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Considering the Export Market?

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There is really nothing magic about exporting. Exporting involves decisions similar to those made when one is servicing the domestic market, that is, exporting consists of selling to and serving customers.

The differences when servicing the export market are that you and the export buyer are separated by national borders, by greater transport distances, by different currencies and possibly by language barriers. The export market usually involves dealing with different customs and traditions, different consumer tastes and preferences, different business operating practices and, most likely, with tariff or non-tariff barriers imposed to protect the importing nation's domestic market.

These differences are not insurmountable, as evidenced by many agribusiness firms that have seen opportunities to expand sales and profits and have successfully entered export marketing.

Other agribusiness firms are intrigued by the export market, but are uncertain where to begin. They lack the knowledge and expertise to successfully sell overseas. Many believe exporting is too difficult, risky and unproductive to attempt. They perceive difficulties in financing the international trade venture. They have difficulty in understanding foreign business practices and trade regulations. They do not understand differences in product standards and in consumer tastes and preferences in foreign countries. They perceive difficulty in receiving payment for their goods from the distant foreign market, especially when dealing with foreign exchange.

If these uncertainties can be alleviated, and if the agribusiness firm can place on the market a quality product, priced competitively to meet demand in the foreign market, and if the firm can assure a continuous supply and appropriate servicing, profitable export markets can be established and maintained.

These uncertainties become less formidable and can be reduced to manageable proportions when you use a "systematic analysis" to consider them.

All markets, domestic and export, have certain similarities. First, a buyer orientation is essential. Second, the marketing decision mix will involve many of the same ingredients — product, price, service, distribution, credit and sales terms, promotion, etc. Therefore, analyzing the potential for entering an export market should be approached from the viewpoint of the domestic market, with merely a different environment. This approach to a systematic analysis requires answers to the following set of questions:

1. Is there a demand for my product in the overseas market?

Answering this question involves a determination of such factors as these: Is my product in its current form consumed in overseas markets? Why is the product consumed, that is, what consumer needs are fulfilled by this product? Does my product conform to taste preferences of consumers? Does it fit traditional customs and traditions and does it have the proper appearance attributes for overseas markets? Who currently buys the product? Do specific age groups, income levels or ethnic groups buy the product and, if so, what are the growth expectations in these groups?

2. Where are potential markets and how big are these markets?

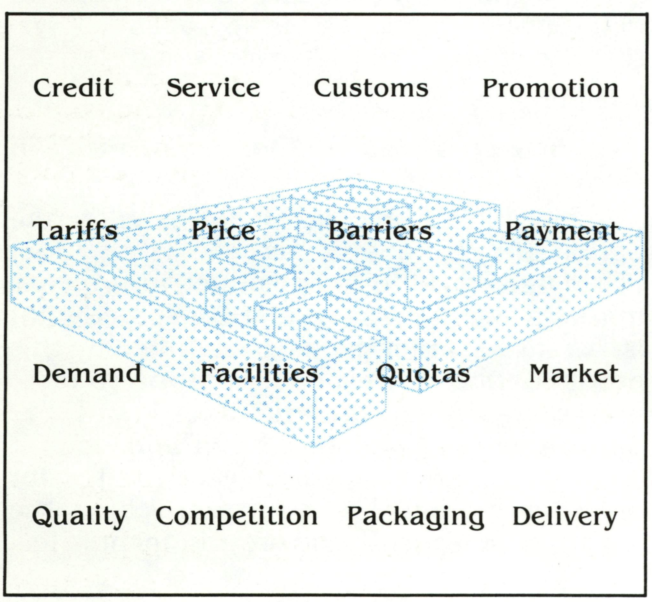
What foreign countries are the major consumers of your product? Does consumption occur in specific regions within countries? What is the historic trend in sales including both volume and value? What is the current level of sales of your product and what potential exists for growth in overseas markets? If this potential materializes, can you handle the volume?

