Exporting U.S. Products

I. Why U.S. Exports are Growing
II. Advantages
III. Risks & Rewards
IV. Misconceptions
V. Mistakes to Avoid
VI. Foreign Market Entry
VII. Building Partnerships
VIII. Marketing
IX. Freight & Logistics
X. Question & Answer

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Exporting U.S. Products

Value of U.S. Bulk & Raw Agricultural Exports*

Source: Compiled by ERS using data from U.S. Department of Commerce, Census Bureau.

*Commodity Products

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Exporting U.S. Products

Value of U.S. Processed Food and Beverage Exports

Source: Compiled by ERS using data from U.S. Department of Commerce, Census Bureau.

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Why U.S. Exports Are Growing

• The United States Dollar **depreciated about 15-20%** during the last 12 months*:
  – $1.00 = 81 yen (strongest since WWII)
  – This allowed **American products to be more competitive worldwide**

• **Rising income** in developing countries.
  – GDP in emerging & developing countries grew 2.5% in 2009, while advanced economies shrank by > 3%.

• **Trading partners are expanding their domestic economies** faster than U.S.
  – U.S. exports to those economies tend to increase faster than U.S. imports from them
  – Developing economies are expected to grow between 5.7 and 6.2 percent each year from 2010-2012.
  – High-income countries, however, are projected to grow by between 2.1 and 2.3 percent in 2010.8

***AmberWaves/March11/IncomeGrowth.pdf  ****World Bank
Successful companies recognize they are playing in a global economy

- Exploitation of unique technology

- Foreign buyers are loyal
  - Lower costs/sale

- Diversification
  - Avoid sales downturns

- Extend a product’s lifecycle
Advantages of Exporting

• Heightened sensitivities to consumers needs and tastes

• Anticipate & react to changes
  - Competitive/new products
  - Demographic
  - Economic

• Maximization of assets and efficiencies
  - Enhance economies of scale

• Long term business expansion
Risks of Exporting

- Demand slackens
- Pricing becomes too high for international markets
  - Transportation fees
  - Distributor/wholesale markup fees
- Resources cannot be sustained
- U.S. success cannot always be duplicated abroad
- You must answer the question:
  - Can our product(s) and brand equity be transferred successfully to the international marketplace?

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Common Misconceptions About Exporting

- It’s going to be big
- It can be done quickly
- It’s going to be easy
  - Success in the United States = success abroad
  - Products can be easily adapted to foreign country markets
  - Orders can be processed and shipped in the same manner as they are domestically
  - American business practices are utilized worldwide
Common Mistakes to Avoid

- Lack of commitment from management
- Lack of training for company staff
- Lack of specialization in international sales, marketing and logistics
- Inadequate estimation of the time and resources required to do business internationally
- Inventory shortages
Complying with U.S. Export Regulations

- Syrian company contacted U.S. manufacturer, wishing to place order
- Company requested that product be shipped via Germany
- Syria is a restricted country under U.S. export policy

\textit{Result: Company could not export without severe penalties}

- U.S. exporters must be aware of U.S. export policy and U.S. EAR (Export Administration Regulations)
Common Mistakes to Avoid

• Lack of regular communication with international partner(s)

• Neglecting international markets when your domestic business is booming

• Inadequate preparation and research on international markets

• Failing to adapt products and marketing materials to international markets
Case Study

Organic Products

• U.S. company exported large quantity of organic product

• Product was U.S. certified organic but not EU certified organic

• UK trade regulations are strict!
  - Milk
  - High fructose corn syrup (GMO)

• This company did not conduct proper due diligence

_result: Product was not accepted by UK customs, and was destroyed_
“How do we begin exporting?”

Ask questions of management team

- What do we hope to gain from exporting?
- Does exporting align with corporate objectives?
- What resources will be absorbed?
- Do we have the expertise internally?
- Do we have the production capacity?
- Do we have the financial resources?
- What is our expected ROI?
Assessing Your Export Potential

**Required Elements:**

- Firm commitment from management
- Realistic estimation of time, resources, & ROI
- Commitment to modifying products / services by market
- Focus on long-term brand building efforts

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Assessing Your Export Potential

Is Your Domestic House in Order?

