BUILDING AN EXPORT BUSINESS

Guest author Jaime Sigal details the ins and outs of moving your company and its products into the international arena.

TODAY'S BUSINESS ENVIRONMENT IS FLUID. Now, perhaps more than ever, companies need to seriously examine the importance of developing an export business. There are a number of leading indicators. At the top of the list is the U.S. economic situation, which not only includes the risk of recession and the weak dollar, but is coupled with new trade agreements and the growing purchasing power of consumers outside the U.S. All these factors beg the question of when to export: If not now, then when?

Businesses that pay attention are becoming more proactive. To thrive and grow in the ever-changing global economy the first move is to expand overseas. This will likely improve the overall profitability of a company and spread risk over a wider customer base, making it less dependent on the ups and downs of the economy.

Deciding on what part of the world you want to direct your export efforts is one of the most important decisions you'll make. If, for example, Latin America and/or the Caribbean are your targets, you'll need to examine these markets from a fiscal perspective and beyond. Don't be arrogant about what you think you know. Knowledge and expertise will be your most powerful tools.

Several studies have shown that exporting improves a company's competitive advantage. Establishing a presence overseas can provide a new, global perspective and facilitates opportunities for existing and new products.

OPPORTUNITY KNOCKS

We are approaching the day when we will do business in a singular "global market" instead of a plurality of domestic and foreign markets. As a result, exporting is not just a way to maximize profits now — it also represents how business will be conducted tomorrow.

There are many long-term opportunities outside the U.S., and Latin America is a prime example. Regarding the confectionery industry, it is unequivocally true that "Made in the USA" products are well accepted by Latin American consumers. There, the average consumer believes that products from the U.S. have quality, are novel and are attractively packaged. The region's confectionery segment is growing; the market has an estimated value of $10 billion and per capita consumption is also on the rise.

Looking ahead, it will be crucial for American companies to start thinking about exporting to Latin America and not just "shipping products outside the U.S." — especially if they want to develop a sustainable business in the region.

Exporting isn't merely about shipping product to someplace outside the U.S. — hardly. While shipping product is sometimes thought of as the easiest way to sell and stimulate a quick cash flow turnaround, it is naive to think that once shipped, the product will also market, manage and sell itself. There are numerous lessons to be learned. The wrong way to forge a relationship is exemplified by the phrase: "Mr. Importer, here is my product. Thank you for your money, good luck!"

Some companies prefer to do business this way and feel they are exporting and meeting with success. The reality is that they might be at risk. In the above scenario, it is comfortable for the person responsible for "developing" an international business because it's not labor intensive. They do not need to think about sales and marketing strategies for the region, key countries to approach or the need to adjust products to meet consumer demographics and preferences. In addition, there isn't an iota of thought given to adapting packaging to local government regulations.

This way of conducting business has no vested interest in registering the brand's trademark and product range in each country, or even considers the need or frequency of traveling

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>
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to key markets. In essence, conducting an export business on such a level is merely about short-lived opportunism.

Company directors and CEOs should be astute about doing business in such a manner. The negative impact on one's brand could be its demise. Several questions should arise if your company exports this way. For example, if your trademark is not registered in a specific country, could someone register it without your knowing? Who is taking care of your products? Are they reaching the consumer in good condition? At what price are they retailing? Will the business succeed long term?

If you want to build a lasting business, you need to think differently about the execution of exporting and start implementing the steps necessary to achieve your goals.

KNOW WHAT YOU'RE GETTING INTO

The export business is both complex and risky, and you will face very different markets with new rules and an abundance of cultural differences in how business is done.

For example, did you know that in most of the Latin American countries 70 to 80 percent of sales are executed through wholesalers selling to mom-and-pop shops? Further, there are diverse cultures with their own sets of rules as to how to do business.

In Mexico, for example, there is a saying: "First we make friends, then we do business." In the U.S., however, the attitude is often "Let's get down to business, and then if all goes well, we can be friends." In South America we also find two dominating languages, Spanish and Portuguese, and a variety of taste preferences as well. For instance, consumers in Argentina love fruit-flavor candies while Mexicans prefer sour or spicy products.

Building an export business is not an overnight proposition. But the good news is that being successful in Latin America is not only possible for large companies, which often have an organized export sales department and/or key account managers in several countries, but it is also for the small and medium size ones. To move forward, you require time and some important attributes such as commitment, perseverance, flexibility, imagination, patience and vision.

READY, SET, GO

The first step is a product line that is successful in the U.S. Although it is highly probable you will need to make adjustments to your formula or packaging claims, at least you already have a good base to start. You will also need adequate production capacity, staff (you must provide the same level of service given to domestic customers) and the financial resources needed to commit to the export market. If you have all these, you can move on to the second stage — investigating the opportunities your product line might have in the region and defining your strategic approach. You need to research which markets to approach first, choosing between such big markets as Brazil, Mexico, Colombia and Argentina, or the medium and small markets of Guatemala, Costa Rica, Ecuador and Chile.

If it is your first experience exporting to the region, it is recommended you start with small or medium size markets where you will be able to test your products and learn. The "estimated" demand you will see for your products in the markets you test in, their population, consumer habits and other factors will influence your decision. A key point for consideration: You need to determine if your product will be sold in the organized trade segment, which accounts for 20 to 30 percent of most markets, or in the wholesale trade, where the big volume is, or in both.

