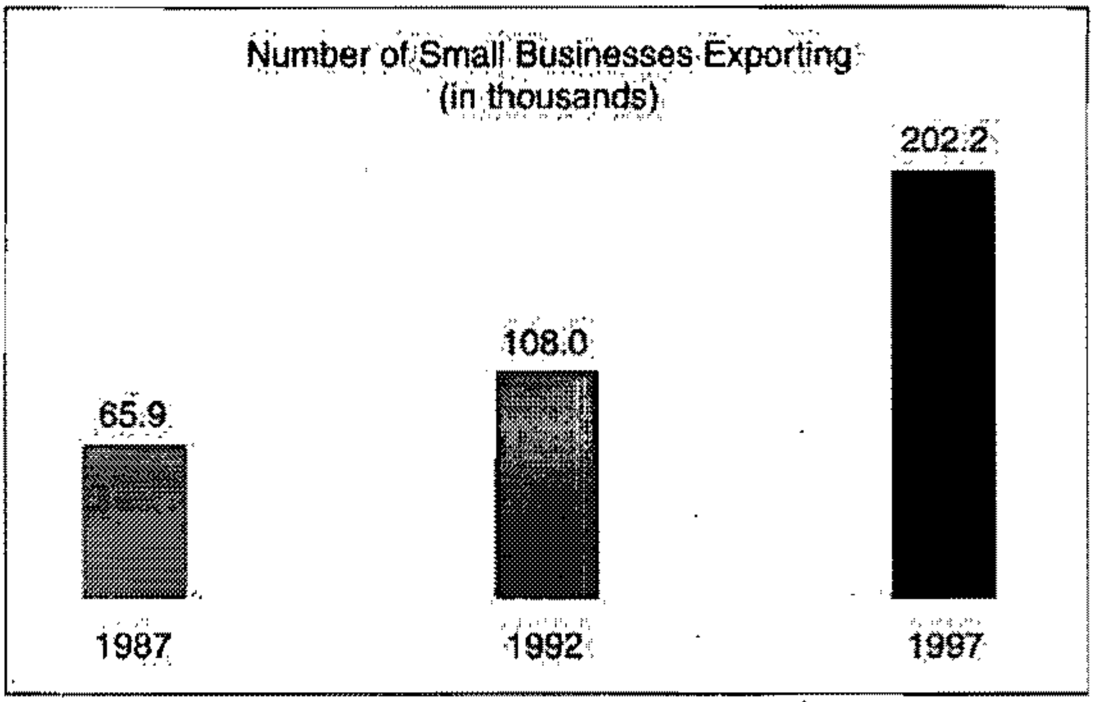
202,185 of all exporters in 1997 were small businesses.[5]

Small businesses account for 31 percent of total merchandise export sales.[6] (There are no comparable statistics for service sales, but small businesses play a big role in service trade.)

Small exporting companies include all kinds of enterprises in just about every industrial classification.

Technology and globalization are factors fueling a dramatic growth in the number of small businesses engaged in international trade.

Between 1987 and 1997 the number of U.S. small business exporters tripled from 65,900 to 202,185.[7]



The fastest growth has been among very small businesses – those with fewer than 20 employees.[8]

- VSBs represented 65 percent of all exporting companies in 1997.[9]
- The value of small business exports increased by 300 percent between 1992 and 1997.[10]

Note: These figures represent merchandise trade. Figures are not available for other types of exported services, such as consulting, training, advertising and more. If these figures were available, most experts believe that they would show a substantially larger share of activity on the part of small business exporters.

In Syracuse, N.Y., Paul Genecco has gone global with his family's fruit and vegetable business. In the past eight years his sales skyrocketed from $200,000 to nearly $10 million a year.

Small Business Drives Economic Growth

The growth in small business trade is encouraging, because small business is the engine of America's economic growth.

- Small businesses have provided virtually all of the nearly 20 million net new jobs added to the economy since 1992.[11]
- The approximately 24 million small businesses in the United States represent 99.7 percent of all employers and employ 53 percent of the private workforce.[12]
- Small businesses account for approximately 50 percent of the gross domestic product and 55 percent of technological innovations.[13]
- Small businesses are especially concentrated in services and technology, the fastest growing business sectors in the country.[14]

An Economic Challenge

Americans are enjoying unprecedented economic prosperity: strong economic growth with low inflation and low unemployment, with a balanced federal budget. Yet the United States still has a sizeable trade deficit.

In 1998 the deficit was $164 billion, which was up substantially from the prior two years. By August 1999, the U.S. had already eclipsed the 1998 trade deficit.[15]

While overall exports are up about 3.7 percent from the same period last year, imports are up 9.6 percent. Only in the services sector, where small business is a big player, will we register a trade surplus.[16]

With most of the world's population and purchasing power outside of the United States, America's businesses must fully participate in the international marketplace to enjoy sustained economic prosperity in the 21st century.

In this period of global economic instability, the United States must remain active and engaged. Our economy is the strongest it has been in a generation. We are on the right course. We must work hard to shore up the strength of the global economy and continue to sharpen our ability to compete in it so that we can continue to widen the circle of opportunity as we approach the 21st century.

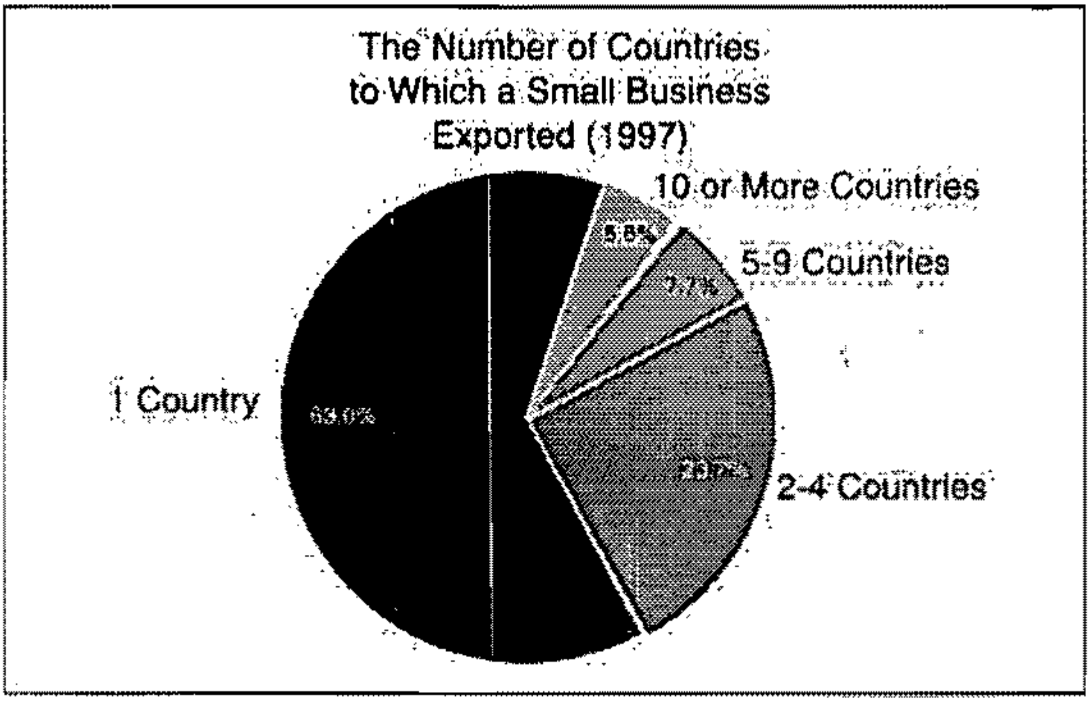
William J. Clinton
President of the United States

There is a huge, untapped potential for small business growth in the trade arena.

just over 202,000 — or about 1 percent — are currently exporting.

Small businesses account for 47 percent of total domestic sales; and only 31 percent[18]

[19]



In 1997, 90 percent of them valued their total exports at less than $1 million each.[20]

Rachael Cargnan's business, Winderosa, exports machine gaskets to 38 countries. The business operates from a remodeled chicken coop in Peru, Maine. With sales greater than $1.5 million, Winderosa employs 11 people.

Where Small Companies Do Business

The top ten markets for U.S. small business exporters are Canada, the United Kingdom, Japan, Mexico, Germany, Australia, Hong Kong, France, Taiwan and Singapore.[21]

Looking at the rate of growth in exports as a gauge of future market potential, the top ten fastest growing markets for U.S. small business exporters are Brazil, Malaysia, China, Philippines, Canada, Thailand, Israel, Argentina, the United Kingdom and Hong Kong.[22]

Benefits to Communities

Small business exporters bring stability and prosperity to their communities.

- Small businesses have a direct stake in their communities and typically remain in their communities, observing labor, environmental, and other state and federal regulations.[23]
- Small business exporters tend to pay higher salaries. American workers producing for export earn 15 percent higher wages and receive 11 percent higher benefits than non-export workers.[24]
- Companies engaged in trade are 20 percent more productive and 9 percent more likely to stay financially solvent. They also experience 20 percent greater job growth than non-exporters.[25]
- Every $1 billion in exports of manufactured goods creates an estimated 15,000 new jobs; two to three times that number of additional jobs develop to support the new products and personnel (e.g. new restaurants, construction, etc.).[26]

As I have traveled to other countries, and met with their entrepreneurs, I realize that small businesses around the world have more that brings them together than divide them .... Small business has yet to take its rightful place on the world stage!

Aida Alvarez
Administrator
U.S. Small Business Administration

Small businesses and their communities have a lot to gain from U.S. participation in the World Trade Organization: opportunity, more efficient use of resources and a more level playing field.

* The WTO is the best vehicle to ensure the fair and free movement of products and services across borders.
* Reducing the cost of doing business overseas allows small businesses, which typically have more limited access to investment capital and are disproportionately impacted by trade barriers, to become global players and grow at a much faster rate.
* Free and open global competition allows U.S. consumers to enjoy benefits such as lower prices, increased purchasing power and keeping inflation in check.

U.S. small businesses have important issues to bring to the WTO table:

* Better protection of U.S. intellectual property rights such as patents, copyrights and trademarks. This is important because a lot of small businesses are involved in technology sectors, and they don't have the resources to go around the world and fully protect their intellectual property rights.
* A better system for the uniform application of product standards. Sometimes, other countries have used arbitrary product standards to keep American products out. It is important to have a rational system of standards that all countries will adopt.
* Making permanent the moratorium on tariffs for electronic commerce. E-commerce has helped to level the playing field for small businesses and to enable them to compete in the global market.

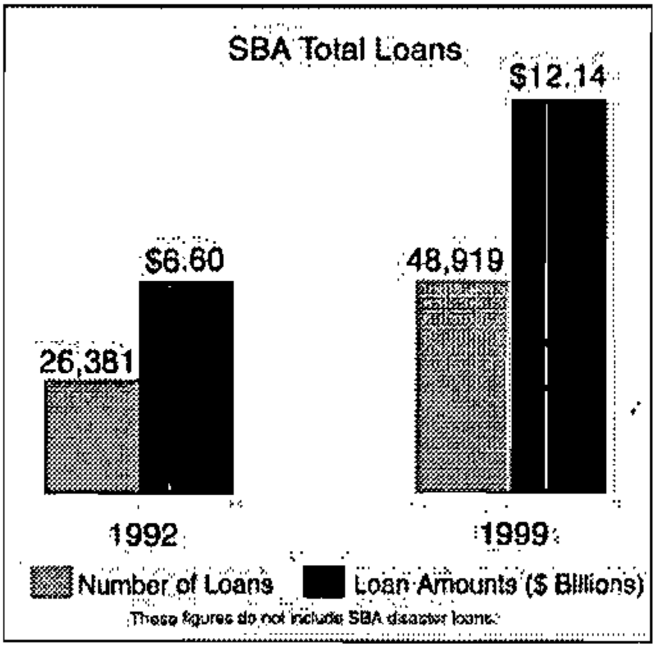
How the SBA Helps Exporters

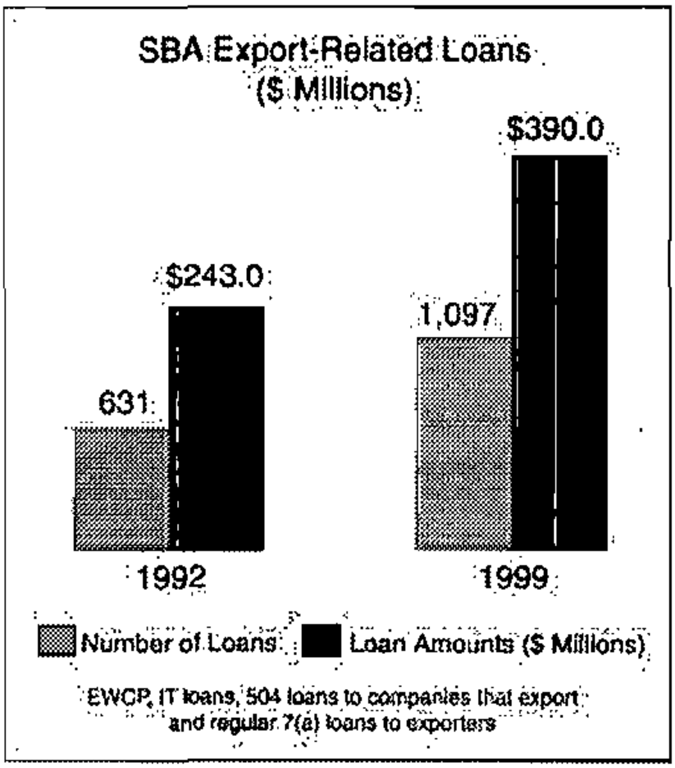
In addition to its mandated role of representing the small business community in trade negotiations and disputes, the SBA provides financial and technical assistance, and promotes strategic partnerships for exporters.

Financial Assistance

* The SBA's financial assistance to small businesses has grown dramatically since 1992 — particularly to exporters.
* In addition to its regular 7(a) Loan Guaranty Program, the SBA has two loan programs specifically for small business exporters: the Export Working Capital and the International Trade Loan programs. The EWCP helps small business exporters obtain working capital to complete export sales. The International Trade Loan provides long- and short-term financing to small businesses involved in exporting as well as to businesses adversely affected by import competition.

- The SBA's 504 Loan Program can also provide long-term, fixed-asset financing to exporters through certified development companies.





Technical Assistance

- The SBA is a full partner with the U.S. Department of Commerce and the Export-Import Bank in 19 U.S. export assistance centers.

- Each of the SBA's 70 district offices has two district international trade officers — one specializing in finance, the other in trade promotion.