- Customer service
- Logistics
- Financial resources
- Products & brands
- Consumer/customer-driven marketing

Are You Ready to Export? Take the test!

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If yes, then you will reap the rewards of exporting!
Step 1: Undertake an Initial Evaluation

- Determine which products have transferability in overseas markets
  - What modifications will be required?
- Assess production and shipping capacity
- Research target markets
  - Limit the number of markets at the outset—a laser focus will increase your success ratio!
- Determine estimated pricing/margins
Screening Potential Markets

- Is product known?
- Is there demand?
- Is there competition?
- Is the market open to my product?
  - Customs duties, taxes, other costs
- Are barriers to entry cost-prohibitive?
- What strategies will be employed to address these issues?

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Primary Research:
- Market visits
- Direct contact with importers/buyers

Secondary Research:
- Trade leads
- Study trade flows of like products/competitors
- Macroeconomic & Demographic data
- Market trends & conditions
- In-country support: U.S. Embassy / D.O.C.
  - www.export.gov
  - www.buyusa.gov
- Potential importers/distributors
- Competitor’s websites
- Cultural issues
Step 2: Classify Your Products

- Harmonized System (HS) Code
  - A standardized international numerical method of classifying traded products
  - 6-10 digits in length
  - First 6 digits harmonized throughout the world
  - Why is it important? International trade data is frequently classified via HS code

- Schedule B Number
  - Used in the United States to classify exported products
  - Administered by the U.S. Census Bureau
  - Must be provided on the Shipper’s Export Declaration (an export document)
  - Why is it important? Used to calculate U.S. export statistics
  - Is an export license required?
## Determine Schedule B numbers

<table>
<thead>
<tr>
<th>Schedule B No. and Headings</th>
<th>Commodity Description</th>
<th>Unit of Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1902</td>
<td>Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagna, gnocchi, ravioli, cannelloni; couscous, whether or not prepared:</td>
<td></td>
</tr>
<tr>
<td>1902.11</td>
<td>Uncooked pasta, not stuffed or otherwise prepared:</td>
<td></td>
</tr>
<tr>
<td>1902.11.2000</td>
<td>Containing eggs:</td>
<td>kg</td>
</tr>
<tr>
<td>1902.11.4000</td>
<td>Exclusively pasta</td>
<td>kg</td>
</tr>
<tr>
<td></td>
<td>Other, including pasta packaged with sauce preparations</td>
<td>kg</td>
</tr>
<tr>
<td>1902.19</td>
<td>Other:</td>
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<tr>
<td>1902.19.2000</td>
<td>Exclusively pasta</td>
<td>kg</td>
</tr>
<tr>
<td>1902.19.4000</td>
<td>Other, including pasta packaged with sauce preparations</td>
<td>kg</td>
</tr>
<tr>
<td>1902.20</td>
<td>Stuffed pasta (including ravioli, cannelloni and lasagna), whether or not cooked or otherwise prepared:</td>
<td></td>
</tr>
<tr>
<td>1902.20.0020</td>
<td>Canned</td>
<td>kg</td>
</tr>
</tbody>
</table>
Adhere to Import Regulations

• U.S. beverage company exported flavored beverage products

• Company failed to perform detailed ingredients analysis or market research on Mexican trade regulations
  - Sugar
  - Coffee

• High tariff duties; Mexico produces local agricultural products
• Pricing was too high due to high tariff duties / lacked competitiveness

Result: Poor sales
Step 3: Allocate Resources

• Prepare budget
• Identify the people who will be involved
  - Will additional staff/specialists be hired?
  - Will staff responsibilities need to be modified?
  - Will logistics/shipping department need to be expanded?
  - Clearly define roles & responsibilities
• Ensure sufficient training
• Ensure shared alignment throughout company
Step 4: Establish a Timeline