After selecting the countries, you need to evaluate how your items fit into the markets you've targeted. Most likely, adjustments will have to be made to your products and their packaging in order to comply with consumer tastes, and certainly with the local health authorities and/or commercial regulations.

You will most definitely need to work on the pricing structure. As a point of reference — and depending on the country — the retail price of your product will be about three- to five-times your FOB price. Facts affecting the final retail price include inland and ocean freight, customs clearance expenses, import duties, trade margins (importer, wholesaler or sub-distributor and retailer) and Value Added Tax.

You will also need to evaluate the in-market competition, how you will distribute your products and the marketing support, such as listing fees, tastings and other investments necessary to develop your brand. With all of this information at-hand you can proceed to

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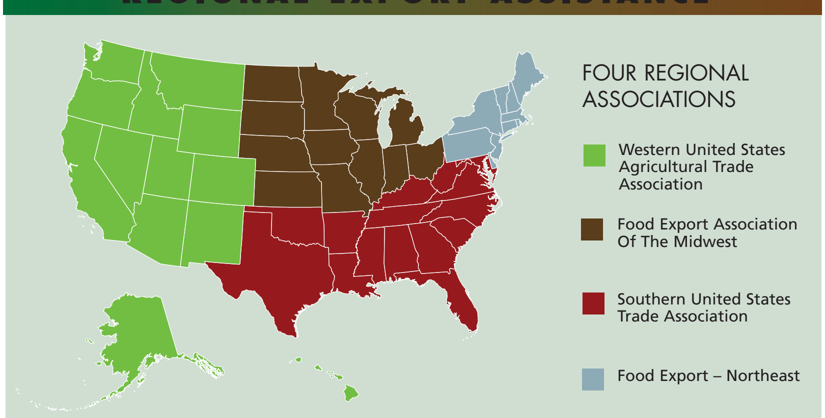
REGIONAL EXPORT ASSISTANCE



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define your plan to approach each country. If your company has fewer than 500 employees, it is worth checking with government agencies for export support, which can include reimbursements for Market Access Programs, tastings, trade show participation and more. There are four regional associations that can assist you in obtaining funding (*see chart, pg. 41*).

Before embarking on an overly ambitious plan, make sure your trademarks and trade names are registered in the countries where you will start selling. Once this is in process, you will need to register your products with the local health authorities, and your importer/distributor will usually assist you with this.

Finding a suitable importer/distributor is a key factor in the ultimate success of your brand. Contact companies and evaluate their reputation, infrastructure, the lines they carry (to avoid any conflict with your own) and to determine if they are financially sound. Part of the agreement with the importer will be to define a marketing plan, pricing and how to launch your products. How does the importer plan to gain distribution and what suggestions do they have for marketing activities to support your brand? At the same time, you should be adjusting your packaging, and, if necessary, your products' flavors.

GET DOWN TO BUSINESS WITH AN EMC

You can do all of this with your own staff, but if your resources are limited, consider hiring an Export Management Company (EMC) with experience in the region.

Bear in mind that you will have to approach a market with more than 20 countries, an overall population of more than 500 million with average per capita incomes much lower than the U.S., different cultures and, with the exception of Brazil where Portuguese is dominant, a common Spanish language.

What should be clear is that you will need to do the necessary research or use the guidance of an expert in foreign trade — whether in-house or a third party. Many companies choose to hire an EMC because they are usually small, focused, know the region and are highly specialized by category.

Because of this, the best EMCs are extremely familiar with the products and possibilities of the markets they serve, and more often than not have networks of foreign distributors already in place. Executives who previously worked for mid- to large-size companies manage many EMCs and generally stay in the same field. In addition to the knowledge they bring to the table, they frequently travel to the countries they serve.

The price tag attached to hiring an EMC varies, but the short- and long-term benefits will likely far outweigh the cost — especially since the company can provide expertise that can be shared with your staff.

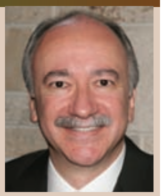
EMCs often report directly to your in-house international/export manager and in this regard, the EMC's role is critical to your export goals. As such, an EMC is integrated into your day-to-day activities and can become a valued member of your team.

Opportunities in Latin America await. Isn't recognizing the possibilities what being smart in business is all about? CSB

U.S. TRADE AGREEMENTS

IN FORCE	PENDING
NAFTA (MEXICO, CANADA)	PANAMA
CHILE	COLOMBIA
CAFTA – DR (COSTA RICA, DOMINICAN REPUBLIC, EL SALVADOR, GUATEMALA, HONDURAS AND NICARAGUA)	PERU

ABOUT THE AUTHOR



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DON'T WASTE YOUR MONEY

If you choose the export management company route, be prepared to ask following questions:

- How many people are in the organization and how many travel? How many could be dedicated to your product line?
- What is the frequency of their travel to both primary and secondary markets?
- In total, how many lines does the firm carry? Do any conflict with your brand?
- What expenses are covered in the compensation? Is it fixed, variable, or a combination of the two?
- Do they have an office and showroom for the product lines they represent?
- In addition to sales and marketing, do they help with product compliance, health registrations, etc.?
- How many years have they been in business? What is their success rate? What are the realistic expectations with regard to your product line?
- How many markets do they cover and how many importers/distributors are in their network?
- Can references from manufacturers and importers be verified?