Developing Export Strategy

This section details issues involved in entering the foreign market, finding and developing trade leads, exporting directly and indirectly, pursuing international bid opportunities, managing and motivating distributors, promoting your product and travelling overseas.

Once a detailed market analysis has been completed, your company should develop a method of market entry. Each of the general categories listed below come with their own unique trade-offs between financial risks, product control and organizational goals.

The indirect methods of market entry usually require less marketing investment, but you could lose substantial control over the marketing process. Direct exporting may necessitate larger capital investment in marketing, but your degree of control over export strategies is greater. Corporate presence is an option for companies with successful test marketing.

Direct Exporting

You can sell directly to customers in foreign markets by establishing an export department within your organization. Selling through your company's sales department creates an opportunity to establish a closer relationship with the overseas market and buyer. In addition to selling directly to the market you wish to penetrate, you may also choose to use an export manager to handle other parts of the world. In fact, in some countries, you cannot sell directly to the end-user, you must use a local agent or representative. This is true in the Middle East, Central America, and in some Asian countries.

Other direct exporting options include using a variety of export intermediaries, as shown below.

Manufacturer's Representative or Sales Agents

Generally, a representative or agent refers to a person who is responsible for closing the sale and taking orders on a commission basis. They do not take financial responsibility or collect payment for the goods sold, and they assume no risk or responsibility for the product. Remember that the primary interest of all salespeople is to make the sale, it is your responsibility to check credit and arrange payment terms. A representative will want a contract from you for:

- Guaranteeing Territory
- Exclusivity
- Method of Compensation
- Term of Service
- Representation of the Product Line for a Definite Period of Time

In most instances, the representative will be servicing both local and import accounts, as well as selling complimentary lines that do not compete. The representative utilizes the product literature and samples that you supply.

There is some controversy over the term agent. Depending on the country, the term carries a rather broad interpretation of legal responsibilities involving the agent's independent activity to contract on your behalf without your instruction. Avoid using the term agent. Any contract should clearly indicate legal authority of the representative to obligate the firm.

Foreign Distributor/Importer

The foreign distributor purchases the product and is always responsible for payment of the export item. They assume financial risk and generally provide support and service for the product. Distributors often buy to fill their own inventories and typically carry a range of non-competitive, but complementary products. Beware, some distributors have been known to take on products they purposely don't sell to check competition.

The distributor should maintain adequate facilities and staff for day to day servicing. Investigate this option if your product requires maintenance or spare parts. Payment terms and length of contract time are usually initiated with a short trial period. Territory exclusivity is normally required by the distributor.

Overseas Retailers

Selling directly to a foreign retailer relies mainly on travelling sales representatives. Another distribution alternative uses overseas buying offices of domestic retailers. These buyers can also be a practical source of foreign distribution for American manufacturers. Print based selling techniques that use catalogues, product literature, and brochures can also reach the marketing base of foreign retailers and they reduce the cost of travelling.

Central Trade Offices and Trading Companies

Buying offices or central trade offices are often divided into industry groups that buy for the whole country in some of the few remaining controlled market economies. China is the largest controlled economy that maintains trade and buying offices, often called Foreign Trade Corporations. They may buy for the whole country or for regional groups and provinces. Chinese trade organizations do most of the negotiating and contracting, which reduces the risk of bargaining with lower level officials who do not have ministry approval.

Native to Japan, general trading companies, called *"Sogo Shoshas"*, set market trends for Japan's internal and external trade. These trading companies can be a valuable resource for businesses who are seeking to participate in the Japanese market. Major trading companies usually have offices in the United States, however, they may have to send a sample to Japan for final approval. Allow time for product transportation and evaluation.

Indirect Exporting

While direct exporting may be a profitable method of foreign market entry for some businesses, sale by the exporter through an intermediary may be a better alternative to the complex tasks and risk involved in direct exporting.

Domestic Intermediary

Export Management Company

An Export Management Company (EMC), functions as an "off-site" export sales department, representing your product along with various non-competitive manufacturers. The EMC searches for business for your company and usually provides the following services:

- Performs market research and develops a marketing strategy
- Locates new and utilizes existing foreign distributors or sales representatives to put your product into the foreign market
- Functions as an overseas distribution channel or wholesaler
- Takes title to the goods and operates on a commission basis

Note: The EMC may or may not take title to the goods; it depends on the arrangement between the EMC and the manufacturer. In addition, an EMC must balance the product lines it represents. Product diversification is essential to protect against radical foreign market changes and maximize economies of scale.

