Recognizing and Identifying Export Readiness in Small Business Clients
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Is International Business Appropriate for Small Companies?

I frequently hear people—even colleagues—say that small companies, especially entrepreneurial ventures, should not be thinking about international business. After all, they need to be focusing on the home market, or they are just a local company, right? Well, maybe, but in this age of globalization not considering the opportunities of international business, when the buying and selling of all types of products, services, inputs, and components are facilitated through the Internet and other modern communications technologies, being closed minded could very well mean the difference between growth or stagnation.

Some analysts predict that almost half of US businesses will be involved in international trade by the year 2020, and US Department of Commerce data indicates that large companies currently sell about 4% of US exports, meaning 96% of exports are sold by smaller companies. Exports are an important strategic option for small businesses, and it is important for us as economic development professionals to be able to help determine if and when our small business clients are ready to export. Exporting can open many new doors for success, but it also requires knowledge of business issues that are often very different from operating a domestic business.

Defining Export Readiness

An export ready firm is one that has the drive, experience, financial resources, and capacity to successfully meet demand for its product in a foreign market.

The Department of Commerce classifies companies into four different categories of export readiness:

1. Not-Ready-to-Export: An Individual or firm with no clear exportable product (good or service), track record of domestic sales, or resources to commit to exporting
2. New-to-Export (NTE): A firm that has not exported recently, but has an exportable product, a solid track record of domestic sales, and resources to commit to exporting
3. New-to-Export Prime (NTE Prime): An NTE with a live, unsolicited foreign buyer expression of interest in hand
4. New-to-Market (NTM): A firm currently exporting with the potential to deepen sales in a export market or to expand to new markets

Basic questions we need to answer about our clients' export readiness include:
- Is the Company Ready to Export?
  - Why do they want to export?
- Are they organizational prepared to export?
  - Is the Product Ready to Export?

Export Readiness Checklist

The following checklist (derived from Department of Commerce and other sources) can be used to more deeply assess whether or not a small business is ready to export. We will not be able to go into depth on all of these points, but a few examples will help illustrate a number of the factors listed here.

1. Does the company have a product/service that successfully sold at home? Is the company successfully operating in its home market?

2. Does the company have prior export experience in any other foreign markets? Does the company have, at the very least, some experience in fulfilling orders in a market outside its own?

3. Does the company have an international marketing plan with defined goals and strategies? Does the company have a strategic vision or plan for exporting? Are export objectives clearly stated?

4. Does the company have sufficient capacity that can be committed for exporting? Does it have the means to expand production quickly to meet export orders?

5. Does the company have the financial strength and resources necessary to develop new markets? Can initial expenditures be adequately absorbed for activities such as advertising, promotional material, market visits, attorneys and consultants, and due diligence investigations?

6. Is the company's management committed to developing export markets and willing and able to dedicate staff, time and resources to the process?

7. Is the company committed to providing the same level of service given at home?

8. Does the company have adequate knowledge in modifying product packaging and ingredients to meet foreign import regulations and cultural preferences?

9. Does the company have the ability to acquire and analyze foreign market data, identify sources of competition (including domestic and foreign firms), and ascertain distribution channels?

10. Does the company have the ability to acquire familiarity with export logistics and export payment mechanisms unique to the foreign market, including negotiation of letters of credit, freight forwarders, export documentation and export licensing?

Common Motivational Factors

A company's motivation for pursuing exports can be very telling and help determine the likelihood of success. Export programs that are most likely to succeed are those that are planned for the long-term, and include market research, international relationships, and logistics arrangements. Companies should seek multiple benefits from exporting such as expanded customer networks, exposure to new ideas and technology, and ideas for global sourcing. Some of the common motivational factors include:

- Contribute to long-term expansion: If the objectives are to expand the business over the long-term without necessarily looking for immediate returns, the company may be ready for exporting. Successful exporting is built upon plans that are well made, and that take time to develop and execute. Building an international sales and marketing program takes time to identify market opportunities, develop working relationships with overseas partners, and engage in profit-generating transactions.

- Enhance competitiveness: Exporting can provide opportunities for companies to improve their overall competitiveness. By selling internationally, a company can gain insights on customer requirements, competitor activity, and different ways of doing business. Companies also may acquire new technologies, ideas, and partnerships.

- Exploit unique technology and expertise and extend product life:
  Exporting technologies and expertise can provide “first mover” opportunities in new markets or can provide a whole new market for an older, existing product.

- Improve return on investment: If the reason for exporting is to see immediate return on investment, that is not a valid reason for exporting. Exporting successfully requires long-term objectives, and short-term gains and profitability may not be possible.

- Dumping Ground: If the export market is viewed solely as a "dumping ground" for excess inventory, the risks are great and the prospects are poor. Exporting is not a quick fix.

- Other Factors: Other legitimate motivations include: 1) product may already be exported indirectly by a third party and the company seeks more direct involvement and control, 2) supplement domestic sales with a "limited" export market, 3) compensate for seasonal fluctuations in domestic markets, and 4) spread business risks by developing a broader and more diverse market for a product.

Important Organizational Factors

It also is important to assess a number of organizational factors that can influence a company's success in exporting, including:

- Management Team Commitment: Commitment from the management team is the number one determining factor of export success. The management team shows its commitment to an international sales program by setting aside funding, allotting time to manage the program, and assigning personnel to perform its tasks. Management must be willing to sacrifice near-term profits for long-term sales.