- The Office of International Trade maintains a Web site containing a wealth of information for exporters at **http://www.sba.gov/oit.**

- There are more than 30 international trade centers, located in small business development centers around the country, that focus on small businesses interested in or ready to export.

- Export Risk Analysis-Online, also known as EXR-Online, is an Internet-based, foreign-risk-analysis tool used in conjunction with the Export Working Capital and International Trade Loan programs.

- The Export Technical Assistance Partnership targets export-ready small businesses with customized training and counseling.

- The Export Legal Assistance Network sponsors a free initial consultation with an attorney to discuss international trade questions.

- TradeNet's Export Advisor is a one-stop online information resource for exporting. This multi-agency, multi-resource Web site is located on the Internet at **http://www.tradenet.gov.**

Strategic Partnerships

- The SBA has signed agreements with governments or entities in Ireland, Russia, Argentina, Mexico, South Africa and Egypt to establish trade links between businesses in their countries and small businesses in the United States.

Conclusion

Small businesses create jobs, generate economic growth and help build communities. The SBA's mission is to help those small businesses succeed, both at home and in the global marketplace.

A historic transformation is taking place. Technology and globalization are opening up doors for small businesses across the country and around the globe. Transactions between South Carolina and South Africa could one day be as easy as transactions between California and Connecticut. Small businesses have been involved in trade for centuries, but only now are they taking their rightful place on the world stage.

The challenges inherent in international trade are significant. The opportunities for growth are enormous. The benefits are substantial on many levels. Networks of small businesses trading all around the world will contribute to economic prosperity, stability and security at home and abroad.

Endnote References:

[1] Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
[2] U.S. Small Business Administration, Office of Advocacy.
[3] Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
[4] Ibid.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.
[12] Ibid.
[13] Ibid.
[14] Ibid.
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[16] Ibid.
[17] U.S. Small Business Administration, Office of Advocacy.
[18] Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.
[24] Making U.S. Small Business Big Business in Asia, U.S. Department of Commerce.
[25] Ibid.
[26] Ibid.

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BANKABLE DEALS

A Question & Answer Guide to Trade Finance for U.S. Small Business

SBA AT&T

Chambers of Commerce: Some chambers actively promote exports and provide training programs, counseling, referrals, trade missions and publications.

International Trade Associations: Many of these associations and other private organizations offer a wide range of services. Most conduct regular meetings with qualified speakers and provide networking opportunities with others involved in international trade.

Export Management and Export Trading Companies: These companies serve as export sales intermediaries and representatives for manufacturers. Services include locating foreign buyers, promoting products, making export sales, providing documentation and shipping products overseas.

Consulting Firms: Trade consultants can provide information on domestic and foreign trade regulations and overseas markets, and can assess overseas commercial and political risk. They often specialize in product lines and/or geographical areas.

Some small law firms, accounting firms or specialized marketing firms also provide international-trade consulting services.

For More Information

Information is power. Make it your business to know what is available, where to get it and, most importantly, how to use it. Sources of information include:

U.S. Small Business Administration

- SBA District Offices
- Small Business Development Centers (SBDCs)
- Service Corps of Retired Executives (SCORE)
- SBA OnLine (electronic bulletin board)
- Business Information Centers (BICs)

The SBA has offices located throughout the United States. For the one nearest you, look under "U.S. Government" in your telephone directory, or call the SBA Answer Desk at (800) 8-ASK-SBA. To send a fax to the SBA, dial (202) 205-7064. For the hearing impaired, the TDD number is (704) 344-6640.

To access the agency's electronic public information services, you may call the following:

SBA OnLine:
electronic bulletin board — modem and computer required
(800) 697-4636 (limited access)
(900) 463-4636 (full access)
(202) 401-9600 (D.C. metro area)

Internet:
using uniform resource locators (URLs)
SBA Home Page: http://www.sba.gov
SBA gopher: gopher://gopher.sba.gov
File transfer protocol: ftp://ftp.sba.gov
Telnet: telnet://sbaonline.sba.gov
U.S. Business Advisor: http://www.business.gov

You also may request a free copy of *The Resource Directory for Small Business Management*, a listing of for-sale publications and videotapes, from your local SBA office or the SBA Answer Desk.

Other Sources

- State economic development agencies
- Chambers of commerce
- Local colleges and universities
- Libraries
- Manufacturers and suppliers of small business products and services
- Small business or industry trade associations

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APPENDIX 25

U.S. Small Business Administration

SBA

Championing America's Entrepreneurs

The Facts About ...

OPPORTUNITIES IN EXPORTING

Exporting can mean big profits for a small business. If you are not exploring export markets, you may be missing out on a world of opportunity.

Small Business and Exporting

World trade is increasingly important to the strength of our economy and to the growth of U.S. companies. Exporting creates jobs and provides small firms with growth, new markets and additional profits. Every billion earned in U.S. export dollars generates about 25,000 jobs.

There has never been a better time for American businesses to begin exporting. As the world economy becomes more interdependent, the opportunities for small businesses become more attractive.

Exporting is booming in the United States, and small businesses are beginning to realize that the world is their market. A business does not have to be big to sell in the global marketplace. Experience shows that small businesses can and do export successfully. Finding your niche in the world market is similar to finding it in the U.S. market. Many of the same qualities that make small business owners successful in the United States apply to success in global markets.

The Advantages of Exporting

Small business exporters can play a significant role in improving the U.S. balance of trade while protecting their competitiveness and improving their profits. Entering the overseas marketplace offers many benefits for small businesses, including —

- increased growth,
- increased profits,
- additional markets,
- extended product/service life cycles,
- increased numbers of customers,
- tax advantages,
- added product/service lines,
- improved competitiveness, and
- favorable publicity and recognition.

Exploring New Markets

Thousands of small firms already compete in the global market. They account for 97 percent of companies involved in direct merchandise exporting, yet generate only about 30 percent of the dollar value of the nation's export sales. Small firms, then, represent the largest pool for potential growth in export sales.

Entering the overseas market does not have to be difficult. The same strategies applied in the U.S. market can be used to develop export markets. Selling abroad demands hard work, perseverance and a commitment of resources. It requires planning, market research and attention to detail. It may also involve changes, like new packaging and metric conversion.

The mystery can be taken out of exporting by considering some of the fundamental elements of the export process:

- Analyze the capabilities of your small business.
- Know the export potential of your product/service.
- Identify foreign markets that are right for you.
- Study market-entry strategies and export procedures.
- Learn how to process exports.

Where to Find Assistance

Once you have decided to expand into the international marketplace, you need to know how to get started. There are many resources that provide assistance for small and medium-sized businesses seeking to export.

Federal Programs: Small business exporters may benefit from a variety of services provided by the SBA and the U.S. Department of Commerce. Types of services include —

- export counseling,
- workshops and training conferences,
- publications, and
- financial assistance.

SBA Assistance

Export Working Capital Program: The EWCP provides short-term, transaction-specific financing. The SBA guarantees up to $750,000 or 90 percent of the loan amount, whichever is less. Exporters may use this program for pre-export financing of labor and materials, financing receivables generated from these sales, and/or standby letters of credit used as performance bonds or payment guarantees to foreign buyers.

The International Trade Loan Program: The ITL helps small businesses that are engaged or are preparing to engage in international trade, as well as small businesses adversely affected by competition from imports. The SBA can guarantee up to $1.25 million, less the amount of SBA's guaranteed portion of other loans outstanding to the borrower under SBA's regular lending program.

U.S. Export Assistance Centers: USEACs offer a full range of federal export programs and services under one roof. Clients are assisted by professionals from the SBA, the Department of Commerce, the Export-Import Bank of the United States, and other public and private organizations.

Service Corps of Retired Executives: SCORE, with 400 locations and 13,000 members throughout the country, offers individual counseling by retired executives, providing you with access to years of international business experience.

Small Business Development Centers: SBDCs, operating in cooperation with local colleges and universities, offer in-depth business counseling and training.

Export Legal Assistance Network: Through ELAN, you can receive a free, one-time consultation from an attorney experienced in international trade law.

Export Access: This international market-research tool delivers free market-data reports to your computer screen. Formerly known as SBA*tlas*, Export Access provides both product and country reports: The product report ranks the top 35 import and export markets for a particular product; the country report identifies the top 20 import and export products by country for the last five years. An on-screen graph allows for easy identification of trends. Export Access is easily reached via the Internet; it is on the Office of International Trade Home Page, which is found through the SBA Home Page. Export Access is also available at local SBA offices nationwide.

Other Available Assistance

The U.S. Department of Commerce: This agency offers a wide range of information on export potential, international markets, trade leads and contacts. It also conducts trade missions and catalog exhibitions, and assists firms participating abroad in trade shows. For more information about Commerce Department programs, consult your telephone directory under "U.S. Government" or call (800)-USA-TRADE.

State and Local Agencies: Your state and/or local government may also offer export assistance.

APPENDIX 26

Breaking Into The Trade Game: A Small Business Guide

This publication is the product of a private/public sector initiative between the U.S. Small Business Administration and AT&T. SBA's participation in this co-sponsorship activity does not constitute an expressed or implied endorsement of the co-sponsors' or participants' opinions, products or services (SBA Authorization Code #93-13-4924710-1). For more information on SBA's programs, call 1-800-8-ASK-SBA.

Co-sponsored by the U.S. SMALL BUSINESS ADMINISTRATION AND AT&T

Breaking Into The Trade Game: A Small Business Guide to Exporting was produced under the guidance of G. A. Chiaruttini, Deputy Director, Office of International Trade, U.S. Small Business Administration. Special recognition is given to the Editorial Staff of Colleen Allen, Catherine Funkhouser and Patricia Lefevre, Export Development Specialists, Office of International Trade. A special thanks to Sonja Katharina Satl who provided meticulous editorial support for this project. Kathy Parker and Sheldon Snook, Office of International Trade; Ray Williams, Regional International Trade Officer, Kansas City, Missouri; and Gene Brosterhous, International Trade Director, National SCORE Office, also provided additional editorial support. Developing Your International Business Plan was written at the Lake Michigan College Small Business Development Center (SBDC) and International Business Center. The materials and worksheets were adapted from the Oregon SBDC publication, "Your International Business Plan" at Portland Community College. The Lake Michigan College SBDC is partially funded under Cooperative Agreement No. SB-2M-00092-09 by the U.S. Small Business Administration. Layout and cover design by Signal Communications, Bethesda, Maryland.

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Introduction

The U.S. Small Business Administration"s (SBA) Office of International Trade (OIT) developed this Trade Guide as an information tool to assist American business develop international markets. This Guide will help answer questions and take the mystery out of exporting. The United States government has committed enormous resources to help small businesses, like yours, reach overseas markets. Did you know that:

- the U.S. Small Business Administration (SBA) employs 76 District International Trade Officers and 10 Regional International Trade Officers throughout the United States as well has a 10-person international trade staff in Washington, D.C.;
- the SBA, through its Service Corps of Retired Executives (SCORE) program, oversees 850 volunteers with international trade experience to provide one-on-one counseling to active and new-to-export businesses;
- the SBA made 348 loans nationally to exporters for more than $123 million in FY 1991 and 617 loans for more than $241 million in FY 1992;
- the SBA supports over 900 Small Business Development Centers (SBDCs). Some SBDCs have designated international trade centers; all SBDCs provide export counseling, referral and/or training;
- the SBA coordinates the Export Legal Assistance Network (ELAN), a nationwide group of

international trade attorneys who provide free initial consultations to small businesses on export related matters;
- the U.S. Department of Commerce (DOC) International Trade Administration (ITA) U.S. and Foreign Commercial Service (US&FCS) has 68 offices throughout the United States and 120 overseas posts, representing 95 percent of the world market for U.S. products and services;
- the ITA in Washington, D.C. has industry-specific specialists monitoring export opportunities for U.S. products and services in every sector, from abrasive products to zippers;
- the DOC sponsors 51 District Export Councils (DECs), comprised of nearly 1,700 business and trade experts available on a volunteer basis to help U.S. firms develop export strategies;
- the DOC Minority Export Development Consultants Program supports more than 107 Minority Business Development Centers throughout the United States;
- the U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) maintains a $30 million budget for export promotion of U.S. commodities through trade fairs and other activities;
- like DOC, USDA has a large group of country specialists focusing on a range of products from oilseeds to poultry;
- the Export-Import Bank of the United States (Eximbank) has trained specialists in 24 states and in Puerto Rico through its City/State program to provide export financing assistance to small businesses;
- the Eximbank has financed over $11.3 billion of U.S. exports in 1991, with 18.4 percent of Eximbank's authorizations going to support small business exports?

The SBA and a multitude of federal, state and local government agencies are ready to assist you in opening new avenues of opportunity in the international marketplace. With their help, and with the information contained in this guide, you will find that access to international markets is possible and profitable.

Overview

A SMALL BUSINESS EXPORT SUCCESS STORY

Small businesses throughout the United States have gained international exposure and increased profits through exporting. Consider the case of Novi, Inc., a California-based business. Company President Michael Stoff tells his story:

"In November of 1986, when I began my business venture, Novi, Inc., I knew that my Tune-Tote (a stereo system for bicycles) had the potential to be successful in international markets. Although I had no prior experience in this area, I began researching and collecting information on international markets. I was willing to learn, and by targeting key sources for information and guidance, I was able to penetrate international markets in a short period of time. One vital source I used from the beginning was SBA. Through SBA I was directed to a program that dealt specifically with business development -- the Service Corps of Retired Executives (SCORE). I was assigned an advisor who had run his own import/export business for 30 years. The services of SCORE are provided on a continual basis and are free.

"As I began to pursue exporting, my first step was a thorough marketing evaluation. I targeted trade shows with a good presence of international buyers. I also went to DOC for counseling and information about the rules and regulations of exporting. I advertised my product in Commercial News USA, distributed through United States embassies to buyers worldwide. I utilized DOC's World

Traders Data Reports to get background information on potential foreign buyers. As a result, I received 60-70 inquiries about Tune-Tote from around the world. Once I completed my research and evaluation of potential buyers, I decided which ones would be most suitable to market my product internationally. Then I decided to grant exclusive distributorship. In order to effectively communicate with my international customers, I invested in a fax. I chose a U.S. bank to handle international transactions. The bank also provided guidance on methods of payment and how best to receive and transmit money. This is essential know-how for anyone wanting to be successful in foreign markets."

Michael Stoff knows about success in foreign markets. In just one year of exporting, sales topped $1 million and increased 40 percent in the second year of operations. Today, Novi, Inc. is a large distributor of wireless intercom systems which exports to over ten countries.

