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Driving Global Economic Growth

U.S. Manufacturing Firms
Innovate to Stay Competitive

INSIDE:

Exporting Prudently and Successfully:
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NEW OPPORTUNITIES



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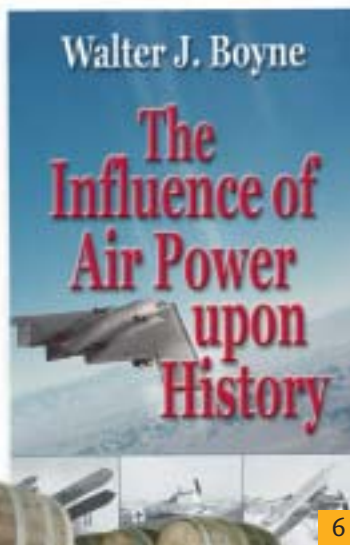
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During the late 18th century, the definition of “industry” changed from meaning the nobility of human labor to the systematic and organized use of that labor, generally with the assistance of mechanical devices and machines, to create what would thenceforth be called *manufactured goods*.

The onset of the Industrial Revolution in the United Kingdom, and subsequently in the United States, transformed not only the nature of production of goods but also what was produced as well as where and how. Until the introduction of factory production, goods were made in small workshops or at home, by hand. Moving manufacturing into large-scale mechanized factories changed the nature of production as well as society. The demand for workers in urban areas led to a population shift from agrarian towns to cities. Other changes brought about by a change in production included increased rates of literacy, improved health and mortality rates (which also contributed to the population growth), and the distribution of information via a growing news network as well as more efficient postal systems. Innovation of mechanized tools allowed more efficient production, which in turn created more specialized manufacturing. Suddenly, industrialized societies had more choices in their purchases, had more leisure time, and were healthier and better educated.

Better-educated populations create more inventions, and innovations, and demand more information. Modern manufacturers are developing technology that is applied

to a range of industries from agriculture and transportation to telecommunications and pharmaceuticals. American manufacturers are at the top of the heap in terms of developing and applying new technology and methods resulting in more efficient and productive processes. According to the World Economic Forum's 2002 *Global Competitiveness Report*, the U.S. is the most competitive economy in the world, in large part because of the strength of America's manufacturers.

Our feature this month looks at issues that manufacturers of all types are facing in the current global economic climate. Other information in the magazine includes an article in the Internet Marketing section on building a Web presence or monitoring the effectiveness of your current site, and a success story on a company in the cooperative industry (you'll have to read the article to find out what that is).

Next month, our focus will be on the global opportunities in the medical device industry. We will also get a briefing on how to do business in the Nordic countries of Sweden, Denmark, and Norway. Until then, drop us a line at export_america@ita.doc.gov and good luck in your exporting endeavors.

Cory Churches

Cory Churches
Editor



GLOBAL NEWS LINE

BELGIUM

While the Belgian franchising industry is well established, it still offers attractive opportunities. According to the European Franchise Federation, the coming years will experience a significant increase in the number of franchise systems and franchisees in Belgium. However, locating a master franchisee requires time, resources, and determination.

American franchisers interested in the Belgian market should contact the U.S. Commercial Service before attempting to penetrate the market. The Commercial Service also recommends contacting the Belgian Franchise Federation and a franchise consultant accredited by the Belgian Franchise Federation. American firms should not attempt to do business in Belgium without obtaining local legal counsel.



Although Belgium is a highly developed country, the services sector seems to be lagging. In franchising, Belgium trails the United States by roughly 10 years and has yet to develop this services subsector. A slow economy, low interest rates, and cautious investments make this an opportune area for American firms.

SPAIN

Imported products largely supply Spanish demand for professional audio equipment. Local audio equipment production is limited and concentrates on parts, components, and loudspeakers.

The United States is a traditional supplier to Spain of these types of products, including amplifiers, loudspeakers, microphones, and earphones. These categories should continue to represent the bulk of U.S. exports to Spain of professional audio equipment in the near future.

POLAND

While worldwide sales of biotech products are escalating, the biotechnology industry in Poland is evolving and is still viewed mainly in scientific terms. Polish business has not yet discovered the commercial side of biotechnology. There are plenty of excellent ideas and advanced research projects conducted, but very little is done in the way of effective and profitable implementation. Further development of the biotech industry is largely dependent on business alliances with foreign entities and investors.

Due to the undeveloped nature of this sector, there may be opportunities for U.S. companies, including provision of equipment and materials used in medical and scientific laboratories, investment in biotechnology, and joint ventures with biotech companies and research institutions.

The underdevelopment of the biotechnology industry in Poland is largely attributed to the fact that the majority of local pharmaceutical companies

manufacture generic drugs with little or no research and development. With limited government support aimed at scientific research institutions only and no private investment in this area, the results of Polish biotech efforts will not be visible for many years.

UKRAINE

Ukraine has not yet developed a national infrastructure for waste management and disposal. A market for waste recycling equipment is emerging. A positive trend in increasing the proportion of recovered waste started in 2000 and was confirmed in 2001. Some 51 types of waste, which account for about 60 percent of waste generation, are now recovered or recycled. The most significant of these is the use of coal waste and steel slag as construction materials.

The military forces in Ukraine do a lot of recycling work, because they have started to collect used tires, oil, batteries, scrap metal, and other waste and organize their delivery to centralized processing or disposal facilities. A centralized system is also now being set up to dispose of unusable ammunition and explosives.

SAUDI ARABIA

Installed power generation capacity in Saudi Arabia is 23,438 megawatts, up 5 percent from last year. By 2010, Saudi Arabia will require an additional capacity of 20,000 megawatts at a projected cost of \$30 billion. The expected annual growth rate is 6 percent. SEC, Saline Water Conversion Corp., Saudi Aramco, and the newly founded Power and Utilities Company for Jubail and Yanbu (Marafiq) are currently constructing or planning 16 power generation projects valued at more than \$1 billion.

Saudi Arabia has 18 gas power generation plants, each connected to a 380 kV power transmission grid, and 19 diesel/gas power generation plants connected to a 110 kV power transmission grid. Expanding generation units of compound circulation and steam

generation stations have contributed significantly to increased power generation in Saudi Arabia. High demand for electricity was also fulfilled by using natural gas for operating these units, raising efficiency and reducing environmental pollution.

UNITED ARAB EMIRATES

The construction industry is one of the most active sectors of the UAE economy. The UAE government will spend more than \$20 billion over the next five years on infrastructure projects and construction of government, commercial, and residential buildings. The construction and tourism industries are the two major sectors of the local economy that continue to generate strong demand for building products.

The demand for building products is expected to grow rapidly as public and private sectors float new construction tenders. Current projects include construction of new high-rise commercial and residential buildings, houses, hotels, beach resorts, hospitals, schools, roads, public parks, shopping malls, and expansion of two major international airports.



SOUTH KOREA

In 2002, the South Korean sporting equipment market grew by approximately 20 percent, to reach \$882 million. Imports totaled \$359 million, up 32 percent over the \$272 million level in 2001. Imported sporting equipment accounted for 41 percent of the

domestic market in 2002, up slightly from 37 percent in 2001.

Over the past decade, South Korea's golf market has grown at an average annual rate of 10 percent. U.S. manufacturers dominate the golf club market, but they have lost considerable market share to Japanese rivals. Nonetheless, U.S. brands such as Callaway and TaylorMade continue to be highly regarded by many South Korean golfers, and demand for them shows few signs of softening. The most rapidly growing segments of South Korea's sporting goods market include fitness equipment, outdoor recreational equipment, inline skates, and running and cycling products. South Korean demand for these products is slated to rise by another 20 percent in 2003, as consumers increase their spending on sports and other outdoor activities. The key forces driving this growth include the gradual implementation of a five-day workweek, a growing emphasis on health and fitness, and increasing disposable income in South Korea.

COLOMBIA

The Colombian market for medical equipment, devices, and supplies changed considerably with the structural health care reform ordered by the 1991 Constitution. Its regulation and implementation started with Law 100 of 1993. The general system is operating, but some decision-makers complain that over-regulation has slowed down health care reform. Some goals, including universal coverage, are far from being met. The most significant reform changes were the termination of the government's monopoly on social security services and the providing of coverage, at no additional cost, to dependents of employees, who usually had lacked health care coverage before the reform. Under the new system, the private sector can participate in administering and providing health care services, thereby allowing individuals to choose among a wide range of public and private entities. In addition to the implementation of reform, this sector

has been slowed down by national and international economic recessions, slow de-bureaucratization of former monopolistic institutions, and by military conflict and political unrest in the country.

The Colombian import market for medical equipment, devices, and supplies for 2003 is estimated at \$188.1 million, and it is expected to grow at an average rate of 5 percent annually during 2004–2006. Although the United States' participation decreased from 49 percent in 2000, to 44 percent in 2001, to 42.6 percent in 2002, it is still the leading supplier of the sector. The United States is followed by Germany with 10.4, 12.6, and 11.4 percent, respectively, during the same three-year period, and by Brazil with shares of 7.7, 9.1, and 10.7 percent during this same period. Prospects for U.S. manufacturers of medical equipment, devices, and supplies will continue to be strong.

