



# DEVELOPING AN EXPORT STRATEGY

## In This Chapter

- Is your company ready to export?
- How will exporting affect your company?
- How do you create an export plan?



## DETERMINING YOUR PRODUCTS' EXPORT POTENTIAL

There are several ways to evaluate the export potential of your products and services in overseas markets. The most common approach is to examine the domestic sales of your products. If your company is successful in the U.S. market, there is a good chance that it will also sell in markets abroad, at least in those markets where similar needs and conditions exist.

Another way to assess your company's potential in exporting is by examining the unique or important features of your product. If those features are hard to duplicate abroad, then it's likely that your product will be successful overseas. A unique product may have little competition; thus, demand for it may be quite high.

Finally, your product may have export potential even if sales are declining in the U.S. market. Sizable export markets may still exist, especially if the product once did well here but is now losing market share to more technically advanced products. Other countries may not need state-of-the-art technology and may be unable to afford the most sophisticated and expensive products.

## ASSESSING YOUR COMPANY'S EXPORT READINESS

As Box 2.1 suggests, export-ready companies possess certain qualities that increase the likelihood that their exporting efforts will be successful. Answering these important questions about how exporting will enhance your company's goals will help determine your company's readiness to export:

- What does your company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will exporting place on your company's key resources, management and personnel, production capacity, and financing, and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

For a more in-depth assessment of whether your company is ready to export, it's a good idea to take the export readiness assessment. Your company can use an interactive version, which can be found at [www.citd.org/startupkit/eras/index.cfm](http://www.citd.org/startupkit/eras/index.cfm). Among the issues you'll be asked to consider are your company's current operations, attitudes, and products.

For a more theoretical assessment, it is helpful to examine some of the motivational and organizational factors behind your company's decision to export. Thinking about these factors will help you decide if your company and your product are ready to export.

Motivational factors include the following:

- **Long-term expansion.** Building an exporting plan takes time, so it is important to focus on expanding your business over the long term and not to look for immediate returns.
- **Increased competitiveness.** By selling internationally, your company can gain insights into different ways of doing business.
- **Exploitation of unique technology and expertise.** If your product quality or expertise is superior, you'll have a competitive edge in the international marketplace.
- **Improved return on investment.** Your company should seek multiple benefits from exporting, such as expanded customer networks and exposure to new ideas and technology.
- **Increased capabilities.** You'll develop better products and services, acquire better leadership abilities, and collaborate better with customers and suppliers.

#### BOX 2.1 QUALITIES OF AN EXPORT-READY COMPANY

##### EXPORT-READY COMPANIES

- Have commitment from management and are prepared to fund exporting activities.
- Understand the added demands international business can place on key resources.
- Have realistic expectations regarding return on investment from international activities.
- Are prepared to modify products and services by market as well as provide training and after-sales service.

Organizational factors include the following:

- **Management commitment.** Total backing from management is the number one determining factor of export success.
- **Funding support.** Management must be willing to allocate sufficient time, enough resources, and an adequate budget for export activities.
- **Personal expertise and commitment.** Having staff members with international experience or having employees learn about your target market's language and culture will help you enter the international marketplace.
- **Product capabilities.** Your company must possess the space and equipment needed to manufacture for the specific countries you are selling to (each of which will have its own product standards and regulations).
- **Company's exporting goals.** Whatever your goal, consider whether the expected benefits outweigh the costs.

Is your product ready to export? To determine export readiness, consider these additional factors:

- **Selling points.** If your product is a success domestically, the next step is to identify why it sells or has sold so well here, keeping in mind that conditions abroad may be somewhere between slightly and significantly different (socially, culturally, economically, politically, and environmentally).
- **Modifications.** You may sell your product without modifications to international markets, as long as it meets the standards and regulations set by the respective countries. Some countries have strict governmental regulations that require special testing, safety, quality, and technical conformity measures.
- **Product licensing.** Some classifications of products require special approval from the U.S. Department of Commerce before you export, and some of those products require export licenses.
- **Required training.** Products that require training to operate place a greater responsibility on your company and distributor or agent, and you must decide how to support that training.
- **After-sales service.** Products that require considerable after-sales support must be handled by a distributor or agent who is well positioned to provide such a service.
- **Product distinctiveness.** Products that have unique features enjoy a competitive advantage and better reception in foreign markets. Such unique features include patents, superior quality, cutting-edge technology, and adaptability.

