

A BASIC GUIDE TO
EXPORTING



16TH EDITION

U.S. Department of Commerce, International Trade Administration
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This book is intended to provide general guidance for businesses and practitioners in better understanding the basic concepts of international trade. It is distributed with the understanding that the authors, editors, and publisher are not engaged in rendering legal, accounting, or other professional services. Where legal or other expert assistance is required, the services of a competent professional should be sought. This book contains information on exporting that was current as of the date of publication. While every effort has been made to make it as complete and accurate as possible, readers should be aware that all information that is contained herein is subject to change without notice.

A MESSAGE FROM THE SECRETARY OF COMMERCE

Today, more than 70 percent of the world's purchasing power is outside the borders of the United States, a reality that presents tremendous opportunities for U.S. businesses. In the last 20 years U.S. exports have increased to almost \$2 trillion. Expanding use of the Internet, more transportation options, and the successful implementation of free trade agreements have dramatically increased access to markets around the world—making it easier, less costly, and less risky for U.S. firms to do business internationally.

Each year, U.S. companies rely on exporting to diversify their customer base, manage market fluctuations, grow, and become more competitive. It is not just larger firms that are experience these benefits. In fact, of the quarter million U.S. firms selling internationally, 97 percent are small and medium-sized companies.

Along with potential opportunities, selling abroad presents unique challenges, whether it is to obtain financing, find potential distributors or agents, understand regulatory or documentation requirements, or navigate through customs. Exporting requires commitment, but the return on your investment can be substantial.

Whether you look to make your first export sale or expand into new markets, this new edition of A Basic Guide to Exporting provides expert advice and practical solutions for reaching new customers and making sales around the world.

Best of luck in your export endeavors.

Sincerely,



Carlos M. Gutierrez
Secretary of Commerce
Washington, D.C.

ACKNOWLEDGMENTS

You are reading the 10th and latest edition of *A Basic Guide to Exporting: The Official U.S. Government Resource for Small and Medium-Sized Businesses*. There are other how-to books on the market, but this one is the easiest to use. We hope it will soon be your dog-eared favorite.

The book is largely created anew with updated information, a new introductory chapter, revised sample forms used in the export process, and case studies accompanying every chapter.

Publishing a book is a labor of love—an act of endurance and persistence. Many people suffered through this one, exalting and being exalted in the end. Colleagues at the International Trade Administration (ITA) include Jennifer Kirsch, who looked after all the details and kept the project moving forward. There would be no book without her skill.

John Ward, the publications director in the ITA's Office of Public Affairs, has encyclopedic knowledge of how books come together, and much of what he knows is applied in the pages that follow. A book should be a pleasure to pick up. Because of John, this one is.

The work pulling together a new edition began several years ago with our colleague at the Atlanta U.S. Export Assistance Center. Tom Strauss heard from clients that a new book was needed, and he started compiling information with the help of an international trade specialist, Bob Abrahams. Trade specialists Keith Hwang and Bob Deane read the manuscript and provided useful comments and clarifications. Curt Cultice, senior media specialist in the marketing office of the U.S. and Foreign Commercial Service, assisted in writing some of the case studies. Michele Robinson of ITA's Office of Public Affairs provided production assistance. Our interns, Robert Herren and Courtney Trumpler, also assisted production by researching the book's photos and publishing history.

On the production side, kudos to Linda Stringer of Publications Professionals LLC for her careful editing of the text and to our book design team, led by Amanda Drake of the Creative Services division of the U.S. Government Printing Office and Anne Masters of Anne Masters Design, Inc.

Finally, we hope you will be inspired and empowered to go beyond your own comfortable borders into a world of infinite opportunity.

Doug Barry
Editor
U.S. and Foreign Commercial Service
Washington, D.C.

