Attorneys Practicing International Trade in Virginia

Ten Tips to Help Your Exporting Clients

by Paul H. Grossman Jr.

Paul H. Grossman Jr. is director of international trade and investment for the Virginia Economic Development Partnership. He oversees the promotion of Virginia products and services to markets worldwide and the recruitment of international companies to establish business operations in Virginia. He holds a master's degree from the Thunderbird School of Global Management.

President Obama announced in his 2010 State of the Union address the goal of doubling U.S. exports by 2015. Never before has this country recognized to this degree the value of exports as a positive contributor to our economy. A recent study by the U.S. Department of Commerce revealed that exports supported 10.3 million American jobs in 2008 and accounted for 12.7 percent of U.S. gross domestic product. To support the president's goal of doubling exports, the federal government has launched the National Export Initiative and through it will work to remove trade barriers abroad and help U.S. firms overcome hurdles to entering new export markets.

This article is for attorneys working with Virginia companies that are exporting or considering exporting. Five trends and five tips are presented that apply to Virginia companies doing business globally.

Five Trends in International Trade

1. The more things change, the more they stay the same.

You and your clients have heard time and again about the rise of China as an economic powerhouse. Statistics clearly support this fact: China's economic growth over the past thirty years is staggering. However, Virginia exporters should note that while China is the state's second largest export destination, its purchases of Virginia goods are dwarfed by purchases by our European trading partners and our neighbor to the north. Note the following:

- Of the top ten export destinations for goods from Virginia in 2009, four were European countries and, combined, Europeans purchased more than twice as much from Virginia as China did in the same year.
- Canada, Virginia's top export destination for the past thirteen years, purchased twice as many goods from Virginia as China purchased last year.

It cannot be ignored that China is the second-largest economy in the world, and the second-largest importer of goods. But, there are many other markets to consider that have a long history of purchasing Virginia goods and services.

2. "Nothing is as invisible as the obvious." (*Management of the Absurd*, Richard Farson)

International trade and its importance to the U.S. economy has increased steadily over the last fifty years. In 1960, trade represented only 5 percent of U.S. GDP. In 2009, that number had grown to 24 percent. Another measure of the rising contribution of exports to the U.S. economy is the growth in the number of jobs supported by exports. In 1993, 7.6 million American jobs were supported by exports. By 2008, this number had grown to 10.3 million, an increase of 2.7 million jobs. This increase accounted for 40 percent of total job growth in the United States during this period.

International trade has become commonplace. Your clients are paying attention, and they are either already playing the international game or are strongly considering taking that step soon. There are many good reasons: more than six billion potential customers living outside of the United States, growing middle classes in China and India, the opportunity to diversify from reliance on the U.S. market, and higher profit margins, just to name a few.

3. Products aren't permanent, and service sells.
If you thought tangible products constituted the entirety of U.S. exports, welcome to the service era. The United States is the world's largest exporter of services. Service exports are growing as a portion of total exports from both the United States and Virginia. In 2007, the United States exported $480 billion in services — a 16 percent increase over 2006. Virginia alone exports about $12 billion per year in services, which represents about 44 percent of total state exports. The growth of service exports is good news for American workers, because 80 percent of U.S. jobs are in the service industry, providing significant opportunities for growth in service exports.

While the United States has lost its competitive edge in some manufactured goods, U.S. services are in high demand around the world. American companies are exporting a wide range of services, including financial, education, legal, professional, and information technology services. Unlike manufactured goods, the U.S. exports more services than it imports, equating to a services trade surplus in 2007 of more than $70 billion.

4. Look to the Clouds.
Many of your clients receive inquiries daily from potential international customers. They take orders online, track shipments via the Internet, market their products on their websites, and speak with international partners through Skype. This is a dramatic shift from the way companies were transacting international business just fifteen years ago, and it is making conducting business on a global scale ever easier and more practical. Customers from around the world are finding U.S. companies through the Internet, giving these companies instant access to a worldwide market that would have been much more difficult and more expensive to approach using traditional marketing methods.

The emergence of e-commerce as a way of conducting business presents both new business opportunities and new business models. Many Virginia companies have formed lasting business partnerships with international companies that first contacted them via their websites. Others are tracking visitors to their websites and using that data to determine which international markets to target next. In a recent emerging trend, companies are also turning to social media as a low-cost method of connecting with clients overseas.

5. You can't sell tanks to Wal-Mart.
Virginia companies in the defense industry have benefited greatly from increases in U.S. defense spending over the past decade, fulfilling contracts for weapons, shelters, communications equipment, and vehicles. Future defense budgets, however, include significant budget reductions. As a result, companies in the defense industry are looking for new customers abroad, including foreign governments and commercial customers overseas. The U.S. Department of Defense reports that sales of U.S. defense products and services to foreign militaries reached $38 billion in 2009, a 465 percent increase since 1998.

