[How to validate opportunities in a foreign market quickly and gain new sales sourced from abroad. An efficient 6-step Go-to-Market strategy.]

The Entrepreneurs' guide to: Lean Exporting

An Efficient Go-to-Market Strategy

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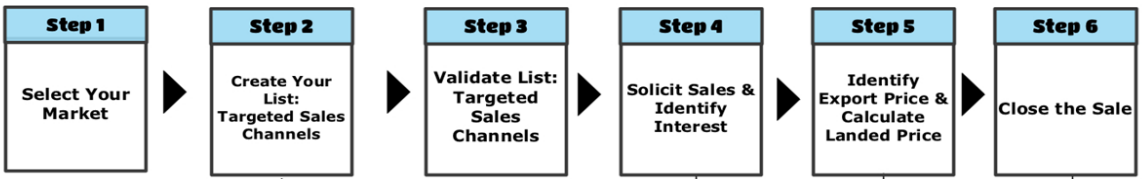
I regularly speak with small to medium sized enterprises (SME's) about taking their business international or exporting to new markets; which at first, often appears overwhelming and costly. At the same time executive management (often the direct owners of SMEs), desire to increase revenues and diversify their companies' sales by exporting internationally. Likewise, the owners of SMEs frequently do not have the time to dedicate to new markets because their day to day activities are divided between running operations and managing domestic sales. The consequences of not having time to focus on new markets are delayed exports and revenue growth and lost opportunities to gain new clients abroad. A solution to this conflict will be addressed in this article and will help managers quickly validate opportunities in a foreign market and gain new sales sourced from abroad.

So, how do you export products into new markets without losing track of domestic operations and budgetary commitments? I propose that you can achieve both goals by using a "Lean Exporting" approach. The Lean Exporting approach is a methodology that has been implemented to help companies sell their products and services abroad, thereby successfully exporting with minimal upfront investment. The process can be implemented as a pilot export project for your company and if properly implemented, it will uncover whether interest in your products is achievable in a foreign market and therefore would warrant further time and investment.

The Lean Exporting approach is executed by a series of 6 steps to determine how a company can identify sales opportunities abroad, quickly and resourcefully.

Lean Exporting: The six steps

1) Select Your Market
2) Create a List of Targeted Sales Channels
3) Validate the List of Targeted Sales Channels
4) Solicit & Identify Interest
5) Identify Export Price & Calculate Landed Price
6) Close the Sale



Step 1: Select Your Market

Selecting your market is implemented by identifying elements of interest. There are 4 ways your company can investigate choosing a market.

1) Inquires
2) Blind exporting
3) Unsolicited sales
4) Market Research: Trade Office

Inquires

Companies in operation for 5 to 10 years will have received inquiries from abroad but may have chosen not to sell to those customers. These inquiries from abroad provide a general indication that your products may sell well in those countries. Therefore, selecting the market based on past inquires is appropriate.

Blind Exporting

Another often-overlooked indication for selecting your market is to take note who is buying your product. For example, perhaps your products are being bought locally by an international broker or distributor and exported to a different market. Likewise, you could already be indirectly exporting, but unaware of it. I would encourage you to look at your customers and observe who is purchasing your goods, approach the international broker/ distributor, ask where your products are selling, and ultimately choose to expand sales into those markets.

Unsolicited sales

Another characteristic that I have seen in SMEs is that the sales staff are actually selling abroad but the focus on this customer is minimal; I have termed this approach “reactionary exporting” from unsolicited sales. If this is the case, I would recommend talking to your sales staff and identify those international customers from whom you have received inquiries. This information can provide key insight into which countries to focus your sales and distribution efforts.

Market Research: Trade Office, University or other exporting assistance organizations

If you do not have the elements of interest previously listed then take a market research approach. Choose a market by conducting basic research on where the products would be well received. I recommend contacting your local government trade office, a University or another similar organization(e.g. UK Trade and Investment (UK), ProMexico (Mexico), US Commercial Service (USA), Proexport Colombia (Colombia), etc.) These trade offices or organizations have resources that can help. Specifically, potential resources include: up to date market research, broad statistical analysis on import volume, and market growth rates. Furthermore, financing options are potentially available for exporting as well as insider knowledge on grants and discounts to attend trade shows. I recommend choosing a market where international taxes and duties are low. This can be accomplished by identifying a market that has a preferential trading agreement with your country and the target country. Trade agreements include NAFTA, EU, and MERCOSUR, Etc.

TIPS: Identify the harmonized tariff code(s) or HS code for the products. Speak to a customs broker in the target country to determine the necessary import requirements and other country specific certifications required.

