Costs of Developing a Foreign Market for a Small Business: The Market & Non-Market Barriers to Exporting by Small Firms

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EXECUTIVE SUMMARY

- This study investigated the costs and difficulties small firms face when initializing export activity.

- This study used the case method to evaluate the export practices of nine (9) small firms in South Carolina, using CEO/VP interviews and secondary company information to augment the interview findings.

- The sample firms initiated exporting following a reactive strategy; generally responding to customer inquiries, rather than as the result of a carefully planned strategic initiative. None were heavily export oriented.

- Opportunity costs, especially of time, are significant barriers to exporting or to increasing export behavior. Exporting takes time and energy that is more profitably sent on domestic operations.

- The sample firms identified transaction costs as problems to be anticipated and overcome, but not as insurmountable barriers to exporting.

- The sample firms depended heavily on modern information technology to initiate and support their exporting efforts.

- The sample firms' CEOs or vice presidents did not regularly use state of federal export assistance programs, although they were aware that such programs may be available to them.

- The barriers to exporting are situation-specific, thus reducing the substantive value of developing a definitive list of export barriers.

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Introduction

The literature on international entry among small firms is rather detailed, but fragmented. We seem to know a great deal about a variety of factors associated with international market entry. However, we know very little if anything about the costs or processes of developing a foreign market for a small business (Lloyd-Reason, Sear and Mughan, 2003). This conclusion is startling when one considers just how far our knowledge of international activities among small firms has come in the last twenty years.

The importance of exporting by small firms cannot be understated. A research report conducted by the International Trade Administration indicates that 230,736 small and medium-sized firms (companies with fewer than 500 workers) exported goods in 2001 (ITA, 2003). Small and medium-sized companies account for 97 percent of all U.S. exporters, a percentage that has only varied slightly since 1995. Small and medium-sized exporters exported goods valued at $182 billion that represented 29.2% of total U.S. goods exported (ITA, 2003).

In response to the proliferation of exporting among small firms, the current literature on the internationalization of small businesses has evolved very quickly over the past twenty-five years. The purpose of this study is to investigate the costs of developing a foreign market for a small business. A variety of issues have been considered within the literature on exporting by small businesses. Yet, researchers and public policy officials continue to struggle with the identification of the factors or barriers that may raise the costs of foreign market entry by small firms.

Olson and Gough (2001, p.31) state that, "although past research has improved our understanding of export concepts and relationships, information gaps still exist. They lament the lack of information about the export planning-performance relationship. They argue that this gap in the literature is somewhat understandable because early export research found that small firms used a reactive rather than a proactive export strategy. Early studies found that "unsolicited export orders" were the impetus to start exporting.

However, the advent of global markets has dramatically changed both the practice and the study of export behavior among small firms. In the field of entrepreneurship, researchers emphasize how entrepreneurs exploit opportunities in new product markets (Venkataraman, 1997). Peter Drucker (1985) describes the exploitation of market inefficiencies that result from information asymmetry, as occurs across time and geography, as a proactive rationale for exploiting product-market entrepreneurship. Clearly, according to the entrepreneurial perspective, pursuing a foreign market is an entrepreneurial endeavor (Lloyd-Reason, Sear and Mughan, 2003). In fact, Shane and Venkatraman (1997, p. 20) go on to point out that "entrepreneurs exploit opportunities having higher expected value." Thus, one would expect cost analysis to be part of the process necessary to evaluate expected value. Specifically, one would expect that identifying the costs of starting operations in a foreign market would be a natural extension of the received literature on entrepreneurship and internationalization. Yet, this topic remains largely undeveloped. In fact, Lloyd-Reason, Sear and Mughan (2003) and Atherton and Sear (1997) point out that we do not have a very rich understanding of the processes that small firms use to develop new foreign markets which includes our understanding of the costs of doing so.

Though the present research examines motivation for entry into international markets, the costs of entry, the process of entry, and firm size, this research primarily examines the transaction and opportunity costs of exporting--both out-of-pocket costs and the psychological costs. The psychological costs include fear of the unknown and the opportunity costs of acquiring new market and operational information. Thus, the research questions of this study are: What is the primary motivation for small U.S. firms to begin exporting to foreign markets? What costs do small firms incur when they initially seek to export? What is the magnitude of exporting costs relative to the firm size? Which of these costs inhibits the small firm from exporting? How might the U.S. government better assist small firms to overcome these costs? This study uses the case method to evaluate the export practices of nine small firms in South Carolina, using CEO/VP interviews and secondary company information to augment the interview findings.

Literature Review

Research on small firms has emerged as one of the most topical debates over the past quarter century among business schools, among business leaders, and by public policy administrators (Wright, 1993; Autio, Sapienza, Almeida, 2000; Baird, Lyles, and Orris, 1994; Aitken, Hanson, and Harrison, 1997; and Oviatt and McDougall, 1995). Rather than attempt an exhaustive review of past research, this section will emphasize the dominant research relevant to small firm foreign market development.

Foreign Market Entry

Generally, the field of international entrepreneurship research has moved from "if" to "when" and "how" firms should enter foreign markets (Levesque and Shepherd, 2002). Atherton and Sear (1997) argue that new market development requires the firm to research the market, establish a local presence, sell, process and fulfill orders, and ship and deliver. They suggest that each of the activities in their model is a flexible and evolving aspect of new market development, which incorporates both formal and informal approaches. Indeed, initial entry into the process may not obviously start with researching the market. New market development (generally through exporting in its early stages) can be transaction-led; hence focused on selling, processing and fulfilling orders, and shipping and delivery. However, even when the process is focused heavily on the selling transaction and its completion, there is a degree of testing of the market and of establishing a local presence, often in an informal and ad hoc way. This model is an important contribution because it shows that there are different levels of focus for each of the key activities of the new market development process. Certain activities, for example, can be passed over quickly and with minimal concern, whereas others can be the focus of most of the small business's activities. This implies that "there is … no pre-determined allocation of effort amongst the five stages of the new market development transaction" (Atherton and Sear, 1997, p. 128).

Firm Size

The present study focuses on small business, while the literature has been dominated by studies of large firms pursuing foreign market development. However, the literature finds a positive relationship between firm size and internationalization. Baird, Lyles, and Orris (1994) find that international firms are larger and tend to be industrial firms rather than retail or service firms. Dhanaraj and Beamish (2003) confirmed this finding using a resource-base theory of the firm (Penrose, 1959; Barney, 1991) in a sample of Canadian firms.

Export concentration spillovers, such as transportation infrastructure and informal and formal export knowledge, may increase the likelihood of further export activity by local firms. Spillovers of this nature have been credited with producing faster growth and increasing the likelihood of attracting foreign direct investment (Henderson 1986; Head and Ries, 1994). Multinational firms tend to face lower market entry costs due to export knowledge spillovers than smaller firms (Aitken, Hanson, and Harrison, 1997). Aitken, et al., demonstrate that these spillovers were significant for multinational enterprises but not for general exporting activity. This literature is in contrast to the present study, which concentrates on initially developing a foreign market, rather than increasing an existing market.

The most relevant research to date is Mittelstaedt, Harben, and Ward (2003). In a sample of manufacturing firms in South Carolina, micro firms--defined as companies with fewer than 20 employees-- are far less likely to engage in exporting than small firms with between 20 and 500 employees (Mittelstaedt, Harben, and Ward, 2003). They conclude these firms simply do not have the resources (time, money, and personnel) to engage in exporting.

Motivational Factors

Czinotka and others study the factors motivating small firms to export. Czinkota and Tesar (1982) find that motivation can be categorized into proactive and reactive categories. Proactive reasons are based on the firm's internal situation and are firm initiated, while reactive reasons are based on the firm's behavior with respect to the environment and are in response and adaptation to changes from outside the firm. Firms with proactive motivations go international because they want to while reactive firms go international because they must.

Using Czinkota's framework, Pope (2002) finds that very small firms (with 25 or fewer employees) export because they have a unique product or a technological advantage. However, firms with more than 25 employees export also to achieve economies of scale and to avoid losing out on foreign opportunities. The major conclusion is that proactive motivations dominate when pursuing exporting. Thus:

Research Question 1. What is the primary motivation for small U.S. firms to begin exporting to foreign markets?