3. Who is my competition?

Who is currently serving this market and how well entrenched are they? Are current suppliers primarily local domestic suppliers and, if so, is there a "buy local" sentiment that may be difficult to overcome? What services, delivery terms, quality standards, price levels, etc., do current suppliers provide to buyers? Can you match these services? How competitive can you be considering transportation costs?

4. Must my product be altered to meet the specific demands of overseas markets?

Frequently, products that are acceptable to our domestic markets need to be modified to meet the specific demands of a foreign market. Local tastes and preferences, local customs and government regulations or product standards in the foreign market must be considered. And these must be considered before you actually place the product on the market. Much of your future exporting success depends on a favorable first impression.



Products may also need to be modified to facilitate movement, reduce transportation costs or compensate for differences in preferred consumer purchasing habits (size or shape of package) or in measurement standards (metric system) or to meet local safety codes or health and sanitary regulations. The important point to keep in mind is that you are serving a customer and this is best accomplished by providing the type and form of product that conforms to traditional consumption customs.

5. How should I price my product?

Added costs must be considered when serving a foreign market. In addition to the cost of the raw product, manufacturing costs and desired profit, you must consider such costs as inland transport to the port, insurance, special packing, bank charges, freight forwarder, dockage charges, overseas freight, duties, fees, commissions, inland freight from port to destination, retail markup, estimated spoilage, damage, etc. Once you have estimated these costs, compare the price you need for your product to current retail prices of competing and substitute products in the foreign market. Consider also the effect of currency exchange rates.

6. What marketing facilities exist for my product in specific markets?

Is local transport adequate to move the product from the port to final destination? If storage is required, are adequate facilities available? How can you ensure that you have timely access to these facilities? How capable is the bank and financial network regarding letters of credit, drafts, acceptances, credit lines, etc.?

7. Will trade barriers, duties, tariffs, etc. be a problem in specific markets?

What types of tariffs will you encounter? Will quotas limit volume? How are duties, if any, assessed? Possible non-tariff barriers are particularly important. For example, what type of inspection procedures are enforced? Are export certificates required? Are specific safety standards required? Are import licenses required? What health and sanitary regulations exist? In many countries special surcharges or deposits or fees are required for certain products, and these must be considered in costing the proposed export venture.

8. Does the U.S. restrict exports of my product?

At times, political considerations set by the U.S. State Department result in restrictions on trade with certain countries that may limit export potential. Short-supply concerns may also result in export restrictions. In addition, for defense reasons, export restrictions are placed on certain products. These restrictions need to be identified before you enter the export market.

9. How stable is the trade climate in specific markets?

How stable is the government? Is internal strife (riots, strikes, labor unrest) likely to interfere with normal trading practices? What is the government's relations with the U.S.? In what ways does the government control the nature and extent of private enterprise? What restrictions exist on capital repatriation or profits remittances? What is the legal system for handling and resolving disputes that may arise? Is foreign exchange restricted and, if so, how will the restrictions affect your operation?

10. What type of marketing arrangements should be made?

You must decide how you will initially enter the market. This can be accomplished in some countries through the establishment of countertrade agreements. In most countries, it can be accomplished through a joint venture, by contract manufacturing (you produce a product for a foreign firm or have the foreign firm produce the product for you), by establishing a sales office in the foreign country or by using the services of a foreign intermediary such as a broker or distributor.

Using a foreign intermediary to establish your product in the new market may be most beneficial. With this method, you gain the expertise and knowledge of how to deal in the new market, but you lose contact with your actual consumers and will not learn how your product is distributed, merchandised, etc. If you are intent on establishing a permanent market for your product, you will eventually need to understand market channels, the operating practices of market wholesalers and retailers, merchandising techniques, etc.

If you decide to work with a broker or distributor to establish initial entry into a market, you need to investigate available representatives to provide a basis for selection. Factors to be evaluated include:

- Reputation with suppliers, banks and customers;
- Experience with similar product lines;
- Technical capability and capacity to service your product;
- Sales organization and quality of sales force;
- Knowledge of the market for your product;
- Past sales volume and growth record including product lines handled, both complimentary and competitive with your product (be aware of conflicts of interest);
- Financial strength;
- Knowledge of U.S. business methods, accounting and measurement standards;
- Knowledge of promotional techniques for promoting your product including advertising, packaging, etc. and
- General operating procedures including fees charged, handling and storage of your product, payment schedules, etc. Secure the names of U.S. firms that the agent currently represents, so that you can check their evaluation of the representative's character, reliability, efficiency and past performance.

