

4 Foreign Market Entry

When you have made the initial choice of target markets, you can move onto assessing how to get your products to potential customers.

You have many options for market entry strategies. The list includes direct and indirect exporting, joint ventures, strategic alliances, acquisitions of foreign companies through direct investment or licensing technology abroad. The benefits and risks associated with each method are contingent on many factors, including the type of product or service you produce, the need for product or service support, and the foreign economic, political, business and cultural environment you are seeking to penetrate. The best strategy will depend on your firm's level of resources and commitment, and the degree of risk you are willing to incur.

Small businesses most commonly select exporting as their strategy. Start-up costs and risks are limited, and it is less complex than some of the other methods. Exporting can be done directly or indirectly. In the direct method, the business expands its business plan to add exporting as a new activity and assembles knowledge and staff to implement the plan, i.e., locating foreign buyers, getting the product and labeling ready, making shipping arrangements, and invoicing. If this method seems beyond the scope of your in-house capabilities at this time, do not abandon the idea of exporting. Consider indirect exporting through an export intermediary.

Indirect Exporting

Many small businesses export indirectly by using an export intermediary. There are several kinds of export intermediaries to consider.

Commissioned Agents

Commissioned agents act as “brokers,” linking your product or service with a specific foreign buyer. Generally, the agent or broker will not fulfill the orders, but rather pass them to you for your acceptance. However, in some cases they may assist with export logistics, such as packing, shipping and export documentation.

Export Management Companies (EMCs)

EMCs act as your “off-site” export department, representing your product—along with the products of other companies—to prospective overseas purchasers. The management company looks for business on behalf of your company and takes care of all aspects of the export transaction. Hiring an EMC is often a viable option for smaller companies that lack the time and expertise to break into international markets on their own. EMCs often will use the letterhead of your company, negotiate export contracts and then provide after-sales support. EMCs may assist in arranging export financing, but they do not generally guarantee payment. Some of the specific functions EMCs perform include:

- Conducting market research to determine the best foreign markets for your products
- Attending trade shows and promoting your products overseas
- Assessing proper distribution channels
- Locating foreign representatives and/or distributors
- Arranging export financing
- Handling export logistics, such as preparing invoices, arranging insurance, customs documentation, etc.
- Advising on the legal aspects of exporting and other compliance matters dealing with domestic and foreign trade regulations

EMCs usually operate on a commission basis, although some work on a retainer plus commission basis, while others take title to the goods they sell, making a profit on the markup. It is becoming increasingly common for EMCs to take title to goods.

Export Trading Companies (ETCs)

ETCs perform many of the functions of EMCs. However, they tend to be demand-driven and transaction-oriented, acting as an agent between the buyer and seller. Most trading companies source U.S. products for their overseas buyers. If you offer a product that is competitive and popular with ETC buyers, you are likely to get repeat business. Most ETCs will take title to your goods for export and will pay your company directly. This arrangement practically eliminates the risks manufacturers incur with exporting.

ETC Cooperatives

ETC cooperatives are U.S. government-sanctioned co-ops of companies with similar products who seek to export and gain greater foreign market share. Many agricultural concerns have benefited from ETC cooperative exporting, and many associations have sponsored ETC cooperatives for their member companies. Check with your particular trade association for further information.

Foreign Trading Companies

Some of the world's largest trading companies are located outside the United States. They can often be a source of export opportunity. The trade specialists of the Commercial Service in the USEACs can help in your search by contacting their colleagues in embassies around the world who know more about trading companies in the local market.

Exporting through an Intermediary—Factors to Consider

Working with an EMC/ETC makes sense for many small businesses. The right relationship, structured properly, can bring enormous benefits to the manufacturer. But no business relationship is without its drawbacks. The manufacturer should carefully weigh the pros and cons before entering into a contract with an EMC/ETC. Some advantages include:

- Product exposure in international markets with little or no commitment of staff and resources from your company.
- The EMC/ETC's years of experience and well-established network of contacts
- Lower or virtually no export start-up costs and associated risks. You can negotiate your contract with an EMC so that you pay nothing until the first order is received.

