Getting Started in Exporting

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Exporting. It's one of the hot strategies for helping boost businesses of all kinds, gear manufacturing among them. With domestic markets tight and new markets opening up overseas, exporting seems like a reasonable tactic. But while the pressure is on to sell overseas, there is equal, justifiable concern about whether the move is a good one. Horror stories abound about foreign restrictions, bureaucratic snafus, carloads of paperwork, and the complications and nuances of doing business in other languages and with other cultures.

Is exporting really a sound approach to competitiveness in the 90s? To find the answer, *Gear Technology* talked with Rick Norment, former executive director of AGMA and now the president of Norment & Associates, a consulting firm in Falls Church, VA, that specializes in trade and competitiveness development for precision components manufacturers.

GT: Let's begin with the very basic question. Is it true that everybody should be looking into exporting now, or is this just a myth?

RN: You have to ask some fundamental questions about your company, and, depending on the answers, maybe the overall conclusion will be that exporting is not going to be an appropriate match. But having said that, it's important to remember the statement by Ken Butterworth, the Chairman of the Board at Loctite Corp., a manufacturer of adhesives which exports about 65% of its product. He says, "the biggest non-tariff barrier to U.S. exports is the attitude of the CEO." A lot of people start off with the perception that "I cannot export my product," and, therefore, they don't even try. The fact is that getting into exporting is not nearly as complicated, time-consuming, or expensive as most people think.

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GT: What are the kinds of questions a gear manufacturer should be asking before making the decision to export?

RN: First, you should be asking the basic marketing questions. Is there a market for this product in the country in which I wish to sell it? Can I sell competitively there? Can I sell for less than the local suppliers or for the same price with better quality?

The dramatic shift in exchange rates over the last couple of years have really been to our advantage here. Because the dollar has been substantially devalued and many other currencies have

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risen, the price equation is much more competitive now.

Another basic question to ask is: What is the average size of the order we're talking about? If you're talking about orders of $500 or $1,000 or even $10,000, it could be difficult to turn a profit. But remember with gears, the price of the order is frequently measured in hundreds of thousands of dollars. In a case like that, there's enough of a differential as a result of the exchange rates to make exporting quite feasible.

GT: Is there such a thing as a company being too small to export?

RN: No. I know of gear companies with as few as 30 employees who have rather significant percentages of their total sales in exporting. It's the size of the order, not the size of the company that makes the difference. If your company is big enough to fill the order, then you're big enough to export it. Sixty-four percent of all products exported from the U.S. come from manufacturers with less than 500 employees.

GT: What other things do you have to consider?

RN: Actually, this is maybe the question that should be asked first: How am I going to get paid? This is not always a simple yes-or-no matter. But you certainly need to know if you can get a certified letter of credit from a customer, or is he going to want to barter or whatever. That's absolutely crucial.

Other things to consider are matters like: What kind of trade restrictions does this country have? What about tariffs? What about certification requirements? What other countries are in there trying to sell the same kinds of products?

Also ask about in-country capability and competition. It always amazes me how someone will say, "I'm going to sell these gears in Germany." Well, that's a really tough market. They have a powerful domestic market already and a strong tradition of preferring German-made products. Unless you've got a significant quality and price differential, that's a very tough sell. It's not impossible, of course, but there are other markets that are a lot more accessible.

Most of the other factors that inhibit companies from getting involved with exporting are mental. I always counsel people to proceed with caution, and that's something that you can do with exporting. Start small. Do some exploration first. Look at the market, get a sense for it, talk to potential customers, find out what their prices are. You might be surprised at the answers you get.

For example, it's logical to look to Mexican and Canadian exporting. These are close-by countries. Getting across the border is much simpler; so are the customs and shipping regulations. Once you find you can export to Canada or Mexico and make a profit at it, then maybe you want to expand a little. But don't try to go from zero exports to 30% of your product in the first year. Grow slowly.