**FACT:**

Many companies never explore the possibility of exporting because they think that they are too small.

**INSIGHT:**

Nearly 97 percent of U.S. exporters are small and medium-sized companies.

**BOX 2.2 MANAGEMENT ISSUES INVOLVED IN THE EXPORT DECISION****MANAGEMENT OBJECTIVES**

- What are the company's reasons for pursuing export markets? Are they solid objectives (such as increasing sales volume or developing a broader, more stable customer base) or are they frivolous (for example, the owner wants an excuse to travel)?
- How committed is top management to an export effort? Is exporting viewed as a quick fix for a slump in domestic sales? Will the company neglect its export customers if domestic sales pick up?
- What are management's expectations for the export effort? How quickly does management expect export operations to become self-sustaining? What level of return on investment is expected from the export program?

**EXPERIENCE**

- With what countries has business already been conducted, or from what countries have inquiries already been received?
- Which product lines are mentioned most often?
- Are any domestic customers buying the product for sale or shipment overseas? If so, to which countries?
- Is the trend of sales and inquiries up or down?
- Who are the main domestic and foreign competitors?
- What general and specific lessons have been learned from past export attempts or experiences?

**MANAGEMENT AND PERSONNEL**

- What in-house international expertise does the firm have (for example, international sales experience and language capabilities)?
- Who will be responsible for the export department's organization and staff?
- How much senior management time (a) should be allocated and (b) could be allocated?
- What organizational structure is required to ensure that export sales are adequately serviced?
- Who will follow through after the planning has been done?

**PRODUCTION CAPACITY**

- How is the present capacity being used?
- Will filling export orders hurt domestic sales?
- What will be the cost of additional production?

- Are there fluctuations in the annual workload? When? Why?
- What minimum-order quantity is required?
- What would be required to design and package products specifically for export?

#### FINANCIAL CAPACITY

- What amount of capital can be committed to export production and marketing?
- What level of operating costs can be supported by the export department?
- How are the initial expenses of export efforts to be allocated?
- What other new development plans are in the works that may compete with export plans?
- By what date must an export effort pay for itself?

#### **FACT:**

Depending on the target market, it can take months, sometimes even several years, before an exporting company begins to see a return on investment of time and money.

#### **INSIGHT:**

Written plans provide a clear understanding of your long-term exporting objectives and ensure that management is committed to achieving them.

For a more complete list of factors and questions your company should consider, visit California's trade portal at [www.tradeport.org/tutorial/starting/](http://www.tradeport.org/tutorial/starting/) or refer to Box 2.2.

If you're still unsure of your company's readiness to export, you may find it useful to take the U.S. Department of Agriculture's Export Questionnaire. It consists of only nine questions and will give you an assessment of how export ready your company is and what you need to work on. This Export Questionnaire can be found on the U.S. Department of Agriculture's Web site at [www.fas.usda.gov/agx/buying\\_us/export\\_questionnaire.asp](http://www.fas.usda.gov/agx/buying_us/export_questionnaire.asp).

#### DEVELOPING AN EXPORT PLAN

Once you've decided to sell your products abroad, you'll need to develop an export plan. A crucial first step in planning is to develop broad consensus among key management personnel on the company's goals, objectives, capabilities, and constraints. (Answering the questions listed in Box 2.2 is one way to start.) In addition, because they will ultimately be responsible for its successful implementation and execution, the personnel involved in the exporting process should agree on all aspects of an export plan.

The purposes of the export plan are (a) to assemble facts, constraints, and goals and (b) to create an action statement that takes all of those elements into account. The plan

includes specific objectives, sets forth time schedules for implementation, and marks milestones so that the degree of success can be measured and motivate personnel.