Contents

CHAPTER 1 Introduction: The World Is Open for Business	3
Case Study: Domes International.	10
CHAPTER 2 Developing an Export Strategy	13
Determining Your Products' Export Potential	13
Assessing Your Company's Export Readiness	13
Developing an Export Plan	17
Case Study: Myktyn Enterprises Inc.	20
CHAPTER 3 Developing a Marketing Plan.	23
Market Research	24
Methods of Market Research.	25
A Step-by-Step Approach to Market Research	26
Sources of Market Research	28
Case Study: Vellus Products	38
CHAPTER 4 Export Advice	41
Making the Government Work for You	41
U.S. Commercial Service Export Assistance Centers	41
U.S. Commercial Service Overseas Posts.	42
Trade Information Center, U.S. Commercial Service	43
U.S. Trade and Development Agency.	43
Export–Import Bank of the United States	43
Advocacy Center, U.S. Commercial Service	43
Trade Compliance Center, U.S. Department of Commerce	44
Bureau of Industry and Security, U.S. Department of Commerce	44
Minority Business Development Agency, U.S. Department of Commerce.	45
Where Else to Look for Assistance.	46
Case Study: Solatube	52

CHAPTER 5 Methods and Channels	55
Approaches to Exporting	55
Distribution Considerations	57
Indirect Exporting	57
Direct Exporting	59
Getting Organized for Exporting	60
Case Study: LightStream Technologies	70
CHAPTER 6 Finding Qualified Buyers	73
U.S. Department of Commerce Worldwide Buyer Finding Programs	73
Department of Commerce Trade Event Programs	76
U.S. Department of Agriculture, Foreign Agricultural Service	79
U.S. Agency for International Development.	79
U.S. Trade and Development Agency.	80
State and Local Government Assistance	80
Promotion in Publications and Other Media	81
Case Study: SCIFIT Systems Inc.	82
CHAPTER 7 Using Technology Licensing and Joint Ventures	85
Technology Licensing	85
Joint Ventures.	88
Case Study: Spancrete Machinery Corporation	90
CHAPTER 8 Preparing Your Product for Export	93
Questions to Consider.	94
Product Adaptation	94
Engineering and Redesign	95
Branding, Labeling, and Packaging	96
Installation	96
Warranties.	97
Case Study: Falcon Waterfree Technologies	98

CHAPTER 9 Exporting Services	101
Service Exports with High Growth Potential	102
Aspects of Service Exports	103
Marketing Services Abroad.	104
Obtaining Government Support for Service Exports	105
Case Study: Two Men and a Truck	106
CHAPTER 10 International Legal Considerations.	109
Export Regulations.	109
Import Regulations of Foreign Governments	111
North American Free Trade Agreement	112
U.S. Foreign-Trade Zones	112
Export Processing Zones	113
Customs-Bonded Warehouses.	113
Intellectual Property Considerations	114
Case Study: Tierra Dynamic	120
CHAPTER 11 Going Online: E-Exporting Tools for Small Businesses.	123
Use of Electronic Commerce for International Business and Trade	123
Market Development on the Web.	125
Tools to Assess Your Firm's Readiness to Go Online	125
Steps to Going Online.	127
Executing Orders and Providing After-Sales Service.	129
Other Important Sales Considerations	131
Case Study: Evertex Computer Corp..	134
CHAPTER 12 Shipping Your Product.	137
Freight Forwarders.	137
Packing.	138
Labeling	139
Documentation.	140
Shipping	143
Insurance	143

Tariffs	144
Major Shippers	144
Case Study: Certified Worldwide LLC	160
CHAPTER 13 Pricing, Quotations, and Terms	163
Pricing Considerations	163
Quotations and Pro Forma Invoices.	167
Terms of Sale	168
Case Study: Home Instead Senior Care	174
CHAPTER 14 Methods of Payment	177
Prudent Credit Practices	177
Cash in Advance	178
Documentary Letters of Credit and Documentary Collections or Drafts.	179
Open Account	182
Consignment Sales.	183
Foreign Currency.	183
Payment Problems.	184
Case Study: LuLu's Dessert.	190
CHAPTER 15 Financing Export Transactions	193
Extending Credit to Foreign Buyers.	194
Working with Commercial Banks	195
Using Discounting and Banker's Acceptances	196
Using Export Intermediaries	197
Using Government Assistance Programs	197
Obtaining Funding from Multilateral Development Banks.	202
Exploring State and Local Export Finance Programs.	203
Case Study: JQ American.	204
CHAPTER 16 Business Travel Abroad	207
Obtaining Proper Documentation	207
Planning an Itinerary	209