Make the decision about which countries to enter on a rational, not an emotional basis. For example, in the past couple of years, there's been this gold-rush mentality about Central and Eastern Europe. People say, "Gee whiz, my grandparents were from Poland, so let's go to Poland." Poland may not be a bad choice, but you have to evaluate it for your product, your niche. It's back to those old questions: Can you be competitive on price? Is there a barrier for getting into the market? Can you get easy access to it? Can your customer pay you?

GT: It sounds as though exporting requires a lot of preparation, research, and fact finding before you even get into it. How difficult is it to get the kind of information you're talking about?

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Export Checklist

1. Is there a market for this product in this particular country?

2. Can I sell the product for less than the local suppliers or for the same price with better quality?

3. What size orders can I reasonably expect to be filling?

4. What kind of import restrictions does this country have?

5. Who are my competitors in this particular market?

6. How am I going to get paid?

How expensive is it?

RN: Not nearly as expensive as you might think. You can find out what you need to know to enter a particular market for as little as $10,000. And that price will include the cost of gaining the necessary information, having somebody assist you to analyze it and focus it specifically to your company and product needs, help develop some of the contacts that need to be made, and the plane ticket for the first trip. You certainly don't need to hire a Vice-President of International Markets.

GT: And how long does this kind of information gathering take?

RN: If you're going to make a focused, intense effort, you can do it in as little as eight weeks. In that period of time, you can get a sufficient sense of the marketplace, find out whether or not you've got any real shot at it. It can, of course, take longer. Major corporations may have hundreds of people doing analysis for six months before they make a move to a particular country, but when they go in, they're talking contracts of hundreds of millions of dollars.

I'm a big believer in the KISS method. Keep it short and simple. There's no hard and fast rule about how much time or money this information gathering will take, but I think you should start off with the expectation that this is going to be something that requires a little bit of effort and money. As I said before, go slow. Take the time to get a sense for your market. You may have a couple of false starts. The first couple of countries you look into may not be good choices, but in the end you'll find the right niche.

GT: And where does one find this information?

RN: Two of the most useful resources are your state and federal governments. They will give you lots of guidance and assistance. They have access to information about countries all over the world. Find your local office of the U.S. Foreign and Commercial Service or your state office of economic development. Most major metropolitan areas have one or both of these. These are the people to talk to. They know the countries. They know the names of major players, etc.

Be aware, however, that the information you get from the government is going to be pretty general. They're not going to know the gear industry specifically, so you may want to also consult with someone who is familiar with the industry as well.

GT: Once a company has made the decision to go into a country, what other kind of resources does it have to have in place?

RN: You need a way to get the orders. While you can send a salesperson into the country, that generally is not cost-effective. The best way is to find a manufacturer's rep or distributor for your product. Again, either government or private sources are available to help you find the right person. Make a trip over to interview several candidates. Visit some major prospective customers and train the rep all in one shot. By having an "in-country" contact working for you all the time, you'll get the contacts and feedback on the market you need to make the orders.

GT: What about specialized legal, financial, or other services?

RN: The first thing to remember is that you don't have to put these people on your payroll. The expertise you're looking for can be subcontracted. You can hire a freight-forwarding company, which will do all the paperwork down to and including verification and validation of letters of credit, handling all the tariff forms, the shipping, the bills of lading. While not a big one, there will be a charge for this, of course. That's why we're back to the business of the size of the order. It has to be big enough to make it worth incurring these expenses.

The U.S. and Foreign Commercial Service can be a big help here too. They have lists of reliable lawyers, bankers, etc. in given countries. Say you need an Indian barrister who can speak Hindi. They'll be able to provide you with a list.

Another good place to look for suppliers of specialized skills, such as translation, is the *Export Yellow Pages,* which is available free from the U.S. Foreign and Commercial Service. It has lots of names.

GT: How do you go about evaluating these people? How do you know they're any good?