The decision to develop an overseas market is a strategic move that is as entrepreneurial as the initial decision to start a small firm (Lloyd-Reason, Sear, and Mughan, 2003). The literature suggests proactive and reactive motivations for internationalizing. However, the literature has focused largely on the motivations of larger firms. It is possible that small firms have a different rationale for selling in foreign markets.

Costs – The missing variable

The literature does not document the costs associated with expansion into international markets especially well. The actual costs of foreign market entry may be critical, because of their relative magnitude to small firms compared to larger firms.

Wright (1993) reports that both personal costs (stress on family life) and personnel costs (hiring new people and paying sales representatives' commissions) should be considered before deciding made to export. However, his analysis is admittedly incomplete. He points out that questions associated with costs may "lend themselves to further investigation through the use of Beamish (1988) notion of a case-based smaller-sample approach" (Wright, 1993, p.89).

McKendrick & Associates (1996) evaluate the costs associated with financing and payment settlement, and conclude that small firms lack knowledge of alternate finance mechanisms, such as factors, transaction finance firms, and public sector lending. Significantly, they conclude using an existing line of credit is often the least cost method of external financing. Finally, they conclude small firms can benefit greatly from dissemination of financing information. Their study is helpful, but is limited to the costs of financing exports. Thus, researchers have yet to assess the relative magnitude or impact of costs on the export decision.

Perhaps the most promising research on costs comes from Economics. "In a world with perfect markets and zero transaction costs, penetrating international markets is a simple matter of production cost-comparative advantages determine which producers penetrate international markets and when. Yet, … the costs of international transactions generally are far from negligible" (Abdel-Latif, Abla M. and Jeffrey B. Nugent, 1996, p. 1). Transaction costs include information costs, contracting costs, delivery and payment costs, and control and enforcement costs (Williamson, 1971 and 1981). International transaction costs tend to be much higher than domestic transaction costs due to language, cultural, and legal differences, and the inherent difficulties of enforcing contracts overseas (Kim, Nugent, and Yhee, 1997). While the literature uses transaction cost economics (TCE) to evaluate the small firms' export efforts (Kim, Nugent, and Yhee, 1997; Abdel-Latif, Abla M. and Jeffrey B. Nugent, 1996), in international research it largely has been limited to the mode of entry rather than whether transaction costs prevent small firm entry. Thus, TCE has been limited in its ability to identify the magnitude or relative importance of transaction costs.

In the economics literature, an additional cost factor is the sunk entry costs that non-exporters must incur to enter foreign markets, generally modeled as "hysteresis in trade," due to either high startup costs or the introduction of uncertainty (Baldwin, 1988; Avinash, 1989). In an empirical study quantifying sunk costs effects, Roberts and Tybout (1997) find that for Colombian manufacturing firms, the export entry costs are significant and these firms are 60 percent more likely to export if they have done so in the prior year. Bernard and Bradford (2001) find that entry costs are significant, however, they find spillovers to be negligible. Thus:

Research Question 2. What costs do small firms incur when they initially seek to export?
A proactive motivation to export will likely result in different costs than a reactive motivation. The literature emphasizes out-of-pocket transaction costs (Atherton and Sear, 1997; Abdel-Latif, et. al., 1996). This study will examine the out-of-pocket costs, but also any psychological, personal, or opportunity costs that may emerge.

Research Question 3. What is the magnitude of exporting costs relative to the firm size?
In order to determine the expected value of an entrepreneurial endeavor in a foreign market, the owners or managers of a small firm must evaluate the costs of the opportunity. Transaction costs of international market entry may be so prohibitive for some small firms because some costs of exporting are fixed and thus may be prohibitive to a small firm.

Research Question 4. Which of these costs does inhibit the small firm from exporting?
Pursuing an overseas opportunity requires both formal planning (Olson and Gough, 2001) and informal planning (Atherton and Sear, 1997). In this assessment process, one would expect the

firm's strategists to identify those costs that are the most difficult obstacles to overseas expansion.

Research Question 5. How might the U.S. government better assist small firms to overcome these costs?

The U.S. government offers a variety of programs to assist American companies seeking to export their goods and services (Moini, 1998). Thus, an underlying theme of this research must be the public policy implications of the findings. In their work in the United Kingdom, Atherton and Sear (1997) and Lloyd-Reason, Sear, and Mughan (2003) point out that potential problems with government assistance programs arise due to incomplete understanding of the government assistance process.

Research Methodology

This research proposes the use of a case-study method as a highly valuable qualitative research strategy. The choice of a case study method is theoretically driven. Recent studies of the activities of small firms (St. John and Heriot, 1991; Abdel-Latif and Nugent, 1996; and Rialp-Criado, Urbano and Vaillant, 2003) have demonstrated that case research has a high exploratory power and allows dynamic, decision-making processes to be more deeply investigated (Audet and d'Amoise, 1998). In particular, the case-based methodology is applicable to the discovery of the process of developing a foreign market. It overcomes some methodological limitations associated with previous research (Aldrich and Martinez, 2001).

This gap in the literature points out the need for further new theory development. In fact, in their study of the international efforts of small firms, Rialp-Criado, Urbano and Vaillant (2003) argue that the use of traditional quantitative survey methods may not be appropriate as it may yield empirical difficulties. More recently, Lloyd-Reason, Sear and Mughan (2003) argue that a lack of process understanding, in part, stems from a paucity of multi-disciplinary studies and a tendency to use quantitative methods to provide insights into internationalization in the SME. They echo the need for process insights made by Aldrich and Martinez (2001) who suggest that there is a need to explore the interaction between process and context and how this influences entrepreneurial behavior. Thus, the parallel case methodology is very well suited to the current research.

Interview Firms

A list of small firms was provided to the researchers by the South Carolina Export Consortium. The South Carolina Export Consortium (SCEC) is a not-for-profit organization that assists South Carolina companies with international trade issues. They help small to medium-sized companies in South Carolina to expand and increase their competitiveness through international trade by providing export market studies and consulting services, problem solving and on-site training (SCEC Website 2004). They offer export market studies, country-specific market entry strategies, business plans and consulting services, tailored to meet a company's particular requirements. They also assist companies in working through urgent needs and immediate trade-related problems from finding a freight forwarder to understanding letters of credit. Over the past six years, they have assisted several hundred small firms. At some point in time, each of the participant firms had met with the SCEC, although the extent of assistance varied considerably. Some firms received in-depth research reports while other firms only received preliminary export counseling of a general nature.

As the literature recognizes the unique differences between small firms that have an ongoing export strategy and those that are deciding whether to export or not, we made every effort to select a broad, cross-section of small firms that were engaged in exporting. Most of the firms were fairly new to exporting while other firms had considerably more experience with exporting. This emphasis on including some firms that were new to exporting overcomes potential limitations of prior research. Thus, like Rialp-Criado, Urbano and Vaillant (2003), we propose to use a rigorous application of the multiple-holistic case study approach to the export efforts of nine existing businesses in South Carolina. Firms were carefully selected to ensure that both manufacturing and marketing firms of different sizes were chosen. They were selected in such a way that should make them differ, though by *a priori* predictable reasons, along key dimensions previously developed according to our literature review. Specifically, one of the researchers developed a large list of firms from the SCEC database. This list was screened based upon the availability of executives to meet with the researchers. The resulting process yielded nine participating firms.[1]

The researchers interviewed the founder, CEO, or other senior officer of the small firm. These individuals are directly responsible for the strategic direction their companies pursue. They possess direct knowledge of their company's experience. Previous research has supported the importance of interviewing owner-managers (Audet and d'Amoise, 1998; Carrier, 1999).

As described in Table 1, the nine firms selected included four electrical development and manufacturing companies (musical instrument, fast food order system, solar instrument, and measuring devices), two heavy manufacturers (metal manufacturer and secondary market textile equipment manufacturing and repair), a textile products converter, a commercial reseller, and a nutraceutical company. [2] The electrical companies use advanced technology, but are not high technology firms in the sense of computer hardware and software firms. The firms have been in business from 1 to 50 years (median 10 years), have 2 to 130 employees (median 12), have $500 thousand to $15 million in sales (median $1.5 million), and have exports that account for 3-18% of sales (median 10%).

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[1] This study was limited to nine participants in order to comply with the Paperwork Reduction Act. By limiting the study to 9 firms, approval was not needed from the Office of Management & Budget, which reduced the research time line by over 3 months.

[2] Company names were disguised at the request of company officials.