Obtaining Assistance from U.S. Embassies and Consulates	210
Considering Cultural Factors	211
Case Study: Candy Bouquet International	214
CHAPTER 17 Selling Overseas and After-Sales Service	217
Responding to Inquiries	217
Learning about Potential Clients	218
Conducting Business Internationally	219
Building a Working Relationship	219
Providing After-Sales Service	219
Case Study: Telewave Inc.	224
Appendix A: Glossary	227
Appendix B: U.S. Export Assistance Centers	239
Index	245
Sample Forms	
12.1 Air Waybill	145
12.2 Straight Bill of Lading	146
12.3 Liner Bill of Lading	148
12.4 Commercial Invoice	149
12.5 Certificate of Origin	151
12.6 Shipper's Export Declaration	153
12.7 Shipper's Letter of Instructions	154
12.8 Export Packing List	158
12.9 Insurance Certificate	159
13.1 Pro Forma Invoice	171
13.2 Export Quotation Worksheet	172
14.1 Draft Transmittal Letter	186
14.2 Confirmed Irrevocable Letter of Credit	188

INTRODUCTION: THE WORLD IS OPEN FOR BUSINESS

In This Chapter

- Selling globally is easier than ever.
- More help is available than ever.
- Your assumptions may not be accurate.
- You can transform your business—and yourself.

The world is open for business: your business. Today it's easier than ever for a company like yours, regardless of size, to sell goods and services across the globe. Depending on what you're selling, with the right kind of phone directory for Toronto or Vancouver you can make sales calls and ship product to Canada tomorrow. In fact, more small U.S. companies sell to Canadian buyers than to buyers in any other country.

More U.S. small and medium-sized companies are exporting than ever before. In 2005, 232,600 small and medium-sized companies exported to a least one international market, a nearly 3 percent increase over 2004. The value of total good and services exports reached a new high in 2006, growing almost 13 percent to over \$1.4 trillion. Your company may be included in these numbers but could sell even more. Or if your company hasn't made an international sale yet, yours could be the next one to sell globally.

If you have a Web presence, you have a global marketing and order-taking platform. For a few more dollars, you can process credit card payments for buyers in Australia or translate key pages into Spanish and other languages to further your reach. Easy.

Want more sales channels? Online marketplaces offer virtual storefronts and a ready-made global army of shoppers. They also offer payment solutions, and you can choose a shipper that will take care of the required documentation for you. The shippers want to help make things easier too, and many offer free international business advice, customer broker services, cost calculators, and financing. Plus, they'll pick up goods and documents from your back door and deliver them to almost any address in the world. And you can track everything on their Web site. Easy.



Want even more sales channels? If Web-based marketing and sales are insufficient to meet your sales growth appetite, you can attend trade shows in the United States where buyers from around the world come to purchase U.S. goods and services. Show organizers will facilitate introductions to the buyers, working with agencies of the U.S. government to provide matchmaking services on the show floor. These same government agencies can arrange for you to attend shows in other countries, where the connections and influence of your embassy network can save you time and money generating new business. Government agencies can find buyers for you and arrange introductions in more than 100 countries. Call this service “customized business matchmaking.” Easy. (See Figure 1.1.)

Today’s global trading system is ideal for the smaller company employing more than one marketing and sales channel to sell into multiple overseas markets.

But most U.S. exporters currently sell to one country market—Canada, for example (see Figure 1.2). And the smaller the company, the less likely it is to export to more than one country. For example, 60 percent of all exporters with fewer than 19 employees sold to one country market in 2005. Imagine the boost in the bottom line if they could double the number of countries they sell to.

The opportunity for selling into a single region, such as Central America, and taking advantage of free trade agreements, such as the Central America Free Trade Agreement (CAFTA), is substantial. The help available and discussed in this book can quickly expand your thinking—and your sales—from one market to many.

In choosing from among these channels, markets, and countries, what’s the best strategy for your business? There’s help for that too—from private consultants, from your home state and local U.S. government sources, from the Web, and from this book. And much of the help is free or costs very little. It is easy to access, easy to use.

If what you read so far comes as a surprise—particularly that exporting is relatively easy, even for very small businesses, and that there are scores of local yet worldly folks ready to help you succeed—then you are not alone. The people whom we interviewed for the case studies in this book—like many potential exporters—say that their number one need is for more basic information on how to export.