Breaking Into The Trade Game: A Small Business Guide to Exporting can assist your company's international marketing efforts. This Guide highlights the export success stories of many small businesses. It is both a comprehensive how-to manual and reference book providing you with the contacts and resources to ease your entry into markets around the world.

Part I: Becoming an Export Success Story takes you through the exporting process with stories of small businesses all around the United States that have found exporting to be an exciting and profitable way to expand their business.

Chapter 1: Making the Export Decision includes an international business plan to assess your company's export readiness, business goals and commitment;

Chapter 2: Identifying International Markets explains how to conduct foreign market research and the resources available to assist you;

Chapter 3: Foreign Market Entry discusses methods of distributing your product abroad with an emphasis on exporting;

Chapter 4: The Export Transaction details the steps involved in making trade happen, including setting prices, negotiating the sale and determining legal aspects of exporting;

Chapter 5: Export Financing outlines government and private sector financing resources and methods of payment;

Chapter 6: Transporting Goods Internationally focuses on moving goods overseas, including packaging and labelling; and

Chapter 7: Strategic Alliances and Foreign Investment Opportunities explores other methods of market entry beyond exporting, such as joint ventures and off-shore manufacturing facilities.

Part II: The Exporter's Directory is a comprehensive directory of contacts and information sources to assist you as you go global.

PART I: BECOMING AN EXPORT SUCCESS STORY

Chapter 1 Making the Export Decision

Exporting is crucial to America's economic health. Increased exports mean business growth, and business growth means more jobs. Yet, only a small percentage of potential exporters take advantage of these opportunities. It is critical for U.S. businesses to think globally. Your decision to read this book indicates an interest in exporting. However, you may have discovered your company is already competing internationally -- foreign-owned companies are competing with you in your "domestic" markets. The division between domestic and international markets is becoming increasingly blurred. Your business cannot ignore international realities if you intend to maintain your market share and keep pace with your competitors. Making the export decision requires careful assessment of the advantages and disadvantages of expanding into new markets. Once the decision is made to export, an international business plan is essential. This chapter presents the advantages and disadvantages of exporting and offers a sample business plan.

ADVANTAGES AND DISADVANTAGES OF EXPORTING Consider some of the specific advantages of exporting. Exporting can help your business:

- enhance domestic competitiveness
- increase sales and profits
- gain global market share
- reduce dependence on existing markets
- exploit corporate technology and know-how
- extend the sales potential of existing products
- stabilize seasonal market fluctuations
- enhance potential for corporate expansion
- sell excess production capacity
- gain information about foreign competition

In comparison, there are certain disadvantages to exporting. Your business may be required to:

- develop new promotional material
- subordinate short-term profits to long-term gains
- incur added administrative costs
- allocate personnel for travel
- wait longer for payments
- modify your product or packaging
- apply for additional financing
- obtain special export licenses

These disadvantages may justify a decision to forego exporting at the present time. For example, if your company's financial situation is weak, attempting to sell into foreign markets may be ill-timed. On the other hand, some companies have been successful selling abroad even before they have made any sales domestically:

Landmark Systems of Vienna, Virginia, had virtually no domestic sales before it entered the European market. Landmark had developed a software program for IBM mainframe computers and located an independent distributor in Europe to represent their product. In their first year, 80 percent of their sales were attributed to exporting. In their second year, sales jumped from $100,000 to $1.4 million -- with 70 percent attributable to exports.

As you can see, there are no hard-and-fast rules as to which businesses should export, and which should not. In the case of Landmark Systems mentioned above, a foreign distributor produced results before any significant domestic sales occurred. Landmark Systems' decision to export, like that of many other small business exporters featured in this guide, was based on careful planning.

THE NEED FOR AN INTERNATIONAL BUSINESS PLAN Behind most export success stories is a plan. Whether formally written down, or sketched out informally at a meeting of your management team, an international business plan is an essential tool to properly evaluate all the factors that would affect your company's ability to go international. An international business plan should define your company's:

- commitment to international trade;
- export pricing strategy;
- reason for exporting;
- potential export markets and customers;
- methods of foreign market entry;
- exporting costs and projected revenues;
- export financing alternatives;
- legal requirements;
- transportation method; and
- overseas partnership and foreign investment capabilities.

Creating an international business plan is important for defining your company's present status, internal goals and commitment, but is also required if you plan to seek export financing assistance. Preparing the plan in advance of making export loan requests from your bank can save time and money. Completing and analyzing an international business plan helps you anticipate future goals, assemble facts, identify constraints and create an action statement. It should also set forth specific objectives, an implementation timetable and milestones to gauge success.

International Business Plan

The purpose of the International Business Plan workbook is to prepare your business to enter the international marketplace. This workbook will serve as a step-by-step guide to lead you through the process of exporting your product to an international market. The workbook is divided into sections. Each section must be completed before you start the next section. After you have completed the entire workbook, you will be ready to develop an international business plan to export your product. Once the business plan is completed, an in-depth analysis of your readiness to export can be completed..

PRODUCTS/SERVICES

STEP 1: Select the most exportable products to be offered internationally.

To identify products with export potential for distribution internationally, you need to consider products that are successfully distributed in the domestic market. The product needs to fill a targeted need for the purchaser in export markets according to price, value to customer/country and market demand.

What are the major products your business sells?

1.

2.

3.

What products have the best potential for international trade?

1.

2.

3.

STEP 2: Evaluate the products to be offered internationally.

What makes your products unique for an overseas market?

1.

2.

3.

Why will international buyers purchase the products from your company?

1.

2.

3.

How much inventory will be necessary to sell overseas?

1.

2.

3.

Exercise:

IDENTIFYING PRODUCTS WITH EXPORT POTENTIAL List below the products you believe have export potential. Indicate the reasons you believe each product will be successful in the international marketplace.

Products/Services Reasons for Export Success

1.
2.
3.
4.
5.
6.
7.
8.
9.
10.
11.
12.
13.
14.
15.

Decision Point: These products have export potential.

YES

NO

PLANNING

What is the purpose of completing this workbook?

You know that you want to see your company grow through exporting.

Five reasons it will be worth your time and effort:

1. Careful completion of this workbook will help evaluate your level of commitment to exporting.
2. The completed workbook can help you evaluate your product's potential for the international trade market.
3. The workbook gives you a tool to help you better manage your international business operations successfully.
4. The completed workbook will help you communicate your business ideas to persons outside your business and can be an excellent starting point for developing an international financing proposal.
5. Businesses managed are more successful when working from a business plan.

Can't I hire someone to do this for me?
No! Nobody will do your thinking or make decisions for you. This is your business. If the business plan is to be useful, it must reflect your ideas and efforts -- not those of an outsider.

Why is planning so important?
The planning process forces you to look at your future business operations and anticipate what will happen. This process better prepares you for the future and makes you more knowledgeable about your business. Planning is vital for marketing your product in an international marketplace. Any firm considering entering into international business transactions must understand that doing business internationally is not a simple task nor one for the faint of heart. It is stimulating and potentially profitable in the long-term but requires much preparation and research prior to the first transaction.

In considering products for the international market, a business needs to be:

1. Successful in its present domestic operation.
2. Willing to commit its resources of time, people and capital to the program. Entry into the international market may take as long as two years to generate profit with cash outflow during that period.
3. Sensitive and aware of the cultural implications of doing business internationally.

Developing a business plan helps you assess your present market situation, business goals, and commitment which will increase your opportunities for success.

What's the bottom line for me if I do the plan? Research shows that small business failure rates among new businesses are significantly lower for new businesses that have developed a business plan.

Isn't planning just for the big companies? Planning is important for any organization that wants to approach the future with a plan of action. The future comes whether you are prepared for it or not. A business plan helps you anticipate the future and make well-informed decisions because you have thought about the alternatives you will be facing.

How often do I have to do this?
A plan must be revised as needed, at least once a year. Planning is a continuous process. You will be surprised how much easier it is to develop a business plan after the first time. Plus, after a revision or two you will know more about your international business market opportunities to export products.

GOAL SETTING

Determining your business goals can be a very exciting and often challenging process. It is, however, a very important step in planning your entry into the international marketplace. The following exercise is intended to help you clarify your short and long-term business goals.

STEP 1: Define long-term goals.

1. What are your long-term goals for this business in the next 5 years? Examples: increase export sales by ___% annually; develop country cultural profiles.
2. How will the international trade market help you reach your long-term goals?

STEP 2: Define short-term goals.

1. For your international business, what are your first year goals? Examples: attend export seminars, select a freight forwarder.

2. What are your two-year goals for your international business products/services?

STEP 3: Develop an action plan to reach your short-term goals by using international trade.

INDUSTRY ANALYSIS

STEP 1: Determine your industry's growth for the next 3 years.

Talk to people in the same business or industry, research industry-specific magazines, attend trade fairs and seminars.

STEP 2: Research how competitive your industry is in the global markets.

Utilize the National Trade Data Bank (NTDB), obtain import/export statistics from the Bureau of the Census, and contact the U.S. Small Business Administration (SBA) or the U.S. Department of Commerce (DOC) district office in your area.

STEP 3: Find out your industry's future growth in the international market.

Contact the SBA or the U.S. Foreign & Commercial Service (US & FCS) district office and contact a DOC country or industry desk in Washington, D.C.

STEP 4: Research federal or state government market studies that have been conducted on your industry's potential international markets.

Contact SBA, your state international trade office, a DOC country or industry desk in Washington, D.C.

STEP 5: Find export data available on your industry.

Contact your SBA or DOC district office.

YOUR BUSINESS/COMPANY ANALYSIS

STEP 1: Why is your business successful in the domestic market? What's your growth rate?

STEP 2: What products do you feel have export potential?

STEP 3: What are the competitive advantages of your products or business over other domestic and international businesses?

PROS AND CONS OF MARKET EXPANSION
Brainstorm a list of pros and cons for expanding your market internationally. Based on your product and market knowledge, determine your probability of success in the international market.

Industry/Product:

Pros	Cons
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.
6.	6.
7.	7.
8.	8.
9.	9.
10.	10.
11.	11.
12.	12.

PROBABILITY OF SUCCESS

0% 25% 50% 75% 100%

MARKETING YOUR PRODUCT

Given the market potential for your products in international markets, how is your product unique?

1. What are your product's advantages?
2. What are your product's disadvantages?
3. What are the competitive product's advantages?
4. What are the competitive product's disadvantages?
5. What are the needs that will be filled by your product in a foreign market?
6. What competitive products are sold abroad and to whom?
7. How complex is your product? What skills or special training are required to:
    1. Install your product?
    2. Use your product?
    3. Maintain your product?
    4. Service your product?

8. What options and accessories are available?

9. Has an aftermarket been developed for your product?

10. What other equipment does the buyer need to use your product?

11. What complementary goods does your product require?

12. If your product is an industrial good:
    1. What firms are likely to use it?
    2. What is the useful life of your product?
    3. Is use or life affected by climate? If so, how?
    4. Will geography affect product purchase, for example transportation problems?
    5. Will the product be restricted abroad, for example tariffs, quotas or non-tariff barriers?

13. If the product is a consumer good:
    1. Who will consume it? How frequently will the product be bought?
    2. Is consumption affected by climate?
    3. Is consumption affected by geography, for example transportation problems?
    4. Will the product be restricted abroad for example tariffs, quotas or non-tariff barriers?
    5. Does your product conflict with traditions, habits or beliefs of customers abroad?

STEP 1:
Select the best countries to market your product.

The U.S. Small Business Administration and the United States and Foreign Commercial Service may be of assistance in providing product market analysis. Since the number of world markets to be considered by a company is very large, it is neither possible nor advisable to research them all. Thus, your firm's time and money are spent most efficiently by using a sequential screening process. The first step in this sequential screening process for the company is to select the more attractive countries for your product. Preliminary screening involves defining the physical, political, economic and cultural environment. Rate the following market factors in each category.

1. Select 2 countries you think have the best marketpotential for your product;
2. Review the market factors for each country;
3. Research data/information for each country;
4. Rate each factor on a scale of 1-5 with 5 being thebest; and
5. Select a target market country based on your ratings

MARKET FACTOR ASSESSMENT	COUNTRY/RATING	COUNTRY/RATING

Demographic/Physical Environment:

- Population size, growth, density
- Urban and rural distribution
- Climate and weather variations
- Shipping distance
- Product-significant demographics
- Physical distribution and communication network
- Natural resources

Political Environment:

- System of government
- Political stability and continuity
- Ideological orientation
- Government involvement in business
- Attitudes toward foreign business (trade restrictions, tariffs, non-tariff barriers, bilateral trade agreements)
- National economic and developmental priorities

Economic Environment:

- Overall level of development
- Economic growth: GNP, industrial sector
- Role of foreign trade in the economy
- Currency: inflation rate, availability, controls, stability of exchange rate
- Balance of payments
- Per capita income and distribution
- Disposable income and expenditure patterns

Social/Cultural Environment:

- Literacy rate, educational level
- Existence of middle class
- Similarities and differences in relation to home market
- Language and other cultural considerations

Market Access:

- Limitations on trade: high tariff levels, quotas
- Documentation and import regulations
- Local standards, practices, and

other non-tariff barriers
- Patents and trademark protection
- Preferential treaties
- Legal considerations for investment, taxation, repatriation, employment, code of laws

Product Potential:

- Customer needs and desires
- Local production, imports, consumption
- Exposure to and acceptance of product
- Availability of linking products
- Industry-specific key indicators of demand
- Attitudes toward products of foreign origin
- Competitive offerings

Local Distribution and Production:

- Availability of intermediaries
- Regional and local transportation facilities
- Availability of manpower
- Conditions for local manufacture

Indicators of population, income levels and consumption patterns should be considered. In addition, statistics on local production trends, along with imports and exports of the product category, are helpful for assessing industry market potential. Often, an industry will have a few key indicators or measures that will help them determine the industry strength and demand within an international market. A manufacturer of medical equipment, for example, may use the number of hospital beds, the number of surgeries and public expenditures for health care as indicators to assess the potential for its products.

What are the projected growth rates for the two countries selected over the next 3-5 years?

STEP 2:
Determine Projected Sales Levels

What is your present U.S. market percentage?

What are the projected sales for similar products in your chosen international markets for the coming year?

What sales volume will you project for your products in these international markets for the coming year?

What is the projected growth in these international markets over the next five years?

STEP 3:
Identify Customers Within Your Chosen Markets

What companies, agents or distributors have purchased similar products?

What companies, agents or distributors have made recent requests for information on similar products?

What companies, agents or distributors would most likely be prospective customers for your export products?

STEP 4:
Determine Method Of Exporting

How do other U.S. firms sell in the markets you have chosen?

Will you sell direct to the customer?

Who will represent your firm?

Who will service the customers needs?