Table 1

		1	2	3	4	5	6	7	8	9		
		PT	TK	SC	SP	BL	TT	AF	IM	BS		
1a	Type of business	Music Inst	Food Order Sys	Solar Inst	Measure Dev.	Heavy Mfg.	Textile Equip.	Textile Convert.	Reseller	Nutraceutical	Range	Median
1b	Person Interviewed	S	S	S	C	F	C	S	S	S		
2a	Strategic Decisions	S	S	S	C	S	C	S	S	S		
2b	Int'l Decisions	S	S	S	C	S	C	S	S	S		
3	Years In business	10	9	4	33	50	16	13	6	1	1-50	10
4	# of Employees	13	24	2	50	130	12	8	2	10	2-130	12
5	2003 Sales (Million)	1.5	1.2	0.5	6	15	1.5	2.8	0.5	0.5	.5-15	1.5
6	% Export Sales	3	18	5	10	15	3	15	15	5	3-18	10
7	% of Capacity?	100	35	Low		60	50	100	NA	Low	0-100	50
Legend:												
S	Owner or Co-owner (Shareholder)											
C	CEO											
F	Close Relative Of Owner											

Analysis

We used a triangulation technique in the data collection stage. We collected data from several information sources (in-depth interviews with entrepreneurs, founders and/or managers deeply involved with international decision-making processes, companies' websites, internal and external documentation, product and firm brochures, and other secondary data). During the interviews, questions were asked and notes were taken by two interviewers. This approach was used successfully in previous research on behalf of the SBA (St. John and Heriot, 1991) as well as on recent research on the international efforts of entrepreneurial firms (Rialp-Criado, Urbano and Vaillant, 2003). Complete write-ups were prepared on each case company, focusing on the specific characteristics of each case situation.

In the analysis phase of this research, the nine case studies were cross-analyzed to identify generalizations from firms with similar theoretical conditions. According to Yin (1998), analytical – not statistic - generalization of the results of the several cases being used can be obtained by means of applying replication logic (whether literal or theoretical). A pattern matching analytical procedure can be used to contribute building theory or testing the received theory and developing further explanation of the research phenomenon.

Results

The interviews were conducted in the late winter and early spring of 2004. The researchers asked a series of 39 questions to senior management of each of the nine firms. (See Appendix A for the questions asked and Appendix B for a brief summary of the answers given. Portions of Appendix B will be reproduced in tabular form as the results of those questions are reported at the beginning of each section of the results.) Interviews were conducted for between 60 and 120 minutes. Some of the interviews required more time than other interviews because of the personalities of the company executives. For example, the last company executive was a very busy individual that answered each question thoroughly, but without unnecessary conversation such as social amenities. Other participants chose to spend a little bit more time getting to know the researchers before proceeding with answers to the interview questions. An advantage of the interview methodology is that it starts with structured questions, but allows open-ended discussion between the researchers and the managers.

The questions in the instrument are divided into five sections: the firm's background, exporting experience, product information, target market information, and feedback on costs and barriers of exporting, as well as feedback on exporting assistance.

As the research methodology has already described the background of each participating firm, these results will not be addressed further. The second section of the interview used six questions to evaluate the exporting experience for each firm[3]. In response to the issue of exporting experience, all of the firms export their products to international markets. The firms have been exporting for between 1 and 16 years, with only one firm exporting for more than 10 years. Most of the firms have been exporting in the range of six years. The participating companies have sold their products throughout the world to customers in Mexico, Canada, Brazil, Saudi Arabia, England, Germany, former Soviet Block countries, Belgium, Egypt, Israel, Australia, The United Arab Emirates, Italy, Northern Ireland, France, Sweden, South Africa, and portions of Asia.

[3] The remainder of this section is a summary of the questions asked and answers given by the nine firms that were interviewed. The summary of the questions and answers is in the same order as the questions and answers from tables 2 and 3. Refer to these tables for more detail.

Table 2

		1	2	3	4	5	6	7	8	9
		PT	TK	SC	SP	BL	TT	AF	IM	BS
		Music Inst	Food Order Sys	Solar Inst	Measure Dev.	Heavy Mfg.	Textile Equip.	Textile Convert	Re-seller	Nutra-ceutical
II	**EXPORTING EXPERIENCE**									
8a	Currently exporting?	Yes	Yes	Have In Past	Yes	Yes	Yes	Yes	Yes	Yes
8b	Strategy	Re-active			Trade Partner					React Internet
9a	Export motivation?	Belgium Dist	Active Pursue	Prod ForI-srael	Inc Sales Base	Cust. Inquiry	Growth Opp	Res-ponds	Web In-quiries	
9b	Proactive or Reactive?	Mildly Pro-active	Pro-active	Pro-active	Proactive	Re-active	Reactive	Re-active	Re-active	Reactive
10	Qualified staff for int'l	Owner	Co-Owner	Co-Owner	CEO	Owner	CEO	Owner	Owner	Co-Owner
11	Focus Growth? Profit?	Growth	Profit	Growth	Growth	Profit	Profit	Profit	Both	Growth
12	Sac Prof For Int'l Growth?		Yes	Yes	Yes	Yes	Yes	Yes	No	A Little
13	Adequate Working Cap?	Line of Cr	Yes	Yes	Yes	Yes	Yes	Yes	NA	No

Motivation for exporting was also considered. Most of the firms in this study could be categorized as reactive in their motivations (n=6), rather than proactive (n=2) or mildly proactive (n=1) (Czinkota and Tesar, 1982). The reactive companies' stimuli for exporting was usually in response to unsolicited orders which required them to follow-up on the lead.

While three of the companies are proactive, their approaches to the exporting process were not very aggressive. None of these firms advertised their products in international trade journals. In fact, only two companies' executives regularly traveled overseas. Thus, they initiated contact with potential and current customers, but they did so on a limited basis. For example, one of the heavy manufacturers has developed a very strong relationship with a British customer. They have invested time and personnel to meet the needs of this one customer, but have not chosen to pursue other opportunities overseas.

The respondents expounded on their current distribution channels with respect to exporting. The firms generally react to overtures from customers, often from their web site and pursue international business for the growth opportunity.

Sales to international customers are generally treated as just another business opportunity, rather than as an entirely separate market. One half of the firms said that they emphasize growth and one half emphasized profits. With regard to the question of international staff, the firms generally do not have an expert or department for international business. The CEOs or Senior Vice Presidents we spoke to indicated that their international skills were developed internally, usually through trial-and-error. Since most of the firms are small and did not see exporting as a large part of their business, they have not yet begun devoting human resources to exporting.

Companies were asked if they are willing to give up short-term profits during the start-up period of international expansion. Seven firms indicated that they would sacrifice profits for growth. Four of these seven firms previously indicated that they emphasize profits. This comment seemed to contradict their earlier statements that stated that they would give up profits to grow. However, upon further discussion, these four CEOs noted that they only were prepared to sacrifice profits in order to grow internationally.

According to the literature, a possible barrier to small firms seeking to export is their ability to obtain the necessary working capital for exporting, yet the nine firms generally seem to have adequate working capital to meet the needs of international business. One firm initially indicated that working capital was an issue, but the owner said he had recently formed an alliance that resolved this problem. In addition, these firms do not extend credit on international sales, so working capital is not a significant issue. None of these companies has a physical presence overseas. Therefore, it would be quite risky to extend credit unless they had established a continuing business relationship.

Except for the apparent contradiction between growth and profit, the responses to the exporting questions are internally consistent. Because the firms are still quite small, they do not feel justified in hiring personnel solely for their international business. International business is not a large percentage of these firms' business; therefore, they currently have adequate working capital to meet their export requirements.

The third section of the interview addresses product information. The HS/SIC codes are listed in Appendix B and Table 3. The companies were asked to evaluate whether their products are unique or hi-tech in nature. Five of the small firms interviewed do not have unique or high technology products. Two of the firms use technology in their products, but the technology is not high tech. One of the remaining firms used a licensed technology from a larger competitor and the final firm had a fairly unique process.

