

## The Future is Now: U.S. Small Businesses Overcome Export Barriers

By Peggy Olive

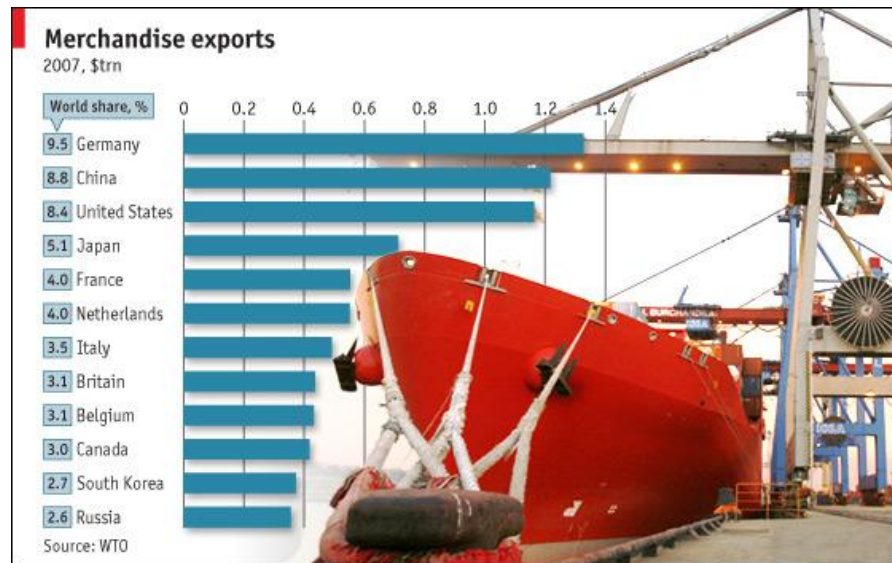
*Globalization is a fact of life in twenty-first century America.*

--Daniel Griswold

### Introduction

The U.S. Census Bureau recently reported that identified U.S. exporters - companies that can be linked to export transactions - accounted for \$910 billion in exports, up almost 15% from 2005. Small- to medium-sized businesses were responsible for 96% of manufacturer exports (Trembley, 2008). Driving this increase in demand for U.S. exports is strong economic growth abroad, particularly in emerging markets. The global poverty rate has been cut by more than half since 1981, with much of the credit due to market reforms in developing countries. Hundreds of millions of people have joined the rising middle class in China, India, and in reform-minded countries elsewhere in Asia, Latin America, Africa, and the Middle East (Griswold, 2008).

The Internet, global communications, and an increasingly complex global supply chain have opened opportunities for smaller U.S. firms to supply goods and services to global markets and to larger U.S. companies that trade in those markets (Griswold, 2007). According to the Office of the United States Trade Representative, 95% of the world's consumers live outside the United States (Buchanan, 2007).



<http://media.economist.com/images/na/2008w17/Exports.jpg>

That is three-quarters of the world's spending power, which represents a huge potential market for U.S. producers in general and for hundreds of thousands of U.S. small businesses in particular. The finance company Intuit has released a report on the future of small business, predicting that those in the skilled trades and crafts will re-emerge as an influential force in the coming decade, using technology and globalization to help them expand. Many of these new artisans will be small and personal businesses producing specialty goods for an increasingly larger pool of customers. The report, sponsored by Intuit and written by the Institute of the Future, predicts the emergence of an economic structure that will drive new business collaborations, creating greater opportunity and profitability for small businesses (Small Business Heyday, 2008). Despite these predictions and the increased demand for American goods and services, many small businesses and entrepreneurs have not realized their potential for global trade.