Export Trading Company

Export Trading Companies (ETC) are very similar to Export Management Companies. The ETC is more likely to take title to the product and pay you directly, but like an EMC, they can also act as an export department. Usually, there is less responsibility on the part of the ETC towards the supplier and they tend to be demand driven and transaction oriented.

There is legislation which promotes the use and formation of an EMC or ETC by providing the EMC/ETC with immunity from prosecution from antitrust regulations. It permits banks to invest financially in EMCs/ETCs and reduces restrictions on trade financed by financial institutions. Officially, an ETC is a legally defined entity under the Export Trading Company Act, with specific responsibilities and obligations. In contrast to an EMC, an ETC is very difficult to set up. There are special certifications and requirements, along with detailed paperwork.

An example of an ETC is Mitsui; they buy and sell goods on their own behalf for their clients. Before deciding to use an EMC or ETC, consider these pros and cons.

Advantages and Disadvantages of Using EMCs/ETCs

There are advantages and disadvantages to using an EMC or an ETC. Wells (Exporting From Start to Finance), gives credit to the research of several accounting firms summarized by Catharine H. Findielson of Coopers & Lybrand in Washington, D.C.

Advantages of Using an EMC/ETC

- Faster entry into the overseas market in terms of first recorded sales.
- Better focus on exporting, because most firms give priority to their domestic problems.
- Lower out-of-pocket expenses.
- An opportunity to study the methods and potential of exporting.
- Expertise in dealing with the special details involved in exporting, as well as its strategies.

Potential Disadvantages of Using an EMC/ETC

- Loss of control of the export strategies and quality control of after-sales service.
- Competition from the EMCs/ETCs other products.
- Reluctance on the part of some foreign buyers to deal with a third party intermediary.
- Some added costs, and higher selling prices because of gross profit margin requirements of the EMC/ETC, unless the economies of scale can be used to off-set this factor.
- The possibility of the EMC/ETC neglecting the client's product in favor of other products that might be more profitable and easier to sell.

Overseas Intermediary

Licensing

Licensing offers a small business the advantages of rapid entry into foreign markets as well as reducing the capital requirements to establish manufacturing facilities overseas.

As described in *Exporting from Start to Finance* (Wells, 1995), a license is basically a contract to identify what part of the licensor's trademarks, patents, designs, copyrights, and know-how are being licensed.

Important considerations:

- Be careful to protect trademarks and intellectual property by securing proper patent and trademark registration before signing a licensing contract.
- Make sure agreements are not in violation of the host country's existing trade/product regulations or restrictions.
- Don't wind up a competitor to your own product by having your own design or know-how used to compete in territories which you are selling directly.

Although the major disadvantage of licensing is the possibility of losing control over manufacturing and marketing, many times you can learn much more from your licensees by giving attention to original product improvements.

Franchising

According to Wells, in the United States franchising accounts for more than 35 percent of total U.S. retail sales. Although this rate has slowed over the last few years, international expansion is occurring in nearly every world region. Most companies already have successful domestic operations, with the most popular franchises occurring within the restaurant and retail sectors.

Franchise agreements tend to give the franchiser more control over marketing, since it is the company's reputation and existing market relationship that adds value to the product. With almost any overseas arrangement, distribution approaches must incur expenses to support foreign marketing such as advertising. However, the overall investment by franchisers is much less than for company-owned sales outlets.

Companies like McDonalds and Coca Cola are prime examples of success in overseas markets. Japan, Europe, Australia and Asia are increasing their franchise development. Canada is also a high-ranking country for goods sold through franchise outlets, largely due to its location. The United Kingdom claims over 2500 franchise operations.

Contracting

Agreements with foreign manufacturers to produce your product, as opposed to exporting to the overseas region, are referred to as contract manufacturing. It is an easy foreign market entry method when your manufacturer is already producing your product for the domestic market. It can also be the initial instrument used to create a subsidiary company in a foreign country. Although it is a method of indirect distribution to foreign markets, it does not address sales and marketing issues of the finished product.

Issues to consider:

- How much intellectual knowledge should you deliver to the manufacturing firm to make contracting possible.
- Quality control at overseas production facilities.
- Lack of control over geographical, cultural or economic conditions.
- Third party disclosure of confidential product information.

In contrast to licensing, contract manufacturing does accommodate company management roles in the foreign operation. However, you will also have to interact with entirely new management, located in a different country, whose first language is probably not English. Regardless of these disadvantages, the contracting manufacturer will have knowledge of the foreign market as well as the business and political contacts to facilitate market entry.