

ADVENTURES IN EXPORTING: LESSONS LEARNED FROM THE FIELD



What U.S. small business would deliberately limit its sales efforts to less than one-quarter of the potential customers in the market? The answer is any company that doesn't export.





In 2014, U.S. exports of goods added up to \$1.6 trillion, more than double the amount in the year 2000.

— U.S. Census Bureau

While the U.S. economy is certainly a huge playing field with about \$17.4 trillion in purchasing power (IMF, 2014 figures), the rest of the world accounts for some \$60 trillion in spending, more than three fourths of the total.

Many companies, particularly small and medium sized businesses, have not even considered exporting because it appears to be difficult and fraught with challenges. Among the typical concerns are distance, customs and duties, fluctuating currency exchange, cultural and language barriers, not to mention having little or no knowledge of how to do business in a different part of the world.

Despite these hurdles, businesses of all sizes are stepping up to the challenge and finding great success in selling their products in targeted areas like the European Union or across the globe in Asia, the Middle East, Australia and the rest of the Americas. In fact, U.S. exports of goods added up to \$1.6 trillion in 2014 (U.S. Census Bureau), more than double the amount in the year 2000 (\$785 billion).

Gaining an Edge: An Exporting Veteran Speaks

Baltimore-based Ellicott Dredge has been exporting for more than 100 years and shipments outside of the U.S. make up more than half its total sales. Nevertheless, the company is continually looking for new opportunities in new markets to keep its business growing. "We tend not to focus on the easier places," says Paul Quinn, vice president of sales, "places that are physically safe and have similar business practices like Europe and Australia. That's where everyone else is." Instead, Ellicott Dredge looks for opportunities in emerging or developing markets where it can get an immediate edge. Recent sales have been made in Jammu Kashmir, Panama, Turkey, Iraq and Nigeria, among others. However, business practices in these other areas are not the same as in the U.S. or Europe.





“In developing areas, it’s not so much about the specifications and price, it’s about the relationship. You have to go there.”

— Paul Quinn, Vice President of Sales, Ellicott Dredge

“In developing areas, it’s not so much about the specifications and price”, Quinn says. “It’s about the relationship. You have to go there. There’s no other way. You have to accept that methods and standards will be different. It takes more time.”

In the U.S., we value speed and efficiency, whereas in emerging markets more emphasis is placed on relationship building and the negotiation process is more of an art form. There are certain time scales and strategies that are expected in various cultures. In the U.S., you might go into the process with your best and final price right at the beginning, whereas in a place like Nigeria prolonged negotiations might be expected to result in a 30 to 40 percent price reduction from the original proposal. As long as you know that up-front, you can price the original proposal accordingly and prepare for the ultimate negotiation process.

How does Ellicott Dredge find opportunities in developing countries and learn about the cultural expectations? The answer is simply “You have to go there.” There’s really no other way to learn the cultural expectations and traps, and understand the way business is conducted in the country of interest.

The answer to how Ellicott identifies project opportunities is even more enlightening. Ellicott Dredge makes dredges — machines that pull sediment and mud up from river beds and harbors to make them more navigable and place the material where it either does no harm or adds to the usable land. Because its prospective customers are often working directly or indirectly on government infrastructure projects, Ellicott Dredge works with local representatives and officials to identify project and procurement opportunities early in the bidding cycle. Ellicott tracks regional and country economic and social development indicators to closely monitor political risk factors and identify commercial opportunities.

When an emerging market is experiencing rapid growth and is likely to see sharp increases in importing, exporting and general shipping through rivers and ports, they might need to improve those facilities. Further research can quickly confirm whether dredging is a likely requirement. From there, the company watches the political situation to identify if and when funds will be appropriated for such projects.





TIP: Do your research to learn more about the market in that area and the way business is conducted there.

“Exports can be more lucrative than domestic sales and offer the most opportunity for growth. For us, emerging markets are the key. However, you have to do your homework, understand the market that you want to serve, and adapt products and marketing tactics to fit the environment.”

— Paul Quinn

The experience of Ellicott Dredge is instructive for companies seeking to grow through exports. Look for economic, political, demographic or other changes that may indicate emerging opportunities in your market areas. If the area is one that has not yet been discovered by your competition, that’s all the better. Do your research to learn more about the market in that area and the way business is conducted there. Then go and learn first-hand. Make some contacts and learn the customs and expectations.

