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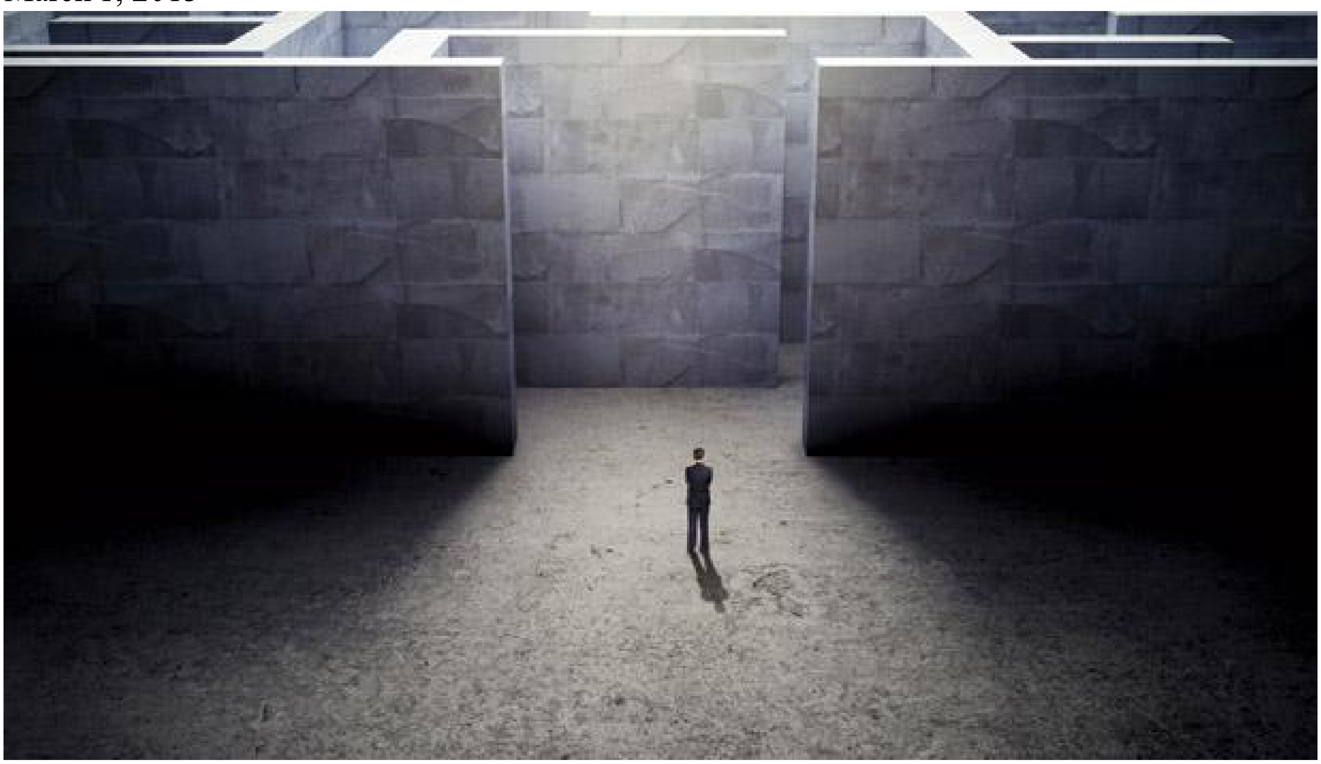
Running the Export Maze

There are two types of small exporters — small companies and companies that have been infrequent exporters. Both can benefit from increased exporting.

By Gail Dutton
March 1, 2013



Contrary to popular opinion, exporting isn't just for large companies. Small and medium-sized companies, however, often consider the process bewildering and bureaucratic — especially for firms that rarely, if ever, export. Logistics organizations admit the daunting image has some basis in fact, but they also point out that plenty of resources offer help for little or no cost.

Trade Environment

The commercial staffs at U.S. embassies are outstanding, with knowledge of local markets and access to key players. They include accomplished trade specialists who will conduct market research for a small fee. U.S. Department of Commerce (DOC) Gold Key service, for example, typically identifies three or four pre-qualified, potential customers. Neal Asbury, president and CEO, The Legacy Companies, says the service is "absolutely worthwhile." The DOC specialists also are well-versed in the details of applicable trade agreements.