STEP 5:
Building A Distributor or Agent Relationship

1. Will you appoint an agent or distributor to handle your export market?
2. What facilities does the agent or distributor need to service the market?
3. What type of client should your agent or distributor be familiar with in order to sell your product?
4. What territory should the agent or distributor cover?
5. What financial strength should the agent or distributor have?
6. What other competitive or non-competitive lines are acceptable or not acceptable for the agent or distributor to carry?
7. How many sales representatives does the agent or distributor need and how often will they cover the territory?
8. Will you use an export management company to do your marketing and distribution for you?

YES NO

If yes, have you developed an acceptable sales and marketing plan with realistic goals you can agree to?

YES NO

Comments:

SUPPORT FUNCTIONS
To achieve efficient sales offerings to buyers in the targeted markets, several concerns regarding products, literature and customer relations should be addressed.

STEP 1:
Identify product concerns.

Can the potential buyer see a functioning model or sample of your product that is substantially the same as would be received from production?

YES NO

Comments:

What product labeling requirements must be met? (Metric measurements, AC or DC electrical, voltage, etc.) Keep in mind that the European Community now requires 3 languages on all new packaging.

When and how can product conversion requirements be obtained?

Can product be delivered on time as ordered?

YES NO

Comments:

STEP 2:
Identify literature concerns.

If required, will you have literature in language other than English?

YES NO

Do you need a product literature translator to handle the technical language?

YES NO

What special concerns should be addressed in sales literature to ensure quality and informative representation of your product?

STEP 3:
Identify customer relations concerns.

What is delivery time and method of shipment?

What are payment terms?

What are the warranty terms?

Who will service the product when needed?

How will you communicate with your customer? . . . through a local agent, telex or fax?

Are you prepared to give the same order and delivery preference to your international customers that you give to your domestic customers?

YES NO

MARKETING STRATEGY
In international sales, the chosen "terms of sale" are most important. Where should you make the product available at your plant: at the port of exit, landed at the port of importation or delivered free and clear to the customer's door? The answer to this question involves determining what the market requires, and how much risk you are willing to take. Pricing strategy depends on "terms of sale" and also considers value-added services of bringing the product to the international market.

STEP 1:
Define International Pricing Strategy.

How do you calculate the price for each product?

What factors have you considered in setting prices?

Which products' sales are very sensitive to price changes?

How important is pricing in your overall marketing strategy?

What are your discount policies?

What terms of sales are best for your export product?

STEP 2:
Define promotional strategy

What advertising materials will you use?

What trade shows or trade missions will you participate in, if any?

What time of year and how often will foreign travel be made to customer markets?

STEP 3:
Define customer services

What special customer services do you offer?

What types of payment options do you offer?

How do you handle merchandise that customers return?

SALES FORECAST
Forecasting sales of your product is the starting point for your financial projections. The sales forecast is extremely important, so it is important you use realistic estimates. Remember that sales forecasts show the expected time the sale is made. Actual cash flow will be impacted by delivery date and payment terms.

Step 1:
Fill in the units-sold line for markets 1, 2, and 3 for each year on the following worksheet.

Step 2:
Fill in the sales price per unit for products sold in markets 1, 2 and 3.

Step 3:
Calculate the total sales for each of the different markets (units sold x sales price per unit).

Step 4:
Calculate the sales (all markets) for each year - add down the columns.

Step 5:
Calculate the five year total sales for each market - add across the rows.

SALES FORECASTS - FIRST FIVE YEARS
1 2 3 4 5 Market 1
Units Sold
Sale Price/Unit
Total Sales

Market 2
Units Sold Sale Price/Unit
Total Sales

Market 3
Units Sold
Sale Price/Unit
Total Sales

Total Sales
All Markets

COST OF GOODS SOLD
The cost of goods sold internationally is partially determined by pricing strategies and terms of sale. To ascertain the costs associated with the different terms of sale, it will be necessary to consult an international freight forwarder. For example, a typical term of sale offered by a U.S. exporter is cost, insurance and freight (CIF) port of destination. Your price includes all the costs to move product to the port of destination. A typical cost work sheet will include some of the following factors. These costs are in addition to the material and labor used in the manufacture of your product.

- export packing
- forwarding
- container loading
- documentation
- inland freight
- consular legalization
- truck/rail unloading
- bank documentation
- wharfage
- dispatch
- handling
- bank collection fees
- terminal charges
- cargo insurance
- ocean freight
- other misc.
- bunker surcharge
- telex
- courier mail

To complete this worksheet, you will need to use data from the sales forecast. Certain costs related to your terms of sale may also have to be considered.

Step 1:
Fill in the units-sold line for market 1, 2, and 3 for each year.

Step 2:
Fill in the cost per unit for products sold in markets 1, 2, and 3.

Step 3:
Calculate the total cost for each of the products - (units sold x cost per unit).

Step 4:
Calculate the cost of goods sold - all products for each year - add down the columns.

Step 5:
Calculate the five-year cost of goods for each market - add across the rows.

COST OF GOODS SOLD - FIRST FIVE YEARS

```
                                        1    2    3    4    5

Market 1

     Units Sold

     Sale Price/Unit
          Total Sales
Market 2
```

```
  Units Sold
     Sale Price/Unit

       Total Sales

Market 3

     Units Sold

    Sale Price/Unit

          Total Cost
Cost of Goods Sold All Markets
```

INTERNATIONAL OVERHEAD EXPENSES

To determine overhead costs for your export products, you should be certain to include costs that pertain only to international marketing efforts. For example, costs for domestic advertising of service that do not pertain to the international market should not be included. Examples of most typical expense categories for an export business are listed on the next page. Some of these expenses will be first year start-up expenses, and others will occur every year.

Step 1:
Review the expenses listed on the next page. These are expenses that will be incurred because of your international business. There may be other expense categories not listed -- list them under "other expenses."

Step 2:
Estimate your cost for each expense category.

Step 3:
Estimate any domestic marketing expense included that is not applicable to international sales.

Step 4:
Calculate the total for your international overhead expenses.

EXPENSE COST Market 1 Market 2 Market 3 Total Yr 1

Legal Fees
Accounting Fees
Promotional Material
Travel
Communication
Equip/Telex
Advertising Allowances
Promotional Expenses
(e.g., trade shows, etc.)
Other Expenses

Total Expenses
Less Domestic Expenses Included Above, if any
Total International
Start-up Expenses

PROJECTED INCOME STATEMENT - YEAR 1 to 5, ALL MARKETS You are now ready to assemble the data for your projected income statement. This statement will calculate your net profit or net loss (before income taxes) for each year.

Step 1:
Fill in the sales for each year. You already estimated these figures; just recopy them on the work sheet.

Step 2:
Fill in the cost of goods sold for each year. You already estimated these figures, just recopy on the work sheet.

Step 3:
Calculate the Gross Margin for each year (Sales minus Cost of Goods Sold).

Step 4:
Calculate the Total Operating Expenses for each year.

Step 5:
Calculate the Net Profit or Net Loss (Before Income Taxes) for each year (Gross Margin minus Total Operating Expenses).

PROJECTED INCOME STATEMENT - YEAR 1 to 5, ALL MARKETS

1 2 3 4 5 International Sales
Cost of Goods Sold
Gross Margin

International Operating Expenses:
Legal
Accounting
Advertising
Travel
Trade shows
Promotional Material
Supplies
Communication Equipment
Interest
Insurance
Other

Total International Operating Expenses

BREAK-EVEN ANALYSIS
The break-even is the level of sales at which your total sales exactly covers your total costs and operating expenses. This level of sales is called the Break-Even Point Sales Level (BEP sales).
In other words, at the BEP sales level, you will make a zero profit. If you sell more than the BEP sales level, you will make a net profit. If you sell less than the BEP sales level, you will have a net loss.
The worksheet will calculate your BEP sales level for any year of operations. The steps listed below

will assume that you are calculating the BEP sales level for Year 1.

Step 1:
Fill in your Total Sales, Total Cost of Goods Sold, and Total Gross Margin for Year 1 on the following page.

Step 2:
Calculate the Gross Margin percent using the formula which is given on the work sheet. The Gross Margin percent tells you what percentage of each dollar of sales results in Gross Margin.

Step 3:
Fill in the Total Operating Expenses for Year 1.

Step 4:
Calculate the BEP sales level using the formula which is given. Your need to reach this level of sales just to break even.

Note: In addition to a break-even analysis, it is highly recommended that a profit and loss statement be generated for the first few actual international transactions. Since there are a great number of variables relating to costs of goods, real transactions are required to establish actual profitability and minimize the risk of losses.

STEP 1:
Total Sales: $
Total Cost of Goods Sold: $
Total Gross Margi:n $

STEP 2:
Total Gross Margin: $
Gross Margin %: $
Total Sales: $
Gross Margin % = 0. (Leave the Gross Margin $ in a decimal format. The format is 0.347 - not 34.7%).

STEP 3:
Total Operating Expenses: $

STEP 4:
Total Operating Expenses: $
BEP Sales Level: $
Gross Margin %: $
BEP Sales Level: $

TIMETABLE
This is a worksheet that you will need to work on periodically as you progress in the workbook. The purpose is to ensure that key tasks are identified and completed to increase the success of your international business.

STEP 1:

Identify key activities
By reviewing other portions of your business plan, compile a list of tasks that are vital to the successful operation of your business. Be sure to include travel to your chosen market as applicable.

STEP 2:
Assign responsibility for each activity For each identified activity, assign one person primary responsibility for the completion of that activity.

STEP 3:
Determine scheduled start date
For each activity determine the date when work will begin. You should consider how the activity fits into your overall plan as well as the availability of the person responsible.

STEP 4:
Determine scheduled finish date
For each activity determine when the activity must be completed.

ACTION PLAN
PROJECT/TASK
PERSON
START DATE/FINISH DATE

SUMMARY

STEP 1:
Verify completion of previous pages.
You should have finished all the other sections in the workbook before continuing any further.

STEP 2:
Identify your business plan audience.
What type of person are you intending to satisfy with this business plan? The summary should briefly address all the major issues that are important to this person. Keep in mind that this page will probably be the first read by this person. It is extremely important the summary be brief yet contain the information most important to the reader. This section should make the reader want to read the rest of your plan.

STEP 3:
Write a one-page summary.
You will now need to write no more than a page summarizing all the previous work sheets you have completed. Determine which sections are going to be most interesting to your reader. Write one to three sentences that summarize each of the important sections.
These sentences should appear in the order of the sections of your business plan. The sentences must fit together to form a summary and not appear to be a group of loosely related thoughts. You may want to have several different summaries, depending on who will read the business plan.

INTERNATIONAL BUSINESS PLAN SUMMARY:

PREPARING AN EXPORT PRICE QUOTATION
Setting proper export prices is crucial to a successful international sales program; prices must be high

enough to generate a reasonable profit, yet low enough to be competitive in overseas markets. Basic pricing criteria - costs, market demand, and competition - are the same for domestic and foreign sales. However, a thorough analysis of all cost factors going into a cost, insurance and freight (CIF) quotation may result in prices that are different from domestic ones.

"Marginal cost" pricing is the most realistic and frequently used pricing method. Based on a calculation of incremental costs, this method considers the direct out-of-pocket expenses of producing and selling products for export as a floor beneath which prices cannot be set without incurring a loss. There are important principles that should be followed when pricing a product for export, summarized below.

COST FACTORS

In calculating an export price, be sure to take into account all the cost factors for which you, the exporter, are liable.

1. Calculate direct materials and labor costs involved in producing the goods for export.
2. Calculate your factory overhead costs, prorating the amount of overhead chargeable to your proposed export order.
3. Deduct any charges not attributable to the export operation (i.e., domestic marketing costs, domestic legal expenses), especially if export sales represent only a small part of total sales.
4. Add in the other out-of-pocket expenses directly tied to the export sales, such as:

travel expenses
catalogs, slide shows, video presentations promotional material
export advertising
commissions
transportation expenses
packing materials
legal expenses*
office supplies*
patent and trademark fees*
communications*
taxes*
rent*
insurance*
interest*
provision for bad debts
market research
credit checks
translation costs
product modification
consultant fees
freight forwarder fees

*These items will typically represent the cost of the total operation, so be sure to prorate these to reflect only the cost of producing the goods for export.
5. Allow yourself a realistic price margin for unforeseen costs, unavoidable risks, and simple mistakes that are common in any new undertaking.
6. Also allow yourself a realistic profit or mark-up.

OTHER FACTORS TO CONSIDER

Market Demand - As in the domestic market, product demand is the key to setting prices in a foreign market. What will the market bear for a specific product or service? What will the estimated consumer price for your product be in each foreign market? If your prices seem out of line, try some simple product modifications to reduce the selling price, such as simplification of technology or alteration of product size to conform to local market norms. Also keep in mind that currency valuations alter the affordability of goods. A good pricing strategy should accommodate fluctuations in currency.

Competition - As in the domestic market, few exporters are free to set prices without carefully evaluating their competitor's pricing policies. The situation is further complicated by the need to evaluate the competition's prices in each foreign market an exporter intends to enter. In a foreign market that is serviced by many competitors, an exporter may have little choice but to match the going price or even go below it to establish a market share. If, however, the exporter's product or service is new to a particular foreign market, it may be possible to set a higher price than normally charged domestically.

QUOTE PREPARATION

An Export Costing Worksheet that may guide you in preparing export price quotations follows.

EXPORT COSTING WORKSHEET

Reference Information 1. Our Reference
2. Customer Reference
3.Customer Information:
3. Name
5. Cable Address
4. Address
6. Telex No.
7. Fax No.

Product Information:
SIC Code:
8. Product
9. No. of Units
10. Net Weight (unit)
11. Gross Weight
12. Dimensions ___ x___ x___
13. Cubic Measure ____(sq.in.)
14. Total Measure
15. H.S. No.

Product Charges:

16. Price (or cost) per unit ______ x units _____Total__________
17. Profit (or markup)
18. Sales Commissions
19. FOB FACTORY PRICE

Fees-Packing, Marking, Inland Freight:

20. Freight Forwarder
21. Financing Costs
22. Other charges
23. Export Packing
24. Labeling/Marking
25. Inland Freight to
26. Other charges (identify)
27. FOB, PORT CITY PRICE (EXPORT PACKED)

Port Charges/Document

28. Unloading (heavy lift)
29. Terminal
30. Other (identify)
31. Consular Document (if required)
32. Certificate of Origin (if required) 33. Export License (if required)
34. FAS VESSEL (OR AIRPLANE) PRICE

Freight

35. Based on ________ weight _________ measure
36. Ocean ___________ Air ____________
37. On Deck _________ Under Deck _____
38. Rate ____________ Minimum ________ Amount _________

Insurance

39. Coverage required _________________
40. Basis ___________ Rate____________ Amount _________

41. CIF, PORT OF DESTINATION PRICE

WORKSHEET

EXPORT PROGRAMS & SERVICES
This worksheet helps you identify organizational resources that can provide programs and services to assist you in developing your international business plan and increase your export sales.

