Export Startup Strategy

By John C. Edmunds

The recent poisoning of Chilean grapes brought public attention to a rapidly growing export business, and it also illustrated how vulnerable export ventures are to disruptions in product flow. Production decisions are based on export demand; output usually cannot be channeled to the local market, so the poisoning caused the loss not only of fruit already in the United States and on the high seas, but also placed in jeopardy the season's unharvested crop of all export fruit in Chile.

Export ventures can be very profitable, and sometimes can be started without large initial outlays, so are appealing to many entrepreneurs. It is important to note that they face risks of several sorts, beyond the risks that single-country businesses face. They require research in at least two countries, logistic coordination including transport, government permits, freight forwarding, inspection procedures, suitable warehouse space at points of entry and points of distribution, and frequent international communication. They also require people who are separated by great distances to rely on each other absolutely.

There are several guidelines which entrepreneurs should follow in setting up and revising their organization and strategies as their export ventures develop. It is important to:

1. Identify all actors in the export system, in addition to producers, transporters, and consumers, and to understand what each one brings to the business, and needs or expects to receive in return.
2. Allow time to analyze and set up links and coordination mechanisms so that all participants are performing all the tasks needed to deliver the product in good condition to the target market.
3. Maintain these links and coordination mechanisms through constant review of contractual arrangements, regulatory developments, competitive conditions, changes in consumer preferences, and performance of middlemen.
4. Strive for vertical balance through contractual integration—i.e., match production capacity to processing capacity to transport capacity to warehouse capacity to market size. Do this via contracting rather than building or buying facilities or equipment to save capital.
5. Strengthen these linkages to increase the exporter's power in the export organization—e.g., switch from consignment sales to sales at guaranteed prices, and integrate forward into target countries to develop control over wholesalers, and to influence pricing, positioning, and distribution.

The development of export strategy and organization can be seen by following export ventures through startup, to failure or survival, then to expansion and maturity.

1. Stage One—The Naive Exporter

The naive exporter computes that he or she will have a tremendous cost advantage—the product's landed price in the country of destination will be less than one-third the prevailing retail price of the competing product. The product the exporter is going to ship is apparently, but not really, identical to the one that is being produced in the country of destination. Small differences of appearance or packaging will not impede sales: the exporter's product will be so much cheaper it will quickly obtain a large market share.

After a cursory search the exporter finds a broker in the target country who agrees to handle the merchandise on consignment, and to find a wholesaler who will put the product into retail channels. The broker will subtract brokerage and handling fees from the payments to be received from the wholesaler who will handle the product. The exporter also finds a transport company that agrees to send the product to the broker's warehouse.

The exporter sends a shipment. To his or her surprise, sixty days go by and the shipment has not arrived. The exporter sends a second shipment, and a third. These arrive after 45 days each, but the broker is unable to sell the merchandise at any price. Six months after the first shipment, the exporter abandons the business.

2. Stage Two—A Slight Improvement

This time the exporter puts a bit more effort into setting up the distribution channel, and succeeds in making one improvement—obtaining a purchase order from a wholesaler who agrees to buy the product on terms net 60 days. This allows the exporter to translate an overwhelming cost advantage into a slim operating profit. The exporter learns that the really important task is to assemble a team, with members in the country of origin and in the country of destination. The members of this team must be proficient in their specializations, but more importantly they must be motivated and committed to make the venture a success. If cash flow problems do not bankrupt the exporter, he or she survives to attain the next level of sophistication.

3. Stage Three—Borderline Profitability

After the exporter survives the initial setbacks, he or she works on improving linkages and coordinating mechanisms. This is different from learning the details of the production process and conditions in the country of origin; it includes learning more about the market segments the product is aimed at, and the possit ways of reaching them, and the role that ea participant in the export business plays reaching them. It also involves knowing tl risks, costs, and returns the other participant experience. The exporter does not necessari have the greatest risks nor earn the lowest r turns of anybody involved. The other partic pants in the business do not always profit at tl expense of the exporter.

4. Stage Four—Success

The exporter now delivers consistent quali and sufficient volume, and has assembled capable team in four locations (local produ tion, local logistics and shipping, target cou try port of entry, target country point of di tribution). The exporter can now work on ant cipating changes in market preferences, poss ble sources of instability in the organizatio and making good use of government assistanc Threats will arise frequently, because expo businesses can grow rapidly, and can be e tremely profitable, and so attract imitators ar hurt high-cost producers who previously d not face foreign competition.

In sum, export ventures are appealing entrepreneurs because the barriers to entry c not look very high, and because they can gro rapidly and can be very profitable. They a hard to set up, because there have to be activ highly motivated people in at least two cou tries, and in at least two places in each countr They are vulnerable to breakdown from withi if the geographic distance leads to distrust, ar they are vulnerable to external shocks, as tl Chilean fruit growers learned at the height their harvest season.

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