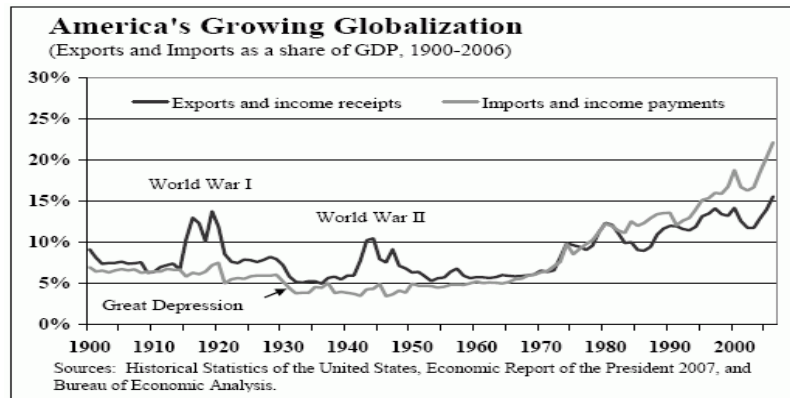
<http://www.jpl.nasa.gov/news/news.cfm?release=2005-009>

On the domestic side, U.S. small businesses are faced with unprecedented foreign competition as they compete with low-cost suppliers from abroad. On top of this, small business owners and entrepreneurs realize that a customer can now surf the Internet for lower-cost products originating from anywhere in the world. While many small businesses and entrepreneurs would like to tap into the global marketplace, they may be reluctant because they are intimidated by the impact of globalization on domestic business conditions and by a number of barriers to export markets.

Several studies focus on the obstacles facing small exporters based on surveys and other observations. The Export-Import Bank of the United

States, the official U.S. credit support agency, conducts annual competitiveness surveys. The surveys indicate that the number-one concern of respondents is getting paid for their goods and services. A Forrester Research study found that 85% of small-and-medium sized companies with an online presence said that they cannot fill orders internationally, citing shipping as the number-one obstacle (Koch, 2007).

Other reasons cited by small business owners for avoiding international markets include lack of information, the high cost of entering export markets, and competition with larger companies. What small companies must realize is that for every obstacle or limitation, there are solutions in the form of private or public support and resource programs (Koch, 2007).



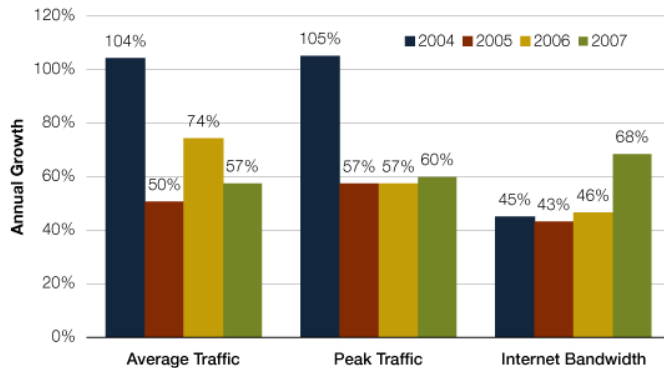
<http://www.cato.org/testimony/ct-dg06132007.html>

## **Conquering the Global Beast**

### *Getting paid for goods and services*

Collecting payments from customers can be a big problem for small companies, but there are avenues available to help overcome this barrier. One of the safest ways to collect is by wire transfer before a product or service is delivered. The explosive growth of the Internet has leveled the playing field globally, but the Internet also makes entering international markets easier for

U.S. small businesses and entrepreneurs. The Internet and the resultant improved communications between global suppliers and prospective buyers help make it easier to set and negotiate prices. Better communication and agreements make it less likely there will be miscommunications when it comes to payments. One such advantage is e-mail communication, which is faster and cheaper than past telephone communications, and provides a paper trail to document the



Internet traffic grew 57% from mid-year 2006 to mid-year 2007, down from 74% growth in the previous twelve months.  
[http://www.telegeography.com/cu/article.php?article\\_id=19881](http://www.telegeography.com/cu/article.php?article_id=19881)

communication in case there is a dispute about prices and payments (Exporting Process Complicated, 2007). Businesses can also seek payment terms that provide guarantees to the exporter. One of Ex-Im Bank's most popular products is credit insurance, which protects the small business owner in the event of buyer default (DeBaise, 2006). A policy covers commercial risks, such as buyer bankruptcy and slow payment, along with some political risks, including war and terrorism (Czurak, 2007).

