chapter 5

METHODS AND CHANNELS

In This Chapter

- **Finding the best approach to exporting for your company**
- **Separating international from domestic business**
- **Finding overseas partners, agents, and distributors**

The most common methods of exporting are indirect selling and direct selling. In *indirect selling,* an export intermediary such as an export management company (EMC) or an export trading company (ETC) assumes responsibility for finding overseas buyers, shipping products, and getting paid. In *direct selling,* the U.S. producer deals directly with a foreign buyer. The paramount consideration in determining whether to market indirectly or directly is the level of resources your company is willing to devote to your international marketing effort. Other factors to consider when deciding whether to market indirectly or directly include the following:

- The size of your firm
- Tolerance for risk
- Resources available to develop the market
- The nature of your products or services
- Previous export experience and expertise
- Business conditions in the selected overseas markets

APPROACHES TO EXPORTING

The way you choose to export your products can have a significant effect on your export plan and specific marketing strategies. The various approaches to exporting relate to your company's level of involvement in the export process. There are at least four approaches that may be used alone or in combination:

1. **Passively filling orders from domestic buyers, who then export the product.** These sales are indistinguishable from other domestic sales as far as the original seller is concerned. Another party has decided that the product in question meets foreign demand. That party assumes all the risks and handles all the exporting details, in some cases even without the awareness of the original seller. (Many companies take a stronger interest in exporting when they discover that their product is already being sold overseas.)

2. **Seeking out domestic buyers who represent foreign end users or customers.** Many U.S. and foreign corporations, general contractors, foreign trading companies, foreign government agencies, foreign distributors, retailers, and others in the United States purchase for export. These buyers constitute a large market for a wide variety of goods and services. In this approach, your company may know that its product is being exported, but the domestic buyer still assumes the risks and handles the details of exporting.

3. **Exporting indirectly through intermediaries.** With this approach, your company engages the services of an intermediary firm that is capable of finding foreign markets and buyers for your products. EMCs, ETCs, international trade consultants, and other intermediaries can give you access to well-established expertise and trade contacts, but you retain considerable control over the process and can realize some of the other benefits of exporting, such as learning more about foreign competitors, new technologies, and other market opportunities.

4. **Exporting directly.** This approach is the most ambitious and challenging because your company handles every aspect of the exporting process from market research and planning to foreign distribution and payment collections. A significant commitment of management time and attention is required to achieve good results. However, this approach may also be the best way to achieve maximum profits and long-term growth. With appropriate help and guidance from the U.S. Department of Commerce, state trade offices, freight forwarders, shipping companies, international banks, and others, even small or medium-sized firms can export directly. The exporting process today is easier and has fewer steps than ever before. For those who cannot make that commitment, the services of an EMC, ETC, trade consultant, or other qualified intermediary can be of great value.

The first two approaches represent a substantial proportion of total U.S. exports. They do not, however, involve the firm in the export process. Consequently, this book concentrates on the latter two approaches. If the nature of your company's goals and resources makes an indirect method of exporting the best choice, little further planning may be needed. In such a case, the main task is to find a suitable intermediary firm that can handle most export details. Firms that are new to exporting or are unable to commit staff and funds to more complex export activities may find indirect methods of exporting more appropriate.

However, using an EMC or other intermediary does not exclude the possibility of direct exporting for your firm. For example, your company may try exporting directly to nearby mar-

BOX 5.1 INDIRECT VS. DIRECT EXPORTING

INDIRECT EXPORTING:

The principal advantage of indirect exporting for a smaller U.S. company is that it provides a way to enter foreign markets without the potential complexities and risks of direct exporting.

DIRECT EXPORTING:

The advantages of direct exporting for your company include more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace, as well as the opportunity to learn what you can do to boost overall competitiveness.

kets such as the Bahamas, Canada, or Mexico, while letting an EMC handle more challenging sales to Egypt or Japan. You may also choose to gradually increase the level of direct exporting once you have gained enough experience and sales volume to justify added investment.

Before making those kinds of decisions, you may want to consult trade specialists such as those at the U.S. Commercial Service. They can be helpful in determining the best approach or mix of approaches for you and your company.