The following 10 questions should ultimately be addressed:

1. Which products are selected for export development, and what modifications, if any, must be made to adapt them for overseas markets?
2. Which countries are targeted for sales development?
3. In each country, what is the basic customer profile, and what marketing and distribution channels should be used to reach customers?
4. What special challenges pertain to each market (for example, competition, cultural differences, and import controls), and what strategy will be used to address them?
5. How will your product's export sales price be determined?
6. What specific operational steps must be taken and when?
7. What will be the time frame for implementing each element of the plan?
8. What personnel and company resources will be dedicated to exporting?
9. What will be the cost in time and money for each element?
10. How will results be evaluated and used to modify the plan?

The first time an export plan is developed, it should be kept simple. It need be only a few pages long because important market data and planning elements may not yet be available. The initial planning effort itself gradually generates more information and insight. As you learn more about exporting and your company's competitive position, the export plan will become more detailed and complete. An outline of an export plan is presented in Box 2.3.

From the start, your plan should be written and viewed as a flexible management tool, not as a static document. Objectives in the plan should be compared with actual results to measure the success of different strategies. Your company should not hesitate to modify the plan and make it more specific as new information and experience are gained.

### **FACT:**

Many companies begin export activities haphazardly and are unsuccessful in their early efforts because of poor or no planning, which often leads them to abandon exporting altogether.

### **INSIGHT:**

Formulating an export strategy that is based on good information and proper assessment increases the chances that the best options will be chosen, that resources will be used effectively, and that efforts will be carried through to success.

**BOX 2.3 SAMPLE OUTLINE FOR AN EXPORT PLAN****Table of Contents****Executive Summary**

(one or two pages maximum)

**Introduction: Why This Company Should Export****Part I: Export Policy Commitment Statement****Part II: Situation or Background Analysis**

- Product or Service for Export
- Operations
- Personnel and Export Organization
- Resources of the Firm
- Resources Outside the Firm
- Industry Structure, Competition, and Demand

**Part III: Marketing Component**

- Identifying, Evaluating, and Selecting Target Markets
- Product Selection and Pricing
- Distribution Methods
- Terms and Conditions

- Internal Organization and Procedures
- Sales Goals: Profit and Loss Forecasts

**Part IV: Tactics—Action Steps**

- Primary Target Countries
- Secondary Target Countries
- Indirect Marketing Efforts

**Part V: Export Budget**

- Pro-forma Financial Statements

**Part VI: Implementation Schedule**

- Follow-up
- Periodic Operational and Management Review (Measuring Results against the Plan)

**Addenda: Background Data on Target Countries and Market**

- Basic Market Statistics: Historical and Projected
- Background Facts
- Competitive Environment

A detailed plan is recommended for companies that intend to export directly. Companies that choose indirect export methods may use much simpler plans. For more information on different approaches to exporting and their advantages and disadvantages, see Chapter 5.

CASE STUDY:

## Mykytyn Enterprises Inc.

*"After I was on the Oprah show, I received hundreds of e-mails from women wanting to start or expand their own businesses. I told them to think globally and contact the U.S. Commercial Service for help getting there."*

—Rosie Herman, founder, Mykytyn Enterprises Inc.

### THE COMPANY

The tabloid headline, "Penniless Mom Strikes It Rich," summed up the story of Rosie Herman of Houston, Texas, and the million-dollar nail and hand care business she created from everyday ingredients in her kitchen.

Herman had been a salon owner and manicurist for 15 years when expensive fertility treatments put her into debt. She gave birth to twin girls, and at that point her goal was to be a stay-at-home mom. That phase didn't last long, and Herman was soon in her kitchen mixing natural ingredients into lotions to fix what she calls "lizard skin"—hands cracked and bleeding from too much cooking, cleaning, and care giving. She calls the recipe "a little bit of this and a little bit of that." But would the potion stop the bleeding from the family balance sheet?

Herman sold the mixture, which includes grapefruit, peppermint, spearmint, avocado, rosemary, and apricot, to some local salons, and soon they were clamoring for more. Her husband renamed the product the One Minute Manicure, which made marketing easier.