### *Shipping and filling orders*

Sometimes, the complexities of doing business on a global scale can feel overwhelming, says Tom Travis, author of *Doing Business Anywhere: The Essential Guide to Going Global* (2007). Travis wrote his book to help global entrepreneurs understand business opportunities and avoid expensive mistakes. One of his recommendations for doing business overseas is to take advantage of trade agreements (5 Basics You Need to Know, 2007). Steve Preston, administrator of the U.S. Small Business Administration, agrees that free trade agreements eliminate or reduce tariffs, duties, and quotas, and work to create a level playing field for U.S. companies. Free trade agreements also reduce non-tariff barriers which can make exporting very difficult for small business, Preston said. These barriers, from excessive paperwork to the inconsistent enforcement of customs policies or valuation of imports, require fixed costs that can be prohibitive for small businesses (Kilkenny, 2008). A government resource that may ease shipping concerns is the Ex-Im Bank, which provides a program for protection of overseas shipments. The bank's web-based service helps U.S. companies buy insurance covering shipments of goods or services to other countries quickly and easily (DeBaise, 2006).

### *Lack of information about foreign markets*

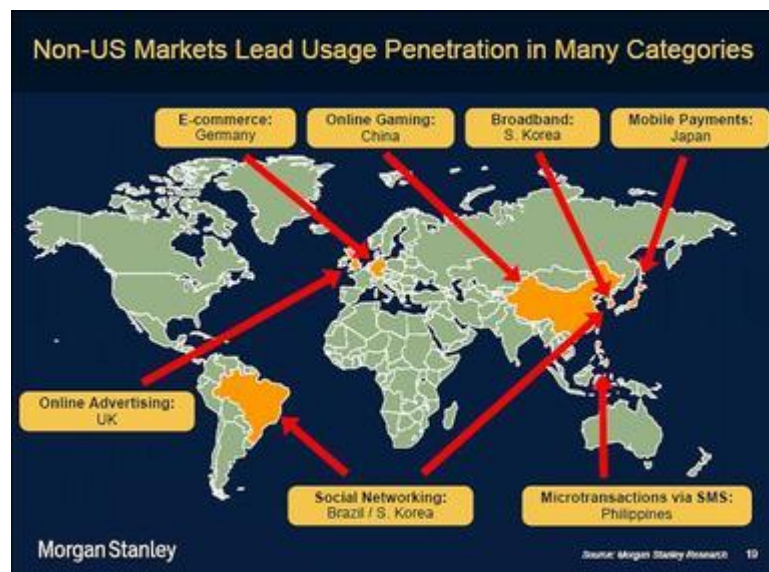
Learning about foreign markets is often complex and constitutes a major barrier for small business owners who want to enter international markets. Fortunately, a wide array of programs and resources is available to small businesses from federal agencies, including the U.S. Department

of Commerce (<http://www.commerce.gov>), the Small Business Administration (<http://www.sba.gov>), the Overseas Private Investment Corporation (<http://www.opic.gov>), and the Ex-Im Bank (<http://www.exim.gov>). The combined export trade services of these federal agencies can be accessed through the 107 United States Export Assistance Centers located throughout the United States. An arm of the U.S. Department of Commerce (USDOC), the U.S. Commercial Service (<http://www.trade.gov/cs/>) offers reasonably priced marketing services and resources that help new-to-export businesses or small exporters market their products and services, find credit-worthy buyers, and avoid fraud and other risks of loss. The U.S. Commercial Services Market Research Library contains more than 100,000 industry and company-specific market reports written by specialists working in overseas posts. U.S. small businesses can also advertise their products and services in USDOC publications, including the Commercial News USA, for a modest cost. The USDOC's Featured U.S. Exporters Program, a directory of U.S. products featured on Commercial Services websites worldwide, is being expanded: It can be accessed at <http://www.buyusa.gov/home/fuse.html>.

