

EXPORT STRATEGY

ASSESSING A PRODUCT'S EXPORT POTENTIAL

There are several ways to gauge the overseas market potential of products and services. (For ease of reading, products are mentioned more than services in this guide, but much of the discussion applies to both.) One of the most important ways is to assess the product's success in domestic markets. If a company succeeds at selling in a domestic market, there is a good chance that it will also be successful in markets abroad, wherever similar needs and conditions exist.

In markets that differ significantly from the domestic market, some products may have limited potential. Those differences may be climate and environmental factors, social and cultural factors, local availability of raw materials or product alternatives, lower wage costs, lower purchasing power, the availability of foreign exchange (hard currencies like the dollar, the British pound, and the Japanese yen), government import controls, and many other factors. If a product is successful in a domestic market, one strategy for export success may be a careful analysis of why it sells here, followed by a selection of similar markets abroad. In this way, little or no product modification is required.

If a product is not new or unique, low-cost market research may already be available to help assess its overseas market potential. In addition, international trade statistics (available in many local libraries) can give a preliminary indication of overseas markets for a particular product by showing where similar or related products are already being sold in significant quantities.

If a product is unique or has important features that are hard to duplicate abroad, chances are good for finding an export market. For a unique product, competition may be nonexistent or very slight, while demand may be quite high.

Finally, even if domestic sales of a product are now declining, sizeable export markets may exist, especially if the product once did well in the United States but is now losing market share to more technically advanced products. Countries that are less developed than the United States may not need state-of-the-art technology and may be unable to afford the most sophisticated and expensive products. Such markets may instead have a surprisingly healthy demand for products that are older or that are considered obsolete by market standards.

MAKING THE EXPORT DECISION

Once a company determines it has exportable products, it must still consider other factors, such as the following:

- What does the company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will exporting place on the company's key resources - management and personnel, production capacity, and finance - and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

Answers to these questions can help a company not only decide whether or not to export but also determine what methods of exporting should be initially used.

THE VALUE OF PLANNING

Many companies begin export activities haphazardly, without carefully screening markets or options for market entry. While these companies may or may not have a measure of success, they may overlook better export opportunities.

In the event that early export efforts are unsuccessful because of poor planning, the company may even be misled into abandoning exporting altogether.

Formulating an export strategy based on good information and proper assessment increases the chances that the best options will be chosen, that resources will be used effectively, and that efforts will consequently be carried through to completion.

The purposes of the export plan are, first, to assemble facts, constraints, and goals and, second, to create an action statement that takes all of these into account. The statement includes specific objectives; it sets forth time schedules for implementation; and it marks milestones so that the degree of success can be measured and help motivate personnel.

The first draft of the export plan may be quite short and simple, but it should become more detailed and complete as the planners learn more about exporting and their company's competitive position. At least the following ten questions should ultimately be addressed:

1. What products are selected for export development? What modifications, if any, must be made to adapt them for overseas markets?
2. What countries are targeted for sales development?
3. In each country, what is the basic customer profile? What marketing and distribution channels should be used to reach customers?
4. What special challenges pertain to each market (competition, cultural differences, import controls, etc.), and what strategy will be used to address them?
5. How will the product's export sales price be determined?
6. What specific operational steps must be taken and when?
7. What will be the time frame for implementing each element of the plan?
8. What personnel and company resources will be dedicated to exporting?
9. What will be the cost in time and money for each element?
10. How will results be evaluated and used to modify the plan?

One key to developing a successful plan is the participation of all personnel who will be involved in the exporting process. All aspects of an export plan should be agreed upon by those who will ultimately execute them.

A clearly written marketing strategy offers six immediate benefits:

1. Because written plans display their strengths and weaknesses more readily, they are of great help in formulating and polishing an export strategy.
2. Written plans are not as easily forgotten, overlooked, or ignored by those charged with executing them. If deviation from the original plan occurs, it is likely to be due to a deliberate choice to do so.
3. Written plans are easier to communicate to others and are less likely to be misunderstood.
4. Written plans allocate responsibilities and provide for an evaluation of results.

5. Written plans can be of help in seeking financing. They indicate to lenders a serious approach to the export venture.
6. Written plans give management a clear understanding of what will be required and thus help to ensure a commitment to exporting. In fact, a written plan signals that the decision to export has already been made.

This last advantage is especially noteworthy. Building an international business takes time; it is usually months, sometimes even several years, before an exporting company begins to see a return on its investment of time and money. By committing to the specifics of a written plan, top management can make sure that the firm will finish what it begins and that the hopes that prompted its export efforts will be fulfilled.

THE PLANNING PROCESS AND THE RESULT

A crucial first step in planning is to develop broad consensus among key management on the company's goals, objectives, capabilities, and constraints.