- Establish goals & objectives: long-term, medium-term and immediate
- Implement a timetable and benchmarks
- Track progress and results regularly
Step 5: Determine Sales Method

• Licensing
  - Offers the right to a trademark, patent or other IP in return for a royalty or fee
  - Low risk
  - Minimal capital required

• Agent/Broker/EMC
  - Takes no title
  - Low risk
  - Access to new markets
  - Less profit

• Distributor Sales
  - Takes title
  - Less control
  - Least profit

• Direct Sales
  - Most control
  - Relationships
  - Most profit

• Direct Investment
  - Highest level of commitment
Identifying Distribution Partners

• Market Research

• International trade shows

• Government organizations
  • U.S. FCS “matchmaking”

• Product-specific associations and/or commissions

• Advertising in trade journals with international circulation
Evaluating Distribution Partners

Criteria for Evaluation:

- History / Growth
- Current status / sales volume
- Ability to provide a business plan / market analysis
- Personnel and other resources
- Sales territory covered
- Methods of launching new foreign products
- Solid References (trade and bank)
- Technological resources
- Ability to communicate with home office

Know Your Customer!

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Evaluating Distribution Partners

COMPANY NAME: 
MAILING ADDRESS: 
CONTACT PERSON: 
E-MAIL: 
TELEPHONE: 
WEBSITE: 

Is your company a: 
Distributor 
Importer 
Retailer 
Wholesaler 
Manufacturer 

1. Do you currently import dried fruit products, juice concentrates, fruit powders, or extracts? If yes, please specify below
2. What products and brands do you currently sell?
3. What imported products and brands have you launched in your region in the past 2 years?
4. What are your current sales channels?
5. What are your current annual sales figures?
6. How many sales representatives do you have?
7. What regions do you cover?
8. Please list your air courier number (UPS or FedEx) for sending samples:
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Benefits of Working with Distributors

- Established distribution network and in-country contacts
- In-market expertise / insight
- Long-term brand-building strategy
- Less risk compared to other modes of entry
- Most retailers do not import
Establishing a Strong Relationship with Your Distributor

- Ensure plan understanding
- Primary contacts / responsibilities
- Strategic decisions
  - Sales Channels
  - Warehouse
- Sales forecasts
- Purchase orders
- Payment terms
- Marketing / Public Relations
  - Trade shows
  - Press Releases
  - Demonstrations / sampling
Establishing a Strong Relationship with Your Distributor

• Be sensitive to your distributor’s culture
Product Pricing for Success

– Consider exports as marginal sales
  • No fixed costs
  • Incremental
– Global pricing strategy
  • Firm terms & conditions
  • FOB U.S. Port
  • Sales Channels
  • Volume Discounts
– Off-Invoice Discounts/Allowances
– Recommended Selling Price in Local Currency
Risks of Export Sales Transactions

- Political
  - War
  - Nationalization

- Buyer’s credit
  - Default
  - Bankruptcy

- Foreign Currency Exchange
  - Devaluation
  - Exchange rate fluctuation
    - Should not be zero sum game
    - Share the pain and the gain
Define Risk Tolerancy Policy

– Understand buyer
  • Identify risks
  • Understand creditworthiness / ability to pay

– Determine internal credit policy

– Monitor accounts receivable
Methods of Payment

- Wire transfer
- Check or draft
- Credit card
- Letter of Credit
- Documents Against Payment
- Foreign Exchange
  - Payment in local currency
- Credit Terms
- Export-Import Bank

Trust, but verify

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Answer the following prior to committing to a marketing plan:

- Does my brand have current awareness?
- Does our brand and tagline translate directly into foreign language?
- Is my product being sold in the export market by 3rd parties?
- What do I need to do to stimulate consumer trial?