ORGANIZATIONS SERVICES

- SBA
- USDOC
- SBDC
- Trade Assoc
- University
- World Trade Ctr
- CommCollege

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Chapter 2

Identifying International Markets

To succeed in exporting, you must first identify the most profitable international markets for your products or services. Without proper guidance and assistance, however, this process can be time consuming and costly -- particularly for a small business.

The U.S. federal government, state governments, trade associations, exporters' associations and foreign governments offer low-cost and easily accessible resources to simplify and speed your foreign market research. This chapter describes those resources and how to use them.

FEDERAL GOVERNMENT RESOURCES

Many government programs and staff are dedicated to helping you, the small business owner, assess whether your product or service is ready to compete in a foreign market.

The U.S. Small Business Administration Many new-to-export small firms have found the counseling services provided by the SBA's Service Corps of Retired Executives (SCORE) particularly helpful. Through your local SBA District office, you can gain access to more than 850 SCORE volunteers with experience in international trade.

"Our SCORE counselor is really like a big brother to us and our company," says Jim Hadzicki, Vice-President of San Diego-based Revolution Kites, a recreational kite manufacturer. Exports now account for 24 percent of their sales in just three years. "I recently went on a trip to Tokyo to line up a distributorship. Our SCORE counselor helped me list our objectives, what I was to do and ask about and even told me what gift I should take to the Japanese representative," says Hadzicki.

Two other SBA-sponsored programs are available to small businesses needing management and export advice: Small Business Development Centers and Small Business Institutes affiliated with colleges and universities throughout the United States:

Small Business Development Centers (SBDCs) offer counseling, training and research assistance on all aspects of small business management.

The Small Business Institute (SBI) program provides small business owners with intensive management counselling from qualified business students who are supervised by faculty. SBIs provide advice on a wide range of management challenges facing small businesses -- including finding the best foreign markets for particular products or services.

The U.S. Department of Commerce

The U.S. Department of Commerce's (DOC) International Trade Administration (ITA) is a valuable source of advice and information. In ITA offices throughout the country international trade specialists can help you locate the best foreign markets for your products. Oklahoma exporter OK-1 Manufacturing Co. has found the foreign market research available through the ITA extremely useful:

"The Oklahoma District ITA office prepared a market research study to determine whether we should export our fitness accessory items to Japan," says Sherry Teigen, OK-1 Manufacturing Co. export manager. Today, the company exports to Japan in addition to 20 other countries. Since it began exporting, the company staff has grown by 75 and Sherry's husband, OK-1's President, Roger Teigen, won the 1991 SBA Exporter of the Year award.

District Export Councils (DECs) are another useful ITA-sponsored resource. The 51 District Export Councils located around the United States are comprised of 1,800 executives with experience in international trade who volunteer to help small businesses export. Council members come from banks, manufacturing companies, law offices, trade associations, state and local agencies and educational institutions. They draw upon their experience to encourage, educate, counsel and guide potential, new and seasoned exporters in their individual marketing needs.

The United States and Foreign Commercial Service (US&FCS) helps U.S. firms compete more effectively in the global marketplace with trade specialists in 69 United States cities and 70 countries worldwide. US&FCS offices provide information on foreign markets, agent/distributor location services, trade leads and counseling on business opportunities, trade barriers and prospects abroad.

The United States Department of Agriculture

If you have an agricultural product, you should investigate the U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS). With posts in 80 embassies and consulates worldwide, the FAS can obtain specific overseas market information for your product. The FAS also maintains sector specialists in the United States to monitor foreign markets for specific U.S. agricultural products..

Most state commerce and economic development offices have international trade specialists to assist you. Many states have trade offices in overseas markets. Dial Tool and Manufacturing of Franklin Park, Illinois, found the Illinois State office in Hong Kong very helpful:

After visiting the Illinois State office in Hong Kong, Dial Tool and Manufacturing President Steve Pagliuzza reports that he was able to sign on sales reps for his company's metal stamping equipment: "My state office in Hong Kong gave me several names of potential reps. We eventually signed them on and are now successfully exporting to Asia, in addition to Europe, Canada and Mexico. In four years, 15-20 percent of our sales now come from exporting."

Port Authorities are a wealth of export information. Although traditionally associated with transportation services, many port authorities around the country have expanded their services to provide export training programs and foreign-marketing research assistance. For example, the New York-New Jersey Port Authority provides extensive services to exporters including XPORT, a full-service export trading company.

PRIVATE SECTOR RESOURCES

In addition to government-supported resources, private sector organizations can also provide invaluable assistance.

Exporters' Associations

World Trade Centers, import-export clubs and organizations such as the American Association of Exporters and Importers and the Small Business Exporter's Association can aid in your foreign market research.

Trade Associations

The National Federation of International Trade Associations lists over 150 organizations in the U.S. to help new-to-export small businesses enter international markets. Many of these associations maintain libraries, databanks and established relationships with foreign governments to assist in your exporting efforts.

More than 5,000 trade and professional associations currently operate in the United States; many actively promote international trade activities for their members. The Telecommunications Industry Association is just one association which leads frequent overseas trade missions and monitors the pulse of foreign market conditions around the globe. Whatever your product or service, a trade association probably exists that can help you obtain information on domestic and foreign markets.

Chambers of Commerce, particularly state chambers, or chambers located in major industrial areas, often employ international trade specialists who gather information on markets abroad.

HOW TO GATHER FOREIGN MARKET RESEARCH

Now that you know where to begin your research, you should next identify the most profitable foreign markets for your products or services. You will need to:

- classify your product;
- find countries with the largest and fastest growing markets for your product;
- determine which foreign markets will be the most penetrable;
- define and narrow those export markets you intend to pursue;
- talk to U.S. customers doing business internationally;
- research export efforts of U.S. competitors.

Classifying your product

The Standard Industrial Classification (SIC) code is the system by which the United States government classifies its goods and services. Knowing the proper code for your product or service can be useful in collecting and analyzing data available in the United States.

Data originating from outside the United States -- or information available from international organizations -- are organized under the Standard International Trade Classification (SITC) system, which may assign a different code to your product or service.

Another method of classifying products for export is the Harmonized System (HS). Knowing the HS classification number, the SIC and the SITC codes for your product is essential to obtaining domestic and international trade and tariff information. DOC and USDA trade specialists can assist in identifying the codes for your products. The United States Bureau of the Census (USBC) can help identify the HS number for your product.

Finding countries with the largest and fastest growing markets for your product

At this stage of your research, you should consider where your domestic competitors are exporting. Trade associations can often provide data on where companies in a particular industry sector are exporting their products. The three largest markets for U.S. products are Canada, Japan and Mexico. Yet these countries may not be the largest markets for your product.

Three key United States government databases can identify those countries which represent significant export potential for your product: SBA's Automated Trade Locator Assistance System (SBAtlas), Foreign Trade Report FT925 and the U.S. Department of Commerce's National Trade Data Bank (NTDB).

SBA's Automated Trade Locator Assistance System (SBAtlas) is offered only by the U.S. Small Business Administration and provides current market information to SBA clients on world markets suitable for their products and services. This valuable research tool supplies small business exporters with information about where their products are being bought and sold and which countries offer the largest markets. The Country Reports detail products imported and exported by various foreign nations. Data are supplied by the DOC's USBC and member nations of the United Nations. This information can be obtained through a SCORE counselor at the SBA District and Regional Offices and at SBDCs and SBIs. This service is free to requesting small businesses. Foreign Trade Report FT925 gives a monthly country-specific breakdown of imports and exports by SITC number. Available by subscription from the Government Printing Office, the FT925 can also be obtained through DOC ITA offices.

The National Trade Data Bank (NTDB) contains more than 100,000 U.S. government documents on export promotion and international economic information. With the NTDB, you can conduct databank searches on country and product information. NTDB can be purchased by subscription and used with a CD-ROM reader, or can be used at Federal libraries throughout the United States. DOC ITA offices will also conduct specific NTDB searches to meet your foreign market research needs.

Once you learn which are the largest markets for your products, determine which are the fastest growing markets. Find out what demographic patterns and cultural considerations will affect your market penetration.

Several publications provide geographic and demographic statistical information pertinent to your product: The World Factbook, produced by the Central Intelligence Agency; World Population, published by DOC's USBC; The World Bank Atlas, available from the World Bank; and the International Trade Statistics Yearbook of the United Nations. Volume Two of this U.N. publication (available at many libraries) lists international demand for commodities over a five-year period.

DETERMINING THE MOST PENETRABLE MARKETS

Once you have defined and narrowed a few prospective foreign markets for your product, you will need to examine them in detail. At this stage you should ask the following questions:

- how does the quality of your product or service compare with that of goods already available in your target foreign markets?

- is your price competitive in the markets you are considering?

- who are your major customers?

Answering these questions may seem overwhelming at first, but many resources are available to help you select which foreign markets are most conducive to selling your product.

The DOC's ITA can link you with specific foreign markets. ITA offices are part of the US&FCS and communicate directly with FCS officers working in United States Embassies worldwide. FCS staff and in-country market research firms produce in-depth reports on selected products and industries that can answer many of your questions regarding foreign market penetration.

One small business exporter who regularly uses foreign market information obtained through the DOC's US&FCS is Fabri-Quilt Inc. of North Kansas City, Missouri.

According to Fabri-Quilt President Lionel Kunst, "When I decide to enter a foreign market, the Commerce Department ITA office in Missouri sends information on my company to the Foreign Commercial Service Officer in the country where I want to export. They send me back information on that particular country and even make appointments for me when I decide to visit the market myself." Of the product line Fabri-Quilt exports, 25 percent of their sales can be attributed to exporting.

You can also order a comparison shopping service report through ITA district offices. The report is a low-cost way to conduct research without having to leave the United States.

SBA's and DOC's Export Legal Assistance Network (ELAN) provides new exporters with answers to their initial legal questions. Local attorneys volunteer, on a one-time basis, to counsel small businesses to address their export-related legal questions. These attorneys can address questions pertaining to contract negotiations, licensing, credit collections procedures and documentation. There is no charge for this one-time service, available through SBA or DOC district offices.

Trade Opportunities Program (TOPs) of the DOC can furnish U.S. small businesses with trade leads from foreign companies that want to buy or represent their products or services. These trade leads are available in both electronic or printed form from the DOC. Participating companies must pay a modest fee to gain access to this service.

Other important issues about the target foreign markets you should explore are:

- political risk considerations,
- the cultural environment, and
- whether any product modifications, such as packaging or labelling, will make the product more "exportable."

One U.S. poultry producer discovered it had to modify its product to make it more palatable to Japanese consumers:

Atlanta-based Gold Kist Inc. found that, to be successful in Japan, they needed to cut and package their chicken parts to meet Japanese consumer preferences. That change required substantial modification in Gold Kist's operations. The alteration paid off: Gold Kist's Don Sands reports, "In 1988, we shipped 5.3 million pounds of poultry to Japan, 9 million in 1989 and 12 million in 1990."

Identifying market-specific issues is easily accomplished by contacting foreign government representatives in the United States. Commercial posts of foreign governments located within embassies and consulates can assist you in obtaining specific market and product information.

American Chambers of Commerce (AmChams) abroad can also be an invaluable resource. As affiliates of the United States Chamber of Commerce, 61 AmChams, located in 55 countries, collect and disseminate extensive information on foreign markets. While membership fees are usually required, the small investment can be worth it for the information received.

Another fundamental question to ask country-specific experts is what market barriers, such as tariffs or import restrictions (sometimes referred to as non-tariff barriers), exist for your product? Specialists at U.S. Trade Representative (USTR) should be consulted on trade barriers.

Tariffs are taxes imposed on imported goods. In many cases, tariffs raise the price of imported goods to the level of domestic goods. Often tariffs become barriers to imported products because the amount of tax imposed makes it impossible for exporters to profitably sell their products in foreign markets.

Non-tariff barriers are laws or regulations that a country enacts to protect domestic industries against foreign competition. Such non-tariff barriers may include subsidies for domestic goods, import quotas or regulations on import quality.

To determine the rate of duty, you will need to identify the Harmonized Tariff section which corresponds to the product you wish to export. Each country has its own schedule of duty rates corresponding to the section of the Harmonized System of Tariff Nomenclature, I-XXII.

DEFINING WHICH MARKETS TO PURSUE

Once you know the largest, fastest growing and most penetrable markets for your product or service, you must then define your export strategy.

Do not choose too many markets. For most small businesses, three foreign markets will be more than enough, initially. You may want to test one market and then move on to secondary markets as your "exportise" develops. Focusing on regional, geographic clusters of countries can also be more cost effective than choosing markets scattered around the globe.

After you have identified the best export markets, your next step will be to determine the best way to distribute your product abroad. Chapter 3, "Market Entry," discusses distribution methods.

Chapter 3

Foreign Market Entry

Having determined the best international markets for your products, you now need to evaluate the most profitable way to get your products to potential customers in these markets.

There are several methods of foreign market entry including exporting, licensing, joint venture and off-shore production. The method you choose will depend on a variety of factors including the nature of your particular product or service and the conditions for market penetration which exist in the foreign target market.

Exporting can be accomplished by selling your product or service directly to a foreign firm, or indirectly, through the use of an export intermediary, such as a commissioned agent, an export management or trading company.

International joint ventures can be a very effective means of market entry. Joint ventures overseas are often accomplished by licensing or off-shore production. Licensing involves a contractual agreement whereby you assign the rights to distribute or manufacture your product or service to a foreign company. Off-shore production requires either setting up your own facility or sub-contracting the manufacturing of your product to an assembly operator.

Licensing and off-shore production are discussed in Chapter 7, "Strategic Alliances and Foreign Investment Opportunities."

EXPORTING

Of the various methods of foreign market entry, exporting is most commonly used by small businesses. Start-up costs and risks are limited, and profits can be realized early on.

There are two basic ways to export: direct or indirect. The direct method requires your company to find a foreign buyer and then make all arrangements for shipping your products overseas. If this method seems beyond the scope of your business' in-house capabilities at this time, do not abandon the idea of exporting. Consider using an export intermediary:

American Cedar, Inc., a Hot Springs, Arkansas, producer of cedar products reports that 30 percent of its product sales now comes from exporting: "We displayed our products at a trade show, and an export management company found us. They helped alleviate the hassles of exporting directly. Our products are now being distributed throughout the European Community from a distribution point in France," says American Cedar President Julian McKinney.