DISTRIBUTION CONSIDERATIONS

Here are some points to consider when distributing your product:

- Which channels of distribution should your company use to market its products abroad?
- Where should your company produce its products, and how should it distribute them in the foreign market?
- What types of representatives, brokers, wholesalers, dealers, distributors, or end-use customers should you use?
- What are the characteristics and capabilities of the available intermediaries?
- Should you obtain the assistance of an EMC or an ETC?

Your answers from Box 2.2 in Chapter 2 can help you determine whether indirect or direct exporting methods are best for your company. See also Box 5.1.

INDIRECT EXPORTING

The principal advantage of indirect exporting for a smaller U.S. company is that an indirect approach provides a way to enter foreign markets without the potential complexities and risks of direct exporting. Several kinds of intermediary firms provide a range of export services, and each type of firm can offer distinct advantages to your company.

Confirming Houses

Confirming houses or buying agents represent foreign firms that want to purchase your products. They seek to obtain the desired items at the lowest possible price and are paid a commission by their foreign clients. In some cases, they may be foreign government agencies or quasi-governmental firms empowered to locate and purchase desired goods. An example is a foreign government purchasing mission.

A good place to find these agents is through foreign government embassies and embassy Web sites or through the U.S. Commercial Service.

Export Management Companies

An export management company can act as the export department for producers of goods and services. It solicits and transacts business in the names of the producers it represents or in its own name for a commission, salary, or retainer plus commission. Some EMCs provide immediate payment for the producer's products by either arranging financing or directly purchasing products for resale. Typically, only larger EMCs can afford to purchase or finance exports.

EMCs usually specialize by product or by foreign market, or sometimes by both. Because of their specialization, the best EMCs know their products and the markets they serve very well and usually have well-established networks of foreign distributors already in place. This immediate access to foreign markets is one of the principal reasons for using an EMC, because establishing a productive relationship with a foreign representative may be a costly and lengthy process.

One disadvantage of using an EMC is that you may lose control over foreign sales. Most exporters are understandably concerned that their product and company image be well maintained in foreign markets. A way for your company to retain sufficient control in such an arrangement is to carefully select an EMC that can meet your company's needs and maintain close communication with you. For example, your company may ask for regular reports on efforts to market your products and may require approval of certain types of efforts, such as advertising programs or service arrangements. If your company wants to maintain this kind of relationship with an EMC, you should negotiate points of concern before entering an agreement.

Export Trading Companies

An export trading company can facilitate the export of U.S. goods and services. Like an EMC, an ETC can either act as the export department for producers or take title to the product. A special kind of ETC is a group organized and operated by producers. These ETCs can be organized along multiple- or single-industry lines and can also represent producers of competing products.

Exporters may consider applying for an Export Trade Certificate of Review under the Export Trading Company Act of 1982. A certificate of review provides limited antitrust immunity for specified export activities. For more information, see *www.trade.gov/td/oetca* or call (202) 482-5131.

Export Agents, Merchants, or Remarketers

Export agents, merchants, or remarketers purchase products directly from the manufacturer, packing and labeling the products according to their own specifications. They then sell these products overseas through their contacts in their own names and assume all risks.

In transactions with export agents, merchants, or remarketers, your firm relinquishes control over the marketing and promotion of your product. This situation could have an adverse effect on future sales abroad if your product is underpriced or incorrectly positioned in the market or if after-sales service is neglected. However, the effort required by the manufacturer to market the product overseas is very small and may lead to sales that otherwise would take a great deal of effort to obtain.

FACT:
Many companies that are new to exporting choose to market indirectly through an export intermediary.

INSIGHT:
The most important consideration in determining whether to use an export intermediary is the level of staff time and effort your company is willing to devote to international marketing.

Piggyback Marketing

Piggyback marketing is an arrangement in which one manufacturer or service firm distributes a second firm's product or service. The most common piggybacking situation occurs when a U.S. company has a contract with an overseas buyer to provide a wide range of products or services.

Often, the first company does not produce all the products that it is under contract to provide, and it turns to other U.S. companies to provide the remaining products. The second U.S. company then piggybacks its products onto the international market, generally without incurring the marketing and distribution costs associated with exporting. Successful arrangements usually require that the product lines be complementary and appeal to the same customers.

DIRECT EXPORTING

The advantages of direct exporting for your company include more control over the export process, potentially higher profits, and a closer relationship to the overseas buyer and marketplace, as well as the opportunity to learn what you can do to boost overall competitiveness. However, those advantages come at a price; your company needs to devote more time, personnel, and resources to direct exporting than it would to indirect exporting.