The first time an export plan is developed, it should be kept simple. It need be only a few pages long, since important market data and planning elements may not yet be available. The initial planning effort itself gradually generates more information and insight that can be incorporated into more sophisticated planning documents later.

From the start, the plan should be viewed and written as a management tool, not as a static document. For instance, objectives in the plan should be compared with actual results as a measure of the success of different strategies. Furthermore, the company should not hesitate to modify the plan and make it more specific as new information and experience are gained.

A detailed plan is recommended for companies that intend to export directly. Companies choosing indirect export methods may require much simpler plans.

APPROACHES TO EXPORTING

The way a company chooses to export its products can have a significant effect on its export plan and specific marketing strategies. The basic distinction among approaches to exporting relates to a company's level of involvement in the export process. There are at least four approaches, which may be used alone or in combination:

1. ***Passively filling orders from domestic buyers who then export the product.***
These sales are indistinguishable from other domestic sales as far as the original seller is concerned. Someone else has decided that the product in question meets foreign demand. That party takes all the risk and handles all of the exporting details, in some cases without even the awareness of the original seller.
(Many companies take a stronger interest in exporting when they discover that their product is already being sold overseas.)
2. ***Seeking out domestic buyers who represent foreign end users or customers.***
Many foreign corporations, general contractors, foreign trading companies, foreign government agencies, foreign distributors and retailers, and domestic companies as well purchase for export. These buyers are a large market for a wide variety of goods and services. In this case a company may know its product is being exported, but it is still the buyer who assumes the risk and handles the details of exporting.
3. ***Exporting indirectly through intermediaries.***
With this approach, a company engages the services of an intermediary firm capable of finding foreign markets and buyers for its products. Export management companies

(EMCs), export trading companies (ETCs), international trade consultants, and other intermediaries can give the exporter access to well-established expertise and trade contacts. Yet, the exporter can still retain considerable control over the process and can realize some of the other benefits of exporting, such as learning more about foreign competitors, new technologies, and other market opportunities.

4. **Exporting directly.**

This approach is the most ambitious and difficult, since the exporter personally handles every aspect of the exporting process from market research and planning to foreign distribution and collections. Consequently, a significant commitment of management time and attention is required to achieve good results. However, this approach may also be the best way to achieve maximum profits and long-term growth. With appropriate help and guidance from the Department of Commerce, state trade offices, freight forwarders, international banks, and other service groups, even small or medium-sized firms, can export directly if they are able to commit enough staff time to the effort. For those who cannot make that commitment, the services of an EMC, ETC, trade consultant, or other qualified intermediary are indispensable.

If the nature of the company's goals and resources makes an indirect method of exporting the best choice, little further planning may be needed. In such a case, the main task is to find a suitable intermediary firm that can then handle most export details.

Firms that are new to exporting or are unable to commit staff and funds to more complex export activities may find indirect methods of exporting more appropriate.

Using an EMC or other intermediary, however, does not exclude all possibility of direct exporting for the firm. An exporter may also choose to gradually increase its level of direct exporting later, after experience has been gained and sales volume appears to justify added investment.

Get more information or data on different approaches to exporting and their advantages and disadvantages. Consulting advisers before making these decisions can be helpful.

Management Issues Involved in the Export Decision

Management objectives

- What are the company's reasons for pursuing export markets? Are they solid objectives (e.g., increasing sales volume or developing a broader, more stable customer base) or are they frivolous (e.g., the owner wants an excuse to travel)?
- How committed is top management to an export effort? Is exporting viewed as a quick fix for a slump in domestic sales? Will the company neglect its export customers if domestic sales pick up?
- What are management's expectations for the export effort?
How quickly does management expect export operations to become self-sustaining?
What level of return on investment is expected from the export program?

Experience

- With what countries has business already been conducted, or from what countries have inquiries already been received?
- Which product lines are mentioned most often?

- Are any domestic customers buying the product for sale or shipment overseas? If so, to what countries?
- Is the trend of sales and inquiries up or down?
- Who are the main domestic and foreign competitors?
- What general and specific lessons have been learned from past export attempts or experiences?

Management and personnel

- What in-house international expertise does the firm have (international sales experience, language capabilities, etc.)?
- Who will be responsible for the export department's organization and staff?
- How much senior management time (a) should be allocated and (b) could be allocated?
- What organizational structure is required to ensure that export sales are adequately serviced?
- Who will follow through after the planning is done?

Production capacity

- How is the present capacity being used?
- Will filling export orders hurt domestic sales?
- What will be the cost of additional production?
- Are there fluctuations in the annual work load? When? Why?
- What minimum order quantity is required?
- What would be required to design and package products specifically for export?

Financial capacity

- What amount of capital can be committed to export production and marketing?
 - What level of export department operating costs can be supported?
 - How are the initial expenses of export efforts to be allocated?
 - What other new development plans are in the works that may compete with export plans?
 - By what date must an export effort pay for itself?
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