- Funding Support: The company must be willing to allocate sufficient funds and create an adequate budget for export activities. Funds are required for working capital, product modification, credit to overseas customers, and operations such as staffing, communications, and travel budgets. Firms having financial difficulty in their domestic market are highly unlikely to find financial relief in the export market.

- In-house Expertise: Having in-house staff with international experience can facilitate a company’s entry into foreign markets. Companies can either hire new staff or train present staff to assume the responsibilities. This person will need to be aware of rules and regulations regarding exporting their product or service. Knowledge of the target market's language and culture also can be helpful.

- Production Capabilities: Conducting international and domestic sales requires the ability to produce or manufacture the product. A company must have sufficient space and equipment to manufacture for the specific countries they are selling to and to maintain consistent quality at home and abroad.

Is the Product Ready to Export?

Characteristics of the product itself also are important considerations in determining export readiness, including:

- The Product is Already a Success in Domestic Markets: Products that enjoy or have enjoyed a healthy market response at home may do well in other markets, given similar conditions and markets. If conditions abroad are significantly different (e.g., socially, culturally, economically, politically and environmentally), the challenges may be overwhelming.

- The Product Has Not Been Sold Domestically, Focus is on International Sales: Beginning to sell the product in the international marketplace might be a good decision, even if the product does not have a selling record at home. Social, cultural, economic, political and environmental characteristics in the target market must be carefully evaluated in the market research.

- Does the Product Require Modifications?: The company may sell their product without modifications to international markets as long as it meets standards and regulations set by the respective countries. Some countries have strict regulations that require special testing, safety, quality and technical conformity measures. Others impose tariffs and taxes on certain product classifications, and others enforce non-tariff barriers, such as certification, inspections and quota limitations. The costs of adapting and modifying the product for international sales must be carefully considered.

- Does the Product Require Extensive Training to Operate/Use?: Products that require training to operate place a greater responsibility on the company and distributor or agent, and this support must be factored into the calculations. If users of the product do not require extensive training, the exportability of the product may be stronger.

- Does the Product Require Considerable Support After the Sale?: Products that require considerable after-sales support must be handled by a distributor or agent who is well prepared to provide such a service, which may include maintenance, parts inventory, training and warranty. Maintenance issues may involve technical assistance costs, and parts inventory may involve additional storage and shipping costs. Training may involve additional travel, design and delivery costs.

- Is the Product Versatile Enough to Fulfill Different Needs?: A product that has multiple applications can have potential in the international marketplace with appeal to diverse customers.

- Is the Product Unique or Differentiated?: Products that have unique features such as patents, superior quality, cutting edge technology, or adaptability may enjoy a competitive advantage in foreign markets. If the product has competition in a foreign market, it can be more difficult to sell.

- Does the Product Require a Special US License to Export?: Many classifications of products require special approval from the Department of Commerce before being exported, and some products require export licenses.

TowsonGlobal

TowsonGlobal, the Business Globalization Center, is Towson University's international incubator that helps both domestic and foreign entrepreneurial ventures learn how to compete in the global economy, both at home and abroad. TowsonGlobal provides businesses a wide range of support including high-quality, affordable office facilities, business counseling, mentoring, networking assistance, workshops and other educational forums. Member companies also draw from the experience of an active advisory board comprised of executives in technology, financial and legal services, logistics, manufacturing, contracting and venture capital fields.

Examples

The **Washington sweet cherry producers** promote their fresh product as a "health food" and market it bulk through retail supermarkets; however, this marketing strategy failed in Japan. It was discovered that American sweet cherries are purchased in Japan in small portions and packaged in as "gift boxes" to be exchanged as a courtesy between visiting family members. More careful market research before entering the market would have mitigated against the likelihood of making such mistakes.

Polymer Technology Systems, Inc. (PTS) quadrupled sales of its cholesterol–checking device in only three years by exporting to 70 countries around the globe. PTS' handheld meter, called CardioChek, measures key health indicators from a tiny drop of a patient's blood. Cheaper communications, good international contacts, tapping government resources, and creating alliances with larger companies are all part of PTS' success formula. Sales reached $15 million in 2006.

PTS' opportunity developed in 2004 the largest pharmacy chain in the United Kingdom, approached PTS about using CardioChek meters for promotional cholesterol screenings at 1,400 of its stores. PTS later partnered with pharmaceutical companies in Europe that wanted to use the device to promote their cholesterol-lowering drugs.

PTS found that maintaining local distributorship of its product was an important success factor. Local alliances made it easier to navigate the different rules, regulations, and customs of the many countries that comprise PTS' international market. PTS also used a program offered by the US Department of Commerce to aid in identifying local distributors. A program offered by the Export-Import Bank of the United States provided another vital component for the export company's success. The program guarantees bank loans for US companies to help them manage cash flow

Silicon Valley Computers (SVC) Vice President read about the demand for computer parts in overseas markets, and became an enthusiastic supporter of exporting. A marketing manager with extensive international sales experience is heading up an international sales division, and the finance manager has set up a very generous budget for international trade activities. Once the sales start rolling in, the production department will hire a third shift to keep up with the extra orders.

SVC identified their very successful motherboard line as the product to be exported. Although motherboards are common in the targeted region (Southeast Asia) SVC's motherboards are unique in that they have won the coveted Best Motherboard Award from the Computer Parts Association of America. SVC also researched possible product modification issues, and had the support from production management to alter the product if it will increase its competitive advantage.