Step 2: Create a List of Targeted Sales Channels

Once you have decided the market, identify the market approach. There are two approaches to take; (A) direct, or (B)indirect. A direct approach would be eliminating as many intermediaries as possible to sell directly to a major buyer or final sales channel. Alternatively, an indirect approach sells to an intermediary such as an importer, broker, or distributor. These definitions serve as a guide and are not an exact science because in some situations there may be leveraging of both approaches simultaneously. For example, sales representatives can facilitate a direct approach. In addition, a major distributor could be the best direct approach since laws in some countries prohibit the ability to sell directly to the final retailer. This is the case for Alcoholic beverages in the USA. Again, these definitions serve as a general guide.

The positive aspect of the direct approach is that the company keeps costs down that would directly increase the selling price of the product. For every channel that a company engages, there is an incremental markup or margin associated with the sale. In addition there is more control over your relationship with the Sales Channel allowing quicker feedback and the ability to adapt to the needs of the buyer, which may increase sales volumes over time.

The negative side of implementing the direct approach is a longer sales cycle due to the number of processes required to set up buyer and supplier accounts, as well as preparing initial documentation, which may include assessing and understanding how to use a new Electronic

data interchange (EDI) platform or new importation documentation and finally, simply going back and forth with the buyer on exactly the quantities they would like to order for the first time.

On the other hand, the positive aspects of the indirect approach can be the following. Often the distributors are already set up in the accounting system as vendor, saving you time. Also, they know the business culture and how to help guide you on requirements for importing. On the contrary, the incremental markups will increase the products price through an intermediary thereby possibly limiting the potential sales volume. Additionally, there could be a conflict of interest with similar products that the intermediary is distributing, thereby cutting into your potential profits. In any case, due diligence is important and having a good relationship with your buyer will limit the chance of potentially negative issues.

In general, most of my clients desire to remain in control of the sales relationship, however, they still want to have the local sales agent or representative on the ground for sales support and insider knowledge. Thus, they generally implement a hybrid of contracting a sales representative in charge of monitoring and continuing the relationship with the distributor, buyers, retailer, etc. Accordingly, defining what approach your company will use depends on how involved or committed you plan to be with your customers in your target market.

Evaluation:

- What is the ideal sales distribution channel you would like to have?
- Do you want to be “hands on” and in control of your relationships with your final customers/buyers or take a “hands off” approach and let an intermediary manage the transaction? Would you prefer a hybrid of both approaches? If yes, what does that look like?

Once you have defined an approach, create a spreadsheet of at least 100 prospective targets (e.g., OEM manufacturer, distributor, importer, sales representatives, etc.) How does one develop this list? My methods include trade shows and trade show directories. Past trade show directories are a great resource, especially for business abroad. Some past directories or catalogues are posted online to search through and extract your list. Also, attending a trade show is a great strategy to obtain key contacts and to schedule meetings with prospective buyers. It is also a great idea to reach out to trade organizations and Chambers of Commerce abroad. For example, American Chambers (AMCHAM) is an organization that has a trade and investment department which, if you are a member, can grant you access to their research

department. Other resources can include, International Chambers of Commerce, trade organizations, Kompass B2B, LinkedIn, directory of Importers and Exporters, and specialized trade magazines.

Step 3: Validate the List of Targeted Sales Channels

Now you have your list, but possibly not all the contact information or the key contacts. It is now time to pick up the phone and start calling. My advice is DO NOT SELL ANYTHING! This is because you should identify the correct contact before pitching the product. This simple task of calling and validating the correct contact information will save time.

Likewise, call through the list and fill in missing data by validating key information:

1. Name
2. Title (e.g. Who is the buyer? Who is the person in charge of imports and procurement?)
3. Phone number

The script I usually use is: "I am calling on behalf of a European/Mexican/American company that is interested in sending the buyer information about their products. Who is the correct person to contact?" Then verify all the necessary data.

Step 4: Solicit & Identify Interest

After completing validation, the next step is to implement a basic sales strategy. This initial point of contact is "the fishing email". The fishing email is an email that is designed to not push the sale to the buyer but instead strategically identify interest and pull the potential buyer or prospect towards you, thereby appropriately identifying interest. Similarly, the key indicator is to identify if the potential buyer is hungry for your product, thus hooking their interest, and possibly catching the fish or closing the sale.