If your company chooses to export directly to foreign markets, it usually will make internal organizational changes to support more complex functions. As a direct exporter, you'll normally select the markets you wish to penetrate, choose the best channels of distribution for each market, and then make specific connections with overseas buyers in order to sell your product.

GETTING ORGANIZED FOR EXPORTING

A company new to exporting generally treats its export sales no differently from its domestic sales, using existing personnel and organizational structures. As international sales and inquiries increase, your company may choose to separate the management of its exports from that of its domestic sales.

The advantages of separating international from domestic business include the centralization of specialized skills needed to deal with international markets and the benefits of a focused marketing effort that is more likely to increase export sales. A possible disadvantage is that segmentation might be a less efficient use of company resources.

Your company can separate international from domestic business at different levels in the organization. For example, when you first begin to export, you may create an export department with a full- or part-time manager who reports to the head of domestic sales and marketing. At a later stage, your company may choose to increase the autonomy of the export department to the point of creating an international division that reports directly to the president. Many smaller companies absorb export sales into existing functions; such an arrangement works effectively until export sales increase significantly.

Regardless of how your company organizes its exporting efforts, the key is to facilitate the marketer's job. Good marketing skills can help your firm operate in an unfamiliar market. Experience has shown that a company's success in foreign markets depends less on the unique attributes of its products than on its marketing methods.

Once your company is organized to handle exporting, a proper channel of distribution needs to be carefully chosen for each market. These channels include sales representatives, agents, distributors, retailers, and end users.

Sales Representatives

An overseas sales representative is the equivalent of a manufacturer's representative in the United States. The representative uses your company's product literature and samples to present the product to potential buyers. Ordinarily, a representative handles many complementary lines that do not conflict. The sales representative usually works for a commission, assumes no risk or responsibility, and is under contract for a definite period of time (renewable by mutual agreement). The contract defines territory, terms of sale, method of compensation, reasons and procedures for terminating the agreement, and other details. The sales representative may operate on either an exclusive or a non-exclusive basis.

Agents or Representatives

The widely misunderstood term *agent* means a representative who normally has authority—perhaps even a power of attorney—to make commitments on behalf of the firm that he or she represents. Firms in the United States and other developed countries have stopped using that term because *agent* can imply a power of attorney. They rely instead on the term *representative.* It is important that the contract state whether the representative or agent has the legal authority to obligate your firm.

FACT:

Most companies that are new to exporting do not separate export sales from domestic sales.

INSIGHT:

As your exporting activities increase, you may need to add functions and specialized skills sets to your operation—such as foreign-language speakers.

Regardless of how your company organizes its exporting efforts, the key is to facilitate the marketer's job. Good marketing skills can help your firm operate effectively in unfamiliar markets.

Distributors

The foreign distributor is a merchant who purchases goods from a U.S. exporter (often at a discount) and resells them for a profit. The foreign distributor generally provides support and service for the product, relieving the U.S. exporter of those responsibilities. The distributor usually carries an inventory of products and a sufficient supply of spare parts and also maintains adequate facilities and personnel for normal servicing operations. Distributors typically handle a range of non-competing, complementary products. End users do not usually buy from a distributor; they buy from retailers or dealers.

The terms and length of association between your company and the foreign distributor are established by contract. Some U.S. companies prefer to begin with a relatively short trial period and then extend the contract if the relationship proves satisfactory to both parties. The U.S. Commercial Service can help you identify and select distributors and can provide general advice on structuring agreements.

Foreign Retailers

You may also sell directly to foreign retailers, although in such transactions products are generally limited to consumer lines. The growth of major retail chains in markets such as Canada and Japan has created new opportunities for this type of direct sale. The approach relies mainly on traveling sales representatives who directly contact foreign retailers, although results might also be achieved by mailing catalogs, brochures, or other literature.

The direct mail approach has the benefits of eliminating commissions, reducing travel expenses, and reaching a broader audience. For optimal results, a company that uses direct mail to reach foreign retailers should support it with other marketing activities. For more information, contact the Direct Marketing Association at *www.the-dma.org* or the U.S. Postal Service at *www.usps.com.*

American manufacturers with ties to major domestic retailers may also be able to use them to sell abroad. Many large American retailers maintain overseas buying offices and use those offices to sell abroad when practical.