Table 3

		1	2	3	4	5	6	7	8	9
		PT	TK	SC	SP	BL	TT	AF	IM	BS
		Music Inst	Food Order Sys	Solar Inst	Measure Dev.	Heavy Mfg.	Textile Equip.	Textile Convert.	Reseller	Nutra-ceutical
III	**PRODUCT INFORMATION**									
14	HS/SIC Code	339992	339950	238220	334513	331319	333292	336360	333415	325411
15	Prod Unique? High Tech?	Lic. Tech	Mo-derate	Moderate	Unique Proc	No	No	No	No	No
16	Int'l Price Competitive?	Yes	Higher	No Compet.	Yes& Better	Un-known	Un-known		Yes	
17	Int'l More Profitable?		Same				Yes		No	
18	End Users?	Re-tailers	Retailers	Govt& Man	Manu-fact	Manu-fact	Manu-fact	Distri-butors	Com-mercial	Consumers
19	Require Much Training?	Some	Yes	No	Yes	No	No	No	No	No
20	After-sale Support?	No	Internet	No	Some	No	No	No	No	No
21	Modification For Int'l		Certi-fication	No		No	No	No	Some	Some
22	Alter Packaging For Int'l	Some		No	No	Pro-tective	No	No	Yes	Labels
23	Export License?	No	No	No	No	No	Un-known	No	No	No
24	Payment Terms?	Pre-pay	Prepay, n30	Pre-LOCDocs	Prepay, LOC	Wire	Prepay	Pre-LOCDocs	Prepay, LOC	Prepay

The respondents did not have reliable evidence of their product's price levels in overseas markets compared to the competition. They generally think that they are price competitive, but have not done extensive market research to confirm this expectation. With regard to profitability in overseas markets, the products are not more profitable in overseas markets because the firms usually charge the same price for international sales as they do for product sales in the United States. In addition, the customers bear shipping and customs costs, so profitability is not adversely affected by these additional costs associated with exporting.

The respondents also discussed who the end users of their product were. Eight of the companies sell to wholesalers or manufacturers. Their international sales tend to be to intermediate, downstream markets, rather than to final consumers. One company, however, sells to consumers via a website although these transactions are time consuming due to the customs process. None of the nine company products require extensive training for customers to use their products. Their products do not incorporate high technology components and thus do not require extensive training. In addition, they do not require after sales support nor do the products generally require modification for international sales.

Packaging is an issue for some of the firms. Some labeling changes are made to meet language and regulatory requirements. However, one firm notes that some European countries require certifications that are extremely expensive and must be repeated for each product and each modification of a product. Another firm notes that their goods must be shipped on a different type pallet because their usual pallets contain bacteria.

The respondents have little knowledge of export licensing requirements. They report that their firms do not require export licenses and are generally unaware of transportation costs and import fees since these are paid by the customer. This lack of knowledge of transportation and import fees indicates a general lack of sophistication since any costs paid by the customer directly raise the selling price of the product.

Potential barriers include the fear of nonpayment or actual non-payment by a customer. The nine firms generally do not extend credit, but require prepayment, a wire transfer, or a letter of credit. Only two of the firms actually mentioned failure to pay as an issue.

The responses to the product questions seem to be internally consistent. The companies tend to sell products internationally at the same prices as they sell their products domestically. The firms treat international sales as they would any other domestic business opportunity.

The fourth section of the interview addresses target market information. About half the firms know their top international markets and generally think that international markets are favorable opportunities for their products. The firms have some sense of international competitors, but often do not seem to have a strong knowledge of the competition. The firms usually have little knowledge of import duties and do not have representatives in foreign countries or use sales agents in foreign countries. Furthermore, only four of the nine companies indicated that they had developed a formal plan for international business. In addition, none of the firms advertises in international trade magazines, although some of them are able to make foreign contacts through domestic trade shows. Thus while the firms perceive international markets are favorable for exporting, most of them do not have any strong evidence to substantiate this conclusion.

Table 4

		1	2	3	4	5	6	7	8	9
		PT	TK	SC	SP	BL	TT	AF	IM	BS
		Music Inst	Food Order Sys	Solar Inst	Measure Dev.	Heavy Mfg.	Textile Equip.	Textile Convert.	Re-seller	Nutra-ceutical
IV	**TARGET MARKET INFORMATION**									
25	Know Top Int'l Market?	Un-known	Ger,Fr, UK	Un-known	Yes		Un-known	Middle East		Resear-ching
26	Favorable Int'l Mkts?	Unknown	Yes	Yes	No	Yes	Yes	Yes		
27	Domestic&Int'l Competition?	Yes	2 or 3	No	Several	China	Yes	3 Firms	Many	Yes
28	Import Duties	3.10%	Unknown	Un-known	Un-known	17%	Un-known		Un-known	Un-known
29	Have Int'l Agents?	Hard To Find	No	Later	Ger & UK	No	No	No	No	No
30	Int'l Busn & Mkt Plan?	No	In-adequate	Yes	Con-tinuous	Con-tinuous	No	No	No	
31	Advertise In Int'l Journal?	US(Int'l Circ)	Use Web	Not yet	Yes	No	No	No	Cat Show	Some

The responses to the target market questions also seem to be internally consistent. Since the firms are small and don't see exporting as a large part of their business, they capitalize on opportunities as they are presented to them. Therefore, given their limited exporting efforts, they do not perceive a need for international market research and do not conduct advanced international marketing efforts.

The fifth section of the interview asks for feedback on costs and barriers that effect exporting. In addition, the firms responded to questions about export assistance as part of this section of questions. Although the firms do not have formal export departments, there is at least one person in charge of exporting, usually the CEO. Although international sales are not a large part of their total volume and profitability, all of the firms intend to increase their international sales. A major challenge to the international business efforts of seven of the nine firms is simply a problem of logistics (how to get goods shipped). In addition, four firms cited the customs process as a major challenge. Learning about logistics and customs is time-consuming, but once the information is learned, the firms have been able to perform these functions without great difficulty. This issue is an important distinction. Seven respondents emphasize that logistics is a burden, but not a barrier that cannot be overcome. In other words, none of them has been so overwhelmed by the process of logistics and customs that they have been prevented from exporting.

Table 5

		1	2	3	4	5	6	7	8	9
		PT	TK	SC	SP	BL	TT	AF	IM	BS
		Music Ins	Food Order Sys	Solar Inst	Measure Dev.	Heavy Mfg.	Textile Equip.	Textile Convert.	Reseller	Nutra-ceutical
V	**COSTS & BARRIERS TO EXPORTING**									
32	Importance Of Int'l?	Export Dept	Export Dept	Not Import	Export Dept	Reactive	Reactive	Not Import	Export Dept	Reactive
33	Plan To Inc Int'l Effort?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
34	Challenges To Int'l?	Logistics		Logistics	Logistics	Logistics		Logistics	Logistics	Logistics
		Customs	Customs		Customs	Customs				
				Language	Language		Language			Language
					Prospecting		Prospecting	Pros-pecting		
				Get Paid					Get Paid	
					Pol. Barriers		Resources	Ethics		Pol.Barriers
					Int'l Info			Time Zones		
35	Type of Useful Assistance	Trade Shows	Trade Shows		Trade Shows					
				Ex Counsel				Ex Counsel		
			Seminar				Mkt Plan			
			Market Study						Cat. Shows	
36	Trade Assist. Used	Ex Consort	Ex Consort	Ex Consort	Ex Consort	Ex Consort	Ex Consort.	Ex Consort.	Ex Consort.	Ex Consort.
			SCDOCom	SCDOCom			SCDOCom		SCDOCom	SCDOCom
			USDOCom	USDOCom			USDOCom		USDOCom	USDOCom
			ExImBank						SC DOAg	
37	Costs Of Int'l Sales	Travel		Travel		Travel		Travel		
		Shipping				Shipping		Shipping		
				Bank Chg				Bank Chg		
				Exch Risks		Exch Risks				
				Regulation	Regulation					
		Trade Shows	Psycho-logical		Docs	Time Zones	Mkt Res	Frt Ins		
							Uncertainty			
							Tech Theft			

Language is somewhat of a problem for four firms, but that problem is reduced because a large portion of business is done via e-mail and many of their customers write in English. Prospecting for customers is a problem for three firms, but it is not a major problem because the firms tended to react to opportunities as they are presented. If prospecting were easier, would firms become more proactive? Stated another way, are these firms reactive because prospecting is difficult, or are they simply reactive?

Two firms also have some problems getting paid, but this problem is reduced by prepayment, letters of credit, etc. It is interesting to note that these firms do not utilize the international branches of United States banks to facilitate payment, just like they might have used a domestic branch of a bank for sales in the United States. One firm noted that product certification is a difficult challenge. He noted some European countries have very expensive certification processes that must be undertaken for each product and each change to a product. Even getting information about the certification process is difficult. This respondent seemed to believe this was an area in which the U.S. government may be helpful.