To summarize the process:

1. Draft an email that briefly describes the company and the products. The tone should be friendly, stating the main goal, then conclude by asking if the potential buyers are interested. Don't be afraid to be specific on whether they are interested. As a business owner, you need to know quickly if there is an opportunity. I recommend sending the fishing email with a marketing brochure or PowerPoint presentation, 5 to 8 slides in length. (Buyers don't have time to look at something too long.

Moreover, a large file will be rejected by their mail server). Make sure to include key data: about us or corporate information, competitive advantage, products and contact information.

2. After you send out your email, sit back and wait. In a about week and a half you should receive responses as to potential interest and will identify whether selling into the market is feasible. Also don't be afraid to call or resend the email stating: "Have you received my email? I would like to know if you are interested in our product?" Again, the goal is to gain customer feedback quickly.

3. If you have not identified interest after 2-3 weeks, I would recommend stopping the project and revaluating. However, if you have successfully identified interest, you have a choice to make. You can either conduct further market research and produce an international marketing plan, which traditional business academics would advocate. Otherwise, the entrepreneurial route is appropriate and consists of advancing with the sales process and addressing each concern as it appears. This leads to the next critical step.

Step 5: Identify the Export Price & Calculate the Landed Price

Before you engage in sales negotiations, it is important that you complete a landed cost pricing analysis. This analysis will give you the ability to make strategic price decisions that may increase your company's sales margins, or alternatively uncover that the final price to the customer is too high for the market thereby requiring the company to reevaluate the project or take strategic cost cutting decisions.

Landed cost is the total expense of sending the goods into the foreign market and then factoring in the margins to the distributor and/or retailer. These costs increase your selling price and can include, but are not limited to, transportation costs, duties, value added taxes, etc. Again, the purpose of this exercise is to evaluate your price in comparison to similar product in the export target country. Based on this analysis, you can make strategic decisions.

Here is a quick guide to help you calculate the landed price:

- What is your ex-works price (the price of the product when it is picked up from your warehouse or factory)?
- What is your theoretical purchase order or pro-forma? Is it: 1 pallet, 2 pallets, a 20ft Container, a 40ft Container?

- All freight costs. Acquire a quote from a freight forwarder based on your Incoterms. Include insurance and ask for other costs associated (spread the freight costs over the goods sold, thereby increasing the cost per unit of the product).
- Call a customs broker and ask about duties and taxes. Are there other import requirements, (FDA, lab testing, labeling, certification)? In addition, a customs broker may be able to give you a Harmonized Tariff Code to categorize your product.
- Determine if there is a % or fee to import the products into the country.
- Determine your sales channel margins or markups (e.g. distributor %, retail %).
- Determine the foreign sales tax and apply it to each transaction.
- Do you have a sales representative? Are you paying them a % of the invoice or a different method? Apply that cost.
- Gather Reference Pricing of substitute products or competitors' products in the foreign market.

Once you have collected this data, you can determine your estimated landing cost in the target country. Take these costs and apply them on top of your ex-works price. Then take this new landed price and compare it to other similar products priced in the market. Once you have this information, you have the power to make strategic decisions on how you could increase or decrease your profit margin, cut a channel, or not export if the price is too expensive or other relevant factors. Again, this activity can be implemented by starting with your ex-works price.

[**Note:** It could be argued that Step 5 should be Step 2. But if we are implementing "Lean Exporting", it requires minimal investment. Therefore, putting export pricing second takes up front time investment when a company assumes they have a chance in a market, but in fact there may not be any interest. So placing this activity after Step 4 means that indeed there is interest in the market and further time investment is warranted in Step 5.]

Step 6: Close the Sale: Meetings & Payment

Congratulations! The company has arrived at the last step. The buyer has requested samples, pricing and/or other data. Subsequently, I recommend investing the money and visiting the market to meet the buyer. Nothing is more powerful than meeting with the buyer in person and securing the trust of both parties, resulting in a continued loyal relationship. Moreover, most international negations cannot be done by email and the phone alone. Aspects such as product placement, vendor contracts and other questions or doubts are better discussed in person.

In relation to payment terms, I recommend requesting upfront payment or an irrevocable Letter of Credit. After a relationship has been secured and sales history built, you can then change to a payment % allocation. (eg. 70% up front 30% on delivery or add credit terms).