Fortunately for Virginia's defense firms, there is demand abroad for a wide range of their products and services, including military clothing, armor, satellite communications equipment, and logistics and procurement services. Virginia companies are selling these items to India, Australia, and our NATO allies, just to name a few. Foreign governments and private-sector companies abroad are in the market for defense items in order to increase their readiness for security threats posed by terrorists and rising tensions over nuclear threats in Iran and North Korea.

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Five Tips for Exporting Companies

Here are some lessons learned about how effective U.S exporters conduct business internationally. Apply these observations to your exporting clients and see if they ring true.

1. Don't change the way your clients do business.
If your clients don't give exclusive representation rights to one company for the entire U.S. market, why should they do it overseas? If your clients wouldn't enter into a business relationship with

an American company without first meeting in person, why should they overseas? If your clients wouldn't roll out a new product in the U.S. without first establishing its market potential, why should they consider doing so overseas?

Encourage your clients to apply the same degree of due diligence and the same intellectual rigor to their international marketing as they do to their domestic business. All too often a mental haze comes over U.S business executives when they step off the airplane onto foreign soil, to the point that they accept the false argument that "it's a different country and we do things differently here." The result can be that they end up doing stupid things. Your advice should be, "Don't." Don't change your clients' guiding principles of doing business and, more importantly, don't allow them to change the way they do business.

A simple way to tell if your client is serious about international business is to look at the background of decision makers within the company.

2. Hiring good people is more important than having good products.

The greatest mistake that U.S. companies make is thinking that because their products are "Made in USA," they will sell. The second biggest mistake that U.S. companies make is believing that because their products incorporate the latest technology, they will sell.

There are countless good products, just like your client's, already on the market. What differentiates your client's product or service from its competitors' is the people selling it. In the international marketplace, where relationships and longevity matter so much more than in the United States, whom your clients have representing them is critical. Time spent selecting the appropriate in-country representative is critical for effective market penetration, and more time is spent undoing ineffective representation than finding the right person from the start.

3. If your clients get what they pay for, they had better know what they want.

Your clients can't conduct international business on a part-time basis. They can't take an employee who is fully engaged with the domestic market and simply tack on international responsibilities. They will fail. And you will lose clients. If you are investing time and money in developing an exporting client, doesn't it make sense for your client to invest time and money in a sound international business strategy by hiring experienced international staff to take on the job?

A simple way to tell if your client is serious about international business is to look at the background of decision makers within the company. If key executives have served in the military overseas, have studied abroad during college years, were born or reared overseas, or through some other experience have had their eyes opened to business opportunities beyond U.S. borders, they will commit their company to a diligent pursuit of international business and allocate the necessary resources. That is, they know what they want and are willing to pay for it.

4. Set your clients' goals high, then raise them.

Pursuing international sales is a strategic management decision. It requires the allocation of precious time and money. Your clients should not be doing this if their only expectation is to take export sales from 3 to 5 percent or to enter just one new market and stop there. Those companies that have 10 percent of international sales today are just as vulnerable to international competition as those that had zero percent a few years ago. And the new threshold for a healthy American company is 20 to 25 percent of sales coming from international markets.

5. Your clients may come late to international trade, but they are always on time.

One could make a compelling argument that your clients who are just now beginning to export are too late. They should have already been selling overseas. If they are exporting, they should have been selling more. One could argue that international competition is already in place that will limit your clients' success. Or that the cost of market entry is prohibitively high. All of that would be true. And, at the same time, all of that would be false.

The reason that your clients' entry to international trade is timely is because global business is an ever-expanding pie. There are more opportunities for U.S. businesses to sell internationally today than at any time in the history of the world. Colonial business ties have eroded. Capitalism, indeed consumerism, has taken hold in China. Middle classes in the hundreds of millions of people are emerging in India and Brazil. Delivery is easier. Payment is more certain.

So, for your clients who are just starting today to proactively pursue international markets, there could never be a better time. And for your clients who have already achieved success, there are many new markets to conquer, with more on the way tomorrow.

It is instructive to remember the advice of the famous gangster Willie Sutton, who, when asked why he robbed banks, replied, "Because that is where the money is." International business has been increasing for the past fifty years. There have been commodity bubbles, dot-com bubbles and housing bubbles, but the rise of international trade has yet to decline. Odds are that there is money in this thing called international trade for years to come. Best wishes for great success to you and your clients. ⚖