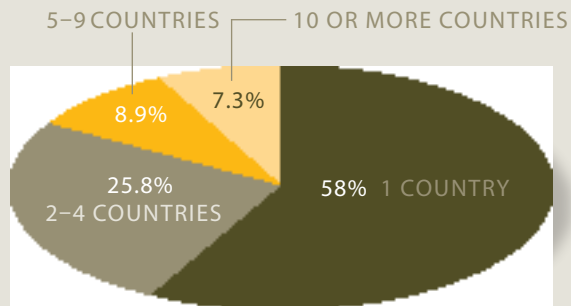
FIGURE 1.1 FOUR GLOBAL CHANNELS

SMALL BUSINESS SALES



FIGURE 1.2 FOREIGN MARKETS

NUMBER OF FOREIGN MARKETS SOLD TO BY U.S. EXPORTERS, 2005



Source: U.S. Department of Commerce, Bureau of the Census.

Surprised? Then you also might be surprised by the old global business assumptions and the new ones replacing them (Table 1.1).

This book is mainly written for you, the millions of business owners or their business development gurus who could export or export more. You've asked to have spelled out in plain language how people busy running their businesses can learn what they need to know to grow their sales globally. And here it is: A Basic Guide to Exporting.

If you purchased this book or received it from one of our corporate partners, chances are you have already answered for yourself this fundamental question: Why bother?

Exporting can be one of the best ways to grow your business:

- Grow your bottom line.
- Smooth your business cycles.
- Use production capabilities fully.
- Defend your domestic market.
- Increase your competitiveness in all markets.

Exporting is strategic in another way. With the volume of trade growing exponentially and barriers to trade falling, competition in a company's domestic market is intensifying, particularly from foreign competitors. We need to compete in our own backyard while we simultaneously open markets for our products and services in other markets:

- Ninety-five percent of the world's consumers live outside the United States. That is a lot of potential customers to just ignore.
- Foreign competition is increasing domestically. To be truly competitive, companies must consider opening markets abroad.
- Exporting is profitable. In fact, 60 percent of small companies that engage in exporting derive 20 percent of their annual earnings from exports.
- Exporting helps businesses learn how to compete more successfully.

According to a World Bank report, *Global Economic Prospects*, trade in goods and services is likely to more than triple by 2030. Over the same period, the global economy will probably expand from \$35 trillion in 2005 to \$72 trillion. The number of people considered "middle-class" will triple to 1.2 billion, enabling them to afford international travel, better education, and imported goods from the United States. Exports from the United States, according to the same report, are expected to grow by nearly 10 percent per year for the next several years. Your product or service could be among them.

With this significant projected growth in global trade, fueled in large part by newly affluent consumers in China, India, and other developing economies, the challenge for businesses of all sizes in the United States is how to dip into this incredible revenue torrent. A Basic Guide to Exporting aims to help prime your pump.

TABLE 1.1 GLOBAL BUSINESS ASSUMPTIONS

OLD ASSUMPTION	NEW ASSUMPTION
Exporting is too risky.	Exporting to some markets, such as Canada, is no more risky than selling in the United States. Different international markets have different levels of risks. Almost any perceived risk can be identified and reduced by using the affordable export assistance now available.
Getting paid is cumbersome, and I'll lose my shirt.	Trade finance and global banking have evolved to the point where buying and selling things internationally is routine, safe, and efficient. Reliable payment collection methods are numerous and include letters of credit through banks, credit cards, and online payments. Some delivery firms will even collect payment at the buyer's backdoor. Commercial payments between countries are predicted to grow by more than 10 percent per year through 2010.
Exporting is too complicated.	Most exporting requires minimal paperwork. Researching markets and finding buyers can, in many instances, be done from your computer using free or low-cost information.
My domestic market is secure. I don't need to export.	Globalization has made it easier to buy and sell goods in multiple markets. Few markets remain static, and new markets are constantly opening to competition. Most U.S. businesses are involved in or affected by international business, whether they realize it or not. More small and medium-sized U.S. firms need an international strategy that includes diversifying markets.
I'm too small to go global.	No company is too small to go global. In fact, nearly 42 percent of all U.S. exporters in 2005 had fewer than 19 employees.
My product or service probably won't sell outside the United States.	If your product or service sells well in the United States, there's a good chance an overseas market can be found for it. What's more, help is available to test acceptance of your service or product in more than 100 countries around the globe. In some markets, you may have to make some modifications because of cultural or regulatory differences. But by learning how to sell into another market, you will become a better marketer, and your company will be more successful in all markets in which it competes.
I won't be successful because I don't speak another language and have never been abroad.	Cultural knowledge and business etiquette are always helpful, but you can pick these things up as you go. The English language will take you a very long way, and help is readily available for situations in which interpreters and translators are necessary. We Americans regularly lampoon ourselves for being "ugly." A level of introspection and culturally specific knowledge can help prevent potentially deal-breaking faux pas, but a friendly disposition and willingness to learn can make up for a multitude of unintended mistakes.