A second firm noted that exporting to Middle East countries is difficult because of differences in times zones and because some retail dealers in the Middle East ask the United States firm to falsify invoices, in an effort to pay a lower tariff. A third firm noted that different countries have different labeling requirements and don't allow certain ingredients in products. This firm was the only firm that actually had a sale cancelled due to customs regulations. Finally, one firm noted that more financial resources would be needed for exporting to be increased, although this issue was not currently a problem.

Instead of actively seeking to export, the firms studied tend to react to unsolicited export opportunities, often received on a company web site. This response is consistent with the received literature (Atherton and Sear, 1997). Communications and language are not difficult barriers because the firms actively use e-mail and had web sites. The customers in other countries tend to be at least conversant in English. Since much of the communication is by e-mail, the language barrier is reduced. In addition, the firms do not have as much trouble physically shipping goods as *learning how* to ship goods, meet customs requirements, regulatory requirements, etc.

In response to a question regarding challenges to exporting, other factors were identified by the small firms as being their greatest challenges to exporting, but it must be stressed that none of the firms dwelled on these challenges or emphasized them. Four of the companies note that customs clearance is an issue. Yet, customs clearance is not noted as a continuing problem by these four companies. The respondents treat most of these "greatest challenges" as being an annoyance or bothersome as opposed to being factors that truly prevented them from selling their products overseas. All of the nine firms have overcome these potential barriers.

Feedback on export assistance was also provided by each respondent. Among the participants, three firms note that trade shows are helpful and two firms note that export counseling is useful. The South Carolina Export Consortium is listed as a source of exporting assistance for all nine participants[4], as is the South Carolina Department of Commerce [n=5] and the U. S. Departments of Commerce [n=5].

Based on face-to-face interviews, the nine participants did not regularly use state or federal export assistance programs, although they were aware that such programs may have been available to them. This result is somewhat surprising as South Carolina has a state level exporting office and its two largest public universities have international programs or centers, including one of the top two international business programs in the U.S.[5]

Costs were treated as a separate item during the interviews. Previous research suggests that costs of acquiring business contacts are high, that communications are difficult because of distance and language barriers, and that there is difficulty in physically getting goods to the foreign markets (See, for example, Dhanaraj and Beamish, 2003).

Many of the small firms say that their costs of international sales include travel, shipping, banking, and regulation. However, these costs were not exorbitant or excessive to the point that they served as barriers to exporting. During each interview, the researchers were able to engage the participants in informal conversations. During these conversations, the participants indicated that psychological barriers such as fear and uncertainty of getting into international markets and logistical problems of shipping and customs dominate any out-of-pocket costs of conducting international business.

Several of the participants took time to expound on the costs, challenges, and barriers they encounter when trying to make the transition from domestic sales to international sales. They did not specifically identify any category of factors as being significant obstacles to their foreign market entry. In fact, their comments were not expected. Transaction costs that have typically been identified as possible barriers to foreign market entry were not emphasized by the nine participants.

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[4] This result is not surprising since the list of firms came from the South Carolina Export Consortium.

[5] The University of South Carolina is consistently rated as having the second best International Business program in the country. The Thunderbird School - The Garvin School of International Management - is the highest rated program.

The only costs that were identified by more than two of the nine participants were the costs of travel (n = 4) and the costs of shipping (n = 3). Bank charges, exchange risks, and regulation were also mentioned by two respondents, respectively. No other explicit transaction costs were emphasized.

Language was also noted as a potential challenge by four companies, but these firms noted that communication in English was usually possible. In fact, none of the respondents indicated that they possessed foreign language skills. Thus, communication in English was a necessity for them.

Logistics was the most frequently sited challenge among the respondents (n = 4). Nonetheless, as with customs clearances, none of the firms belabored this point. The respondents seemed to treat these types of barriers as a part of the exporting process that could be overcome with time and experience or through the use of an exporting company or freight forwarder. Again, logistics problems were more of a "hassle" than an entry barrier that prevented the firms from exporting.

In fact, only two participants specifically highlighted any barriers that could not be overcome. For example, one participant noted that an ingredient of their nutraceutical formulation was banned in Canada and another firm expressed concern over certification issues in Germany that limited his firm's ability to modify products that were already certified.

Summary

Comments on market knowledge were in sharp contrast to the initial inquires about costs or challenges that they faced when trying to enter foreign markets. Categories that previous studies had noted as having a major impact on exporting were brushed aside by the nine participants as annoying, but not overwhelming. Some of the nine participants acknowledged that they were not truly aware of the exporting opportunities that may exist for their product. In fact, five of the nine companies did not have a written business or marketing plan for selling their products overseas. This lack of insight was in sharp contrast to their understanding of their domestic market. Each of the companies indicated a rather detailed understanding of their respective domestic markets, as well as where there company competed in this market.

The realization that five of the firms had not developed international business plans or market studies was a startling revelation. Clearly, these firms did face a possible barrier to exporting. Their lack of information was a signal of at least four possible barriers: locating/analyzing foreign markets, finding international market data, identifying business opportunities, and contacting overseas customers. Yet, this finding must be considered within the context of the firms' internal situation. Only three of the nine firms had more than twenty employees. Thus, they may have been somewhat constrained by a lack of trained personnel. This lack of personnel may diminish as a barrier as each of these firms grows. Thus, their small number of employees may prove to be a roadblock that will be overcome as they grow.

Discussion

The purpose of the proposed research was to investigate the barriers to foreign market entry by small U.S. firms. The basic premise was that identifying these barriers would better help the researchers identify the costs of internationalizing. By identifying these costs, advice could be provided to small business owners seeking to export. Policy makers could also use this information to better assist small business owners through training programs and other forms of public assistance, especially given the overwhelming evidence that these programs have such a positive influence on entrepreneurs (See, e.g., Chrisman, 1999; Chrisman and McMullan, 2000; and Chrisman and McMullan, 2004).

Most of the firms in this study could be categorized as reactive in their motivations. Their stimuli for exporting was usually in response to unsolicited orders which required them to follow-up on the lead. Their motivations to export were not necessarily indicative of aggression. For example, none of the firms advertised their products in international trade journals. In fact, only two companies' executives regularly traveled overseas. While three of the firms might be considered proactive, their approaches to the exporting process were passive. Yet, this approach is not necessarily inexplicable when one recognizes just how small these firms were. Only three of the firms had twenty or more total employees. More importantly, each of the companies had only one staff member that was responsible for international activities. This individual was always either the owner or co-owner in all of the firms (n = 9). Thus, it is not necessarily surprising that these individuals were not necessarily pursuing exporting with greater commitment or enthusiasm. They literally had very little time to emphasize both domestic and prospective international firms, so they emphasized their current operations.

Despite the differences among the firms and the characteristics of their products, we observed notable extensive use of the Internet for communication and international marketing activities. The introduction of the electronic mail via the Internet and the use of websites to promote products and to conduct business transactions has changed the nature of distribution and marketing for some firms. All of the firms emphasized the use of the Internet for some major function related to their current exporting efforts. While our interview process was not able to fully capture the impact of the Internet in objective terms (e.g., percentage of sales attributed to a web site), it was clear that each company valued their ability to use the Internet, although none of them actually provided objective evidence (increased sales) of its benefit to them.

Each of individuals that participated in this study emphasized their use of the Internet in some way. Some firms had developed extensive web sites for their customers while other firms relied on e-mail to communicate with overseas customers. This use of the Internet by small exporters is consistent with the findings of other studies such as Moen, et. al. (2003) and Hamill and Gregory (1997). However, Moen and colleagues suggest that "the Internet's limited capability as a substitute for personal sales, including relationship development through face-to-face interaction in the selling process. In identifying potential customers and providing post purchase service and support, the Internet seems to be important, but the critical task (obtaining the order) still rests on the personal sales effort" (Moen, et. al., 2003, p. 145). Therefore, small firms will likely not have the resources to have an international sales force.

A firm that develops a web site is not directly soliciting orders from customers, but is allowing potential customers to easily contact them. The Internet affords these firms the opportunity to bypass traditional distribution channels in order to directly communicate with the customer while also avoiding significant costs. Today, firms with an Internet site have the ability to be contacted by many prospective more customers regardless of their relative locations, but the percentage of sales closed will be much lower than from personal sales. However, the much larger number of potential sales multiplied by the lower closer percentage may result in larger sales. The firms in this study seem to be trying to capitalize on the benefits of the Internet.