Direct Sales to End Users

You may sell your products or services directly to end users in foreign countries. The buyers may be foreign government institutions or they may be businesses. The buyers can be identified at trade shows, through international publications, or by the overseas posts of the U.S. Commercial Service.

You should be aware that if a product is sold in such a direct fashion, your company is responsible for shipping, payment collection, and product servicing unless other arrangements are made. If the cost of providing these services is not built into the export price, you could have a smaller profit than you had anticipated.

If you choose to use foreign representatives, you can meet them during overseas business trips, at domestic or international trade shows, or through Web sites such as the U.S. Department of Commerce's at *www.buyusa.gov/matchmaking.* A comprehensive list of upcoming trade shows can be found at *www.export.gov/tradeevents.* There are other effective methods that you can use without leaving the United States, including e-commerce platforms. Ultimately, you may need to travel abroad to identify, evaluate, and sign up overseas representatives; however, you can save time by first conducting background research in the country you're targeting. The Commercial Service can provide the market research you need and introduce you to buyers in more than 80 countries.

FACT:

Many distribution channels are open to you, including sales representatives, agents, distributors, retailers, and end users.

INSIGHT:

The one you choose should be based on your evaluation of the following:

- Size of sales force
- Sales record
- Territorial analysis
- Product mix
- Facilities and equipment
- Marketing policies
- Customer profiles
- Principals represented
- Promotional capabilities

Contacting and Evaluating Foreign Representatives

Once your company has identified a number of potential representatives or distributors in the selected market, you should write, e-mail, or fax each one directly. Just as your firm is seeking information on the foreign representative, the representative is interested in corporate and product information on your firm. The prospective representative may want more information than your company normally provides to a casual buyer. Your firm should provide full information on its history, resources, personnel, product line, previous export activity (if any), and all other relevant matters. Your firm may wish to include a photograph or two of plant facilities and products—and even product samples when practical. You may also want to consider inviting the foreign representative to visit your company's operations. Whenever the danger of intellectual property theft is significant, you should guard against sending product samples that could be easily copied. (For more information on correspondence with foreign firms, see Chapter 17.)

Your firm should investigate potential representatives or distributors carefully before entering into an agreement with them. (See Box 5.2 for an extensive checklist of factors to consider in such evaluations.) You also need to know the following information about the representative or distributor:

- Current status and history, including background on principal officers
- Methods of introducing new products into the sales territory
- Trade and bank references
- Data on whether your firm's special requirements can be met

You should also ask for the prospective representative or distributor's assessment of the in-country market potential for your firm's products. Such information is useful in gauging how much the representative knows about your industry; it provides valuable market research as well.

Your company may obtain much of this information from business associates who work with foreign representatives. However, you should not hesitate to ask potential representatives or distributors detailed and specific questions. Suppliers have the right to explore the qualifications of those who propose to represent them overseas. Well-qualified representatives will gladly answer questions that help distinguish them from less qualified competitors. Your company should also consider other private-sector and U.S. government sources for credit checks of potential business partners.

In addition, your company may wish to obtain at least two supporting business and credit reports to ensure that the distributor or representative is reputable. By using a second credit report from a different source, you may gain new or more complete information. Reports from a number of companies are available from commercial firms and from the Commercial Service's International Company Profiles. Commercial firms and banks are also

BOX 5.2 CHOOSING A FOREIGN REPRESENTATIVE OR DISTRIBUTOR

Each company should tailor the following checklist to its own needs. Key factors vary significantly according to the products and countries involved.

SIZE OF SALES FORCE

- How many field salespeople does the representative or distributor have?
- What are the short- and long-range expansion plans, if any?
- Would the representative company need to expand to accommodate your account properly? Would it be willing to do so?

SALES RECORD

- Has the sales growth of the representative company been consistent? If not, why not? Try to determine its sales volume for the past five years.
- What is the average sales volume per outside salesperson?
- What are the sales objectives of the representative or the distributor for next year? How were they determined?

TERRITORIAL ANALYSIS

- What sales territory does the representative company now cover?
- Is the sales territory consistent with the coverage you desire? If not, is the representative or distributor able and willing to expand the territory?
- Does the representative company have any branch offices in the territory to be covered? If so, are they located where your sales prospects are greatest?
- Does it have any plans to open additional offices?