Some disadvantages of exporting through an intermediary include:

- Loss of control over the way in which your product is marketed and serviced. Your company's image and name are at stake. You will want to incorporate any concerns you may have into your contract, and you will want to monitor closely the activities and progress of your intermediary.
- Loss of part of your export-sales profit margin by discounting your price to an intermediary. However, you may find that the economies of scale realized through increased production offset this loss.
- A higher price passed on to the overseas buyer or end-user. This may or may not affect your competitive position in the market. The issue of pricing should be addressed at the outset.

- Lack of information on markets and customers—which all remain with the EMC. Any shifts in the market cannot be anticipated and the sudden loss of a customer or market may create business instability.

Export Merchants/Export Agents

Export merchants and agents will purchase and then repackage products for export, assuming all risks selling to their customers. This export intermediary option should be considered carefully, as your company could run the risk of losing control over your product's pricing and marketing overseas.

Piggyback Exporting

Allowing another company, which already has an export distribution system in place, to sell your company's product in addition to its own is called "piggyback" exporting. Piggyback exporting has several advantages. This arrangement can help you gain immediate foreign market access. Also, all the requisite logistics associated with selling abroad are borne by the exporting company. If you have no intention of ever exporting directly, this method is for you.

How to Find Export Intermediaries

Small businesses often report that intermediaries find them—at trade fairs and through trade journals where their products have been advertised—so it can often pay to get the word out that you are interested in exporting. One way to begin your search for a U.S.-based export intermediary is in the Yellow Pages of your local phone directory. In just a few initial phone calls, you should be able to determine whether indirect exporting is an option you want to pursue further.

The National Association of Export Companies (NEXCO) (www.nexco.org) and the Federation of International Trade Associations (FEA) (www.fita.org) are two associations that can assist in your efforts to find export intermediaries. The U.S. DOC's Office of Export Trading Company Affairs (OETCA) (www.ita.doc.gov/td/oetca/index.html) can also assist in providing information on how to locate ETCs and EMCs, as well as ETC cooperatives in the U.S. The office, under a joint public/private partnership, provides the contact information for EMCs/ETCs, as well as other export service companies, such as banks and freight forwarders. Locating the best export intermediary to represent you overseas is important. Do your homework before signing an agreement.

Direct Exporting

While indirect exporting offers advantages, direct exporting also has its rewards. Although initial outlays and the associated risks are greater, the profits are likely to be greater, too. Direct exporting signals a commitment of the company and its

management to fully engage in international trade. It requires that you dedicate sufficient and appropriate staff to support your export efforts, and are prepared for management to travel abroad frequently. Selling directly to an international buyer means you will have to handle the logistics of moving the goods overseas. A relationship with a freight forwarder is essential, if you do not have the technical expertise for document preparation in-house. Direct exporting can be achieved with the help of many organizations.

Sales Representatives/Agents

Like manufacturers' representatives in the United States, foreign-based representatives or "agents" work on a commission basis to locate buyers for your product. Your representative most likely will handle several complementary, but non-competing, product lines. Designating someone as an agent has considerable legal implications since it means that as a representative of your company this person has the authority to make commitments on behalf of your firm. The two terms are often used interchangeable, however, the differences are substantive. Your agreement should specify whether the agent/representative has legal authority to obligate the firm.

Distributors

Foreign distributors, in comparison, typically purchase merchandise from U.S. companies and resell it abroad at a profit. They usually inventory product, which allows the buyer to receive the goods quickly, and often provide after-sales service to the buyer. Your agreement with any overseas business partner—whether a representative, agent or distributor—should address whether the arrangement is exclusive or non-exclusive, the territory to be covered, the length of the association, performance requirements, and other issues. Legal advice from international attorneys is advised for distributor agreements. Through the Export Legal Assistance Network (ELAN), a cooperative program among the National Bar Association, SBA and DOC, new exporters can get a free, initial consultation. The attorneys can address questions pertaining to distributor agreements, contract negotiations, licensing, and other legal issues relevant to your target market. There is no charge for this one-time service, available through USEAC offices and some international SBDCs. (See Chapter 5, "The Export Transaction," for additional information on negotiating agent/distributor agreements.)