INDIRECT EXPORTING

Many small businesses like American Cedar have been exporting indirectly by using an export intermediary. There are several kinds of export intermediaries you should consider.

Commissioned agents

Commissioned agents act as "brokers," linking your product or service with a specific foreign buyer. Generally, the agent or broker will not fulfill the orders, but rather will pass them to you for your acceptance. However, they may assist, in some cases, with export logistics such as packing, shipping and export documentation.

Export Management Companies (EMCs)

EMCs act as your "off-site" export department, representing your product -- along with the products of other companies -- to prospective overseas purchasers. The management company looks for business on behalf of your company and takes care of all aspects of the export transaction. Hiring an EMC is often a viable option for smaller companies that lack the time and expertise to break into international markets on their own. EMCs will often use the letterhead of your company, negotiate export contracts and then provide after-sales support. EMCs may assist in arranging export financing for the exporters but they do not generally assure payment to the manufacturers. Some of the specific functions an EMC will perform include:

- conducting market research to determine the best foreign markets for your products;
- attending trade shows and promoting your productsoverseas.
- assessing proper distribution channels;
- locating foreign representatives and/or distributors;
- arranging export financing;
- handling export logistics, such as preparing invoices,arranging insurance, customs documentation, etc.; and
- advising on the legal aspects of exporting and other compliance matters dealing with domestic and foreign trade regulations.

EMCs usually operate on a commission basis, although some work on a retainer basis and some take title to the goods they sell, making a profit on the markup. It is becoming increasingly common for EMCs to take title to goods.

Export Trading Companies (ETCs)

ETCs perform many of the functions of EMCs. However, they tend to be demand-driven and transaction-oriented, acting as an agent between the buyer and seller. Most trading companies source U.S. products for their overseas buyers. If you offer a product that is competitive and popular with the ETC buyers, you are likely to get repeat business. Most ETCs will take title to your goods for export and will pay your company directly. This arrangement practically eliminates the risks associated with exporting for the manufacturer.

ETC Cooperatives

ETC cooperatives are United States government-sanctioned co-ops of companies with similar products who seek to export and gain greater foreign market share. Many agricultural concerns have benefited from ETC cooperative exporting, and many associations have sponsored ETC cooperatives for their member companies. The National Machine Tool Builders' Association, the Outdoor Power Equipment Institute and the National Association of Energy Service Companies are a few examples of associations with ETC co-ops. Check with your particular trade association for further information.

The Export Trading Company Act of 1982

This legislation encourages the use and formation of EMCs/ETCs by changing the antitrust and banking environments under which these companies operate. The Act increases access to export financing by permitting bank holding companies to invest in ETCs and reduces restrictions on trade finance provided by financial institutions. Under the Act, banks are allowed to make equity investments in qualified ETCs.

Foreign Trading Companies

Some of the world's largest trading companies are located outside the United States. They can often be a source of export opportunity. U.S. & Foreign Commercial Service (US&FCS) representatives in embassies around the world can tell you more about trading companies located in a given foreign market.

Exporting through an Intermediary -- Factors to Consider

Working with an EMC/ETC makes sense for many small businesses. The right relationship, if structured properly, can bring enormous benefits to the manufacturer, but no business relationship is without its potential drawbacks. The manufacturer should carefully weigh the pros and cons before entering into a contract with an EMC/ETC. Some advantages include:

- Your product gains exposure in international markets --with little or no commitment of staff and resources from your company.
- The EMC/ETC's years of experience and well-establishednetwork of contacts may help you to gain faster access to international markets than you could through establishing a relationship with a foreign-based partner.
- Using an intermediary lowers or eliminates your exportstart-up costs, and, therefore, the risks associated with exporting. You can negotiate your contract with an EMC so that you pay nothing until the first order is received.
- Your intermediary will guide you through the exportprocess step-by-step. Over time, you will develop your own export skills.

Some disadvantages of exporting through an intermediary include:

- You lose some control over the way in which your product is marketed and serviced. Your company's image and name are at stake. You will want to incorporate any concerns you may have into your contract, and you will want to monitor closely the activities and progress of your intermediary.
- You may lose part of your export-sales profit margin bydiscounting your price to an intermediary. However, you may find that the economies of scale realized through increased production offset this loss.
- Using an intermediary can result in a higher pricebeing passed o to the overseas buyer or end-user. This may or may not affect ynour competitive position in the market. The issue of pricing should be addressed at the outset.

Export Merchants/Export Agents

Export merchants and agents will purchase and then re-package products for export, assuming all risks and selling to their own customers. This export intermediary option should be considered carefully, as your company could run the risk of losing control over your product's pricing and marketing in overseas markets.

Piggyback Exporting

Allowing another company, which already has an export distribution system in place, to sell your company's product in addition to its own is called "piggyback" exporting.

Piggyback exporting has several advantages. This arrangement can help you gain immediate foreign market access. Also, all the requisite logistics associated with selling abroad are borne by the exporting company. Oklahoma-based DP Manufacturing's winches were attached to another product and sold abroad by another company. DP Manufacturing now handles its own exports and reports that 15 percent of its sales comes from international markets.

How to Find Export Intermediaries

Small businesses often report that intermediaries find them -- at trade fairs and through trade journals where their products have been advertised -- so it can often pay to get the word out that you are interested in exporting.

One way to begin your search for a U.S.-based export intermediary is in the Yellow Pages of your local phone directory. In just a few initial phone calls, you should be able to determine whether indirect exporting is an option you want to pursue further.

The National Association of Export Companies (NEXCO) and the National Federation of Export Associations (NFEA) are two associations that can assist in your efforts to find export intermediaries. The Directory of Leading Export Management Companies is another useful source (see Part II, The ExporterÕs Directory).

DOC's Office of Export Trading Company Affairs (OETCA) can also assist in providing information on how to locate ETCs and EMCs, as well as ETC cooperatives in the U.S. The office, under a joint public/private partnership, compiles the Export Yellow Pages, which provides the names and addresses of EMCs/ETCs, as well as other export service companies, such as banks and freight forwarders. Manufacturers, or producers, can also be listed in the guide free of charge; 50,000 copies are distributed worldwide annually. Contact your local U.S. Department of Commerce district office for information on being listed or for a free copy of the directory.

Locating the best export intermediary to represent you overseas is important. Do your homework before signing an agreement.

DIRECT EXPORTING

While indirect exporting offers many advantages, direct exporting also has its rewards: although initial outlays and the associated risks are greater, so too can be the profits.

California exporter Bayley Suit, Inc. reports that 80 percent of its sales come from exporting. The company president says that "40 percent of sales come from the Pacific Rim and 40 percent from the UK and Europe. In just a few years, exports have pushed our gross sales from $1 million to $4 million."

Direct exporting signals a commitment on the part of company management to fully engage in international trade. It may require that you dedicate a staff person or even several personnel to support your export efforts, and company management may have to travel abroad frequently.

Selling directly to an international buyer means that you will have to handle the logistics of moving the goods overseas. But, as the case of Ekegard, Inc. reveals, the extra efforts can pay off:

Using agents based in Pakistan and Thailand, Iowa-based Ekegard, Inc. states that 80 percent of its sales now come from exporting -- quite an achievement in just three years. According to Ekegard President Janne Ekstam, "Exporting helps to offset fluctuations in the United States economy."

Different Approaches to Direct Exporting

Sales Representatives/Agents

Like manufacturers' representatives in the United States, foreign-based representatives or "agents" work on a commission basis to locate buyers for your product. Your representative most likely will handle several complementary, but non-competing product lines. An agent is, generally, a representative with authority to make commitments on behalf of your firm. Be careful, therefore, about using the terms interchangeably. Your agreement should specify whether the agent/rep. has legal authority to obligate the firm.

Distributors

Foreign distributors, in comparison, purchase merchandise from the U.S. company and re-sell it at a profit. They maintain an inventory of your product, which allows the buyer to receive the goods quickly. Distributors often provide after-sales service to the buyer.

Your agreement with any overseas business partner -- whether a representative, agent or distributor -- should address whether the arrangement is exclusive or non-exclusive, the territory to be covered, the length of the association, and other issues. (See Chapter Four, The Export Transaction, for additional information on negotiating agent/distributor agreements.) Kansas-based Airparts Companies has been extremely successful using overseas distributors:

"We employ 1,200 distributors worldwide," says Marta E. Maxwell, president of Airparts Companies, Inc. of Wichita, Kansas. With over $13 million in sales and 38 employees, Maxwell attributes 70 percent of her sales to exporting.

Finding overseas buyers for your products need not be more difficult than locating a representative here in the United States. It may require, however, an investment of time and resources to travel to your target market to meet face-to-face with prospective partners. One way to identify those interested in your product is to tap the DOC's Agent/Distributor Service. This program provides a customized search to identify agents, distributors and representatives for United States products based on the foreign companies' examination of the United States product literature.

"The Commerce Department Agent/Distributor Search located a distributor for us in India, and we've had a good working relationship for three years," says Shirley Wright, a representative of the Wisconsin biotechnology firm Promega. Promega derives more than 30 percent of its sales from exporting.]

Other sources of leads to find foreign agents and distributors are trade associations, foreign chambers of commerce in the United States and American chambers of commerce located in foreign countries.

Many publications can be useful. The Standard Handbook of Industrial Distributors lists agents and distributors in more than 90 countries. The Manufacturers' Agents National Association also has a roster of agents in Europe (see Part II, The Exporter's Directory).

Foreign government buying agents

Foreign government agencies or quasi-governmental agencies are often responsible for procurement. In some instances, countries require an in-country agent to access these procurement opportunities. This can often represent significant export potential for U.S. companies, particularly in markets where U.S. technology and know-how are valued. Foreign country commercial attaches in the United States can provide you with the appropriate in-country procurement office. Retail Sales

If you produce consumer goods, you may be able to sell directly to a foreign retailer. You can either hire a sales representative to travel to your target market with your product literature and samples and call on retailers, or you can introduce your products to retailers through direct-mail campaigns. The direct-marketing approach will save commission fees and travel expenses. You may want to combine trips to your target markets with exploratory visits to retailers. Such face-to-face meetings will reinforce your direct marketing.

Direct Sales to End-User

Your product line will determine whether direct sales to the end-user are a viable option for your company. A manufacturer of medical equipment, for example, may be able to sell directly to hospitals. Other major end-users include foreign governments, schools, businesses and individual consumers.

HOW TO FIND BUYERS

Advertise in Trade Journals

Many small businesses report that foreign buyers often find them. An ad placed in a trade journal or a listing in the DOC's Commercial News USA can often yield innumerable inquiries from abroad. Commercial News USA is a catalog-magazine featuring U.S. products and distributed to 125,000 business readers in over 140 countries around the world and to over 650,000 Economic Bulletin Board users in 18 countries. Fees vary with the size of the listing. Many U.S. companies have had enormous success in locating buyers through this vehicle:

"When overseas buyers contacted us we were thrilled," says Maryland's Marine Enterprises Vice President Brenda Dandy, discussing the results of a listing her company bought in Commercial News USA. Exports now represent 20 percent of Marine Enterprises' sales.

Participate in Catalog and Video/Catalog Exhibitions

Catalog and Video/Catalog exhibitions are another low-cost means of advertising your product abroad. Your products are introduced to potential partners at major international trade shows -- and you never have to leave the United States. For a small fee, the US&FCS officers in embassies show your catalogs or videos to interested agents, distributors and other potential buyers.

A number of private sector publications also offer U.S. companies the opportunity to display their products in catalogs sent abroad. A few include Johnston International's Export Magazine, The Journal of Commerce and the Thomas Publishing Company's American Literature Review.

Pursue Trade Leads

Rather than wait for potential foreign customers to contact you, another option is to search out foreign companies looking for the particular product you produce. Trade leads from international companies seeking to buy or represent U.S. products are gathered by US&FCS officers worldwide and are distributed through the DOC's Economic Bulletin Board. There is a nominal annual fee and a connect-time charge. The leads also are published daily in The Journal of Commerce under the heading, "Trade Opportunities Program" and in other commercial news outlets.

Another source of trade leads is the World Trade Centers (WTC) Network, where you can advertise your product or service on an electronic bulletin board transmitted globally.

If your product is agricultural, the U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) disseminates trade leads collected by their 80 overseas offices. These leads may be accessed through the AgExport FAX polling system, the AgExport Trade Leads Bulletin, The Journal of Commerce or on several electronic bulletin boards.

Exhibit at Trade Shows

Trade shows also are another means of locating foreign buyers. DOC's Foreign Buyer Program certifies a certain number of U.S. trade shows each year. Foreign buyers are actively recruited by DOC commercial officers, and special services -- such as meeting areas and translators -- are provided to encourage and facilitate private business discussions.

International trade shows are another excellent way to market your product abroad. Many U.S. small businesses find that going to a foreign trade show once just is not enough:

"You have to hang in there," said Allen-Edmonds Shoe Corporation President John Stollenwerk. "In the beginning, in many countries where we displayed our products at foreign trade shows, we saw no results. But gradually people began to take our product, American made shoes, seriously. We market our shoes as 'the world's finest.' That's one way American companies can compete." Twelve percent of Wisconsin-based Allen-Edmonds sales are derived from exporting.

Through a certification program DOC also supports about 80 international fairs and exhibitions held in markets worldwide. U.S. exhibitors receive pre- and post-event assistance. The USDA FAS sponsors about 15 major shows overseas each year.

Participate in Trade Missions

Participating in overseas trade missions is yet another way to meet foreign buyers. Public/private trade missions are often organized cooperatively by federal and state international trade agencies and trade associations. Arrangements are handled for you so that the process of meeting prospective partners or buyers is simplified.

Matchmaker Trade Delegations are DOC-sponsored trade missions to select foreign markets. Your company is matched carefully with potential agents and distributors interested in your product. Tennessee-based Shaffield Industries, a futon manufacturer, reaped excellent returns as a result of a 1991 Matchmaker trade mission to Asia:

"I was especially surprised at the high-level of appointments scheduled for us during the Matchmaker trade mission. Each was a true prospect," stated David Goff, comptroller for Shaffield Industries. As a result of the mission, his company negotiated the sale of three containers of his product to South Korea and two containers to Taipei.

Being properly prepared for the kinds of inquiries you might encounter on overseas trade missions is important. The SBA offers pre-mission training sessions through its district offices and the SCORE program. Contact your local SBA office for a schedule of upcoming "How to Participate Profitably in Trade Missions" seminars.