A number of states, cities and universities also provide export assistance for small businesses and entrepreneurs. Some states maintain Small Business Development Centers (SBDCs) which help small businesses with their exports, and over 1,000 SBDCs are operating across the country. A growing number of universities offer export assistance, such as Duquesne University's Small Business Development Center in Pittsburgh, Pennsylvania, which provides export planning tools and uses foreign-born professionals to help small businesses bridge communication and cultural gaps (Koch, 2007). Some small businesses create strategic alliances with foreign business partners. Others engage the services of commissioned brokers or export management companies to help market their products.

### *Costs to export*

Costs, of course, are always a concern for small businesses, and with entry into global markets comes the need to finance the purchase of inventory, labor, and other associated costs, such as working capital financing. Ex-Im Bank and the Small Business Administration offer joint working capital loan programs that provide guarantees (up to 90%) to private commercial banks for small businesses to assist their entry into global markets. Recently, privately owned merchant finance companies have begun to finance trade by providing purchase order financing (Koch,



Morgan Stanley's Internet Trends 2008  
<http://www.webguild.org/labels/social%20media.php>

### **ProQuest Discovery Guides**

<http://www.csa.com/discoveryguides/discoveryguides-main.php>

Released August 2008

2007). Ernst & Young publishes business guides for more than 40 countries, covering governance, compliance, fraud, outsourcing, and tax advice (Trembley, 2008).

### ***Competition with larger companies***

Small businesses are always concerned about competing with larger companies and this concern is magnified in the export arena. However, while larger companies have more resources, they also tend to have larger, fixed infrastructures. Flexible smaller companies, on the other hand, can be more responsive in many ways, including shifting resources when necessary. Another way of competing with larger entities is through special services. Customization can be achieved only by using non-standard methods, which is much easier for smaller companies. At the opposite end of customization is specialization - for instance narrowing a product line - which can also be a competitive marketing advantage (Wiersema, 2007). The aforementioned Intuit report notes that small businesses will be better positioned than larger companies to provide customers with highly targeted, customized, and relevant products. The report also states that increased computing power and access to big business infrastructure – as large corporations increasingly tap small business for collaboration – will lower barriers to entering new markets and reaching customers (Small Business Heyday, 2008).

Even as small businesses encounter these and other barriers, they are well-positioned to overcome the obstacles.

### **A Case Study: Polymer Technology Systems, Inc.**

One company that overcame the obstacles presented by globalization and thrived in doing so, is Polymer Technology Systems, Inc. (PTS). PTS quadrupled sales of its cholesterol-checking device in only three years by exporting to 70 countries around the globe. PTS' handheld meter, called CardioChek, measures key health indicators from a tiny drop of a patient's blood. The small company is based in Indianapolis, Indiana. Cheaper communications, good international contacts, tapping government resources, and creating alliances with larger companies are all part of PTS' success formula. Sales reached \$15 million in 2006.

PTS' big break came in 2004 when Boots, the largest pharmacy chain in the United Kingdom, approached PTS about using CardioChek meters for promotional cholesterol screenings at 1,400 of its stores. PTS later partnered with pharmaceutical companies in Europe that wanted to use the device to promote their cholesterol-lowering drugs.

PTS found that maintaining local distributorship of its product has been a vital success factor. Local alliances



CLIA - Waived  
FDA - Cleared  
CE Marked

Polymer Technology Systems' CardioChek  
<http://cardiochek.com/home.asp>

made it easier to navigate the different rules, regulations, and customs of the many countries that comprise PTS' international market. PTS also used a program offered by the U.S. Department of Commerce to aid in identifying local distributors. The program searches for and matches distributors in South America with companies in the U.S.