Business took a leap when Herman gave a manicure to Oprah Winfrey

on *The Oprah Winfrey Show* and was featured in *People Magazine* and a tabloid as the former "penniless mom."

*The Oprah Winfrey Show* is syndicated worldwide, and Herman is now getting e-mail inquiries and orders from Australia and the Netherlands. Celebrities Billy Joel and Jenna Elfman also provided endorsements.

### THE CHALLENGE

Herman realized she had a product for which there was interest beyond the United States. But her company, Mykytyn Enterprises Inc. (named for her husband), was a small family startup business. She wondered how she would navigate the world of commerce. The world is awash in beauty products. How would Herman's stand out?

### THE SOLUTION

With the help of her sister-in-law, who engaged in international marketing, and the U.S. Commercial Service, Herman lined up distributors outside the country. International sales were a priority from the start because they offered faster growth and greater efficiencies. In just a few years, Herman has formed an

international network of 200 distributors and has plans to supply some retailers with product directly.

International sales for the company, with its 12 full-time employees plus production staff, are about 20 percent of total earnings, and Herman wants them to account for 40 percent in two years. "I've developed a product that does not require a lot of modification because of consumer or cultural differences," she says. "Looking and feeling good is a universal desire."

Herman holds up an e-mail from her distributor in France, who tells her, "You are seducing the French, which is not an easy task." Herman and her products are apparently seducing more than the French; sales are also good in Belgium, Mexico, the Netherlands, and the United Kingdom. A distributor in Peru has just placed an order for \$10,000, and South Korea has welcomed the product. According to Herman's international sales manager, sister-in-law Margie Mykytyn, China will be next.

Hasn't all this success created envy and knockoffs around the world? "Yes," says Herman. At one point, there were 50 different variations of the One

Minute Manicure, some with remarkably similar packaging and branding. But none provided much competition for Herman's product. Certainly none were as good, Herman explains. Only a handful remain—and they probably won't survive.

Herman continues to work with the U.S. Commercial Service and its Export Assistance Center in Houston. In addition to finding distributors, the Commercial Service trade specialists provide background checks on prospective buyers, many of whom are coming to Herman's company through her Web site. A buyer in India ordered \$400,000 worth of product. But a Commercial Service trade specialist ran a background check and discovered that all the information provided, including the bank account numbers, was phony.

Does this mean exporting is too risky? "Not at all," explains Herman. "You just have to do your homework and make use of the government export assistance programs that are available."

"After I was on the Oprah show," she recalls, "I received hundreds of e-mails from women wanting to start or expand their own businesses. I told them to think globally and contact the U.S. Commercial Service for help getting there."

## LESSONS LEARNED

Herman follows the Three P's: passion, perseverance, and patience. In other words,

- Follow your dream.
- Don't accept "no" for an answer.
- Be patient and tackle one problem at a time.

She adds that you should always ask for assistance and advice when engaging in international business.

## ACTION

How can you take your small business global? Here are some tips:

- **Conduct market research.** Good market research can help you determine which markets are right for your product. For a complete listing of the market research that the Commercial Service offers, visit [www.export.gov/mrktresearch](http://www.export.gov/mrktresearch). The Commercial Service can also help you find international buyers with the International Partner Search and the Gold Key Service. See Chapter 6 for a description.
- **Know your customer.** Perhaps you have already started receiving orders on your Web site. The Commercial Service can conduct background checks to make sure that buyers are reputable. For a description of the International Company Profile, see Chapter 6. Herman's Web site allows her to receive international orders and to collect payment for them. See Chapter 11 for tips on creating an effective Web site with an overseas audience in mind.

- **Get counseling.** Small companies may find it daunting to enter the international marketplace. In addition to the U.S. Commercial Service, the Small Business Administration (SBA) provides a range of export assistance to small businesses, particularly those new to exporting. Counseling is provided at no cost. To learn more about the SBA, visit [www.sba.gov](http://www.sba.gov).



Rosie Herman used her background as a salon owner and manicurist to develop her own company. "One Minute Manicure" is now sold in dozens of countries, with help from an international network of 200 distributors.