Although the folks at Ellicott Dredge are exporting veterans, they still avail themselves of help and information from various federal and state agencies that are dedicated to promoting international trade, particularly the Department of Commerce U.S. Commercial Service, through www.buyUSA.gov, and the state of Maryland’s Trade Export Agency.

“The U.S. government and the states are very eager to help companies export,” Quinn says. “Exports can be more lucrative than domestic sales and offer the most opportunity for growth. For us, emerging markets are the key. However, you have to do your homework, understand the market that you want to serve, and adapt products and marketing tactics to fit the environment.”

Overcoming the Financial Challenge

The financial side of doing international business can be particularly challenging for smaller companies that are new to exporting. Finding a bank willing to accept certain country or buyer credit risks and insure foreign receivables or accept them as collateral for loans can be problematic.

Many banks are unwilling to loan against foreign receivables or provide working capital or performance bonds for foreign business. They consider it risky because they are not familiar with the financial arrangements in the foreign market or are not readily able to make credit assessments of the foreign buyer. And since extending credit and payment terms to buying companies is essential in most markets, the supplier company often needs financing help.





“Once we partnered with EXIM Bank, we immediately started giving credit to our clients. This allowed our revenues to pop up considerably. We have now increased our revenues four times to present levels.”

— Luis Arguello, president and CEO, DemeTech

EXIM Bank provides a valuable service that can make the difference between being able to sell product internationally and missing out on this opportunity altogether.

Miami-based Ben Kaufman Sales makes a range of towels and apparel items with custom embroidery for sale throughout the Caribbean. They are required to extend credit to these customers (a local business requirement not unique to the Caribbean) but U.S. commercial banks generally do not make loans against foreign receivables because they see too much counterparty credit risk. How could they impose collection action against a gift shop or distributor in, say, Aruba or St. Kitts?

Ben Kaufman Sales had to find another way. One of the many services Export-Import Bank of the United States (EXIM Bank) provides is export credit insurance for foreign receivables. After establishing an EXIM Online account with EXIM Bank, a process that a Kaufman spokesperson describes as “a very easy process,” each transaction is pretty much automatic. Kaufman would be a much smaller company without the Caribbean sales, which were enabled by EXIM Bank’s receivables insurance.

Houston-based Control Flow, a maker of oil well and pipe laying equipment notes that large contracts will often require the supplier to post a performance bond of 10 percent of the total project cost. On a \$50 million contract, the company would have to put up \$5 million to be held until contract completion. With EXIM Bank Working Capital Guarantees, Control Flow was able to finance the bond, freeing up cash to pay for materials and payroll. With about 70% of sales to oil-producing countries such as Iraq and Qatar, the financial backing provided by Wells Fargo Bank (guaranteed by EXIM Bank) is essential to the company’s continued operation and growth.

DemeTech, a manufacturer of medical sutures, sells much of its product in the Middle East. Luis Arguello, Sr., the Miami Lakes, Florida company’s president and CEO notes that its distributors rely on manufacturers’ credit terms to finance their business. “Before, we simply had no capacity to extend credit,” Arguello says.

“Once we partnered with EXIM Bank for export credit insurance, we immediately started giving credit to our clients. This allowed our revenues to pop up considerably. We have now increased our revenues four times to present levels.”





"The U.S. government and the states are very eager to help companies export."

— Paul Quinn, Vice President of Sales, Ellicott Dredge

Thanks to receivables insurance EXIM Bank provided, Arguello says that his local bank was willing to extend working capital loans to DemeTech, increasing liquidity and improving cash flow.

Invited to Export: Bidding on International Opportunities

Sometimes export business opportunities come to you. That was the case for Baltimore, Maryland-based Maritime Applied Physics Corp (MAPC). In 2003, the \$4-million sales, 40-employee designer of ship components was invited (over the Internet) to travel to South Korea to engage in negotiations to design, fabricate and deliver 100 tons of electronics, hydraulics and fabricated steel ship components. However, its introduction to international business was not the smooth, polished experience the company might have hoped for. The two trips to Korea were hampered by a tsunami and a two-foot snowstorm, and the MAPC team's complete unfamiliarity with cultural and business practices in the region left them woefully unprepared to negotiate in a fixed-price bid situation against a large British company.

Nonetheless, MAPC won the business and established a strong collaborative relationship with talented Hyundai engineers, enabled with the help of the agent that first made the connection between the companies. The products were designed, built and delivered on time and all payments were made as agreed. The firm not only grew from a design-oriented business to design and manufacturing, it also established a capability and familiarity with foreign trade that opened opportunities for future export sales.