The sector maintains its traditionally high scientific level of diagnosis and treatment. Transplants are routinely and successfully performed in Bogotá, Cali, and Medellín. A significant number of private and some public health care providers operate with state-of-the-art technology and continue to demand the most advanced medical equipment, devices, and materials. Prospective U.S. exporters have the advantage of brand name recognition and end users' acceptance; however, they must consider the many changes resulting from the reforms and the sector's restricted economic resources in developing marketing strategies and finding attractive financing terms and conditions. ■

NEED MORE DETAIL?

Ask a commercial officer at one of the Department of Commerce posts located around the globe. Contact information, including phone, fax and e-mail, is available by calling the Trade Information Center at (800) USA-TRAD(E).

Writing the Book on Exports

World Curls Up to Publishing Firm's Classics

by Curt Cultice

ITA Office of Public Affairs

You cannot judge a book by its cover, but one publishing company sure knows a best-seller when it reads one. It was 1926, its first year of operation, when Pelican Publishing Co., of Gretna, La., published the first trade book written by William Faulkner. Thousands of voracious readers gobbled up copies of a book by what many now consider to be America's greatest literary giant.

The title of that book was *Sherwood Anderson and Other Famous Creoles*. The book highlights the lives and multi-ethnic diversity of authors residing in New Orleans' French Quarter in the 1920s, where Faulkner lived. But it was not until Pelican came under new ownership and direction of Milburn and Nancy Calhoun in 1970 that it began to turn a new leaf and tackle the unique challenges of marketing internationally.

"If you look at the history of every major publishing company," recalls Dr. Milburn Calhoun, who is a retired medical doctor, "you'll find that at some point early on they had a 'big book,' a breakout book that opens up all kinds of doors. As soon as we read *See You at the Top*, we knew it was our big book."

It was. The 1975 book by Zig Ziglar became an international phenomenon, soon steamrolling its way to best-seller status with more than 1.6 million copies sold.

"*See You at the Top* is an exceptional business and motivational book, the kind of book whose principles work well across numerous cultures," says Calhoun. "There's a great demand for business content internationally."

Small wonder. The forward flap of the book identifies Ziglar as one of the great motivators of the age with an "ability to encourage, uplift, and inspire audiences." Then there is the down-to-earth subtitle: "The 'How to' book that gives YOU a 'Check Up' from the 'Neck Up' to eliminate 'Stinkin' Thinkin' and AVOID 'Hardening of the Attitudes.'"

WRITING ANOTHER CHAPTER

Talk about motivated sellers, buyers, and readers. *See You at the Top* inaugurated Pelican's program of foreign rights sales, yielding rights sales in 19 languages, ranging from Bulgarian and Chinese to Russian and Slovenian; in addition, English-language rights have been sold to Brunei, Indonesia, Malaysia, and Singapore.

Pelican aggressively expanded its publishing program in the wake of *See You at the Top*, not only extending its line of business and motivational books, but also branching off into categories such as cooking, travel, children's, history, politics, and regional. Pelican now has more than 1,500 titles in print and publishes 75 to 100 new

books annually, entertaining millions of readers.

As the lines of titles expanded, Pelican decided it had reached a critical mass of titles that opened the door to actual distribution of bound books in foreign markets rather than just rights sales. Pelican pursued—and attained—arrangements with book distributors in the major English-language markets of Canada, the United Kingdom, Europe, Australia, New Zealand, and South Africa.

Pelican also has deals in the works for Singapore, Malaysia, India, and Brunei. At the same time, the firm has in place nearly 200 separate foreign rights agreements in 27 languages.

The heart of Pelican's international marketing is its participation in the Frankfurt Book Fair. Held annually in Germany, this trade fair is the major gathering of publishers worldwide. This year, Pelican hopes to pursue rights sales on its new business titles: *The Blockbuster Toy*, on how to create and market children's toys; *The Secret to Permanent Prosperity*; and *Dreamweaving: The Secret to Overwhelming Your Business Competition*.

Calhoun expects that Pelican's growing list of Second World War history titles will help pique the interest of European rights buyers, expanding on recently

released titles like *Black Knights: The Story of the Tuskegee Airmen*. This book describes the famous African-American squadron that flew fighter escorts on more than 1,500 missions and never lost a bomber, an unmatched record. Then there is *The Ghost Army of World War II*. Ghost army? That's right: "The 23rd Headquarters special troops was a force of only 1,000 men who often masqueraded as 34,000 with skilled deceptions," says Pelican's catalog.

This fall, Pelican will release a major book from an author with previous best-sellers in both fiction and non-fiction: *The Influence of Air Power upon History*, by Lt. Colonel Walter Boyne, which is expected to sell widely in Europe. Two other publications include *The Bataan Death March: A Soldier's Story*, and *Truman's Dilemma*, which is about the momentous decision to drop the atomic bomb.

"In Asia, we see quite a demand for business books, and in Europe, there's a lot of interest in history as well," explains sales manager Joseph Billingsley. "One of our top sellers in Asia is the motivational book, *Think Like a Winner!*"

Billingsley says that business books are also gaining popularity in Africa, and that children's books, while selling well in Mexico, are already a big hit in Japan. "We were quite surprised to find that the Japanese love Raggedy Ann books, mainly because of the big colorful pictures," he says. "We're doing great business there in children's books."

In the United Kingdom, Pelican has smoothed out some rough transatlantic sailing. "We found that in Britain, people are very particular about having the words in children's books spelled exactly as it is in their country, so we were not initially successful with using the American version," Billingsley says.

"Our colorful, ah, 'colourful' children's books are now tailored to the U.K. market."

Pelican is now working to identify large English-language markets that it has not yet reached, and to locate distribution partners in those countries. To do this, Pelican turned to the U.S. Export Assistance Center in New Orleans and its director, Donald van de Werken. "We were hoping to do more business in Japan, and we were told there was a significant English-language book market there, as well as substantial income to be spent on books, Calhoun says. "This market research was tremendously helpful, as we wanted to explore actual distribution and not just rights sales."

Van de Werken introduced Pelican to the export assistance programs offered by the U.S. Commercial Service and recommended the International Partner Search. "In our case, they used our book catalogs as the primary selling tool and took these catalogs to the prospects they had identified," Calhoun says. "The program resulted in several leads, including a promising prospect that distributes and buys rights—the best of both worlds for our company."

The firm is also looking to do business in Mexico, and has also obtained several leads through potential prospects introduced to them by Van de Werken.

Whether it is a novel in the Netherlands or a mystery in Morocco, revenue generated from selling books in foreign markets is a small but critical component of Pelican's livelihood, explains Billingsley: "As a percentage of overall sales, foreign sales—including rights sales and sales to our distributors—are quite low. But you have to understand that publishing is a notoriously low-margin industry, with profit margin for publishers at best, around 7 percent. Lots of publishing firms would be very pleased to achieve even that. As a result, the so-called extra revenue from foreign markets, though small, is often what puts publishers into profitability."

Pelican now publishes more than 100 books annually and employs a staff of 35. More than 75 years after its publication of the book by Faulkner, Pelican Publishing, like Faulkner, continues to endure in its own way. ■



Photo courtesy of Pelican Publishing Co.

■ The U.S. Cooperage Industry

Minding Its “Chivs” and “Adzes”

by John Ward
ITA Office of Public Affairs

Wilson Forest Products, the winner of the Small Business Administration’s 2003 Small Business Exporter of the Year award, is helping wine producers worldwide to create the flavors that define their products. Have you ever encountered an adze or a chiv? Can you distinguish a *barrigue* from a *pièce*? Have you ever felt a *croze* along a stave? If these terms mean something to you, then you are probably familiar with the esoteric world of wood barrels and vats, or cooperage. These containers, once the mainstay of shipping and trade, gradually gave way to plastic and metal containers at the beginning of the 20th century. But they have retained their importance in a prestigious niche market throughout the world: wine and spirits distilling, where the wood used in the barrels that store these beverages—typically oak—imparts some of the elusive flavors that give today’s best wines and whiskies their distinctive tastes.

The market for the oak staves that are used in the manufacture of wood barrels is one that several U.S. producers have successfully exploited over the past several years, as world wine production has increased. This year, one of these producers—Wilson Forest

Products, of Jefferson, Pa.—has been recognized by the U.S. Small Business Administration, which named the company the 2003 Small Business Exporter of the Year.

PROSPERING IN A GROWING WORLD MARKET

Founded in 1931, Wilson Forest Products is located in southwestern Pennsylvania, some 40 miles south of Pittsburgh. With 65 employees, the company’s plant includes a stave mill, a barrel plant, 30 acres of drying yards, and 55,000 square feet of manufacturing and warehouse space.

Since its inception, the company has specialized in the manufacture of high-end wood staves—the portion of the barrel that makes up the sides—and barrelheads. Each year, some 6 million feet of logs of American white oak are purchased from Wilson’s suppliers. The logs are quarter-sawn, then carefully cut into smaller pieces at the company’s plant. These staves are allowed to season, or age, for 18 to 24 months. Once the seasoning is complete, the wood is shipped to wineries or to the barrel makers who will build the barrels for them.

The company also sells completely assembled barrels through a subsidiary, Keystone Cooperage, which was established in 2001. This product

line came about largely in response to domestic demand for assembled barrels, according to company president Bill Wilson.

A crucial element in the production of both staves and barrels is the seasoning of the wood. This ageing process reduces the heavy tannic quality of the oak, while allowing other, subtler flavors to come forth. But there is a downside for the producer, since the seasoning process requires Wilson Forest Products to carry a sizeable inventory. According to Bill Wilson, at any given time there are 1 million feet of logs on the company’s property, and some 5 to 6 million feet of logs are processed each year.