A fundamental issue in strategic management is to know your target market. Four of the companies in this study did not have a clear understanding of their firm's top international market. Clearly, this lack of information presents serious challenges to a firm that is attempting to export its goods or services. While five of the companies indicated they knew their top international market, the fact that seven of the firms noted that their business plan or market plans were inadequate or non-existent raises serious questions about just how much information any of the companies had regarding international markets. More importantly, it points to the opportunity costs these firms have due to their lack of resources (time and personnel). Many of these small firms could be classified as micro small businesses. The participants in this study clearly had to overcome opportunity costs that prevented them from devoting time, their most valuable resource, to the process of exporting. Transaction costs such as packaging, travel, customs clearances, shipping and logistics appear to be challenges, rather than insurmountable barriers to market entry (Porter, 1980; Dixit, 1989) to small firms. Opportunity costs were much more of an issue for these small firms.

Conclusions

This section reviews the findings as they specifically relate to each of the research questions that guided this study.

1. *What is the primary motivation for small U.S. firms to begin exporting to foreign markets?* The literature suggests a variety of motivations for international business that range from proactive to reactive. Six of the nine firms interviewed were reactive and entered the export market in response to inquiries from potential customers. The mildly proactive firm entered the export market after examining old customer files after a change in ownership several years ago. The textile converter said, "They will find me. They know how to find me better than I know how to find them." He already spends a considerable amount of time attending two domestic trade shows and is operating at or near capacity, so he simply does not have the time to be more proactive. A reactive exporting posture is simply better suited to his situation.

2. What costs are incurred by small firms when they initially seek to export? The literature has emphasized out-of-pocket transaction costs (Atherton and Sear, 1997; Abdel-Latif, et. al., 1996). For the firms in this study, out of pocket costs do not appear to be the primary barrier to exporting. Rather, psychological, personal, and opportunity costs were more important barriers. For example, a small retailer showed the researchers how difficult and time consuming it is to properly prepare labels for international shipments of small orders. This study found that opportunity costs were profoundly important to the small firms.

3. What is the magnitude of exporting costs relative to the firm size?

Transactions costs of international market entry may be so prohibitive for some small firms because certain costs of exporting (primarily start-up) are fixed and thus may be prohibitive to a small firm. For example, the largest firm in our study discussed how important it is to efficiently pack shipping containers to maximize the amount of goods that can be shipped. This is a primary responsibility of a production manager. It took some time to learn this skill. The time devoted to learning this task was costly to this firm, but could be prohibitive to a smaller firm with just a few employees because of the opportunities that would have to be foregone by the very small firm. The Vice President we spoke to described a process that took 12 months to develop a relationship with their British customer. The time they devoted to this process of meeting the overseas' customers stringent demands took them away from their normal duties. Thus, their domestic customer relationships were potentially threatened.

4. Which of these costs inhibits the small firm from exporting?

Typical transaction costs were described by each of the participants in this study. Examples of these costs included, but were not limited to, travel, logistics, shipping, and costs. Yet, these costs were not emphasized as barriers that could not be overcome. In fact, each of the participants seemed to be very pragmatic in their attitude toward these costs. These costs of doing business internationally were not necessarily treated differently than the costs associated with meeting the demands of a domestic partner.

This research study found that psychological, opportunity, and personal costs were the largest barriers to exporting. The solar instrument maker expressed concern that if he pursued an overseas opportunity, he would forego opportunities in the U.S. He said, "The domestic market is strong, so most people have not pursued international opportunities." The other participating CEOs expressed similar concerns with the costs they would incur if they ignored domestic customers while they devoted time or personnel on international business.

Psychological costs were also an issue. In this regard, uncertainty seemed to be the most critical psychological barrier. One of the heavy manufacturers expressed uncertainty over how to pursue his international efforts. "We are struggling to get to the next level – international. The problem is finding the right alliance to do that. We need a distributor that is motivated with expertise and contacts."

5. How might the U.S. government better assist small firms to overcome these costs?

Most small firms tend to be reactive as they respond to international sales opportunities rather than proactively seek them, especially in their initial approaches to foreign markets. The reasons for their reactive nature are due to, but not limited to, (a) economies of scale, (b) the large number of small businesses that sell non-tradable services, and (c) the enormous size and attractiveness of the U.S. market which makes international markets less attractive as compared to nations such as Japan and Singapore.

In spite of the reactive nature of many small firms, their sheer size and percent of the overall export market (ITA, 2003), suggests that some existing government export promotion programs should pay attention to small exporters. In order for these government programs to assist small exporters, they need to have a better understanding of the nature of small exporters. For instance, many small firms operate in service sectors, such as beauty salons and restaurants, that are non-tradable. On the other hand, other small service businesses operate in sectors, such as consulting firms that deal with technological and business "know-how" that require high and intensive human capital, that are tradable. Thus, government export promotion programs should tailor their programs to meet the unique needs of these small, specialty service companies.

Limitations

This research did have one major limitation that should be noted. This study clearly used a small number of respondents (9), which prevents generalization usually sought in more objectivist research. However, the primary goal of this research was to explore in depth the issues associated with barriers to foreign market entry. The subjective approach used here has been recognized for its unique ability to permit respondents to consider all aspects of each question or topic without artificially constraining them as would occur with a mailed survey instrument. In fact, the opportunity costs of each of the respondents was reinforced initially as a potential issue because meetings were difficult to schedule or often had to be rescheduled because of the busy schedules of the participants, thus laying the foundation for the difficulties that the owners of small firms experience trying to balance day-to-day operations with strategic endeavors such as the market development activities associated with exporting.

Future Research

This research has provided the results of a qualitative study of nine small firms to gain insight into the market and non-market barriers to foreign market entry. This study represents an important first-step to systematically identify the actual costs or barriers that small firms may encounter in their initial attempts to market their goods and services. The limitations noted earlier serve as a possible avenue for future research. Clearly, a study of nine firms can not be generalized to the larger population of small firms that export in the U.S. Nonetheless, this study serves as a valuable point of departure for future research because it suggests that opportunity costs as well as transaction costs are important to our understanding of what may serve as barriers to exporting by small firms.

Some researchers argue that most small firms may scan the environment for opportunities and threats as they consider their options for exporting. However, some of the firms may perceive international sales as an opportunity while others perceive the same information as a threat. Burpitt and Rondinelli (2000) argue that small firms that pursue exporting may simply assign “different meanings and values to similar circumstances and thus respond differently to events in their environments.” In other words, in the face of similar stimuli from the external environment, they may continue to pursue exporting while another firm may choose not to do so. Therefore, government programs should focus on training managers to think of exporting as a learning process. The managers must internalize their experience, learn from it, and use that knowledge to generate satisfactory economic returns. Returns can be increased if managers share the information they have obtained with others. This cooperative approach is commonly used by professional organizations (lawyers, accountants, engineers, physicians, even professors).

Future studies may consider employing a research design that uses samples of small firms from the same industries. A sample of exporting and non-exporting firms from the same industry could help researchers and policy makes understand how exporting can be done successfully. Dess, Ireland, and Hitt (1990) demonstrate the use of single industry studies as a means to control for potential industry effects and they cite studies that have used this design. While a single such study lacks generalizibility, a series of such studies would prove to be quite valuable. More importantly, by focusing on a single industry, it may be possible to capture some of the differences that exist among companies of different sizes that are competing with one another.

The use of qualitative research methods is often dismissed in favor of more traditional empirical studies that often times overlook the complex issues that occur in an industry or within a business organization. However, future studies should consider employing a case methodology (Yin, 1994) to systematically evaluate how exporters and non-exporters are affected by the same phenomena.

Finally, like Leonidas (2004), we believe that future research should continue to assess the relative importance of the barriers to entry. The goal of this research should be to reduce the list of barriers to exporting to something that can be easily evaluated by small businesses seeking to export or to public policymakers seeking to reduce the inhibiting effect of these barriers, rather than to attempt to create an exhaustive list of possible barriers.

Summary

The literature has established the significance of small businesses to the American economy. Paralleling this literature is the emergence of a field of study that assesses the many facets of how a small firm might go about exporting its goods and services. Of particular importance are the barriers that raise the costs of foreign market entry for small firms seeking to export. Using a case method, this study gathered detailed feedback from nine small firms in South Carolina that have begun exporting their goods to foreign markets.