Final Comments & Recommendations

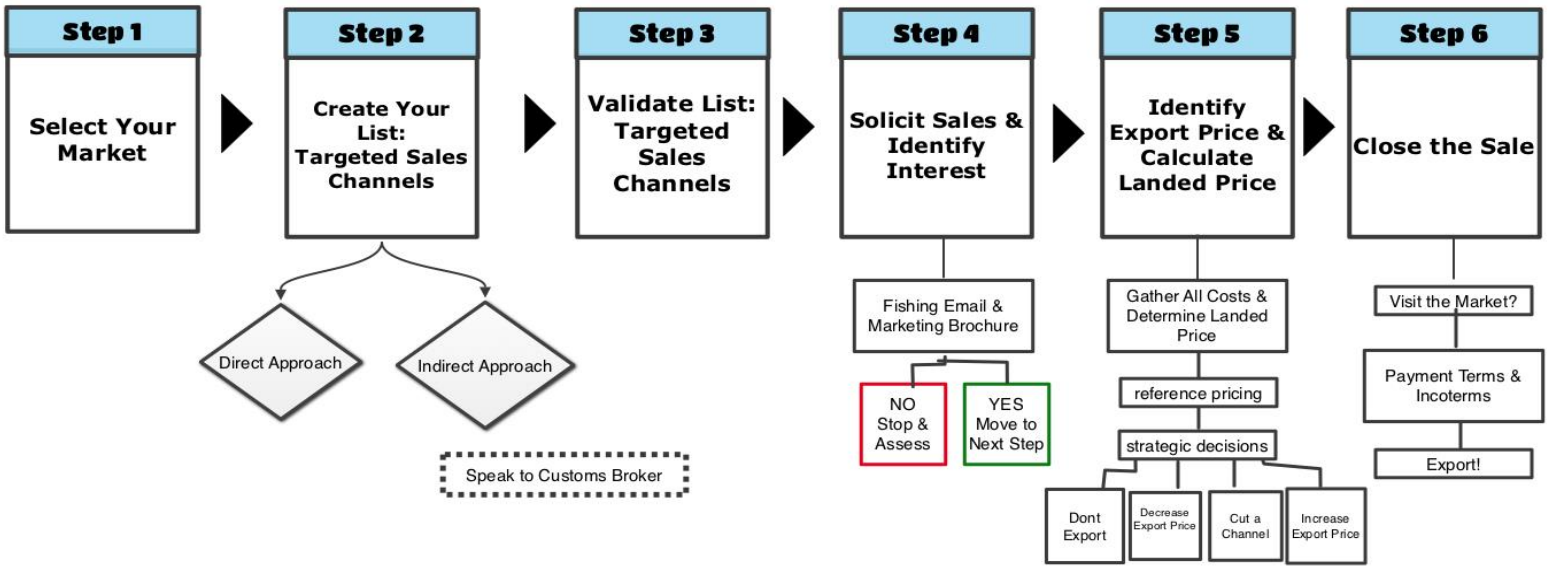
At first, exporting and selling abroad may seem overwhelming, but in the long run, it becomes second nature. Just like any new account or any new sale, it is initially challenging, but once it is completed for the first time it is much easier and faster to replicate.

By implementing the "Lean Exporting" approach, a company can identify quickly and resourcefully if there is real opportunity to export and expand sales or whether to reevaluate and invest elsewhere. In closing, you do not need hundreds of thousands of dollars to export your products or services abroad. Instead, what a company needs is the management's commitment and dedication to expand export sales and the lean exporting strategy in place to tactically invest time and resources leading to an efficient go-to-market strategy.

Other Reminders:

- ✓ Don't forget to register trademarks prior to exporting into the country of import.
- ✓ Insurance: Once you export, be certain that you insure the total value of your goods from point to point (talk to your freight forwarder).

Lean Exporting Review:



Cristina Hernandez is an International Sales Director, specializing in go-to-market strategies for SME's and global companies. Specifically, she assists foreign companies to do business in Mexico, and also assists Mexican companies to export their products to new markets. In her current position, Ms. Hernandez is founder at Managed Strategies, an international sales consultancy. She advises the USA, EU, and Mexican companies on how to strategically enter and expand sales in Mexico and the USA. In addition, she is a part-time Professor at Tecnológico de Monterrey, Guadalajara Campus for the Department of International Business and the Department of Innovation and Entrepreneurship. She previously worked as a Trade and Investment Officer for the British Embassy in the UK Trade and Investment (UKTI) office based in Guadalajara, Mexico. She holds a Global-Masters in Business Administration in International Management from the Thunderbird School of Global Management, AZ, USA and Tecnológico de Monterrey, N.L. Mexico. Her B.A. is in Cultural Anthropology from the University of California, Santa Barbara. Ms. Hernández brings over 9 years of professional experience in investment management, startup ventures and international business between the USA, EU and Mexico. She is from Orange County, California, USA.