Currently, the U.S. has 20 trade agreements in effect, providing duty-free access to each other's markets. The most recent — the United States-Panama Trade Promotion Agreement— was signed in 2007 by President Bush. It was approved by Congress in 2011 and took effect Oct. 31, 2012. The Obama Administration has also just concluded the 15th round of negotiations for the regional, eight-member, Trans-Pacific Partnership Agreement. Negotiations began in 2010.

Companies using these agreements, however, are experiencing increasing scrutiny from countries eager to substantiate origins and eligibilities of goods, according to Susan Pomerantz, director for consulting, at customs broker Livingston International.

Trade Means Jobs

Because of the vastness of the American market, U.S. firms are more geared to domestic trade, while those of other nations are geared to international business.

"During the past several years, our competitors have become stronger and America has become weaker," Asbury contends. "Other nations have made great strides in terms of their focus, dedication and determination to get our business. They understand that trade means jobs, and their companies have the complete support of their governments."

In contrast, Asbury says America's determination to export is very haphazard. "We give lip service to exporting. There's never been a time when our government and businesses have been at such odds. They're almost at war with each other."

Businesses could also make the case that the government is at war with itself. As one part of the Obama Administration increases taxes and regulations that, for many companies, make it cost prohibitive to hire additional full-time employees, those in the trade community are trying to streamline export regulations as part of the National Export Initiative.

The goals of that initiative were updated in December 2012. Priorities include "expanding the reach of federal export assistance and counseling for small businesses, and ensuring better delivery of export services domestically and overseas," according to the 2012 National Export Strategy report.

Export controls are also being reformed. "Late last year, the National Defense Reauthorization Act was passed, changing the export rules for satellites and associated technology. Now, those technologies are governed by the Department of Commerce regulations rather than those of the Department of State," Livingston's Pomerantz says.

Access Government Expertise

Understanding the rules can be easier with advice from Export Assistance Centers and state economic development agencies. "Economic development programs help identify potential buyers, conduct research and provide advice. They also may have domestic and international teams to help facilitate growth and expansion," explains Kathe Falls, director of International Trade for the Georgia Department of Economic Development.

Georgia, for example, has 10 representatives stationed abroad to help Georgia-based companies increase trade to the U.K., the EU, Canada, Mexico, Brazil, Chile, Korea, Israel, Japan and China. "These global connections are a big driver of our export program," she says. They match buyers and suppliers, sponsor trade missions and help companies to participate in trade shows.

The Georgia Reaching Out Worldwide (GROW) program, launched in 2012 with funds from the U.S. Small Business Administration's State Trade and Export Promotion Grant Program, brought potential buyers to meet with companies throughout the state. Last year, 150 Georgian companies met with 19 foreign buyers in the aerospace, chemicals, food, automotive and medical industries.

Bringing buyers to the U.S. is particularly helpful, Falls says, in light of many U.S. firms' shrinking travel budgets. GROW is similar to programs conducted by the DOC's U.S. & Foreign Commercial Service. In 2012, the federal program took more than 1,100 U.S. companies on 135 trade missions to 55 countries, and brought more than 35,000 foreign buyers to U.S. trade shows.

Export Training

Contacting potential business partners is only part of the process. "The documentation requirements, restrictions, international standards, duties, taxes and financing issues to actually sell and deliver products seems daunting, particularly for new exporters," Asbury says. "But if you break down the process, it's not so complicated."

The Legacy Companies, which has a presence in more than 100 countries, launched Export University in partnership with the DOC and National District Export Council Inc. Since its 2006 inception in Florida, the program has expanded to 22 states. Classes are segmented into introductory, intermediate and advanced topics. "Logistics and finance, taught with the Small Business Administration and the Export-Import Bank, are the most popular," Asbury says.

Many other organizations also are available to provide insights and guidance. Falls also suggests accessing the expertise of the Service Corps of Retired Executives, universities, world trade centers, chambers of commerce and the Small Business Administration.

Common Mistakes

Among companies considering exporting, "One of the most common misperceptions is that international trade exports jobs. In reality, export growth increases net employment and helps states' economies rebound," Falls insists.