SELLING TO A WORLD MARKET

More than 90 percent of Wilson Forest Products’ sales are made to foreign buyers. Cooperage exporters like Wilson enjoyed a prosperous run in the 1990s. The expansion of wine production in so-called “New World” wine countries—such as Chile, South Africa, Australia, and New Zealand—during that decade gave U.S. companies a ready market for their wood and finished barrels. This was especially true in the case of wine producers who were seeking to go upmarket by replacing steel vats with oak. According to the U.S. Department of Agriculture’s Foreign Agricultural Service, the market for U.S. producers continues to



be good, though the export market for all kinds of cooperage products—including wood parts and finished barrels—has suffered a precipitous drop over the past two years, declining from \$104.7 million in 2000 to \$57.3 million in 2002.

By country, major buyers of oak staves and finished barrels in 2002 included Spain, Canada, the United Kingdom, and Australia. The end uses of these exports vary by country. According to economist William Bornsheim of the USDA, the exports to the United Kingdom have been almost exclusively for whiskey barrels, while those to countries like Spain are used in wine production.

EXPLOITING U.S. ADVANTAGES

U.S. producers of oak staves and wood barrels have a couple of competitive advantages in the world market. One is that American white oak has a tight grain, which makes it less porous and thus especially resistant to leakage. Another advantage is that the price of American oak is significantly lower than its main competitor, French oak. Barrels made from the latter typically cost more than twice what an American wood barrel would cost. Since oak barrels have only a limited reuse capacity in winemaking (they are typically replaced after three to five years, since the flavor-enhancing quality of the wood diminishes with each use), this cost advantage can be significant.

MEETING THE CHALLENGES OF EXPORT FINANCE

Curing and storing a large inventory of oak staves presents a formidable financial challenge. When Wilson Forest Products' larger accounts insisted on paying only upon shipment, the company faced a dilemma: finance a large inventory or lose clients. In early 2002, with the assistance of PNC Bank of Greenburg, Pa., the company was able to obtain a line of credit that came with a guarantee from the Export-Import Bank of the United States.

Under the Ex-Im Bank's working capital guarantee program (see related articles in the April 2003 and July 2003 issues of *Export America*), the bank will guarantee 90 percent of a commercial lender's loans that are used to meet the needs of pre-inventory build-up and accounts receivable. According to John Malone of PNC Bank, Wilson's lender, the company "would probably have had a difficult time" without the Ex-Im Bank guarantee. "They were better able to retain customers with the Ex-Im's assistance," says Malone, "and the approval process took only six to eight weeks."

FACING THE CHALLENGES AHEAD

What's on the horizon for oak stave and barrel manufacturers like Wilson Forest Products? According to Bill Wilson, his company and other suppliers to the wine industry are facing "a complete rearrangement of winery ownership around the world." Large conglomerates have been buying family-owned, medium-sized wineries that have good profit margins. "We now have to do business the way they want to do business," says Wilson.

Financing also remains a big challenge for an exporter like Wilson Forest Products. "Exporters need to have bankers who understand their business available to provide financing for plant and equipment," says Wilson. "Otherwise, we are going to get beaten in the world market." ■

HONORING SMALL BUSINESS ACHIEVERS

The Small Business Exporter of the Year award is one of several awards that are being presented this year by the U.S. Small Business Administration to celebrate the dedication and success of small businesses across America. Other award categories include the Phoenix Award (for disaster recovery), the Small Business Advocate Award, the Special Achievement Award, and a Small Business Person of the Year from each of the states and territories. All of the winners in these categories—as well as seven "advocacy" awards presented by the SBA Office of Advocacy—will be invited to Washington, D.C., during the National Entrepreneurial Conference and Expo, where they will be honored at a number of events. The conference will be held September 17–19, in order to coincide with the 50th anniversary of the establishment of the SBA in 1953.

The selection of the winners is based not only on the financial success of the business but also on employee growth, innovativeness, and community involvement. For more information about the award process and the National Entrepreneurial Conference and Expo, visit www.sba.gov/50.



Black Gold in the Caspian

Opportunities for U.S. Oil and Gas Firms in Azerbaijan

by Tish Falco

U.S. Commercial Service

Many years ago, people traveled the Silk Road to trade goods, services, and ideas.

Today, foreign businesses are continuing to travel this ancient route and stopping in Baku, Azerbaijan, to take advantage of commercial opportunities in the oil and gas industry. Azerbaijan, located in the Caspian Sea region, gained independence in 1991. Baku, the country's capital, is located on the Caspian Sea, which affords Azerbaijan easy access to shipping and oil and natural gas reserves. Currently, Azerbaijan relies on the oil and gas sector for a large percentage of their income, with crude oil and oil products comprising over 70 percent of Azerbaijan's exports and oil-related revenue constituting 50 percent of the country's budget.

Foreign investment has revitalized the country's oil sector by developing new projects, refurbishing equipment, and modernizing training methods. To date, U.S. firms, especially small and medium-sized companies, have been apprehensive to do business in Azerbaijan because of political and economic factors. To support and attract foreign investment and business, Azerbaijan has made key economic and political reforms, reinforcing regional stability and decreasing major trade obstacles. Azerbaijan is a challenging business market, but patience is the key.

EAST-WEST ENERGY CORRIDOR

Due to global demand for energy and Azerbaijan's position at an East-West crossroads, burgeoning oil and gas opportunities in the Caspian Sea region exist. Industry and government

experts estimate that crude oil reserves will reach 7 to 13 billion barrels, and natural gas production will reach approximately 30 trillion cubic feet. In 1992, the State Oil Company of Azerbaijan (SOCAR) was established, merging two of the country's state oil companies. SOCAR and its many subsidiaries are responsible for the production of oil and natural gas in Azerbaijan, operation of two refineries, running pipeline systems, and managing oil trade. Currently Azerbaijan only has two oil pipelines to export oil: the Baku-Novorossiisk pipeline (northern route) and the Baku-Supsa pipeline (western route).

Baku

There are three major projects in Azerbaijan that constitute a majority of the oil and gas opportunities for foreign investment in the region: Azeri-Chirag-Guneshli (offshore oil), Shah Deniz (natural gas), and the Baku-Tbilisi-Ceyhan oil pipeline. Although many of these projects have been tendered or are in current development, many subcontracting opportunities exist for U.S. firms, including offshore exploration, production, services, and onshore infrastructure and pipelines. Key procurement opportunities include drilling equipment, civil engineering, pipe coatings, pipe-laying equipment, gas processing, pump stations, and training.

British Petroleum (BP) is leading exploratory efforts in the region and is the major operator of the Azerbaijan International Operating Company (AIOC) consortium, which oversees the Azeri-Chirag-Guneshli (ACG). BP also is the lead operator in the Shah Deniz consortium. By the end of the third

phase of the ACG project (or full field development), industry experts predict that there will be 5.4 million barrels, with one million barrels for export. The Shah Deniz project, considered one of the largest natural gas discoveries in 20 years, was sanctioned in early 2003. First phase development entails the installation of a new fixed offshore platform, two undersea pipelines, and a new onshore gas-processing terminal. Future project opportunities include offshore platforms, drilling services, well casing, and maintenance. The Baku-Tbilisi-Ceyhan (BTC) project is estimated to produce 1 million barrels per day, with first production expected in early 2005.

HOW TO DEVELOP OPPORTUNITIES IN AZERBAIJAN

With more than 90 U.S. companies successfully operating in Baku, there is still growth potential for small and medium-sized U.S. companies. Although U.S. companies have been apprehensive to explore the oil and gas industry in Azerbaijan, future growth prospects exist, as outlined above. By developing a solid long-term, market-entry strategy, U.S. firms can be successful in Azerbaijan and the Caspian region. Key elements include partnering with major foreign and Azeri players, working under a production sharing agreement (PSA), following market development trends, and leveraging advocacy and trade promotion assistance from key international organizations.

Partnering with foreign or local distributors on current subcontracting opportunities is a good way to explore

the market while working with someone who is familiar with the market and without committing considerable resources. One way to find up-to-date project information and future procurement opportunities is to register your firm as a supplier on the Web site of the Enterprise Center in Baku (www.ecbaku.com). As part of the AIOC, BP has created this site, where oil and gas firms, including U.S. firms, can register as pre-qualified suppliers and submit bids on future tenders. Because of the exploratory nature of oil and gas projects in Azerbaijan, the Azeri government has worked with international organizations and the business community to decrease trade obstacles to foreign investment. One example is by creating PSAs, helping to mitigate risk by providing a solid foundation for foreign investment in oil- and gas-related sectors. (PSAs, which supersede national laws, outline favorable trade terms, such as exempting foreign investors from hefty value-added tax or import tax and outlining minimal local content requirements.)

Once you know what projects exist and who the players are, how can you meet the right people to cement the partnership? You can start by working with several regional and U.S.-based trade promotion agencies. The U.S. Department of Commerce offers various products and services to ensure that U.S. companies expand their presence effectively and securely in Azerbaijan and the Caspian region. The U.S. Commercial Service, partnered with BISNIS (Business Information Service for the Newly Independent States), offers custom products and services to help you meet pre-qualified key industry and business players, obtain up-to-date market research, and access advocacy assistance on major projects and trade obstacles.