RN: This you handle just like you would getting any other kind of vendor. Ask for a client list. Talk to the people. Find out how long they've been in business and how many employees they have. Don't necessarily be put off by a small size company. Some of these people, especially if the service is narrowly focused, like translation, may have only two or three employees. Some really reliable people may have been doing this for years, working out of their homes. They've got great references and good client lists.

I would recommend trying to deal with vendors in your area. Most major metropolitan areas have this built-in infrastructure of expatriates from particular countries who have expertise in the areas you need. Again, the Foreign Commercial Service or your state's economic development agency can help you contact them.

GT: When you're evaluating all this information, are there any red flags to look for that would indicate that a particular company is a bad export risk?

RN: Some of the things we've already talked about are important. Are there trade barriers or other factors in the market that are going to make this too difficult? Political conditions are also important. For example, I don't think I'd consider trying to export to Bosnia these days. I mean, think about it. Does the Bank of Bosnia have any money? Can a buyer get money out of the country? Can you get goods in? Somehow I doubt it.

On the other hand, you can't always just assume things. It's common these days to think you can't get a letter of credit from Russia. Well, you can if you have the right product and the demand is there. I just got involved in an order for a half-million yards of denim. There's a Ukrainian cooperative of manufacturers looking for this denim, and they not only had a certified letter of credit, but the money on deposit at the Citibank of New York.

Political continuity is another factor to watch for. In Central and Eastern Europe especially, this is difficult. The person you're dealing with today may not be there in six months - even on the factory level. Or he'll be there, but he'll have a different job. You have to remember that in these countries, there's a whole couple of generations who don't know how to do business outside the structure of central government planning. They don't know how to deal with a free market economy yet. It's not that they don't want to deal with you, but they don't always know how or have the organizational structure to do it. And that lack can make it really hard for you to make money exporting to those countries right now. In a few years it'll be different.

It's helpful to look at the evaluation process like a set of balance scales. Each of the factors we've been talking about is one weight you put on the scale. At some point, the balance is going to tip one way or the other. For example, sometimes the method of payment will be a

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little convoluted, but if we're talking about an order of several million dollars, maybe it's worth the extra hassle.

GT: What about the language barrier? How important is it to have someone on your payroll that speaks the language of the country or countries to which you're exporting?

RN: It's useful. Again, we're back to either a manufacturer's rep or a distributor. It's helpful, but it's not absolutely necessary. The international language of the gear industry is broken English. And chances are, if you get a letter in Spanish or French or Japanese, there's somebody in the neighborhood who can help translate it.

GT: What about product modifications? Should you plan to invest in changing your product to appeal to overseas markets?

RN: Yes. You should be prepared to make some changes. As a gear manufacturer, for one thing, you have to be prepared to make your products for export to metric specifications.

On the other hand, don't redesign the product and then go to the market. That's backwards. Go to the marketplace first. Talk to the customers. Find out what they want. If your customer wants the machine in metric and painted purple, then that's what you should be prepared to give him. You can have the best product in the world, but if the customer doesn't want it, you don't have a sale.

This is one of the places where thinking about exporting can help you in the domestic market as well. It's good discipline in this sense: When dealing with a new market, maybe with people speaking a different language, people tend to listen better, more carefully to what that customer wants. That same kind of attitude should spill over into the domestic market.

This same effect works on other parts of a business as well. Companies who export tend to become much more competitive, even in the domestic market. When exporting, you have to really watch your costs and your quality control and everything else because if a product is defective, it's not as easy to retrieve the part and fix it when it's sitting in Malaysia. Exporting companies tend to really tighten up their processes and improve their quality control, productivity, and efficiency, and while they're doing it for the overseas market, they're doing it for the domestic market as well.

GT: One final question: If you had 50 words of advice to a gear company thinking of getting into exporting, what would they be.

RN: First, don't fall into the trap of assuming that you can't export. Take a cautious, judicious look around, without any prior assumptions, and you'll be surprised what you might find. Then, go slow. Proceed with caution. But by all means, proceed. ■