The feedback from the CEOs of these firms suggests that psychological, personal, and opportunity costs such as the time it takes to learn how to perform the logistics of exporting and overcoming the fear of exporting are often more important than the out-of-pocket costs of exporting. Thus, this study argues that researchers and public policy makers would be better served by developing a process to communicate information to small firms so that the firms can more effectively export.

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Appendix A

SBA FOREIGN MARKET ENTRY STUDY

FIRM BACKGROUND

1. a. What type of business are you in?

   b. Who is the person being interviewed and what is the title of that person?

2. a. Who is the strategic decision maker?

   b. Who makes international decisions?

3. How long has your company been in business?

4. How many employees does your company currently have?

5. Approximately what were the gross sales or receipts for your South Carolina operations in 2003?

   __ Under $500,000
   __ $500,000-$1 million
   __ $1-5 million
   __ $5-10 million
   __ $10-20 million
   __ $20-50 million
   __ $50-100 million
   __ Over $100 million

6. What percentage of your 2003 sales were exports?
    __ 0 %
    __ 1-5 %
    __ 5-9 %
    __ 10-19 %
    __ 20-34 %
    __ 35-74 %
    __ 75-99 %
    __ 100 %

7. What percent of production capacity are you currently utilizing?

EXPORTING INFORMATION

8. a. Are you currently exporting?

    b. If so, what are your current distribution channels (i.e., what is your strategy)?

9. a. Please explain your motivation for trying to export.

    b. Are you proactive or reactive?

10. Does your company have qualified staff for international expansion? (logistics, finance, marketing, quotation, translation, etc.)

11. Does management focus on sales growth or short-term profit maximization?

12. Is your company willing to give up short-term profits during the start-up period of international expansion? (Export might take up to 18-24 months to break even.)

13. Does your company have a problem in obtaining the necessary working capital for exporting?

PRODUCT INFORMATION

14. What is your products' HS/SIC code (if known)?

15. Are your company's products unique or hi-tech in nature?

16. Have you researched your product's price levels in overseas markets? If so, how does your price level compare to your findings?

17. Is this product more profitable in overseas markets?

18. Who are the end users of your product? (e.g., consumers, wholesalers, manufacturers, government)?

19. Does your company's product require extensive training for customers to use it?

20. Does your company's product require considerable after-sale support.

21. Does your company's product require modification in order to be marketable in overseas markets?

22. Do you have to alter the packaging of your company's product to suit overseas markets?

23. Does your company's product require an export license?

24. What terms of payment are you willing to accept from overseas clients? (prepaid, letter of credit, document collection, terms (30,60, or 90 days after shipment))

TARGET MARKET INFORMATION

25. Do you know the top overseas markets for your product/service? If so, what is the market demand for your company's product in each of the target overseas markets?

26. Is the economic condition of the target overseas markets favorable to selling your product?

27. What domestic and international products compete with your product and where are these products marketed?

28. Do you know the import duty level for your product in each overseas target market?

29. Does your business require agents in the overseas market? If yes, have you contacted or found any agents?

30. Have you developed a business/marketing plan for the target overseas market?

31. Have you advertised in foreign or international trade journals in the past? If so, how many trade leads resulted?

FEEDBACK ON FIRM PERFORMANCE & EXPORT ASSISTANCE

32. Which of the following statements best applies to your firm? Please select only ONE.

__ My firm has not considered exporting to be an important source of revenue.
__ My firm does not have a specific "export" program but responds to export opportunities.
__ My firm has a person or department whose duties include building export sales.
__ My firm has a person or department devoted exclusively to building export sales.

33. Does your firm plan to increase human and financial resources committed to exporting in the next year?

__ Yes
__ No

34. Consider each of the following issues one may face when exporting. Please indicate which of these you consider to be the greatest challenges for your firm.

__ language barriers
__ resource allocation\
__ cultural differences (not ethical)
__ logistics transportation
__ management (own firm) support
__ customs clearance
__ letters of credit
__ foreign marketing practices
__ political barriers
__ export project financing
__ locating prospective clients/customers
__ ethical differences

35. Consider the types of assistance listed below. For those you have used, indicate how useful the assistance was for YOUR firm by marking the number closest to your evaluation. Please assign a rating on a scale from 1 to 7, where 1 represents "Not Used" and 7 represents "Very Useful".

	0	1	2	3	4	5	6	7
trade leads (identify foreign buyers/customers)	__	__	__	__	__	__	__	__
overseas trade mission	__	__	__	__	__	__	__	__
export counseling (incl. seminars)	__	__	__	__	__	__	__	__
market plan development	__	__	__	__	__	__	__	__
trade shows	__	__	__	__	__	__	__	__
catalogue shows	__	__	__	__	__	__	__	__
export project financing	__	__	__	__	__	__	__	__
export tax credits	__	__	__	__	__	__	__	__

36. Listed below are the many organizations in South Carolina that offer trade assistance. Please check those that you are aware of and those whose services you have used.

__ South Carolina Department of Commerce
__ South Carolina World Trade Center
__ South Carolina Export Consortium
__ South Carolina District Export Council
__ United States Department of Commerce
__ South Carolina Dept. of Agriculture
__ JEDA/Business Carolina
__ United States ExIm Bank

37. Please describe the costs you have incurred that are directly related to your efforts to export your goods or services.

COSTS
Airfare/Hotels
Banking charges (service fees, interest)
Bid securities, performance securities, maintenance bonds
Business travel
Consultants
Credit/Background Checks
Entertainment/gifts
Exchange rate risks
Extended warranty cost
Forwarding Fees
Freight
Freight Insurance
International postage (documents/samples), telephone and fax rates
Market research
Packaging
Piracy / copying
Pre-Shipment Inspection Services/ Laboratory Testing (SGS or Bureau Veritas for example)
Product modification (non-recouped engineering/tooling)
Sales commissions to foreign agents
Special documentation costs (consular legalization)
Special export packing, handling
Standards / Registrations (CE Mark for example)
Surcharges
Trade shows
Translation costs (manuals, web, literature)
Other (Please Describe)

Please provide us with financial statements for the period just prior to your efforts to export as well as the period just after you began exporting. All information will be held in strictest confidence by the researchers. Your financial information will not be disclosed to anyone.

THANK YOU FOR YOUR COOPERATION!

SBA FOREIGN MARKET ENTRY STUDY					Appendix B				
BUSINESS BACKGROUND		1	2	3	4	5	6	7	8
I	FIRM BACKBROUND	PT	TK	SC	SP	BL	TT	AF	IM
1a	Type of business	Music Inst	Food Order Sys	Solar Inst	Measuring Devices	Heavy Manufact	Heavy Manufact	Textile Converter	Reseller
1b	Person Interviewed	Owner	Co-Owner	Co-Owner	CEO	Daughter Of Owner	CEO	Owner	Own
2a	Strategic decision Maker?	Owner	Co-Owner	Co-Owner	CEO	Owner	CEO	Owner	Own
2b	Who Made Int'l Decision?	Owner	Co-Owner	Co-Owner	CEO	Owner	CEO	Owner	Own
3	Years In business	10	9	4	33	50	16	13	6
4	Number of Employees	13	24	2	50	130	12	8	2
5	2003 Sales (Millions)	1.5	1.2	0.5	6	15	1.5	2.8	0.5
6	% Sales That Are Export	3	18	5	10	15	3	15	15
7	% of production capacity?	100%	35%	Low		60%	50%	100%	NA
II	EXPORTING EXPERIENCE								
8a	Currently exporting?	Yes	Yes	Have In Past	Yes	Yes	Yes	Yes	Yes
8b	Strategy	MildlyProact			TradePartner				
9a	Export motivation?	Belgium Dist	ActivePursue	ProdForIsrael	IncSalesBase	Cust. Inquiry	GrowthOpp	Responds	Web
9b	Proactive or Reactive?	MildlyProact	Proactive	Reactive	Proactive	Reactive	Reactive	Reactive	Reac
10	Qualified staff for int'l	Owner	Co-Owner	Co-Owner	CEO	Owner	CEO	Owner	Own
11	FocusGrowth?Profit?	Growth	Profit	Growth	Growth	Profit	Profit	Profit	Both
12	SacProfForInt'lGrowth?		Yes	Yes	Yes	Yes	Yes	Yes	No
13	Adequate Working Cap?	Line of Cr	Yes	Yes	Yes	Yes	Yes	Yes	NA
III	PRODUCT INFORMATION								
14	HS/SIC Code	339992	339950	238220	334513	331319	333292	336360	3334
15	Prod Unique?HighTech?	Lic. Tech	Moderate	Moderate	Unique Proc	No	No	No	No
16	Int'l Price Competitive?	Yes	Higher	No Compet.	Yes&Better	Unknown	Unknown		Yes
17	Int'l More Profitable?		Same				Yes		No
18	End Users?	Retailers	Retailers	Govt&Man	Manufact	Manufact	Manufact	Distributors	Com
19	Require Much Training?	Some	Yes	No	Yes	No	No	No	No
20	After-sale Support?	No	Internet	No	Some	No	No	No	No
21	Modification For Int'l		Certification	No		No	No	No	Som
22	Alter Packaging For Int'l	Some		No	No	Protective	No	No	Yes
23	Export License?	No	No	No	No	No	Unknown	No	No
24	Payment Terms?	Prepay	Prepay, n30	PreLOCDocs	Prepay, LOC	Wire	Prepay	PreLOCDocs	Prep
IV	TARGET MARKET INFORMATION								
25	Know Top Int'l Market?	Unknown	Ger,Fr,UK	Unknown	Yes		Unknown	Middle East	
26	Favorable Int'l Mkts?	Unknown	Yes	Yes	No	Yes	Yes	Yes	