Now that you have the tools to find key players to partner with, you need trade finance options to increase your attractiveness to potential partners. One way to tap into project finance is to visit the

Caspian Finance Center, which was established to help U.S. companies identify, evaluate, and finance commercially viable projects in the Caspian region. The Caspian Finance Center brings together the resources of the U.S. Trade and Development Agency, the Overseas Private Investment Corporation, and the Export-Import Bank of the United States. The Caspian Finance Center, along with the Commercial Service, has facilitated the development of viable projects within the region for U.S. companies, including the BTC and the trans-Caspian pipeline, by helping U.S. companies leverage important opportunities.

Attending industry-related business development seminars and trade shows will increase your chances of commercial success in the region. In January 2003, the U.S. Commercial Service, along with the World Trade Center in New Orleans, organized a business development conference, providing a networking forum to bring together American and Caspian region firms. To maximize the synergies at the conference, many firms attended the Caspian Oil and Gas Show, the premier industry venue, bringing together major industry and government players from all over Europe, Asia, Central Asia, and the Middle East. The show is a great way to meet the people you need to know to access projects, business opportunities, and trade finance. For more information, visit www.caspianevents.co.uk.

LOOKING AHEAD

Azerbaijan is an emerging market that requires patience, fortitude, and flexibility to ensure success. With further foreign investment and project development, the country is positioning itself to become a major energy player in the global market. By tracking current market and project developments, you will be able to take advantage of procurement and subcontracting opportunities on the horizon. Furthermore, by strategically aligning yourself with key industry and government players in both the U.S. and

Azerbaijan, you will be able to navigate the oil and gas industry and find lucrative opportunities. Once you have successfully achieved your commercial goals in Azerbaijan, you will be able to expand throughout the Caspian Sea region, especially in Kazakhstan. Do not miss out on your opportunity to create your own route to the modern Silk Road. ■

YOUR ROUTE TO THE SILK ROAD

Key Industry and Government Resources

U.S. Commercial Service

U.S. Department of Commerce
To find your local office and learn about trade promotion services, business development seminars, and trade shows, visit www.export.gov. The back cover of this magazine also includes a list of offices. Current market research on the Caspian region is also located at www.export.gov.

BISNIS

U.S. Department of Commerce
Tel: (202) 482-4655
Fax: (202) 482-2293
E-mail: bisnis@ita.doc.gov
Web site: www.bisnis.doc.gov

Trade Advocacy Center

U.S. Department of Commerce
Tel: (202) 482-3896
Fax: (202) 482-3508
Web site: www.trade.gov/advocacy

Embassy of the United States in Azerbaijan

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Web site: www.usacc.org



Ask the TIC

Financing Your Export Sales Using Export Express

by Linda Abbruzzese

Trade Information Center, Trade Development

To help small companies export, the U.S. Small Business Administration (SBA) has developed a streamlined financing program called SBA Export Express.

WHAT IS EXPORT EXPRESS?

SBA Export Express combines SBA financial and technical assistance to help small businesses secure export financing. This loan guarantee program helps small businesses that have exporting potential and need funds to cover the initial costs of entering an export market. Loan proceeds can be used for most business purposes, such as expansion, equipment purchases, working capital, inventory and real estate acquisitions, participation in trade shows, standard certifications such as CE marking and ISO 9000, and modifications of a company's Web site to accommodate export transactions. A loan may be set up as either a line of credit or as a term loan, depending on the borrower's needs.

Because many small business exporters face unique challenges, the SBA Export Express program includes technical assistance in the form of marketing, management, and planning. On approval of an SBA Export Express loan, an SBA representative will contact the borrower to offer appropriate assistance. The U.S. Export Assistance Center network provides technical assistance in cooperation with the SBA and U.S. Commerce Department's network of resource partners.

WHO CAN USE THIS PROGRAM?

SBA Export Express loans are available to borrowers who meet the normal requirements for an SBA business loan guarantee. Loan applicants must:

- Demonstrate that the loan proceeds will enable them to enter a new export market or expand in an existing market, and
- Have been in business operation, though not necessarily exporting, for at least 12 months.

HOW DOES THE PROGRAM WORK?

Any lender that is authorized to participate in the SBA Express loan program for small firms doing business domestically may participate in the SBA Export Express program. Usually the lender is a local bank. SBA Export Express lenders use expedited loan review procedures to process SBA guarantee loans smoothly and quickly. The lenders are able to use their own loan analyses, documentation, and approval procedures and still receive the guarantee of the SBA. After the lender approves an Export Express loan, the lender must submit two forms to the SBA Express Processing Center in Sacramento, Calif. These forms allow SBA to make a quick eligibility review and subsequently issue an SBA loan number to the lender. The SBA typically provides the lender with a response within 36 hours.

The SBA Export Express guarantee is 85 percent for loans up to \$150,000, and 75 percent for loans over \$150,000, up to a maximum loan amount of \$250,000. If a company defaults on a \$150,000 loan, the amount of risk to the bank is 15 percent with SBA Export Express. SBA Express, which includes both domestic loans and Export Express, is the SBA's fastest-growing and perhaps most user-friendly program for lenders for their smaller loans (\$250,000 or less).

WHAT ARE THE BENEFITS OF EXPORT EXPRESS?

There are many benefits of the Export Express program. The application procedure for the lender and borrower is simple and fast. The benefit to the lender lies in the fact that the loan is guaranteed by the government. The level of risk is lower than it would be for a traditional loan, and the approval process and paperwork are less cumbersome.

The borrower benefits through increased access to capital that ensues from the high guarantee the SBA offers lenders on Export Express loans. The SBA guarantee encourages lenders to make loans to small business exporters that they might not make on their own.



WHAT ARE THE INTEREST RATES AND TERMS OF AN EXPORT EXPRESS LOAN?

SBA offers the competitive rates and terms small businesses need to compete globally:

- Applicants negotiate terms with the lender.
- Rates may be either fixed or variable, and tied to the prime rate.
- Lenders may charge 6.5 percent over the prime rate for a loan of \$50,000 or less.
- Lenders may charge 4.5 percent over the prime rate for a loan over \$50,000.
- The guarantee and servicing fees are the same as SBA's regular 7(a) guarantee loans.



WHAT ABOUT MATURITY AND RENEWALS?

Loan maturities are generally five to 10 years for working capital and 10 to 15 years for machinery and equipment (not to exceed the useful life of the equipment).



HOW DO I APPLY?

To find a lender certified by SBA to make Export Express loans or to get additional assistance, visit www.sba.gov/oit, call (800) U-ASK-SBA, or contact a local SBA representative (also listed on the Web site). SBA representatives are located in all 50 states, as well as the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and Guam.

When phoning a certified lender, ask to speak to the SBA department within the lending institution in order to apply. Each lender uses its own application form and can unilaterally approve the loan without an SBA review. After a basic review by the SBA Express Processing Center, the SBA will issue the lender a loan number. The lender will then contact the borrower to arrange for loan closing. ■

Richard Schulze, an SBA representative at the U.S. Export Assistance Center in Arlington, Texas, contributed to this article.

FOR MORE INFORMATION

The International Trade Administration of the U.S. Department of Commerce operates the Trade Information Center (TIC) for the 19 federal agencies comprising the Trade Promotion Coordinating Committee. These agencies are responsible for managing the U.S. government's export promotion programs and activities. You, too, can "Ask the TIC" by calling (800) USA-TRADE (872-8723), toll-free, Monday through Friday, 8:30 a.m. to 5:30 p.m. EST. Or visit the TIC at www.export.gov/tic.

Exporting Prudently and Successfully

Evaluating and Mitigating International Business Risks

by Dennis R. Chrisbaum

U.S. Small Business Administration

There are risks in every business. But if you know what the risks are, you can try to mitigate them. That is why we have property, liability, and flood insurance. When doing business abroad, the risks may look ominous and be different, but that does not mean you should stay at home. Rather, you should clearly identify the risks and then figure out the best way to protect yourself against them. Let's look at some of these international business risks.

POLITICAL

Obviously, every country has its own political system. Some governments are stable; others are less so. There are professional organizations that evaluate country political risk, but you can do some research to understand a country's basic political structure and history. Look up a country in *The World Factbook* at www.cia.gov, read "Background Notes" on each country on the State Department's site at www.state.gov, and check out some commercial sites, such as www.countrywatch.com and www.aigonline.com. You also can monitor news in newspapers around the world at the World News Network: www.wn.com.

The U.S. Commercial Service and the U.S. Department of State prepare useful guides for American businesses to facilitate their international trade and investment. Each *Country Commercial Guide* offers an overview of a particular

nation, including political, trade, investment, and regulatory issues. These guides are generally available for downloading from within each country's pages on www.buyusa.gov (select the country to which you wish to export from the drop-down menu on the home page). They can also be found, along with other country- and industry-specific information, at www.export.gov (select "Market Research" from the left-hand column of the home page, and then select the "Country and Industry Market Reports" link).

ECONOMIC

Every country has its own economic history of growth, inflation, productivity, monetary policies, and business cycles. A foreign country might present a greater economic risk, or a smaller risk, than doing business in the United States, but certainly it will be different. The country's economy could be tied closely to one industry (mining, for instance), or to that of a neighboring country (Mexico's reliance on the U.S. economy, as an example). Also, a country might be open and embrace free trade like Singapore does, or it might try to protect its market with import quotas or high tariffs. Whatever the case, it is important to realize that when you go abroad to do business, "you aren't home anymore."