The company credits the U.S. Export Assistance Center as a key factor in their exporting success by providing introductions to international buyers, training and consultation that helped them to overcome various market barriers, understand problems common to exporting and prepare for the complexities of operating in foreign markets.





Small and midsize companies can be more flexible when adjusting to new markets overseas.

Executives at small companies usually view large multinational companies as their biggest threat in overseas markets, but often the fiercest competition comes from other small and mid-sized companies in the region.

Smaller Can Mean Better

Considering the apparent challenges in entering new markets overseas, it would seem that larger companies have an inherent advantage due to their greater resources. That may be the case, but large companies sometimes tend to lack the agility of smaller competitors.

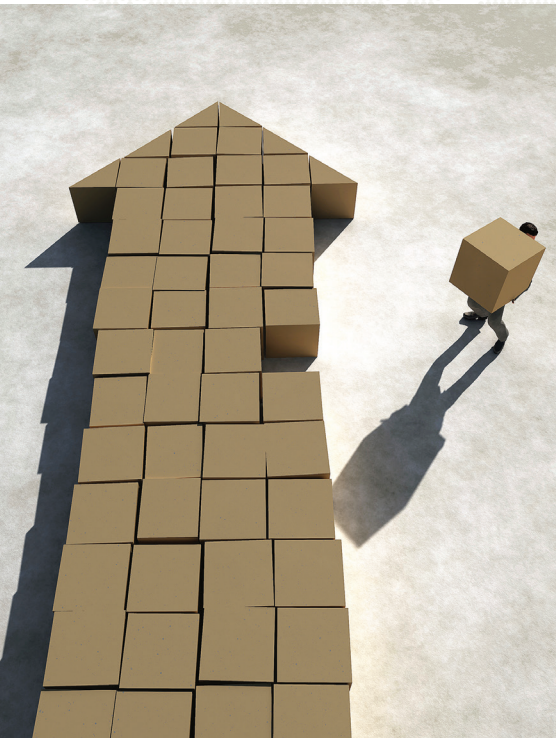
Small and midsize companies can be more flexible when adjusting to the demands and idiosyncrasies of new markets overseas. This is especially important in emerging markets where conditions change rapidly and the first-mover advantage is critical. Executives at small companies usually view large multinational companies as their biggest threat in overseas markets, but often the fiercest competition comes from other small and mid-sized companies in the region.

Local competitors, in fact, often turn out to be the most difficult to compete against for local sales deals and projects. In other words, exporters should pay attention to local competitors in these areas and follow Ellicott Dredge's advice: "Go there." While you're learning about the culture and business practices, get to know the local companies that will be your main competition.

Tapping New Markets for Growth

In cases like these, EXIM Bank provides a valuable service that can make the difference between being able to sell products internationally or missing out on these opportunities altogether. International sales and exporting offer tremendous opportunity as the foregoing examples demonstrate. Each of these companies found new markets for their products, expanding their businesses to a level they could not have achieved in the domestic market while diversifying their business portfolio.





The potential for growth is well worth the effort and risk.

Admittedly there are barriers: new processes and procedures to develop, new partners to identify and work with, new requirements like managing international shipping, customs and duties, and new things to learn about business expectations, competition, and relationships in the target market. But the potential for growth is well worth the effort and risk. The companies referenced above have been able to double, triple, and even quadruple their business volume by expanding their sales overseas.

Going international doesn't mean going it alone. The U.S. government, along with state agencies, have a "tool-box" of services and financial products to assist U.S. manufacturers in their quest to identify, penetrate and develop new markets for their goods overseas. They can provide market information, local contacts, as well as the regional know-how manufacturers need to capture opportunities and overcome the challenges of getting their products into foreign markets.

Once you do establish a foothold and are ready to start production and prepare shipment, EXIM Bank can back up your operations with loan guarantees for working capital, foreign buyer financing, export credit insurance, as well as direct loans that financially enable you to compete successfully.

More than ninety-eight percent of the 304,000 U.S. companies that export are small to medium sized businesses. While the U.S. is still the largest marketplace in the world and the easiest for domestic businesses to operate in, other markets are rapidly ascending. Ninety-five percent of the world's customers are located outside the U.S. With the help of the Department of Commerce and www.buyUSA.gov, your state's Trade Export Agency, and EXIM Bank (www.EXIM.gov), your company can realize its global potential, explore new markets, and gain financial leverage to maximize your opportunities while minimizing risk and growing your profits. ■