Finding overseas distributors for your products need not be more difficult than locating a representative here in the United States. Nevertheless, it is likely that it will require an investment of time and resources to travel to your target market to meet face-to-face. A good way to identify potential distributors is to tap DOC's International Partner Search program; contact a local trade specialist or, to get more information, visit (www.export.gov/tradeleads/index.asp). This program provides a customized search to identify agents, distributors and representatives for U.S.

products based on a foreign company's examination of U.S. company's product literature.

Other sources of leads to find foreign agents and distributors include trade associations, foreign chambers of commerce in the United States and U.S. chambers of commerce located in foreign countries, the so-called AM-CHAMs. Many publications can be useful. The Manufacturers' Agents National Association (www.manaonline.org) has a roster of agents in Europe, for example.

Foreign Government Buying Agents

Foreign government agencies or quasi-governmental agencies are often responsible for procurement. In some instances, countries require an in-country agent to access these procurement opportunities. This often can represent significant export potential for U.S. companies, particularly in markets where U.S. technology and know-how are valued. Foreign country commercial attachés in the United States can provide you with the appropriate in-country procurement office.

Retail Sales

If you produce consumer goods, you may be able to sell directly to a foreign retailer. You can either hire a sales representative to call on retailers in target markets or you can introduce your products to retailers through direct-mail campaigns. The direct-marketing approach will save commission fees and travel expenses, but may not be as effective. You may want to combine trips to your target markets with exploratory visits to retailers. Such face-to-face meetings will reinforce your direct marketing.

Direct Sales to End-Users

Your product line will determine whether direct sales to the end-user are a viable option. A manufacturer of medical equipment, for example, may be able to sell directly to hospitals. Other major end-users include foreign governments, schools, businesses and individual consumers.

Finding Buyers

Advertise in Periodicals

Many small businesses report that foreign buyers often find them. An ad placed in a trade journal or in DOC's Commercial News USA (CNUSA) can be a low-cost method for testing market interest and often yields inquiries from abroad. The printed version of CNUSA is a monthly export catalog-magazine promoting U.S. products and services to more than 150 countries at a fraction of the cost of any other advertising. CNUSA is the ideal way for all U.S. companies to showcase their products and services around the world and increase export sales with a minimal investment. Through CNUSA and its placement in embassies and consulates

worldwide, you have access to 150,000 buyers, agents, and distributors. CNUSA has proven to be a most effective vehicle for selling products overseas and now it is available both in print and on-line.

Participate in Catalog and Video/Catalog Exhibitions

Catalog and Video/Catalog exhibitions are another low-cost means of advertising your product abroad. Your products are introduced to potential partners at major international trade shows—and you never have to leave the United States. For a small fee, US&FCS officers in embassies show your catalogs or videos to interested agents, distributors and other potential buyers. Visit <http://trade.gov/cs/services.asp> for more information or discuss this option with a local trade specialist at the USEACs.

Pursue Trade Leads

Rather than wait for potential foreign customers to contact you, another option is to search out foreign companies looking for the particular product you produce. Trade leads from international companies seeking to buy or represent U.S. products are gathered by US&FCS officers worldwide and are distributed on-line. Another source of trade leads is the World Trade Centers (www.wtca.org/). If your product is agricultural, the U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) (www.fas.usda.gov/agexport/tleadsinfo.html) disseminates trade leads collected by their 80 overseas offices. Also, the U.S. Agency for International Development's Global Trade & Technology Network which promotes economic development in developing countries through trade has an extensive trade lead service; please visit (www.usgtn.net).

Exhibit at Trade Shows

Trade shows are another means of locating foreign buyers. The U.S. Commercial Service's International Buyer Program brings thousands of international buyers annually to meet with U.S. companies at major trade shows in the United States. Each year the U.S. Commercial Service selects and promotes 28 trade shows representing leading industrial sectors. International trade shows are an excellent way to market your product abroad. Many U.S. small businesses find that attending one foreign trade show just is not enough. For more information about U.S. and international trade shows go to <http://trade.gov/cs/services.asp>.