COMMERCIAL

There is a commercial risk whenever you conduct business. Agreed, it might be easier to do a background check on a

business in New York City, than one in Johannesburg. It is possible to order credit reports on potential foreign buyers from such organizations as Veritas, Graydon, Dun & Bradstreet, and Standard & Poor's. Even more important, you can insure your overseas accounts receivable against political and commercial risk through such organizations as the U.S. Export-Import Bank (www.exim.gov) and large insurance companies. Credit insurance can help you get the order in the first place by allowing you to offer attractive payment terms, and it generally will permit you to borrow against the overseas accounts receivable, which would be considered "unbankable" collateral, if uninsured. It also should give you some peace of mind, knowing that any loss would be significantly reduced in case of default (normal coverage is 90 to 95 percent of the outstanding, invoiced amount). The cost? Typically less than three-quarters of 1 percent to insure your accounts receivable worldwide: a real bargain.

The International Company Profile program of the U.S. Commercial Service helps U.S. companies evaluate potential business partners by providing a detailed report on overseas companies that have been personally visited by a trade specialist or commercial officer of the U.S. Commercial Service. Through the service, clients can request answers to detailed questions about overseas companies on a variety of issues and receive expert advice from commercial specialists about the relative strength of

the firm in its market and its reliability, among other things. To get additional information about these and other services that help American firms find foreign partners, contact the nearest U.S. Export Assistance Center or visit www.buyusa.gov.

REGULATORY

Import regulations vary by product and country, so make sure to check ahead of time to ensure that your products qualify for market entry. This is especially important for food and pharmaceutical items. However, regulations can govern everything from certifying that your products meet industry standards (required to obtain CE marking, which permits you to sell in the European

you can be sure that Italian law will prevail in any enforcement action. It is critical to understand the laws of the country in which you operate, as well as international arbitration options. Also remember to protect your intellectual property (copyrights, patents, trademarks) by properly registering it in the countries where you plan to do business. How countries enforce their laws also will vary greatly by country and might well influence your decision to pursue certain markets.

FINANCIAL

Two separate financial risks confront an exporter: the method of payment and foreign exchange risk. For example, payment under a letter of credit has

time of obtaining the purchase order and getting paid for the shipment. In order to mitigate these financial risks, make sure you have an international banker as a constant resource and valued member of your export team.

CULTURAL

When you deal with people in other countries, there is always the risk that you will do something offensive, probably through a lack of understanding. A project or deal can easily be terminated over a cultural *faux pas*. In addition, a country's culture might determine if your product will even be accepted in a market and, if so, how it will need to be marketed and packaged. Make sure you understand the cultural nuances before entering a new market. Some consultants specialize in providing cross-cultural advice. Two Web sites with basic information on cultural issues are www.executiveplanet.com and www.culturegrams.com.

SHIPPING

Piracy on the high seas has increased in the past few years—primarily in Southeast Asia and off the coast of Somalia. In 1999, cargo ships were boarded more than 150 times, merchandise was stolen, and lives threatened. While not the norm, shipping risks always exist. Cargo planes and ships do not always reach their destinations. Merchandise can be lost or damaged, which is why all shipments are covered by insurance. A good freight forwarder will help you address this risk, because most can arrange directly for such insurance.

While these are some of the risks that you will face when doing business abroad, none of them should discourage you if your company truly wants to expand internationally. Rather, a plan should be put in place to methodically evaluate and mitigate each risk. Your success in the international marketplace may well depend on it. ■



Economic Area), to meeting electrical standards, to properly labeling your products, to getting ISO certification. A good importer should be able to alert you to these requirements and the procedures for obtaining any required certification, as should the U.S. Commerce Department's Export Assistance Center staff in your area.

LEGAL

Every country has its own legal system. Many countries operate under civil law, instead of common law as practiced in the United States. Any firm that is engaged in international business needs to investigate the local legal structure. An exporter may say that the agreements he signs are under the laws of his own state, but if a dispute over a distribution agreement takes place in Italy,

much less risk than an open-account sale or payment by an international check. With regards to foreign exchange risk, most U.S. exporters continue to be successful in requiring payment in U.S. dollars, pushing the foreign exchange risk onto their buyers. However, if you agree to accept payment in a foreign currency, there will be a risk associated with the exchange rate vis-à-vis the dollar, which can fluctuate widely over time. Fortunately, there is a way to protect yourself against this risk, by buying a forward contract at an international bank. A forward contract is an obligation to deliver and exchange a certain amount of foreign currency on a future date, but at a predetermined exchange rate. This will protect you against any adverse fluctuation in the exchange rate, between the



Driving Global Economic Growth

U.S. Manufacturing Firms Innovate to Stay Competitive

by the ITA Office of Public Affairs

The manufacturing sector in America is the foundation on which much of the rest of our economy is built. U.S. Census Bureau statistics reflect that fact. Manufacturing generates 16 percent of gross domestic product and directly employs 18 million Americans, 14 percent of all workers.

What these statistics do not capture, however, is the extent to which manufacturing drives the rest of the economy. Much is made of the rise of the service sector over the last 20 years. It is an area of undeniable strength and competitive advantage in the U.S. economy. But we should not overlook the fact that some of the growth in the service sector has come from outsourcing functions that American manufacturers used to perform for themselves.

Internal shipping departments used to be commonplace. In the mid- to late-1980s, most major manufacturers handled all of their own shipping and customs brokerage. With that went a variety of administrative and compliance costs. Today, we see major transportation logistics firms providing these services at much lower costs. The

ability to offer such services on a scale no manufacturing firm could match has helped U.S. manufacturers and exporters to reduce their costs significantly.

The shift from in-house to outsourcing has also meant that jobs and statistics that used to show up in the manufacturing column in our national income accounts now show up under the heading of services. In the past two decades, the U.S. economy has experienced significant restructuring. The process of restructuring has strengthened our ability to compete worldwide in both manufacturing and services. The efficiencies gained through that restructuring represent hard-won results that continue to drive increases in productivity, which ultimately affects our standard of living.

The service sector is dependent on the key user of services—our manufacturing base, as well as other segments of our economy. In the absence of a strong manufacturing sector, our service businesses would suffer as well. The fact that recent slowdowns in the service sector coincided with similar slowdowns in manufacturing activity is no accident. In short, manufacturing activity drives economic growth beyond the 16 per-

cent of GDP reflected in Census Bureau statistics, which underscores the importance of understanding the competitive challenges our manufacturing sector faces in global markets.

Does the fact that our manufacturing sector faces challenges mean that this important sector of the economy is unable to compete in world markets? The World Economic Forum's 2002 *Global Competitiveness Report* answers that question directly. The report named the United States as the most competitive economy in the world. The report highlighted America's significant levels of research and development, innovative business community, strong venture capital markets, and commitment to innovation and technological advancement.

Each factor cited by the World Economic Forum's report underscores the basic strength of our manufacturing sector. Throughout our history, the manufacturing sector has seized opportunity and pursued the latest technology. In fact, manufacturing accounts for approximately two-thirds of private research and development expenditures. This has resulted in sustained technological innovations and

Recognition for Export Performance

In August 2001, Commerce Secretary Evans presented Aranda Tooling with the U.S. Commerce Department's Export Achievement Award. The firm has utilized the services of the Commerce Department's U.S. Export Assistance Center in Newport Beach, Calif. Raul Lozano of the Newport office provided counseling and trade show information for the company's exports to Brazil, China, Japan, South Korea, Mexico, and the United Kingdom.

"Small companies like Aranda are willing to take a risk and smart enough to know that the global economy is the place you want to be to make money," Evans said. Evans noted Aranda Tooling's great success in exporting and the contributions of the firm in creating jobs. "You truly represent the backbone of our nation's economy," he told Pedro Aranda and his 125 employees at the presentation.

Exports account for 50 percent of Aranda Tooling's sales, and the firm is looking to use more of the services of the U.S. Export Assistance Center in Newport Beach. "There is a strong possibility that we will soon be arranging to use the Commerce Department's Gold Key Service in Mexico, which provides for pre-arranged business appointments," says Aranda. "Mexico will likely continue to be our largest market, especially with all the automotive assembly that goes on there."

Where else might Pedro Aranda be looking to expand his firm's sales?

"There's plenty of export opportunities out there," he says. "The biggest challenge is finding the customers."



"Manufacturers now and in the future don't need a specialized work force—we need a work force capable of doing a variety of tasks. It's a lot like the tradesmen and artisans of a long time ago."

—James G. Kriebel, BAE Systems, Nashua, N.H.
New Hampshire Business Review, June 19, 2003

tremendous productivity gains, which in turn have fueled higher wages, living standards, and economic growth.

That record of innovation, both in products and manufacturing processes, and in business and financial management, has yielded continuing gains in productivity. With rising productivity, the business pages of our newspapers

generally focus on jobs lost and take that as a weakness in American manufacturing. What that reporting overlooks is that productivity gains are the most fundamental indicator of national economic health.