26	Favorable Int'l Mkts?	Unknown	Yes	Yes	No	Yes	Yes	Yes	
27	Domestic&Int'lCompetition?	Yes	2 or 3	No	Several	China	Yes	3 Firms	Many
28	Import Duties	3.10%	Unknown	Unknown	Unknown	17%	Unknown		Unkr
29	Have Int'l Agents?	Hard To Find	No	Later	Ger & UK	No	No	No	No
30	Int'l Busn & Mkt Plan?	No	Inadequate	Yes	Continuous	Continuous	No	No	No
31	Advertise In Int'l Journal?	US(Int'l Circ)	Use Web	Not yet	Yes	No	No	No	Cat S
V	**COSTS & BARRIERS TO EXPORTING**								
32	Importance Of Int'l?	Export Dept	Export Dept	Not Import	Export Dept	Reactive	Reactive	Not Import	Expo
33	Plan To Inc Int'l Effort?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
34	Challenges To Int'l?	Logistics		Logistics	Logistics	Logistics		Logistics	Logis
		Customs	Customs		Customs	Customs			
				Language	Language		Language		
					Prospecting		Prospecting	Prospecting	
				Get Paid					Get I
					Pol. Barriers		Resources	Ethics	
					Int'l Info			Time Zones	
35	Type Of Useful Assist.	Trade Shows	Trade Shows		Trade Shows				
				Ex Counsel				Ex Counsel	
			Seminar				Mkt Plan		
			Market Study						Cat.
36	Trade Assist. Used	Ex Consort.	Ex Consort.	Ex Consort.	Ex Consort.	Ex Consort.	Ex Consort.	Ex Consort.	Ex C
			SCDOCom	SCDOCom			SCDOCom		SCD
			USDOCom	USDOCom			USDOCom		USD
			ExImBank						SC D
37	Costs Of Int'l Sales	Travel		Travel		Travel		Travel	
		Shipping				Shipping		Shipping	
				Bank Chg				Bank Chg	
				Exch Risks		Exch Risks			
				Regulation	Regulation		Mkt Res		
		Trade Shows	Psychological		Docs	Time Zones	Uncertainty	Frt Ins	
							Tech Theft		

Appendix C

Profile of Participating Firms

1. Company: PT

Company PT assembles electrical devices for the wholesale music industry. Their products are licensed through the licensee that holds a patent on the technology. The company has been in business for 10 years following the acquisition of the company by the owner. Annual sales are approximately $ 1.5 million and exports comprise 3% of annual sales. We interviewed the President of the company.

Their product continues to sell well in the U.S., but they have tried to pursue exporting opportunities in Europe after responding to an initial sales inquiry. However, they are very small firm with only 13 employees, so the owner must act as the President as well as the Director of International Sales, which is a daunting task.

2. Company: TK

This firm designs and manufactures specialized electrical products for the quick serve restaurant industry. We met with the founder and President. The company is approximately nine years old and has 24 employees. The company had $1.2 million in sales in 2003. They currently export eighteen percent of their total sales to international customers.

TK has found great opportunities in overseas markets including Europe and South Africa. However, like many of the other firms, they have not been able to justify the recruitment and selection of a staff member dedicated to international sales. Thus, the CEO is responsible for initiating and carrying out any international activities.

3. Company: SC

SC is a very small company with only two employees in addition to the founder and owner. We met with the owner. The company has only been in business for four years. Originally conceived as a wholesaler for a manufacturing firm, this company has recently pursued an initiative to assemble the product themselves for export to Israel. This plan was only recently implemented following the creation of an equity alliance with an outside angel investor. The company had annual sales of $500,000 in 2003 and exported only 5% of total sales. This company emphasized the use of their website to inform their customers. The owner spent considerable time managing the website's interface with several search engines which he believed were critical to generating sales leads.

4. Company: SP

This company is the manufacturer of special measuring devices for industrial firms. Their company has been in existence for over 30 years. The current President is the son of the founder of the company. They employ fifty persons and had total sales of $6 million in 2003. Their exports accounted for ten percent of annual sales in 2003. This company has been very aggressive in trying to sell their product overseas. The owner was extremely busy as he made two trips overseas to meet with potential partners in Italy. He is very optimistic about his company's product based upon what he believes to be a competitive advantage built around design and product quality. However, he did express concern over certification procedures that delay the introduction of his products even when only minor modifications are made.

5. Company: BL

Company BL is a manufacturer of fabricated specialty metal products. This company has been in business for over 50 years. The company has annual sales volume of approximately $15 million and exports comprise 15% of total annual sales. We interviewed their VP for Marketing, the daughter of the owner.

They currently sell their product domestically as well as in one foreign market. They have emphasized specialized processes for producing their finished product that are highly valued by their only foreign customer, a British company. They were contacted by this company after it was unable to find other suppliers in the United Kingdom that were able to meet its rigorous specifications.

The company anticipates dedicating additional resources to exporting. The company would like to hire a manager to work exclusively in international sales, but they have not been able to identify anyone that meets their requirements for this position.

6. Company: TT

TT is a company that refurbishes industrial parts for the textile industry. They refurbish and repair these parts for sale in other parts of the world where older textile weaving machines are in great demand. The President met with the researchers. The owner is not very active in the business on a day-to-day basis and the President has only a minority investment in the business. The company has been in business for sixteen years, although the current President has not been with the company the entire time. Annual sales in 2003 were approximately $1.5 million. Exports accounted for only three percent of annual sales. The company employed twelve production workers. The President believed that international sales were critical to his company's future given the state of the U.S. textile industry. However, he was not real sure how to pursue international sales.

7. Company: AF

This company manufactured specialized textile products to distributors around the world. The President met with the researchers. This company had 2003 sales of $2.8 million and exports accounted for fifteen percent of annual sales. The company has been in existence for thirteen years and employed eight personnel. The President was very confident in his firm's ability to sell overseas. He believed very strongly in his product going so far as to state that customers will find us. In spite of his enthusiasm, he acknowledged that all international sales were developed and finalized by him in addition to his duties as the President of the firm.

8. Company: IM

IM is a reseller of standardized commercial products. He also operates another business with his wife. The company only has two employees not counting the owner and his wife. They have been in business for six years, although the owner has previous experience in another sector of this industry. IM appears to be his third business. The company had annual sales of $500,000 in 2003. Exporting contributed fifteen percent to total sales in 2003. The company was very enthusiastic about the opportunity for international sales. They especially emphasized their use of their web site which appeared to be critical to communication with customers as far away as Central Asia.

9. Company: BS

This company was the youngest company in the study. We met with the President. The company designs, produces, and markets a series of specialized nutraceutical products that do not require FDA approval. These products are marketed extensively via the company's advanced website that includes a language translation feature. Annual sales for this company were less than $500,000 and exporting generated less than five percent of total sales.

The company is developing a network of medical professionals that will recommend their products. The company is an example of a "born global" firm, although it may lack the resources currently to capitalize on its exporting opportunities.

Note: All company names have been disguised at the request of the participating firms' CEO or Vice President.