11. How do I deliver my product in good condition?

If you are to be successful in establishing a foreign market for your product, you must ensure that the product arrives in the foreign market in the condition that the buyer expects. What type of packaging will be required to prevent damage, spoilage and theft? How can you be assured there will be no delays in transit? How can you protect against delays, theft, damage, etc.?

In addition to considering materials that protect your product, you must also consider packaging materials that will conform to customs and consumption habits of consumers in the foreign country. For example, consumer packaging may need to be smaller than U.S. norms because personal incomes in some countries limit the amount of product consumers can afford. Package colors are important — for example, dark colors have a negative impact in countries like Egypt, Italy and Japan. Proper labeling is essential, particularly food product labeling. The point is that you must analyze the foreign market before entry to avoid negative aspects of packaging, product design, etc., and to take advantage of positive aspects.

12. How and where do I arrange for financing and how do I ensure I can collect payment for my product after delivery?

You need to identify the customary sales/credit terms of the foreign buyers of your product to determine your need for credit. What type of financial documents should you use — letters of credit, drafts, acceptances, etc.? What financial institutions should you deal through? What insurance is applicable? Check on the payment record of the buyer and be sure to check on possible foreign exchange restrictions. You also need to learn the legal system and procedures for resolving business disagreements.

Basic Questions

The answers to these 12 questions will provide the information you need to determine whether or not you should attempt to enter foreign marketing of your product. The three basic questions are:

- Can you be competitive in quality and price?
- Do you have the productive and marketing capacity to service the requirements of this new market?
- Will export marketing be a profitable venture for you?

Philosophical Management Questions

Two additional philosophical management questions must receive your positive response if you are to be successful in an export market venture:

- Are you seriously interested in maintaining a permanent export business, not merely dumping a temporary oversupply on a foreign market?

This is critical. Commitment is essential. A successful exporting venture must be based on establishing long-run relationships that ensure a continuing supply of product to the buyer. Buyers are looking for suppliers who can assure quantity, quality and timely delivery, all, of course, within the framework of a competitive price. Thus, long-range market planning and sales efforts are musts.

- Are you prepared to give service to your export customers equal to the service you give to your domestic customers?

Usually, you can expect to make greater effort to serve foreign customers since you'll have to work over greater distances, with different cultural operating procedures and, possibly, with language barriers. Communication with the customer is extremely important. You may need to visit the customer frequently, and you must provide adequate information concerning the product. Understanding your customer's needs and expectations is your responsibility. You also must serve your customer in cases of dispute or misunderstanding. Following up on a sale is the best way to find out how well you are meeting your customers' needs. At a minimum you should ask questions such as: Did the correct product arrive? Were there any defects or irregularities in the product? Was the quality as expected? Was the product packaged properly? Did the product arrive on time? Was the overall delivery of the sale satisfactory?

These considerations are necessary in any sale, domestic or international, but greater distances necessitate greater commitment in the servicing of foreign customers.

Summary

You can establish and maintain profitable export markets if you can market a quality product at a competitive price to meet a demand in the foreign market, and if you can assure a continuous supply of the product with appropriate servicing. Before deciding to enter the export market, you must consider and evaluate your ability to meet these conditions. This evaluation must be structured in a systematic way so you can avoid potential problems or take advantage of opportunities.

Always keep in mind that servicing a foreign market requires the same marketing skills and principles as servicing the domestic market. However, you will be dealing with greater transportation distances, separation by national borders and possible language barriers, and with different consumer tastes and preferences, customs and traditions and business operating procedures than you deal with in the domestic market. To be successful in exporting, you must identify these differences and initiate procedures to effectively deal with them.

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