The economic downturn is causing companies to look abroad for business. "In 2012, we saw a 30 percent increase in the number of companies we assisted, a 17 percent increase in the number of deals and a 121 percent increase in the number of trade leads generated."

Another fallacy is that only large companies are involved in international trade. Nationally, small- and medium-sized companies account for approximately 30 percent of trade by value and more than that by volume. In terms of numbers of companies, small businesses constitute approximately 97 percent of U.S. exporters. "In Georgia," Falls points out, "of the 9,600 companies that export, 83 percent have fewer than 100 employees."

For small and occasional exporters, "The biggest challenge is navigating the regulatory requirements here and at the destination. They commonly don't know where to go for information outside their own country and so rely on their customers," explains Pomerantz. "That's not always best."

Instead, she recommends contacting the country desk at the DOC or contacting the destination nation's commercial office at local embassies, and working with freight forwarders or consultants with representation or expertise in the region of interest.

Among companies just beginning to export, Falls says another common mistake is "reacting to email. Just because someone found your company online and contacted you doesn't mean they could be viable distributors or customers," she emphasizes. Instead, she advises companies to think strategically; research potential partners to learn about their business histories, financials and local reputations. Also consider alternatives.

Companies that export infrequently or not at all also have difficulty finding the right answers to their questions. "If you're unused to reading regulations or shipping terms, you can be overwhelmed," Brian Bourke, VP, marketing, Seko Logistics says. "So, companies shop the question until they get the answer they want."

Conversely, not shopping is a common error when it comes to freight pricing. "Freight rates are negotiated like anything else, and there are huge differences among providers," Asbury says. That is compounded by an inexact understanding of services and possible tradeoffs. For example, less expensive rates may have longer transits, but low rates and quick vessels can be found." Often rates are contingent upon carriers' agreements with local partners and their own regional presence.

Likewise, shippers typically assume that full containers are more cost effective than partial containers. "It generally takes about 16 cubic meters of cargo for it to be more effective to ship cargo in its own container than to consolidate it," according to Terri L. Danz, director, Dakini International Logistics Inc. Despite having a true internal volume of about 33 cubic meters, a 20 foot container typically holds about 26 cubic meters of cargo. The rest is void space.

When it comes to documentation, shippers often fail to include a commercial invoice (a commerce destination control statement) in their documentation. This export control form requires shippers to certify and verify that the goods being shipped comply with the Commerce Control List or the U.S. Munitions List and, therefore, can be legally exported to the destination country. "Most invoices I audit don't have it," Bourke says.

Also, "Be careful what terms you use," Bourke continues. International Commercial terms (referred to as "incoterms") were updated by the International Chamber of Commerce in 2010 and went into effect in 2011, but some shippers and carriers use old or incorrect terms. Additionally, Danz says, "The incoterms used often are too vague." As an example, she asks, "Does 'FOB — Los Angeles' mean the port or the warehouse?" Therefore, she advises knowing what the terms mean and confirming the interpretations of terms before an incident occurs.

In fact, Incoterms 2010 introduced two new rules, replacing four rules from Incoterms 2000. DAT, delivered at terminal, and DAP, delivered at place, replace the old DAF, DES, DEQ and DDU Incoterms. In addition, there are some subtle changes in some of the rules.

One term in particular may be perplexing to new or infrequent exporters. FOB, free on board, when used in Incoterms 2010 is for maritime and inland water transportation only and not multimodal ocean transport, and it refers to the port of shipment. Unlike the domestic ground transportation term, it cannot be used with the port of destination. For container shipments, the term FCA, Free Carrier (named place of delivery) should be used. In all cases, “Incoterms 2010” should be noted in documentation to avoid confusion with earlier versions of the rules.

Financing

Financing international purchases is risky because of the lack of access to collateral. The Export-Import Bank of the United States (Ex-Im Bank) exists to minimize that risk. In 2012, it provided nearly $35.8 billion in export financing that supported about $50 billion in exports and 255,000 American jobs. The Ex-Im Bank plans to increase export financing for small businesses to $9 billion in 2014, up from nearly $6 billion in 2011. This growing attention to small business is the biggest change in financing.