The recession in manufacturing began at least 18 months before the recession overtook the economy as a whole. The

sharp decline in economic growth in Asia following the 1997–1998 financial crisis translated into a sharp fall in demand for the capital goods that represent areas of U.S. manufacturing excellence. The 40 percent appreciation of the U.S. dollar from 1997 to 2001 reflected the underlying strength of the U.S. economy, but it also put American manufacturers under increasing pressure both in the competitiveness of their exports and the competition they faced here at home. Indeed, the fact that Europe and Japan trailed the United States into the recession and still have yet to recover (e.g., European economic growth in 2002, without the contribution of a growing British economy, was 0.3 percent) has meant a stiff challenge for American manufacturers that relied on those markets for a share of their own growth.

In light of these issues and challenges, the U.S. Department of Commerce has launched a series of roundtables to hear directly from manufacturers about the steps we can take in order to stay competitive (see sidebar).

INDUSTRY FEEDBACK

Industry associations, including the National Association of Manufacturers (NAM) and the Manufacturers Alliance/MAPI, have identified common issues with which most manufacturers are dealing. These include:

- **Lagging investment and R&D:** U.S. manufacturing's share of total U.S. capital investment expenditures has declined since 1999. In addition, R&D spending by manufacturers in 2000–2002 grew at only half the pace of the previous decade.
- **Exports below potential:** Goods exports have declined \$86 billion over the past two years. They now account for only 6 percent of GDP, compared with 8 percent in 1997. The overvalued dollar, the Asian currency crisis, and the post-September 11 economic slowdown were key factors—but so also was increased import

NATIONWIDE MANUFACTURING MEETINGS



Donald L. Evans
34th U.S. Secretary of Commerce

In March of this year, Commerce Secretary Donald L. Evans outlined an aggressive agenda to cement the role of manufacturing as a driving force in increasing productivity, creating economic growth, and creating jobs.

As a part of that agenda, Under Secretary of Commerce for International Trade Grant Aldonas and other Commerce officials are taking a comprehensive look at the challenges and opportunities American manufacturers face by meeting with manufacturers around the nation.

“President Bush has made economic growth and job creation a top priority of this administration, and he understands that you can’t address those two priorities without taking a serious look at manufacturing,” said Evans. “Manufacturers have always reflected the best of American business, showing resiliency and high productivity. This administration will do all it can to ensure that manufacturers can compete and win in the global economy.”

Officials from the U.S. Commerce Department have visited more than a dozen cities across the country, discussing sectors ranging from telecommunications to tooling.

Under Secretary Aldonas will review the findings of all of the discussions and present a report to Secretary Evans with recommendations early this fall.

For more information, visit www.export.gov/manufacturing.

Lubricating Exports

Petrochem of Lockport, Ill., manufactures synthetic oven chain lubricants. Its president, Carol Sluski, developed a unique oven chain lubricant, called HT-2000, for use in bakeries. Ms. Sluski credits the U.S. Commerce Department's Global Diversity Export Training program in Chicago for assisting her in expanding internationally. The program is designed to prepare women- and minority-owned firms to sell their products and services internationally.

Lora Baker, regional coordinator of the Commerce Department's Global Diversity Initiative, provided export counseling to Ms. Sluski, encouraged her to enroll in the export-training program, and to participate in a Department of Commerce trade mission to Guadalajara. One of the companies that Petrochem met with at this event is now the exclusive distributor of Petrochem's products in Latin America and Spain. Ms. Sluski also followed Ms. Baker's advice to obtain an export credit insurance policy from the Ex-Im Bank.

Petrochem now exports its oven chain lubricants to Mexico, Britain, South Africa, Spain, Argentina, Israel, Australia, New Zealand, Germany, and Saudi Arabia.

competition. Stagnating exports and rapidly rising imports, particularly from China, have raised the merchandise trade deficit to record levels (more than \$480 billion in 2002).

- **Large cost increases and declining prices:** The cost of manufacturing in the United States has risen sharply as

a result of increased costs of health care, litigation, and regulatory compliance. While overall U.S. prices have risen 18 percent since 1994, the overall price level for manufactured goods has declined 6 percent. Faced with increasing costs and an inability to raise prices, many manufacturers find they have no choice but to move

“We aren't afraid of competition, but we have to know what we are competing against. We want a level playing field.”

—Brad Beal, Jockey International Inc., Kenosha, Wis.
The Business Journal, May 30, 2003



abroad if they are to remain competitive in the global economy.

- **Skilled labor shortages:** As manufacturing workers retire or move to other occupations, the pool of skilled labor is not being replenished. A recent NAM survey found that 80 percent of manufacturers faced a shortage of qualified job applicants even as they reduced their work forces. In another survey, one out of eight employers said that job applicants needed training in basic reading, writing, and math skills. According to a study conducted by MAPI of high school students in the Midwest, only 1 percent of high school students would like to work in manufacturing, which tied with religion for last place among 18 possible career choices.

GAINS IN PRODUCTIVITY

Despite the challenges that manufacturers are tackling, there are a few optimistic observations, which are identified in a larger study conducted by the Manufacturers Alliance. In the last 12 years, manufacturing has actually grown faster than the overall economy. Manufacturing grew by an average of 3.3 percent in this period, or almost 10 percent faster than the 3.1 percent growth rate for the overall economy, according to data collected by the Bureau of Economic Analysis. The value-added and technology content of U.S. manufacturing remains superior to most other countries.

Since the 1990s, there has been a recovery of productivity growth, led predominantly by manufacturing, and the lower unit labor costs associated with this productivity boom allow U.S. manufacturers to compete effectively in global markets. Much of the gain in productivity is derived from investments and innovation in technology. New productivity-enhancing technology developed largely in the manufacturing sector is the source of many of the efficiency improvements in other sectors of the economy.



DISCUSSIONS

During the roundtables with various industry sectors, hosted by Bush administration officials, several themes emerged that are of particular concern to all sectors, not only manufacturing.

Protecting Intellectual Property

Public policy aimed at protection of intellectual property is based on the desire to ensure a rich, diverse, and competitive marketplace. Giving inventors, scientists, writers, artists, businesspeople, and others enforceable property rights in their creative work makes it possible for creators to recoup their investments in the creative process, encouraging them to devote their time and efforts to developing new works, products, and services. Creators' home countries also benefit when intellectual property rights are protected by law. For example:

- Copyright laws encourage creation of literary works, computer programs, artistic works, and expressions of national culture.
- Patent laws encourage discovery and invention of new and improved products, processes and other contributions to society, while ensuring public access to information regarding these new products and processes.

- Trademark laws encourage development and maintenance of high-quality products and services that engender customer loyalty.

Because thieves, pirates, and counterfeiters neither respect national borders nor pay taxes, effective enforcement of intellectual property rights is crucial.

Enforcing Trade Agreements

Manufacturing is no longer a purely domestic endeavor. As with all international commerce, access to export markets is essential to ensuring smooth business cycles. The United States has negotiated and enacted more than 300 trade agreements, ranging from civil aircraft to telecommunications services. American companies reap the benefits of these agreements only when they are actively enforced. The Market Access and Compliance division within the International Trade Administration monitors and enforces trade agreements so that U.S. firms receive the full benefits of an expanded marketplace and lower costs of doing business. U.S. companies can report trade barriers to the Trade Compliance Center via www.export.gov/tcc.

The United States recently concluded free trade agreements with Singapore and Chile. Other agreements in the pipeline include Australia, Central

Have Microbes, Will Travel

Dan Kelley is CEO of Tierra Dynamic Company, a Phoenix-based environmental firm specializing in removing toxins from soil and water. He and his 30 employees focused on emerging markets a few years ago. With the help of the U.S. Commercial Service and some very special bugs, they have seen their international business go from nothing to 25 percent of annual revenues.

Kelley says the move into international markets was a matter of common sense. "The environmental industry is new to many developing countries, and we can compete better over there than we can in more developed countries," he says. Kelley explains that competitors with similar technologies tend to be bigger firms for which a \$300,000 contract isn't worth the effort. "There's a big void in the market, and we're happy to fill it."

Tierra Dynamic negotiated the rights to the patent for a technology called biosparging. Simply put, Kelley's firm cultivates bacteria that occur naturally, and a special process induces them to eat spilled hydrocarbons and other bad stuff at an accelerated rate. These are not anorexic bugs. "We increased their appetite," he says. And what an appetite. According to Kelley, this technique remediates soil three times faster than other methods now on the market, a significant advantage when you're concerned about carcinogens that can cause cancers and other health problems. Tierra Dynamic has negotiated the rights to another patented technology that destroys PCBs—a particularly lethal source of carcinogens. "When you see whole families, including very young children living near this stuff, you're glad you can help protect their health," says Kelley.



"One way of dealing with overseas competition is to streamline operations and make them as efficient as possible."

—Mark Buck, Hypertherm, Inc., Hanover, N.H.
New Hampshire Business Review, June 19, 2003

America, and the countries that comprise the Southern African Customs Union.

RESOURCES AND ASSISTANCE

Manufacturing Extension Partnership

www.mep.nist.gov

The Manufacturing Extension Partnership (MEP) is a network of not-for-profit centers in more than 400 locations nationwide, whose sole purpose is to provide small and medium-sized manufacturers with the help they need to succeed. The centers, serving all 50 states and Puerto Rico, are linked

through the Commerce Department's National Institute of Standards and Technology (NIST). Centers are funded by federal, state, local, and private resources to serve manufacturers. That makes it possible for even the smallest firms to tap into the expertise of manufacturing and business specialists all over the United States. These specialists are people who have had experience on manufacturing floors and in plant operations.