Create a website considering an international audience
There are two fundamental approaches to international marketing

**Global**
- Product usage and needs it satisfies is universal in all countries
- Transcends social, cultural, language differences
- Does not need to be tailored for each country
- Huge savings and critical mass are achieved

**Customized**
- Designing a different marketing plan for each country
- Altering the marketing mix as necessary
- Usually works better in emerging markets
Marketing

Product Adaptation

- Appropriate ingredients / materials used
- Labeling
- Foreign language packaging
  - size, color design
- Compliance with local standards and regulations
- Compliance with consumer preferences
  - Taste profile
- Product usage in foreign markets
- Convenience vs. function

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Case Study

Packaging changes often required

• U.S. company had small consumer packaging
• Wanted to sell in the European Union
• Had difficulty fitting several European languages on small pack
• Developed new form of label

Result: Product was launched successfully throughout the European Union
• **In the initial stages when brand/product awareness is low, below the-line marketing is most important:**
  - Sampling
  - Demonstrations
  - Free give-away
  - Trade shows
  - Culinary Events
  - Trade Missions
  - Internet / social media

• **Once distribution is achieved and brand awareness is high, above the-line marketing is key:**
  - Print media
  - Radio
  - Television
Packing and Shipping

- Export packing
- Labeling
- Expiration date
- Pallets
- Work with a U.S. based freight forwarder
- Determine what kind of insurance you will use for cargo (if necessary)
- Shipping Quotations

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Order Processing

- Establish protocols and clearly determine areas of responsibility
- Obtain ALL required information & documents in writing
- Communication is key
- This is an important part of building relationships with your distributors

Customer and Billing Information

<table>
<thead>
<tr>
<th>Company</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact</td>
<td>Contact</td>
</tr>
<tr>
<td>Address</td>
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</tr>
<tr>
<td>Postal Code</td>
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<td>Fax</td>
<td>Fax</td>
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<tr>
<td>Email</td>
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Customer Billing Information

<table>
<thead>
<tr>
<th>Terms:</th>
<th>Prepaid</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Other*</td>
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</table>

*Pre-approval required for Special Terms

Shipping Preferences

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<tr>
<th>Ship Via:</th>
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<tbody>
<tr>
<td>Pallet Type:***</td>
<td>Wood □</td>
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<tr>
<td></td>
<td>Plastic □</td>
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<tr>
<td>Labels:*</td>
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<td></td>
<td>No □</td>
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<tr>
<td>Packing Slip:</td>
<td>Per Order □</td>
</tr>
<tr>
<td></td>
<td>Per Pallet □</td>
</tr>
<tr>
<td>Production Dates:**</td>
<td>Yes □</td>
</tr>
<tr>
<td></td>
<td>No □</td>
</tr>
</tbody>
</table>

*Label Requirements _______________________________________

** Production Dates (document) [Pull Dates per SKU □]

***Pallet Height Restrictions: ___________________________________

Note: All orders will include Bill of Lading, Packing List and copy of Commercial Invoice
Export Documents

Determine what documents you need for customs prior to shipping an order so that you can:

- Eliminate problems before they occur
- Set your international business up for success
- Focus on selling and marketing your product instead of reacting to logistical issues
Export Documents

Problems that occur without proper documentation:

– Freight can be destroyed
– Freight is held in customs & demurrage fees accumulate
– Ruin relations with international partners
– Waste time & company resources
Case Study

Confectionery company did not conduct sufficient due diligence

- Manufacturer shipped first order to China
- Chinese customs authorities questioned a coloring agent & denied entry
- Options:
  - Ship container back to U.S.
  - Destroy product

Result: Product destroyed; company did not enter China
Conclusions

Fundamentals for Success in Exporting

• Flexibility
• Patience
• Customer service
  - The Customer is King!
• Persistence
• Commitment
Assistance to Universities/Colleges

- Employer for graduates
- Internship programs
- Foreign market entry services to Food, Beverage, & Agricultural manufacturers seeking to export their products
Conclusions

Thank you