PRODUCT MIX

- How many product lines does the representative company handle?
- Are these product lines compatible with yours?
- Is there any conflict of interest?
- Does it represent any other U.S. firms? If so, which ones? (names and addresses)
- Would the representative company be willing to alter its present product mix to accommodate yours?
- What is the minimum sales volume that the representative or distributor needs to justify handling your lines? Do its sales projections reflect that minimum figure? From what you know of the territory and the prospective representative or distributor, is the projection realistic?

FACILITIES AND EQUIPMENT

- Does the representative company have adequate warehouse facilities?
- What is the method of stock control?
- Does it use computers? Are they compatible with yours?
- What communications facilities does it have (fax, modem, e-mail)?
- If your product requires servicing, is the representative company equipped and qualified to perform that service? If not, is it willing to acquire the needed equipment and arrange for training? To what extent will you have to share the training cost? Are there alternative ways in the market to service the product?
- If necessary and customary, is the representative or distributor willing to inventory repair parts and replacement items?

MARKETING POLICIES

- How is the sales staff compensated?
- Does the representative company have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific product lines?
- How does it monitor sales performance?
- How does the representative or distributor train its sales staff?
- Would it pay or share expenses for its sales personnel to attend factory-sponsored seminars?

CUSTOMER PROFILE

- What kinds of customers is the representative company currently contacting?
- Are its interests compatible with your product line?
- What are the key accounts?
- What percentage of the total gross receipts do those key accounts represent?

PRINCIPALS REPRESENTED

- How many principals is the representative or distributor currently representing?
- Would you be its primary supplier?

continued on next page

BOX 5.2 (CONTINUED)

- If not, what percentage of the total business would you represent? How does this percentage compare with other suppliers?

PROMOTIONAL THRUST

- Can the representative company help you compile market research information to be used in making forecasts?
- What media does it use, if any, to promote sales?
- How much of the budget is allocated to advertising? How are those funds distributed among various principals?
- Will you be expected to contribute funds for promotional purposes?
- How will the amount be determined?
- If the representative or distributor uses direct mail, how many prospects are on the mailing list?
- What type of brochure does it use to describe the companies and products that it represents?
- If necessary, can it translate your advertising copy?
- Does the representative have a Web site to promote the product?
- Can it provide product demonstrations and training if needed?

sources of credit information on overseas representatives. They can provide information directly or from their correspondent banks or branches overseas. Directories of international companies may also provide credit information on foreign firms.

Once your company has prequalified some foreign representatives, you may wish to travel to the foreign country to observe the size, condition, and location of their offices and warehouses. In addition, your company should meet each sales force and try to assess its strength in the marketplace. If traveling to each distributor or representative is difficult, you may decide to meet each of them at U.S. or worldwide trade shows. The Commercial Service can arrange the meetings; it also offers videoconferencing, which can, in many instances, replace the need to travel.

Negotiating an Agreement with a Foreign Representative

When your company has found a prospective representative that meets its requirements, the next step is to negotiate a foreign sales agreement. Export Assistance Centers provide advice to firms contemplating that step. The International Chamber of Commerce also provides useful guidelines and can be reached at (212) 703-5065 or *www.iccwbo.org.*

Most representatives are interested in your company's pricing structure and product profit potential. They are also concerned with the terms of payment; product regulation; competitors and their market shares; the amount of support provided by your firm, such as sales aids, promotional material, and advertising; training for the sales and service staff; and your company's ability to deliver on schedule.

The agreement may contain provisions that specify the actions of the foreign representative, including the following:

- Not having business dealings with competing firms (because of antitrust laws, this provision may cause problems in some European countries)
- Not revealing any confidential information in a way that would prove injurious, detrimental, or competitive to your firm
- Not entering into agreements with other parties that would be binding to your firm
- Referring all inquiries received from outside the designated sales territory to your firm for action

FACT:
Care should be taken in entering into foreign sales agreements.

INSIGHT:
Export Assistance Centers can provide counseling to U.S. companies planning to negotiate foreign sales agreements with representatives and distributors. To find an international trade specialist in your area, visit *www.export.gov* or call (800) USA-TRADE (800-872-8723).