Large commercial banks working with the Ex-Im Bank are the most likely export funding sources, but smaller regional banks are making $25,000 to $50,000 in startup funding available for exporters, according to La Mancha Sims, co-founder of Triton Business Solutions in Marietta, Ga. The payback period is seven years.

“It’s enough to get your feet wet,” he says. When larger amounts are needed, companies that have proven themselves can attract angel investors or larger banks with Ex-Im Bank backing. “A small pecan exporter I work with attracted investors in Asia,” he adds.

“U.S. markets can be hard to penetrate,” Sims continues, so he advises clients to look abroad. “About 95 percent of the world’s customers are outside the U.S. Latin America, Southeast Asia, Africa and other regions are moving extremely fast. The world is booming.”

Take a Local Approach

Before beginning exports, however, establish an international distribution network. “This isn’t necessarily your own employees, but dealers, distributors and sales people who will promote your products,” Asbury explains. Research the players, and then meet them in their own environments.

“It’s amazing what information you can glean just by showing up. Eventually, you’ll have a network of friends and contacts who want to partner with you.” He also advises a certain amount of nimbleness. “Conditions change. When they do, be ready to make a move.”

Another option, especially for occasional exporters, is to work with freight forwarders with international expertise. MyUS.com, for example, provides a U.S. address for international shipments, and then consolidates the small parcels shipped there. MyUS.com arranges all the documentation.

“Our customers tend to be international assignees or foreign nationals who want access to U.S. goods that are too expensive to ship single parcel,” John Wright, VP of sales and marketing, says. The company also works with small foreign companies that manufacture in the U.S., enabling them to ship products in bulk. “The internet really opened up this market, so customers are seeing goods they never saw before.”

“We buy shipping [services] from major carriers, negotiate better rates based on volume, and add bundling and a U.S. postal address,” Wright says. Therefore, clients don’t have to deal with export concerns.

Seko Logistics took a local approach when it expanded its coverage to Africa in 2012, hiring a man with 15 years' experience in the region to head operations. "Each country has unique challenges," Bourke notes. Success comes down to having the right people in place in-country. "You have to have local expertise and knowledge," he emphasizes.

Africa

Africa first appeared on business radar a few years ago. "We have a lot of European clients that already ship to Africa," Bourke says. Others may notice opportunities soon, given the continent's growing population, which topped 1 billion in 2010.

The Obama Administration's Africa Initiative encourages U.S. firms to see Africa as an export destination and business partner. In 2012, trade missions to the continent targeted railway modernization and energy projects. A reverse trade mission from Africa to the U.S. targeted financial institutions.

Africa, however, is not monolithic. Each nation is unique, and their trade regulations are evolving. "Duties and tariffs can change overnight," says Sandra Scott, senior director of compliance, Seko Logistics. And Bourke adds, "Some countries are more open than others. Uganda, Ethiopia, and Tanzania are among those open and easy to deal with regarding regulations."

Labeling

Many post-colonial nations are demanding to be addressed in their native languages. "In Africa, the linguistic diversity is impossible to address — their own governments don't even attempt it," Hans Fenstermacher, CEO, Globalization and Localization Association, admits. "Exporters to Africa, therefore, must identify the languages that will be most productive in moving products through the supply chain. The assumption that the audience speaks English or French is no longer accurate. In Ethiopia, for example, 80 languages are spoken, but six to 10 cover 90 percent of the population, and three cover the majority."

Therefore, use the local language for the shipping documents, exterior packaging and product labeling. "Language and labeling are important tools and must be handled professionally, and not as an afterthought. Forward-thinking companies like Coca-Cola, Google and Microsoft have done this for some time. They consider labeling early in the process," Fenstermacher says. "If end-users can't read the label, they won't buy the product."

The language challenge exists in western markets, too, Fenstermacher says. "The EU has tightened its linguistic requirements. It has 23 official languages, and certain materials must be in those languages for the product to be sold."

As a cautionary note, he recalls a company some years ago whose cargo arrived in Belgium for distribution throughout Europe. "It lacked the proper bill of lading and safety information written in multiple languages. Therefore, by law, it couldn't leave the dock."

Exporting may not be simple, but it needn't be daunting. Resources are available to help companies navigate the regulations so even small businesses and infrequent exporters can export successfully and profitably.

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