Participate in Trade Missions

Participating in overseas trade missions is yet another way to meet foreign buyers. Public/private trade missions are often organized cooperatively by federal and state international trade agencies and trade associations. Arrangements are handled for you in order to simplify the process of meeting prospective partners or buyers. Matchmaker Trade Delegations are DOC-sponsored trade missions to select foreign

markets. Your company is matched carefully with potential agents and distributors interested in your product. Being properly prepared for the kinds of inquiries you might encounter on overseas trade missions is important. The Small Business Administration offers pre-mission training sessions through some of its district offices, Export Assistance Centers and the SCORE program.

Customized Country Visits

The Gold Key and Platinum Key services offered for a fee by DOC allow you to schedule visits in your target markets and have your appointments pre-planned by the in-country trade specialists and the in-country foreign service staff. This fee-based service lets you specify the timing and purpose of your trip. Your product literature is sent to the overseas location prior to your visit to assist the Commercial Service staff in selecting potential business partners for your. Many satisfied client firms have used this service repeatedly for expanding into new foreign markets.

Contact the Multilateral Development Banks (MDB)

In developing countries, large infrastructure projects are often funded by multilateral development banks such as the World Bank (www.worldbank.org), the African, Asian, and Inter-American Development Banks and the European Bank for Reconstruction and Development. Multilateral Development Bank projects often represent extensive opportunities for U.S. small businesses to compete for project work. While small businesses can benefit from sub-contracting opportunities when larger U.S. firms win major project funding, cultivating the relationship with the prime contractor is key to success. If this specialized field is of interest to you, a visit with the DOC rep to one of the MDB can help you assess the steps for best results. Project financing by the MDBs helps U.S. businesses gain access to many export opportunities. Additionally, DOC's Office of Energy, Infrastructure and Machinery, Infrastructure Division (www.ita.doc.gov/td/oeim/) can assist in identifying contracting and subcontracting opportunities.

Qualify Potential Buyers or Representatives

Once you locate a potential foreign buyer or representative, the next step is to qualify them by reputation and financial position. First, obtain as much information as possible from the company itself. Here are a few sample questions you will want to ask:

- What is the company's history and what are the qualifications and backgrounds of the principal officers?
- Does the company have well trained personnel, facilities and resources to devote to your business?
- What is their current sales volume?

- How long have they been in this line of business?
- What is their banking relationship?
- How will they market your product (retail, wholesale or direct)?
- Which territories or areas of the target country do they cover?
- Do they have other U.S. or foreign clients? Are any of these clients your competitors? It is important to obtain references from several current clients.
- What types of customers do they serve?
- Do they publish a catalogue?
- How effective is their sales force?

When you have this background information and are comfortable about proceeding, then obtain a credit report on their financial position. DOC's International Company Profiles (ICPs), available from the nearest U.S. Export Assistance Center or your local District ITA Office, are compiled by US&FCS officers. An ICP can usually provide an in-depth profile of the prospective company you are investigating. There are also on-line services for due diligence on foreign companies and a growing list of reputable credit report providers, even in emerging markets.

Cultural Considerations

Cultural sensitivities will affect your market entry and product acceptance in any country outside the United States, including Canada. Do not assume that because the language of business is English, the way of doing business is the same as in the USA. It pays off to research cultural considerations along with market trends. A good overview of doing business with most nations is presented in International Business Practices or CultureGrams (www.culturegrams.com).

Other Market Entry Methods

Other methods of market entry tend to be more complex and often follow after a company has been trading internationally for some time. This is especially true if you are considering establishing a joint venture with a foreign partner. Foreign joint ventures are often accomplished through a licensing or off-shore production agreement. Licensing involves a contractual agreement whereby you assign the rights to manufacture or distribute your product or service to a foreign company or individual. Off-shore production usually involves establishing your own facility in the target market or subcontracting the manufacturing of your product to an existing organization. Licensing and off-shore production are discussed in Chapter 8, "Strategic Alliances and Foreign Investment Opportunities."

In this chapter we have discussed methods of market entry, how to find potential foreign buyers and representatives and how to qualify your prospects so that you can proceed to do business with them. Solid market research and preparation are the best way for a small business to define a potential export market. The next question to be explored covers how to accomplish the business of exporting—that is, how the deal should be structured—the topic of Chapter 5, “The Export Transaction.”