To ensure a conscientious sales effort from the foreign representative, the agreement should include a requirement that the representative apply the utmost skill and ability to the sale of the product for the compensation named in the contract. It may be appropriate to include performance requirements, such as a minimum sales volume and an expected rate of increase.

In drafting the agreement, you must pay special attention to safeguarding your company's interests in case the representative proves less than satisfactory. (See Chapter 10 for recommendations on specifying terms of law and arbitration.) It is vital to include an escape clause in the agreement that allows you to end the relationship safely and cleanly if the representative does not fulfill expectations. Some contracts specify that either party may terminate the agreement with written advance notice of 30, 60, or 90 days. The contract may also spell out exactly what constitutes "just cause" for ending the agreement (for example, failure to meet specified performance levels). Other contracts specify a certain term for the agreement (usually one year) but arrange for automatic annual renewal unless either party gives written notice of its intention not to renew.

In all cases, escape clauses and other provisions to safeguard your company may be limited by the laws of the country in which the representative is located. For this reason, you should learn as much as you can about the legal requirements of the representative's country and obtain qualified legal counsel in preparing the contract. These are some of the legal questions to consider:

• How far in advance must the representative be notified of your intention to terminate the agreement? Three months satisfy the requirements of many countries, but a registered letter may be needed to establish when the notice was served.

• What is "just cause" for terminating a representative? Specifying causes for termination in the written contract usually strengthens your position.

• Which country's laws (or which international conventions) govern a contract dispute? Laws in the representative's country may forbid the representative company from waiving its nation's legal jurisdiction.

• What compensation is due to the representative on dismissal? Depending on the length of the relationship, the added value of the market that the representative created for you, and whether termination is for just cause as defined by the foreign country, you may be required to compensate the representative for losses.

• What must the representative give up if dismissed? The contract should specify the return of property, including patents, trademarks, name registrations, and customer records.

• Should the representative be referred to as an agent? In some countries, the word *agent* implies power of attorney. The contract needs to specify whether the representative is a legal agent with power of attorney.

• In what language should the contract be drafted? In most cases, the contract should be in both English and the official language of the foreign country.

Foreign representatives often request exclusivity for marketing in a country or region. It is recommended that you not grant exclusivity until the foreign representative has proven his or her capabilities or that it be granted for a limited, defined period of time, such as one year, with the possibility of renewal. The territory covered by exclusivity may also need to be defined, although some countries' laws may prohibit that type of limitation.

The agreement with the foreign representative should define what laws apply to the agreement. Even if you choose U.S. law or that of a third country, the laws of the representative's country may take precedence. Many suppliers define the United Nations Convention on

FACT:

Foreign representatives often request exclusivity for marketing in a country or region.

INSIGHT:

You should not grant exclusivity unless the foreign representative has proven capabilities. It is advisable to put a time limit on such grants.

Contracts for the International Sale of Goods (CISG, or the Vienna Convention) as the source of resolution for contract disputes, or they defer to a ruling by the International Court of Arbitration of the International Chamber of Commerce. For more information, refer to the International Chamber of Commerce arbitration page, which is accessible at *www.iccwbo.org.*

CASE STUDY:

LightStream Technologies

"What would have easily taken a month on our own was accomplished in days through the Commercial Service."

—Josh Lanier, vice chairman, LightStream Technologies

THE COMPANY

Some U.S. companies add exporting as a business strategy after they have been successful domestically. Others, such as Virginia-based LightStream Technologies, which manufactures devices using ultraviolet (UV) light to purify water, build their businesses and products around exporting.

When Vice Chairman Josh Lanier and his cofounders started LightStream in 1998, they knew that water purification was a $6 billion business, largely dominated by the production and sale of chlorine. But dependence on chlorine is changing, Lanier insists, because of health and environmental problems associated with excessive chlorine use and security concerns about transporting the chemical.

Although other UV light disinfection systems exist, LightStream's product is different from conventional systems. It uses pulsed UV light, which disinfects by means of short bursts of UV light that are of much stronger intensity.

THE CHALLENGE

Lanier and his colleagues needed a fast, reliable, cost-effective way of finding distributors in key markets. They assumed their technology would be in demand, especially in developing countries, where pollution management is a primary need. "Water is a necessity of life," notes Lanier. "There are markets around the world that meet our criteria: one, an immediate need, and two, the ability to buy." But how does a startup find buyers without experiencing undue financial risk?