FACT:

Some small business owners think that exporting is too risky.

INSIGHT:

Exporting to some markets, such as Canada, is no more risky than selling in the United States. Different international markets have different levels of risks. Almost any perceived risk can be identified and reduced by using the affordable export assistance now available.

As global trade grows, companies that engage in it report a shift in income derived from their export sales compared with sales in their domestic markets. A 2002 study of U.S. exporters found that 60 percent of small companies in the survey derived 20 percent of annual earnings from exports, while 44 percent of medium-sized companies did. When asked whether export sales would grow at least 5 percent per year for the next three years, 77 percent of the small firms and 83 percent of the medium-sized firms said they would.

You might reasonably respond by saying, "That's all well and good, but do I have what a person in another country will buy?" As you delve further into this book, you'll read about companies of all sorts that produce an amazing array of products and services and have grown their businesses through exports. Waterless urinals to Japan? Flooded with new orders. Chocolates to the Middle East? No problem. Fiberglass dome houses to India? Business is booming. Pollution-eating microbes to Argentina? Can't keep the little critters in stock. Industrial lubricants to Vietnam? The skids are being greased for other markets in Southeast Asia. Franchise concepts in Europe? Everything from furniture moving to senior citizens' companion services.

Even companies that don't make anything are flourishing abroad. These companies make money by providing wholesale and distribution services. And there are thousands of them—all small.

Another answer to "Why bother?" is that exporting adds to the knowledge and skills of everyone in a company who does it. Doing business in a market that's beyond one's borders can have a transformational effect on its practitioners. The experience of forming new relationships, getting up close and personal with another culture, figuring out how to meet the needs of others, and learning how to be inventive in addressing new business challenges not only is personally rewarding; it also leads to improvements in products and makes companies stronger in whatever market they compete.

As one small exporter interviewed for this book put it, "Exporting is easier than we imagined. Exporting opens your horizons to what's going on in the world economy. We need to take that step outside ourselves and develop relationships and open doors. It may start out small. It did for us. But it's growing. We are a better company and better managers. Maybe even better persons. And to me that's what success is all about."

CASE STUDY:

Domes International

“There’s no doubt that Domes International is a better company as a result of our experience in India.”

—Steve Pope, director of international business development and marketing, Domes International Inc.

THE COMPANY

For developing countries in need of efficient, inexpensive housing, a Mississippi-based company with its International Sales Office in Memphis, Tennessee, has just the thing: domes. Domes International Inc. manufactures its bulbous structures out of molded fiberglass. Some look like igloos, others like marshmallows. Among the most attractive benefits of fiberglass domes is their low maintenance. Termite resistant and energy efficient, they also protect against dangerous weather conditions, including severe monsoons that cause horrific damage and loss of life in certain areas of the world.

THE CHALLENGE

When Domes International decided to expand internationally, it was already selling houses to the U.S. military for faraway bases on tropical islands. Director of International Business Development and Marketing Steve Pope was assigned the job. He is also president of World Discoveries Inc., an export-import and international manufacturing and marketing consulting company based in Memphis. The

company is contracted with Domes for its global manufacturing operations.