Contact Multilateral Development Banks

In developing countries, large infrastructure projects are often funded by multilateral development banks such as the World Bank, the African, Asian, Inter-American Development Banks and the European Bank for Reconstruction and Development.Multilateral development bank (MDB) projects often represent extensive opportunities for U.S. small businesses to compete for project work. DOC estimates that MDB projects could amount to at least $15 billion dollars in export contracts for United States businesses.

One U.S. small business that successfully entered the international marketplace by bidding on a World Bank project is DSI of Poestenkill, New York:

"As a result of World Bank loans to the People's Republic of China, DSI received over $1 million dollars in contracts for laboratory equipment," reports DSI President Dave Ferguson. Exports now account for 60-70 percent of DSI's business.

Development bank projects can be an excellent way to start exporting. Many U.S. small business exporters have benefited from large MDB projects through subcontracting awards from larger corporations.

A list of MDBs is included in Part II, The Exporter's Directory. From their Washington, D.C. headquarters, many MDBs hold monthly seminars to acquaint businesses with the MDB procurement process. Additionally, the DOC's Office of Major Projects can be of assistance in identifying contracting and subcontracting opportunities.

QUALIFYING POTENTIAL BUYERS OR REPRESENTATIVES

Once you locate a potential foreign buyer or representative, the next step is to qualify them by reputation and financial position. First, obtain as much information as possible from the company itself. Here are a few sample questions you will want to ask:

- What is the company's history and what are the qualifications and backgrounds of the principal officers?
- Does the company have adequate trained personnel, facilities, resources to devote to your business?
- What is their current sales volume?
- What is the size of their inventory?
- How will they market your product (retail, wholesale or direct)?
- Which territories or areas of the country do they cover?
- Do they have other U.S. or foreign clients? Are any of these clients your competitors? It is important to obtain references from several current clients.
- What types of customers do they serve?
- Do you publish a catalogue?
- What is their sales force?

When you have this background information and are comfortable about proceeding, then obtain a credit report about their financial position. DOC's World Trade Data Reports (WTDRs), available from your local District ITA Office, are compiled by US&FCS officers. A WTDR can usually provide an in-depth profile of the prospective company you are investigating.

There are also several commercial services for qualifying potential partners, such as Dun & Bradstreet's Business Identification Service and Graydon reports. U.S. banks and their correspondent banks or branches overseas, and foreign banks located in the United States can provide specific financial information.

In this chapter we have discussed methods of market entry, how to find potential foreign buyers and representatives and how to qualify whom you will be doing business with overseas. Advance market research and preparation is the best way for a small business to define a potential export market. The next question that needs to be explored involves how to accomplish the business of exporting -- that is, how the deal should be structured, the topic of Chapter 4, "The Export Transaction."

Chapter 4

The Export Transaction Pricing

Pricing products to be competitive in international markets can be a challenge; pricing that works in one market may be totally uncompetitive in another. Although there is no one formula for establishing prices for exported products, there are a number of strategic and technical considerations that you can make in order to determine an appropriate pricing structure.

A pricing strategy is a key component of your export marketing plan. The selected pricing structure should be an integral part of your market penetration objectives. Your goals will vary depending on the target overseas market. Are you entering the market with a new or unique product? Are you selling excess or obsolete products? Can your product demand a higher price because of brand recognition or superior quality? Maybe you are willing to reduce profits to gain market share for long-term growth. Your pricing decisions will be affected by your company's goals.

It is important to obtain as much information as possible on local market prices as part of your market research. Pricing information can be collected in several ways. One source is overseas distributors and agents of similar products of equivalent quality. When feasible, traveling to the country where your products will be sold provides an excellent opportunity to gather pricing information. U.S. Department of Commerce (DOC) can also assist in determining appropriate prices through its Customized Sales Survey.

Joseph S. Brown III, President of Bruce Foods Corp., obtained pricing information for food products sold in overseas markets using the Commerce Department's Customized Sales Survey. Although exporting since 1946, Brown is constantly on the look-out for new markets for his products: "We now export to 75 countries," the Louisiana business owner says.

To compile the Customized Sales Survey, DOC's US&FCS research specialists in the target country interview importers, distributors, retailers, wholesalers, end-users and local producers of comparable products. They also inspect similar products on the market. Your customized report, available for a fee, is usually completed within 45 days.

Marketing Your Product

To successfully market a product in a domestic market, the manufacturer must take into consideration consumer preference, industry standards, correct labelling and other consumer-driven considerations.

When entering a foreign market, the manufacturer should consider the tastes and preferences in each market as part of marketing strategy. Frequently, only a small change may be required to successfully market the product. The color of the product, the design of the package, the size of the product all may need adjustment.

Consideration should be given to the product name (it may inadvertently have a negative connotation in the local language), cultural and/or religious connotations, appearance of container, compliance to standards (different electrical power, metric dimensions and local product regulations).

Another consideration when planning market strategy is understanding ISO 9000. The International Organization of Standardization (ISO) was founded in 1946 by 25 national standardization organizations including the American National Standards Institute (ANSI). Ninety countries now hold membership in ISO.

In 1987, the ISO issued ISO 9000, a series of five documents (ISO 9000, 9001, 9002, 9003 and 9004) that provide guidance on the selection and implementation of an appropriate quality management program (system) for a supplier's operations. The purpose of the ISO 9000 series is to document, implement and demonstrate the quality assurance systems used by companies that supply goods and services internationally. ISO standards are required to be reviewed every five years. Revised versions are expected to be published in early 1994. Information on the status of these revisions can be obtained from:

The American Society for Quality Control (ASQC)
611 East Wisconsin Avenue
Milwaukee, WI 53202

Phone: 414/272-8575 or 800/248-1946
FAX: 414/272-1734

There are three ways for a manufacturer to prove compliance with the requirements of one of the ISO 9000 standards. Manufacturers may evaluate their quality system and self-declare the conformance of the system to one of the ISO 9000 quality systems. Second-party evaluations occur when the buyer requires and conducts quality system evaluations of suppliers. These evaluations are mandatory only for companies wishing to become suppliers to that buyer. Third-party quality systems and evaluations and registrations may be voluntary or mandatory and are conducted by persons or organizations independent of both the supplier and the buyer. Interpretations of an ISO 9000 standard may not be consistent from one registrar to another.

The supplier's quality system is registered, not an individual product. Consequently, quality system registration does not imply product conformity to any given set of requirements. The demand for ISO 9000 registration in Europe and elsewhere seems to be coming primarily from the marketplace as a contractual rather than a regulatory requirement. As conformity to the ISO 9000 standards becomes recognized and required by foreign and domestic buyers and used by manufacturers as a competitive marketing tool, the demand for ISO 9000 compliance is expected to increase in non-regulated areas. It is therefore critical for manufacturers to determine what are their buyers' requirements regarding ISO 9000 compliance. Additional information on U.S., foreign and international voluntary standards, government regulations and rules of certification for nonagricultural products is available from:

National Center for Standards and Certification Information(NCSCI)

National Institute of Standards and Technology (NIST)
TRF Building, Room A163
Gaithersburg, MD 20899
Phone: 301/975-4040
FAX: 301/926-1559

For information on the EC 1992 Single Market program, copies of Single Market regulations, background information on the EC or assistance regarding specific EC trade opportunities or potential problems, contact:

The Office of EC Affairs
International Trade Administration, Room 3036
14th and Constitution Avenue, N.W.
Washington, D.C. 20230
Phone: 202/482-5823
FAX: 202/482-2155

Methods of International Pricing

The cost-plus method of international pricing is based on your domestic price plus exporting costs (documentation expenses, freight charges, customs duties and international sales and promotional costs). Any costs not applicable, such as domestic marketing costs, are subtracted. The cost-plus method allows you to maintain your domestic profit margin percentage, and thus to set a suitable price. This method does not, however, take into account local market conditions. Your price may be too high to compete in a foreign market.

Different marketing costs and/or modifications to the product could change the cost basis dramatically, making the product either more or less costly for export. As a result, using the "marginal-cost" method provides a more realistic means of determining true cost of producing your product for export.

To use the marginal-cost method, first determine the fixed costs of producing an additional unit for export. Fixed costs include production cost, overhead, administration and research and development. A cost saving may be realized if additional units of the product can be produced without increasing the fixed costs. There may also be instances where certain fixed costs are covered by domestic production and do not need to be added to export expenses.

Product modification expenses, dictated by the target market, are then added to the production costs to establish a "floor price." The floor price serves as a threshold for the firm to know when it would incur a loss. Using the floor price as a base, variable export costs for the product can be added. Some of the variable costs will be one-time or start-up expenses that should be discounted appropriately. Variable expenses include:

Packaging

Local regulations and customs may require special labelling, translated instructions or different packaging to appeal to local tastes. The selected mode of distribution may also require a particular kind of packaging.

Foreign Market Research

There may be fees for specialized services and publications used to gather market information.

Advertising and Marketing

Firms selling directly into new markets will most likely be responsible for the entire promotional effort. The firm can incur high initial outlays to establish product recognition in the new market. If an agent, distributor or trading company is employed, they can handle advertising and marketing as part of their contract.

Translation, Consulting and Legal Fees

Product instructions, sales agreements and other documentation typically will need to be translated into the local language. Expert translation of product labeling and instructions will enhance local marketing. Although many sales agreements are standard, it is advisable to have legal counsel review binding documents.

Foreign Agent/Distributor Product Information and Training

Agents and distributors may require special training in order to effectively market and service your products. This is true even if the agent sells products similar to your firm's products. Training will not only enable the agent to better represent your company's interests but gain a better understanding of your particular product.

After-Sales Service Costs

Product warranties and service contracts will enhance your product's image as a quality item. An appropriate after sales service guarantee can support your sales efforts in the new market. Do not, however, promise service or warranties based on U.S. standards that you cannot deliver.

After taking these expenses into account, insurance, freight, duties and a profit margin can be added to arrive at a customer price. Depending on the market, currency fluctuations can affect significantly your locally based profit margin and the final price offered to the customer. For new-to-export companies, price products in U.S. dollars and request payment in dollars. This is not an unusual request.

High-Price Option

This approach may be appropriate if your company is selling a new product or if you are trying to position your product or service at the upper-end of the market. Selecting this option may attract competition and limit the market for your product while, at the same time, produce big profit margins.

Moderate-Price Option

This is a lower risk approach as contrasted to the high- or low-price option. Here you should be able to match competitors, build a market position and produce reasonable profit margins.

Low-Price Option

This approach may be relevant if you are trying to reduce inventory and do not have a long term commitment to the market. You will, no doubt, impede competition but also produce low profit margins.

There may be no single strategy that is ideal for every company. Often companies draw upon a mix of options for each market or product.

Setting Terms of Sale

Price Quotations

The pro-forma invoice is the most commonly used document to give price quotations to potential customers. The quotation in a pro-forma invoice is usually considered binding, although prices may change prior to final sale. To prepare the invoice, you should give a detailed description of the product, an itemized list of charges and sale terms. Prices should be quoted in United States dollars to reduce foreign exchange risks. The invoice should also indicate the period during which the price quotation is valid.

You should be familiar with the common terms of sale used in international trade before preparing your pro-forma invoice. International Commercial Terms (INCOTERMS) are the universally recognized terms used in export and import contracts. These terms refer to the rights and obligations of each party: who pays what costs; when title to goods is transferred; and where the goods should be delivered. A complete list of INCOTERMS published in the book Incoterms 1990 can be obtained from the International Chamber of Commerce and should be a permanent part of your business library (see Part II, The Exporter's Directory).

PRO-FORMA INVOICE*

SHIPPER: Smith and Jones Co. 5555 Railroad Ave. New York, N.Y. 10001 212-555-1234	Reference No. RB20693 Date: July 18, 1993 Customer P.O. No. Terms of Payment: Estimated Date of Shipment
SOLD TO: Grupo Estevez, S.A. de C.V. Tamales No. 1 Piso 2 12345 Cd. Polanco Mexico	SHIP TO: Juarez Industriale 454 Blvd. Cortez 11115 Mexico D.F. Mexico

VIA: Aero Cortez

ITEM	QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL PRICE
	100	Computer motherboards	US $50.00	US $5,000.00
			FOB factory	5,000.00
			Inland Freight Forwarder fees	100.00
			Air freight	1,200.00
		Five (5) sealed cartons	Insurance	20.00
		Gross weight: 10 lbs.	C.I.F. Mexico	6,320.00

Authorized signature/Title

The above offering is based on current prices and is valid 60 days from invoice date.

*NOTE: This pro-forma invoice is only a sample. It is advisable to contact a freight forwarder in advance of shipping.

NEGOTIATING SALES AND DISTRIBUTOR AGREEMENTS

Sales Contracts

Knowing how to include INCOTERMS in a contract is important, but this represents only one aspect of the sales agreement. Legal rights and obligations of the parties should be spelled out in a single document, which can be incorporated into the final invoice. Frequently, the terms and conditions are contained on the back of the invoice.

Some of the terms and conditions necessary in a written sales agreement include:

Delivery Terms -- Risk of Loss

A force majeure clause is standard in most agreements. This clause excuses the exporter from responsibility where a default in performance is caused by events beyond the exporter's control, such as war, acts of God or labor problems.

Payment and Finance Terms

In addition to defining the terms of payment, provisions should be included for late payments, partial payments and remedies for non-payment. The terms of payment should consider the use of letters of credit.

Warranties

Sales contracts generally describe the goods and their qualities, workmanship and durability. In some cases, the exporter is obligated by the law in the country of import. The importer will require the exporter to warrant that the goods meet certain standards of construction and performance.

Acceptance of Goods

Frequently, the importer will insist upon the right to inspect the goods upon delivery; if found defective, the importer can reject them and refuse to pay. However, the importer is still liable for country-of-importation duties and other taxes. The export documents should reflect any such requirements.

Intellectual Property Rights

Protection of the exporter's patents, trademarks or copyrights should be assured in the agreement. However, protection under the laws of the foreign country are not automatic, and you should not assume that your product is protected.

Taxes

The obligations of the parties for payment of taxes other than customs duties should be defined in writing.

Dispute settlement

It is advisable to specify how and where any disputes will be resolved, as well as which nation's law would be applied. Bear in mind that different countries have varying arbitration laws and systems which may apply.

AGENT AND DISTRIBUTOR AGREEMENTS

If you choose to use an agent or distributor, it will be necessary to develop a formal contractual agreement. Agent and distributor agreements spell out in more detail the issues mentioned above and define other aspects of the relationship between the parties to the agreement.