Lanier had a fortuitous background—experience in government relations. "Water is policy and politics," he observes, "and in working with governments and business associations in Washington, D.C., I had honed good instincts for finessing sales once I got in the door." But getting in the door was a challenge for the fledgling business.

THE SOLUTION

It remained a challenge until Lanier met Sandra Collazo, a U.S. Commercial Service trade specialist at the Northern Virginia Export Assistance Center. Collazo, whose specialties include environmental equipment, told Lanier about a Commercial Service trade mission to India. Numerous trade missions are organized each year, some of which are specific to a country, region, or industry. Participants pay their own travel expenses, plus a fee that covers finding interested, qualified buyers.

Navigating the shoals of India's environmental sector can be tricky. Many firms are eager to partner with U.S. companies, but finding the right one is crucial. Some appear established but are financially shaky. Others present long lists of contacts but lack the network to distribute products. Choosing the right partner can take months.

This is where Collazo and her Commercial Service colleagues in India came in. As Lanier traveled to New Delhi, Mumbai, and Chennai with the trade mission, he met with representatives of companies that Commercial Service officers had prescreened to fit LightStream's needs. The schedule was hectic but worthwhile. Dozens of companies were interested in becoming LightStream Authorized Solution Providers. "We were able to survey and better understand the Indian market by participating in the trade mission," says Lanier. "What would have easily taken a month on our own was accomplished in days through the Commercial Service."

With help from the Commercial Service, Lanier whittled the list of candidates down to Subhash Projects and Marketing Ltd., a leading Indian engineering and construction firm. LightStream formed a strategic alliance with Subhash, and both companies expect sales of $15 million in India over the next five years. The agreement calls for technology transfer and joint marketing throughout India. "Subhash is a good group," says Lanier. "They're solid, they have growth potential, and they are publicly traded."

Lanier accelerated his overseas business development and took advantage of more Commercial Service products. Under the Gold Key program, U.S. businesspeople travel on their own to a market and meet potential buyers selected by Commercial Service officers. Lanier calculates that he has participated in dozens of Gold Keys around the world. Recently, he took a Gold Key trip to Europe. A cheap dollar makes LightStream's products a relative bargain in Europe right now. The Gold Key visit to Ireland concluded with a distribution agreement for the United Kingdom and South Africa, generating sales of $4.2 million, with subsequent purchases of 40 systems worth even more.

Lanier's next project is to conduct 30 Gold Keys in 30 countries. The Commercial Service will find suitable partners in each country; in turn, those companies will be asked to go to a special Web site where they can view information about LightStream. The prospective partners will then complete a questionnaire that Lanier has honed to eliminate all but the most qualified candidates. Then, Lanier will fly to meet the prospects with the help of Commercial Service officers in the market. "For a very reasonable cost, I can use this virtual Gold Key to facilitate sales to multiple markets simultaneously, knowing I have an experienced team on my side if I run into difficulties," says Lanier.

LESSONS LEARNED

For Lanier, creating LightStream and going global are "the biggest and boldest things of all I've ever done." He's learned several valuable lessons:

- **Move the company's products as close to the customer as possible.** Getting close to the customer means forging alliances in as many markets as possible. U.S. government programs can help your company form partnerships.
- **Strive for a high-quality product.** LightStream is in the process of acquiring a Six Sigma, which equates to 3.2 defects for each million opportunities for defects. Setting a standard for high quality helps a company gain and hold a valuable niche in the marketplace.
- **Remember the importance of personal relationships.** Lanier says, "Through the process of building our worldwide distribution network prior to product release, we were able to learn a great deal that has helped us restructure our organization's plans for regional operation."

ACTION

These ideas can help you find the right partner, agent, or distributor:

- **Use the U.S. Commercial Service.** Consider traveling on a trade mission, or try the Gold Key program.
- **Join business organizations.** Business organizations can help you understand government regulations, promote your industry, and keep up with the latest technical information. To find the best organization for you, consult the U.S. Chamber of Commerce at *www.uschamber.com.*
- **Conduct market research.** The Commercial Service's Country Commercial Guides, found at *www.export.gov/mrktresearch,* are excellent preliminary resources.

Disease-free drinking water is a luxury in much of the developing world. LightStream of Reston, Virginia, makes technology that purifies water using ultraviolet light.

chapter 5 CASE STUDY