THE SOLUTION

Pope contacted his local Export Assistance Centers in Memphis, Tennessee, and Jackson, Mississippi. After talking with trade specialists at the centers, Pope and his company decided to focus on India. The combined forces of the U.S. Commercial Service in Mumbai, Delhi, and the United States provided Pope with market research and help on doing business with the Indian government, including contacts within the government who might be interested in purchasing domes. Those contacts included officials from Gujarat state who needed to house thousands of homeless families. The state placed an order, and later the Indian military did as well.

Pope and his partners soon realized they needed a facility in India to assemble components shipped from the United States. Having a local facility is a “win-win,” Pope says, because the “jobs created help the local economy, while we benefit stateside by providing the higher-end components.” The Commercial Service then helped Domes

International apply for a \$1.2 million U.S. government-backed loan from the Overseas Private Investment Corporation (OPIC). Then, when the first shipment of the fiberglass molds and machinery got hung up in customs, Commercial Service officials helped retrieve them and arranged for operating permits and inspection protocols. Additionally, the U.S. Commercial Service offices in Mumbai, New Delhi, and Ahmedabad, India, helped obtain some necessary product registration certificates from the Indian Ministry of Commerce.

These early experiences led to more sales as Domes International began to adapt the product to fit local needs. Domes can be used as offices, schools, military barracks, and warehouses. A religious group is interested in replacing more expensive marble temples with fiberglass domes. You never know what new opportunities might arise when you’re on the ground observing what people need.

In another case, a government client for a school building pointed out that people in one part of the state considered round structures with a hole in them as kind of a temple of doom and gloom. “Local folks wouldn’t go near them. So

we developed flat fiberglass panels and added ribs and steel struts for strength." It became a more acceptable box, not a dome, Pope explains.

"We couldn't have done any of this without the U.S. Commercial Service," says Pope, who also called on the organization to make inroads into Afghanistan, Niger, Nigeria, and other countries in the Middle East and Africa. "Thanks to the Commercial Service, we have opened our factory in Ahmedabad and are selling houses, schoolrooms, and warehouses in the surrounding area."

LESSONS LEARNED

One lesson Pope has learned is to be flexible. "Our initial business plan was based on the then current oil prices." The company's raw materials are 70 percent petroleum based. "We went [to India] expecting to sell lots of single-family homes, and by the time we finally opened our factory, oil prices had doubled, and hence our raw materials as well. We discovered the better market was local governments and the military. We had to go there, make this discovery, then adjust on the fly."

"There's no doubt that Domes International is a better company as a result of our experience in India," Pope says. "We are much more flexible and also innovative. The client wanted a less expensive structure, so we went back to our labs and came up with an insulation solution that met their needs. Now we use these discoveries to improve core products and to offer more variations. We are much more confident going into new situations—listening, adapting, and finding the best solution. That we've been able to transform through our experiences overseas in just a few years is amazing."

ACTION

Is your company considering entering an emerging market? If so, here are some things you can do:

- Conduct market research. Big emerging markets such as India have a lot of potential for U.S. exporters. A good place to start your research of this market of more than 1 billion people is to visit www.buyusa.gov/india/en. Operated by the Commercial Service India, the site includes current market research, information about trade shows, and updates about changing customs laws. The site also offers Featured U.S. Exporters, where U.S. businesses can present product information, including photos and company contact information.
- Visit the market. One way to find out if a market is right for your product is to visit it. Luckily, it's easier today than ever to make the most out of your travel dollars. Consider the Commercial Service's AsiaNow program. With it, you can attend a trade show in Singapore, meet with prospective buyers in Malaysia, and then fly north several hours to the booming Indian city of Bangalore for more buyer meetings and product demonstrations. The Commercial Service arranges everything, including hotels. Visit www.buyusa.gov/asianow/.

- Secure funding. OPIC, established as a development agency of the U.S. government in 1971, helps U.S. businesses invest overseas and fosters economic development in new and emerging markets. OPIC evaluates all project applications on the basis of their contribution to economic development. OPIC projects also support American jobs and exports. For more information, visit www.opic.gov.
- Get help with your shipping needs. If you have found a buyer but have questions about shipping or customs clearance issues, visit the National Customs Brokers & Forwarders Association of America at www.ncbfaa.org.



Through a joint venture with an Indian partner, Mississippi-based Domes International is supplying its structures throughout India. Buyers in India find the domes attractive because of their easy maintenance, energy efficiency, and durability.