In the contract it is important to:

- specify the goods and/or services covered;
- describe the agent or distributor's sales territory, and whether they will have exclusive or non-exclusive sales rights;
- set the length of the term for which the agreement is applicable and agree upon specified minimum sales volumes and objectives;
- outline protection of intellectual property;
- describe other types of obligations imposed on the parties, violations of which would justify termination of the contract; and
- list specific intellectual property rights granted to the agent or distributor.

When negotiating and drafting contractual agreements, it is recommended that you consult an attorney with experience in international trade and exporting. Your company's business lawyer may be able to handle your questions or refer you to an "export-oriented" attorney. Your local bar association may provide referral services, as well.

Under agreement with the Federal Bar Association and DOC, SBA sponsors the Export Legal Assistance Network (ELAN). ELAN is a network of attorneys located throughout the United States who specialize in international trade. Your local SBA office can assist in locating an ELAN attorney who will provide a free, initial legal consultation to discuss your export-related questions.

As an initial introduction, however, you may want to review the information contained in International Business Practices, which covers the legal aspects of doing business in over 100 countries. Copies are available from US&FCS offices or from the Government Printing Office.

Terms for financing export sales should be discussed during contract negotiations. While the U.S. seller will want to be paid as soon as possible, the foreign buyer will want to delay payment as long as possible, preferably until after the goods are resold. These two conflicting objectives will factor into any negotiations on export financing.

In addition to reaching a compromise on the method of payment, the U.S. exporter must also be able to offer the foreign buyer favorable financing terms -- otherwise the sale could be lost to a foreign competitor with an equivalent product but better payment terms.

The final step in completing the export transaction is arranging for payment, the subject of Chapter 5, "Export Financing."

Chapter 5

Export Financing

FINANCING EXPORT SALES

Few would disagree that small businesses must look overseas for profit opportunities in the 1990s. However, to compete successfully, small firms must offer financing arrangements that are competitive with exporters of other nations. This chapter will discuss three major influences on an exporter's ability to arrange competitive financing:

- today's banking environment

- how to approach a lender
- methods of payment

UNDERSTANDING THE BANKING ENVIRONMENT

In the United States, most small firms turn first to their local banks for export finance assistance. However, during the past decade many banks have decided not to focus on export financing.

The banks' reasons for doing so have varied -- many cut their international operations due to the huge losses they incurred on overseas debt; others may have chosen to concentrate on more lucrative lines of business, such as home equity loans or mergers and acquisitions.

Consequently, during the 1980s export finance expertise in many U.S. banks deteriorated. Even today, most smaller banks do not retain any staff with expertise in international trade. This is not to say, however, that such help is unavailable -- only that small businesses must be persistent and tenacious in their efforts to find it. For example, if a small business loan officer is unwilling to work with his or her bank's international staff (or the bank is unwilling to work with a correspondent), exporters should consider establishing a second banking relationship or, if necessary, moving all their accounts to a more aggressive lender. Don't be afraid to shop.

Given the difficulty most small business exporters face when seeking financing, it is imperative that financial arrangements be made in advance. Finding a lender willing to consider such a request requires that the borrower ensure that the purpose of the loan makes sense for the business, and that the request is a reasonable amount. Prospective borrowers also should understand some key distinctions before beginning discussions with a lender.

HOW TO APPROACH YOUR LENDER FOR EXPORT FINANCING

Venture Capitalists and Lenders

Before approaching a bank for financial assistance, small exporters should understand the distinction between venture capitalists and lenders. Venture capitalists invest in a business with the expectation that as the business grows, their equity in the business will grow exponentially. On the other hand, lenders are not in the venture capital business -- they make their money on the difference between the rate at which they borrow money and the rate at which they lend to their customers. International Trade Services and Export Lending

Small exporters should also understand the distinction between international trade services and international trade lending. Although many banks offer international trade services, such as advising and negotiating letters of credit, the banks' international divisions are not authorized to lend money. International lenders, on the other hand, have the authority to make loans, as well as provide related services. Exporters should verify that the bank officer with whom they are dealing has the authority to lend for an export transaction.

Working Capital Financing and Trade Financing

It is also important to note the difference between general working capital financing and trade financing. A small firm's ability to qualify for general working capital financing depends on, among other things, the strength of its balance sheet and its prospects for generating sufficient earnings over the life of a loan to repay it. Trade finance, on the other hand, generally refers to financing individual transactions (or a series of like transactions). In addition, trade finance loans are often self-liquidating -- that is, the lending bank stipulates that all sales proceeds are to be collected by it, and then applies the proceeds to pay down the loan. The remainder is credited to the account of the borrower.

The self-liquidating feature of trade finance is critical to many small, undercapitalized businesses. Lenders who may otherwise have reached their lending limits for such businesses may nevertheless finance individual export sales, if the lenders are assured that the loan proceeds will be used solely for pre-export production; and any export sale proceeds will first be collected by them before the balance is passed on to the exporter. Given the extent of control lenders can exercise over such transactions and the existence of guaranteed payment mechanisms unique to -- or established for -- international trade, trade finance can be less risky for lenders than general working capital loans.

Pre-export, Accounts Receivable and Market Development Financing Exporters should understand the distinctions between the various types of trade finance. Most small businesses need pre-export financing to help with the expense of gearing up for a particular export sale. Loan proceeds are commonly used to pay for labor and materials or to acquire inventory for export sales. Others may be interested in foreign accounts receivable financing. In that case, exporters can borrow from their banks an amount based on the volume and quality of such accounts receivable. Although banks rarely lend 100 percent of the value of the accounts receivable, many will advance up to 80 percent of the value of qualified accounts. Foreign credit insurance (such as Eximbank's Export Credit Insurance Program) is often used to enhance the quality of such accounts.

Financing for foreign market development activities, such as participation in overseas trade missions or trade shows, is often difficult for small businesses to arrange. Most banks are reluctant to finance such activities because, for many small firms, their ability to repay such loans depends on their success in consummating sales while on a mission -- prospects that in many cases are speculative. Although difficult for many small firms to do, the recommended source for financing such activities is through the working capital of the firm or, in certain cases, through the use of personal credit cards.

Finally, take time to make sure your banker understands your business and products. Have a detailed export plan ready and, most important, be able to clearly show how and when a loan will be repaid.

METHODS USED TO FINANCE EXPORTS

A small business exporter's principal concern should be to ensure that he or she will be paid in full and on time. Foreign buyers may have concerns as well, including uncertainty that the goods ordered will meet the necessary specifications and arrive in a timely manner. As a result, it is imperative that the terms of payment be agreed upon in advance and in a manner satisfactory to both parties.

The payment method exporters use can significantly affect the financial risk of a particular export sale. In general, the more generous the sales terms are to a foreign buyer, the greater the risk to the exporter. The primary methods of payment for international transactions, ranked in order of most secure to the exporter to least secure, include:

- payment in advance
- letters of credit
- documentary collections (drafts)
- consignment

- open account

Payment in advance

Paying in advance is often too expensive and risky for foreign buyers. Yet, this method of payment is not uncommon. Requiring full payment in advance may cause lost sales to a foreign (or even another domestic) competitor who is able to offer more attractive payment terms. In some cases, however, where the manufacturing process is specialized, lengthy or capital-intensive, it may be reasonable to insist upon partial payment in advance, or on progress payments.

Letters of Credit (LC)

A letter of credit is an internationally recognized instrument issued by a bank on behalf of its client, the purchaser. The LC actually represents the bank's guarantee to pay the seller, provided the conditions specified on it are fulfilled. Of course, the purchaser pays its bank a fee to render this service.

The rationale behind the use of an LC is reliance by the seller on the credit worthiness of the bank, which is normally more reliable than that of the purchaser. It is also easier to verify by the seller's bank. Moreover, this vehicle can be structured to protect the purchaser because no payment obligation arises until the goods have been satisfactorily delivered as promised.

The conditions of the LC are spelled out on the LC itself. When the conditions of delivery have been satisfied (usually by the documented, satisfactory and timely delivery of the goods), the purchaser's bank makes the required payment directly to the seller's bank in accordance with the terms of payment (in 15, 30, 60 or 90 days, whichever is specified).

The greatest degree of protection is afforded to the seller when the LC has been issued by the buyer's bank and confirmed by the seller's bank. LCs may be utilized for one-time transactions, or they can cover multi-shipments, depending upon what is agreed between the parties. Also, make sure you can deliver within the terms of the LC. It is suggested that you review the details of such documentation with a bank that has LC experience.

LETTER OF CREDIT

Buyer

Agrees to buy product	Agrees to ship goods if LC is opened
	LC assures payment if proper documents are presented
Requests bank to issue LC	
	Ships goods and submits shipping documents to bank for payment
Verifies documents for compliance	
	Payment is made when documents received or accepted
Payment is made immediately or upon maturity of accepted draft	

Documentary Collection (Drafts)

Documentary collections involve the use of a draft, drawn by the seller on the buyer, requiring the buyer to pay the face amount either on sight (sight draft) or on a specified date in the future (time draft). The draft is an unconditional order to make such payment in accordance with its terms, which specify the documents needed before title to the goods will be passed.

Because title to the goods does not pass until the draft is paid or accepted, both the buyer and seller are protected. However, if the buyer defaults on payment of the draft, the seller may have to pursue collection through the courts (or possibly, by arbitration, if such had been agreed upon between the parties). The use of drafts involves a certain level of risk; but they are less expensive for the purchaser than letters of credit.

DOCUMENTARY COLLECTIONS

BUYER	SELLER
	Agrees to be paid via documentary collection
Agrees to buy products	Ships goods and submits shipping documents to bank for collection or acceptance
Documents released to buyer against payment or acceptance	Seller receives payment at sight upon acceptance

Consignment

When goods are sold subject to consignment, no money is received by the exporter until after the goods have been sold by the purchaser. Title to the goods remains with the exporter until such time as all the purchase conditions are satisfied. As a practical matter, consignment is very risky. There is generally no way to predict how long it might take to sell the goods; moreover, if they are never sold, the exporter would have to pay the costs of recovering them from the foreign consignee.

Open account

An open account transaction means that the goods are manufactured and delivered before payment is required (for example, payment could be due 14, 30, or 60 days following shipment or delivery). In the United States, sales are likely to be made on an open-account basis if the manufacturer has been dealing with the buyer over a long period of time and has established a secure working relationship. In international business transactions, this method of payment cannot be used safely unless the buyer is credit worthy and the country of destination is politically and economically stable. However, in certain instances it might be possible to discount open accounts receivable with a factoring company or other financial institution, referred to above.

The following diagram assesses the relative strengths and weaknesses of each method of payment:

METHOD	USUAL TIME OF PAYMENT	GOODS AVAILABLE TO BUYER	RISK TO EXPORTER	RISK TO IMPORTER
Cash in advance	Before shipment	After payment	None	Dependent upon exporter shipping goods
Letter of credit	After shipment when documents complying with LC are presented	After payment	Very little	Relies on exporter to ship goods
Documentary Collection Sight Draft	On presenta tion of draft to buyer	After payment	If draft unpaid, must dispose of goods	Relies on exporter to ship goods
Documentary Collection- Time Draft	On maturity of draft	Before payment	Relies on buyer to pay draft; no control of goods	Almost none
Consignment	After sale	Before payment	High	Low
Open Account	After shipment as agreed	Before payment	Relies on buyer to pay his account	None

PRIVATE SECTOR EXPORT FINANCING RESOURCES

Commercial Banks

International trade transactions traditionally have been financed by commercial banks. Commercial banks can make loans for pre-export activities. They can also help process letters of credit, drafts and other methods of payment discussed in this chapter. Banks have also become increasingly involved in making export loans backed by United States government export loan guarantees.

Many larger banks have international departments which can help with your company's particular export finance needs. If your bank does not have an international department, it probably has a correspondent relationship with a larger bank that can assist you.

Private Trade Finance Companies

Private trade finance companies are becoming increasingly more commonplace. They utilize a variety of financing techniques in return for fees, commissions, participation in the transactions or combinations thereof. International trade associations, such as a District Export Council, can assist you in locating a private trade finance company in your area.

Export Trading and Management Companies

Both EMCs and ETCs provide varying ranges of export services, including international market research and overseas marketing, insurance, legal assistance, product design, transportation, foreign order processing, warehousing, overseas distribution, foreign exchange and even taking title to a supplier's goods. All of these services can leverage the limited resources of small businesses.

Factoring Houses

Factoring houses, also called factors, purchase export receivables on a discounted basis. Using factors can enable the exporter to receive immediate payment for goods while at the same time alleviating the hassles associated with overseas collections.

Factors purchase export receivables for a percentage fee at 2-7 percent below invoice value, depending on the market and type of buyer. The percentage rate will depend on whether the factor purchases the receivables on a recourse or non-recourse basis. In the case of a non-recourse purchase, the exporter is not bound to repay the factoring house if the foreign buyer defaults or other collection problems arise. Therefore, the percentage charge will be greater with non-recourse purchases.

Forfaiting Houses

Similar to factoring, exporters relinquish their rights to future payment in return for immediate cash. Where a debt obligation exists between the parties, it is sold to a third party on a non-recourse basis, but is guaranteed by an intermediary bank.

One U.S. exporter which used forfaiting found the benefits substantial:

Ed Lamb, President of Custom Die and Insert of Lafayette, Louisiana, was able to sell a 180-day letter of credit through a forfaiting house and got paid 178 days sooner. Forfaiting enabled Custom Die and Insert to consummate a $2.3 million-dollar export order to the Middle East.

GOVERNMENT EXPORT FINANCING RESOURCES

Because private sector financing providers will only assume limited risk regarding foreign transactions, the U.S. government has become increasingly involved in providing export financing assistance.

U.S. government export financing assistance comes in the form of guarantees made to U.S. commercial banks which in turn make the loans to exporters. Federal agencies, as well as certain state governments, have their own particular programs as noted below:

U.S. Small Business Administration (SBA) SBA provides financial and business development assistance to help small businesses develop export markets. The SBA assists businesses in obtaining the capital needed to explore, establish or expand international markets. SBA's export loans are available under SBA's guarantee program. As a prospective applicant, you should request that your lender seek SBA participation, if the lender is unable or unwilling to make a direct loan.

The financing staff of each SBA district and branch office administers the financial assistance programs. You can contact the finance division of your nearest SBA office for a list of participating lenders. The business development staff of each SBA district and branch office can provide counseling on how to request export financial assistance from a lender.

Borrowers can use different SBA loan programs and types of loan guarantees simultaneously, as long as the total SBA-guaranteed portion does not exceed the agency's $750,000 statutory loan guarantee limit to any one borrower. The lender may charge a maximum interest rate of 2.75 percentage points above the New York prime interest rate, or 2.25 percentage points above New York prime if the maturity is less than seven years.