Each center works directly with local manufacturers to provide services tailored to their most critical needs, which range from process improvements and

worker training to business practices and applications of information technology. Solutions are offered through a combination of direct assistance from center staff and outside consultants. Centers often help small firms overcome barriers in locating and obtaining private-sector resources. Since the beginning of MEP, more than 149,000 firms have received help.

Results

Evaluation is a key element of all MEP programs and activities. Results are used to assess the effectiveness of services and their impact on the performance of client firms, and to help guide planning at both the center and network levels. By measuring short- and long-term impacts, MEP can assess economic returns on the federal investment in manufacturing extension services. Small manufacturers that work with MEP centers exhibit dramatic improvements. For example, in a survey of MEP clients served from October 2000 through September 2001, 4,800 companies around the country reported that, as a result of MEP services, they:

- Created or retained 25,000 jobs;
- Increased or retained \$2.2 billion in sales;
- Realized \$442 million in cost savings; and
- Invested \$681 million in modernization, including plant and equipment, information systems, and work force training.

Small Business Innovation Development

www.sba.gov/sbir

The Small Business Innovation Research and Small Business Technology Transfer programs provide an opportunity for small, high-technology companies and research institutions to participate in government-sponsored research and development in key technology areas. If you run a small business with 500 or fewer employees, or a non-profit research institution, such as a university or a research laboratory with ties to small business, then you will want to learn more about these programs and

sources of seed funding for the development of your innovations.

The Office of Technology within the U.S. Small Business Administration strengthens and expands the competitiveness of small high-technology research and development businesses in the federal marketplace. The Office of Technology promotes high-technology programs of small businesses, with particular emphasis on emerging firms. It encourages state-of-the-market technology training, technology information exchange, and outreach on federal technology programs. It also encourages private and public resource support for the commercialization of federal R&D efforts. It promotes outreach activities to introduce women- and minority-owned small businesses to the advantages of competing for federal R&D projects.

GLOBAL FUTURE OF MANUFACTURING

Manufacturing in the United States continues to be the foundation of the economy. Global competition will continue to increase, requiring the best companies to evolve constantly to meet new situations and challenges. The pace of change will continue to be rapid, however, U.S. companies are well positioned and flexible enough to be successful in this environment. Those that are open to change, embrace new technologies and management techniques, and seek out global markets should be successful in a global economy that will grow rapidly over the next 10 years. ■



Trade Events

September 2003–February 2004

DATES	EVENT	LOCATION
September 9–12	Chinaplas 2003 Chinaplas was launched in 1983 as an international exhibition for the plastics and rubber industries in China. Held annually, it rotates among the cities of Beijing, Shanghai, and Guangzhou.	Beijing, China
September 9–12	Woodmac Asia 2003 There will be 750 exhibiting companies representing more than 40 countries at this show. An estimated 7,500 international buyers from 60 countries will attend. More information can be found at www.woodmacasia.com .	Singapore
September 11–21	IAA International Motor Show This major international trade fair covers assembly engineering, CAD/CAM, factory automation, flexible production, industrial robots, machine tools, manipulation, engineering precision tools, and tools.	Hanover, Germany
September 15–19	Health Care Technologies Mission This matchmaker to Ireland and the United Kingdom will assist U.S. health care and medical companies, with a potential focus on the tele-health and biotechnology industries.	Ireland and the United Kingdom
September 17–19	Global Franchising and Licensing 2003 The 2002 show had more than 90 exhibitors from 16 countries and attracted 8,856 visitors from over 30 countries. More information can be found at www.gfranchising.com .	Singapore
September 18–21	Expopharm 2003 Expopharm is the only major pharmaceutical industry event in Germany. The annual trade event usually counts over 500 exhibitors and roughly 20,000 strictly trade-only visitors. American manufacturers, wholesalers and exporters of pharmaceuticals, OTC products, health supplements, and cosmetics get a chance to present their products on the exhibition floor of this large international trade show.	Dusseldorf, Germany
September 21–23	Franchising Trade Mission The Commercial Service is organizing a franchising trade mission to Singapore and Shanghai, China. In Singapore, the mission will coincide with the largest franchising show in Asia, Global Franchising 2003.	Shanghai, China; Singapore
September 23–26	U.S. Building Products Trade Mission Sales of building products and construction materials will continue to flourish during the next five years in Canada's buoyant residential and renovation construction market. U.S. exporters, with building products for the housing and renovation sectors, can profit from Canada's booming residential construction/renovation markets and increase their export sales in Canada by participating in this event.	Toronto and Montreal, Canada
October 5–7	Golf Europe The Office of Consumer Goods, in conjunction with the U.S. Commercial Service in Munich, Germany, is sponsoring a U.S. product sample and literature center at Golf Europe. This promotion should help U.S. companies that are looking for distributors, joint venture partners, or new sales opportunities. Golf Europe is Europe's leading golf equipment trade show.	Munich, Germany
October 6–10	Electronic Americas This biennial international trade fair is the largest event of its kind in South America for electronic components, assemblies, and electronics production. Electronic components constitute the best prospect for U.S. exports to Brazil. Participation in an event of this magnitude is an ideal venue for small and medium-sized U.S. enterprises to gain exposure or to expand their presence not only in the Brazilian market but also in the surrounding region.	São Paulo, Brazil
October 7–12	TIB 2003 The Bucharest International Fair is the leading commercial event in Romania and one of the most prominent trade fairs in Eastern Europe. It is a general technical fair, with strong emphasis on industrial equipment and industrial consumer goods. The fair consists of 41 separate pavilions and includes 55,000 square meters of indoor space and 45,000 square meters of outdoor space.	Bucharest, Romania

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HIGHLIGHTED EVENTS**AEROSPACE CONGRESS AND EXHIBITION****SEPTEMBER 8-12, 2003
CANADA**

This event in Montreal, called ACE 2003, is very important for anyone involved in airline maintenance, aerospace engineering, and supply of personnel, as well as for commercial, charter, and fixed-based operators. There will be conference and seminar programs with sessions focused on current regulatory requirements and technical issues to improve safety, reliability, and productivity. Participants will be able to meet OEM and component and parts suppliers from all sectors of the aerospace industry. The exhibition covers more than a dozen product categories, from aircraft and engines to instruments and equipment, which encompass business aviation, airport operations, military aviation, space technology, and more.

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OIL AND GAS BUSINESS DEVELOPMENT MISSION**SEPTEMBER 21-25, 2003
RUSSIA**

Secretary of Commerce Donald L. Evans will lead a senior-level business development mission this fall to St. Petersburg and Moscow, Russia. The mission will assist U.S. businesses in identifying trade and investment opportunities in the oil and gas sector, including exploration and production, equipment and services, and transportation. The delegation will include approximately 15 U.S.-based executives of small, medium-sized, and large firms. The mission will reaffirm U.S. government support of U.S.-Russian cooperation in the energy sector and seek to expand opportunities for American companies. Delegation members will participate in the U.S.-Russia Commercial Energy Summit in St. Petersburg on September 22-23, and they will participate in additional meetings in Moscow on September 24-25.

Contact:
Office of Business Liaison
Tel: (202) 482-1360
Web site: www.commerce.gov/russiamicmission2003

DATES	EVENT	LOCATION
October 11–15	WEFTEC The Water Environment Federation's 76th Annual Technical Exhibition and Conference will bring together water and wastewater industry professionals from around the world. WEFTEC is the largest water and wastewater show in North America.	Los Angeles, California
October 16–21	EquipAuto 2003 EquipAuto is the world's most comprehensive exhibition for the automotive industry, covering new technologies in original equipment, spare parts, customer service, and garage equipment. There will be two specialized U.S. pavilions for which the Commercial Service in France will provide support. EquipAuto will offer workshops, conferences, and seminars to bring together engineers, managers, buyers, and sellers.	Paris, France
November 12–14	Cosmoprof Asia 2003 This event is the Asia-Pacific region's largest showcase for products and services in cosmetics, toiletry, perfume, hairdressing, spa, and beauty sectors. Celebrating its eighth year in Asia, Cosmoprof will feature more than 600 exhibitors and a large-scale U.S. pavilion.	Hong Kong
November 13–17	InterCHARM 2003 The cosmetics market in Russia has great potential for U.S. companies. InterCHARM is the largest beauty and health products exhibition in Eastern Europe. In 2002, more than 600 companies from 23 countries participated, along with 65,000 visitors. The cosmetics and health products market is one of the fastest-growing markets in Russia.	St. Petersburg, Russia
November 20–22	Expo Pesca 2003 Expo Pesca 2003 is an international trade show of equipment, supplies, and services for the fishing and fish farming industries. The U.S. Commercial Service in Lima will have a booth at the show and will host a catalog exhibition for U.S. firms unable to exhibit directly. Fishing is the second-largest industry in Peru, representing more than 5 percent of GDP and over 10 percent of total exports.	Lima, Peru
November 26– December 6	Essen Motor Show This show features automotive tuning and racing equipment and accessories, as well as classic and antique vehicles. In addition, a wide range of customizing items are displayed, and part of the show concentrates on auto high-fidelity equipment and related products. Although the Essen Motor Show mainly attracts consumers, wholesalers and distributors also visit the show to view the newest products in each sector.	Essen, Germany
December 3–5	Natural Products Asia 2003 This show features all products, edible and non-edible, related to healthy lifestyles and developing a healthy planet. It includes 200 exhibitors and 5,000 professional buyers. This fair will allow U.S. companies in the natural products industry to establish ties, and demonstrate their products to buyers, in Asia.	Hong Kong
December 7–11	USA Trade Week Russia This is a comprehensive exhibition of U.S. products and services. The exhibition will be preceded by a two-day conference with workshops featuring an "A to Z" approach to doing business in Russia, as well as discussion of all aspects of trade between Russia and the United States. This is the only exhibition of its type for U.S. firms interested in Russia. It will attract qualified business visitors from all parts of Russia.	Moscow, Russia
January 8–11, 2004	International CES International CES is the world's largest annual trade show for the broad-based consumer electronics technology market. It is the premier event bringing together consumer electronics manufacturers, distributors, researchers, and content developers.	Las Vegas, Nevada
January 9–11, 2004	Reisemarkt Rhein-Neckar-Pflaz This regional consumer travel show attracts approximately 22,000 visitors from the Rhein-Neckar region of Germany (2 million inhabitants). In 2002, there were 240 exhibitors from 18 countries. U.S. tourism firms can benefit from increased exposure through a unified U.S. tourism presence. Literature should be in German if possible.	Mannheim, Germany
February 2–5, 2004	Environment and Energy 2003 Environment and Energy 2003 will focus on relieving strains on the environment in Middle Eastern and North African countries. Emphasis is being placed on clean air, water supply, waste disposal, alternative energy sources, renewable energy, health, and safety.	Abu Dhabi, United Arab Emirates

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AEROSPACE TRADE MISSION

**NOVEMBER 3-7, 2003
POLAND, ROMANIA, AND
THE CZECH REPUBLIC**

The U.S. Commerce Department's Office of Aerospace is organizing a trade mission to Poland, Romania, and the Czech Republic. A senior-level official will lead the mission. The delegation will include representatives from a variety of U.S. aerospace firms interested in Central Europe, as Poland, Romania, and the Czech Republic prepare to join the European Union. The mission will focus on aircraft products and services, but it will also be open to firms that offer solutions to airport infrastructure needs, including airport security.

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OIL AND GAS BUSINESS DEVELOPMENT MISSION

**NOVEMBER 15-22, 2003
NIGERIA, GABON, AND
SAO TOME AND PRINCIPE**

The deputy assistant secretary of commerce for energy, environment, and materials will lead an oil and gas business development mission this fall to Nigeria, Gabon, and Sao Tome and Principe. The mission will include representatives from U.S. oil and gas companies interested in entering or expanding their presence in these West African countries. The mission will focus on oilfield equipment and services as well as exploration and production opportunities.

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**A full listing of upcoming trade events
is available via www.export.gov.**

■ Building a Web Presence

What to Consider When Developing a Site

by Export America

Even if you choose not to sell your goods or services on-line, a business Web site can be a virtual marketing brochure that you can update on demand with little or no cost. Your presence on the Internet can be a useful marketing tool by providing richer pre-sales information or post-sales support and service. This might temporarily differentiate your product or service from that of your competitors. Electronic marketing has lessened the disadvantage that small businesses have faced for years when competing with larger businesses.

E-commerce has redefined the marketplace, altered business strategies, and allowed global competition between local businesses. The term “electronic commerce” has evolved from meaning simply electronic shopping to representing all aspects of business and market processes enabled by the Internet and other technologies.

Today’s business emphasis is on e-commerce—rapid electronic interactions enabled by the Internet and other connected computer and telephone networks. Rapid business transactions and unparalleled access to information is changing consumer behavior and expectations.

Many small businesses assume that the Internet has little value to them, because they feel that their products or

services cannot be easily sold on-line. But inexpensive information processing and electronic media can help most small businesses provide better, faster customer service and communication.

THINGS TO CONSIDER WHEN PLANNING A WEB SITE

1. Do I need a Web site?

Maybe you do not need to have a presence on the Web. It could be that your marketing dollars are better spent somewhere else. However, many people will not discover your products or services through any other means. The Internet has become an expected tool of modern business, like the phone or fax, and companies or professionals without a Web site may appear behind the times.

2. What are my goals for the site?

If you do decide to move ahead, it is important to know why you are building the site. Is it for sales or marketing? Is it a tool for communication or an on-line brochure? Do you want to sell products through the site, or just educate consumers about them? Do you want to increase membership in your organization, or offer Web-based benefits to current members? Do you want visitors to e-mail you? Call you? Subscribe to a newsletter? Knowing your goals will help focus your ideas for the site.

3. What am I trying to sell or promote?

Even if you do not like the idea of selling yourself, it is what we all do, every

day, if we want to be successful. Do not be afraid of sales and marketing. Finding the answer to this question will determine what are the most important themes of the site, what to name the buttons, and the tone to use when writing the content.

4. What are the steps to getting a Web site up and running?

Design and development come first. The architecture of the site needs to be selected. An appropriate look and feel must be designed. The copy needs to be written, and any additional tools such as on-line forms, shopping carts, and audio clips need to be added.

Hosting is another fundamental issue. Just as you might rent office space, your Web site needs to be hosted somewhere so people can reach it.

Lastly, upkeep is important. Once live, a good site continues to post fresh material, giving people a reason to return.

5. What content do I need to build the site?

First, create an outline around the themes you want to promote. Second, remember that the outline represents pages that need content—text and images that will help educate your visitors. The images may include a logo or photos of people or products. Poor quality photos or bad clip art can make the most attractive site look amateurish; sometimes no photos can be better than poor ones.

6. Do I hire a professional or do it myself?

If you have the skills, the time, the talent, and most importantly the desire to design and develop the site, then by all means, do so. However, keep in mind that when you hire a professional—whether it is to create a Web site, change your oil, or give you financial advice—you immediately acquire thousands of hours of experience, access to the latest tools of the trade, and insider knowledge of the industry. Since an unprofessional Web site can be worse than no site at all, it is strongly suggested that you do what you do best and outsource the rest.

7. What are my responsibilities to create an effective site?

Even if you hire a professional Web developer, your input is essential because no one knows your business as well as you do. Before you hire a developer, you should review his portfolio and ask for referrals. You should expect to help develop a site outline with your developer, pull the copy together, and give input on the layouts presented to you.

Once your site is live, you should also budget time to add content on a regular basis. You should reply to e-mails and inquiries in a timely fashion to show you have not abandoned your site.

8. What will this cost for start-up and ongoing maintenance?

This is a young industry, so there is still a wide range in billing rates. The *Pricing Guide for Web Services*, second edition, found pricing from \$25 to \$250 an hour for Web work, and Web pages from \$30 to \$1,500. As a rule, you get what you pay for. An experienced designer and developer are worth their weight in gold.

Start-up costs for a Web site will include registering a domain name (currently \$35 for one year, according to www.all-domains.com), and a one-time setup fee

on a Web server of \$25–\$50. A simple site between five and 15 pages might cost between \$1,200 and \$3,500. You should add approximately \$1,000 or more if you will be adding on-line ordering. Add-ons such as bulletin boards, multimedia, newsletters, and forms will cost extra.

Ongoing costs include hosting fees that can range from \$30 to \$100 per month. Regular updates to your site can cost \$25 to 100 per instance, depending on the amount of content involved.

9. How do I attract more traffic to my site?

Search engines, links, advertising, and more. A good developer will make your site search engine user-friendly and submit your site to search engines and directories on your behalf. You should create reciprocal links with complementary sites.

Consider advertising on specific search engines, e-mail newsletters, and traditional media. Put your URL (Web site address) on your business cards, stationery, voice mail, and so on. Send out free e-mail newsletters. Add a “Recommend this Site to a Friend” form on your Web site. Continually update and improve on your site. Reviewing your site’s traffic reports can alert you to what visitors are finding interesting and what they are ignoring.

10. How will I know that my site is successful?

Look at your goals every three to six months. Have you met them? If so, is it time to create new, more challenging goals? ■

WEB PRESENCE RESOURCES

Domain Registration

Search for domain names: www.allwhois.com

List of accredited domain name registrars: www.icann.org

You may want to register the same name with different endings (e.g., .net, .com, and .org) as well as alternate spellings to ensure that customers will be able to find you no matter which ending they happen to type.

Hosting

Find a host for your site: www.ispcheck.com

Developers (articles)

“How to Hire a Web Designer”

www.inc.com/articles/2001/06/22731.html

“How to Cut Costs with Web Developers”

www.netb2b.com/webPriceIndex

Design and Development Tips

Design tips:

<http://personalweb.about.com/library/weekly/aa041601a.htm>

Good deeds in Web design:

www.useit.com/alertbox/991003.html

Usability checklist for developers:

www.pantos.org/atw/35317.html

Market/Promote Your Web Site

www.wilsonweb.com/webmarket

Additional Development Information

www.goodpractices.com

www.useit.com

www.web-source.net

www.inc.com/guides/biz_online/24012.html

<http://sbdnet.utsa.edu/sbic/e-com.htm>

www.flyte.biz/resources/feature-articles.html

Resources used to compile this article included “10 New Questions to Ask Before Setting Up a Web Site,” (www.flyte.biz/resources/feature-articles.html) and “eMarketing: Establishing a Web Presence,” (www.sba.gov/starting_business/marketing/emarketing.html).

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