A program offered by the Export-Import Bank of the United States provided another vital component for the export company's success. The program guarantees bank loans for U.S. companies to help them manage cash flow. PTS would often have to wait 90 to 120 days for payments. "Typically, banks don't lend on international receivables," said Mandy Parris, assistant vice president of commercial banking for Chase Bank in Indianapolis. However, with the Export-Import Bank guarantee, Chase Bank provided "the company a \$1 million line of credit to start," Bob Huffstodt, CEO at PTS, said.

Like many small exporters, PTS has taken advantage of today's technological advances. The company uses the Internet for market intelligence and to identify potential distributors. It also uses e-mail and mobile phones for easier and cheaper business communications. "Telecommunications, Internet, and air travel have made international business a lot easier today," Hans Fredman, international sales director at PTS, said (Wall, 2007).

Benefits and advantages for small businesses that choose to enter international markets are many and include increased sales and profits, enhanced domestic competitiveness, a reduction of dependence on existing markets, and increased global market share (Exporting Basics, Small Business Resources). Exports will be an important strategic option for small business owners who want to achieve continued business growth. Intuit (2007) predicts that almost half of U.S. businesses will be involved in global trade by the year 2018.

Today, U.S. companies' growing participation in global markets is one of the bright spots in the national economy. U.S. exports and earnings on foreign investment are booming as the housing and financial sectors at home continue to falter. While the economy as a whole has slowed dramatically, exports of goods and services increased by 12.6% last year, and earnings on U.S. investments abroad soared by 20%. The expanding opportunity to serve foreign markets has allowed U.S. companies, including small businesses, to better survive these dismal economic times (Griswold, 2008). Experts agree that exporting to foreign markets is crucial to the economic health of America. Increased exports translate to business growth and business growth means larger profits for U.S. companies – all of which ultimately will result in more jobs for American workers. It is critical for U.S. small businesses to think globally now and in the future.

## References

1. Buchanan, Leigh. Gone Global. <http://www.inc.com/magazine/20070401/> Downloaded August 2008

2. Czurak, David. Exporting Risk, *Grand Rapids Business Journal*. Grand Rapids: July 2, 2007. Vol. 25, Iss. 27, p. B4.
3. DeBaise, Colleen. Going Global: Businesses Earn More by Exporting. <http://smsmallbiz.com/marketing> Downloaded August 2008
4. Delaney, Laurel. The World is Your Market: Small Businesses Gear up for Globalization. <http://www.globetrade.com/articles.htm> Downloaded August 2008
5. Exporting Basics. <http://www.smallbusiness.com/index.php?title>
6. Exporting Process Complicated, So Seek Help from Professionals, *Corpus Christi Caller-Times*. Corpus Christi, Texas: Aug. 28, 2007, p. D1.
7. Five Basics You Need to Know to Play in Today's Global Market, Principal's Report. New York: Sept. 2007. Vol. 07, Iss. 9, p.1.
8. Griswold, Daniel. Opening the World of Export Opportunity to U.S. Small Businesses. <http://www.freetrade.org/node/885> Downloaded August 2008
9. Intuit Future of Small Business Report. <http://www.intuit.com/futureofsmallbusiness/> Downloaded August 2008
10. Kilkenny, Salome. Accessing Foreign Markets, *Network Journal*. New York: April 2008. Vol. 15, Iss. 6, p. 28.
11. Koch, John. Integration of U.S. Small Businesses Into the Export Trade Sector Using Available Trade Finance Tools and Resources: Part 1, Business Credit. New York: Oct. 2007, Vol 109, Iss. 9, p. 66.
12. Recklies, Dagmar. Small and Medium-sized Enterprises and Globalization. <http://www.themanager.org> Downloaded August 2008
13. Small Business Heyday Predicted, *The Practical Accountant*. Boston: Apr. 2008. Vol. 41, Iss. 4, p. 6.
14. Trembley, Cindi A. Commentary: Internet Resources for Global Business Practitioners, *Daily Record*. Rochester, NY: Apr. 22, 2008.
15. Wall, J.K. As Barriers Drop, Even Small Firms Go Global, *Indianapolis Business Journal*. Indianapolis: June 25, 2007, Vol. 28, Iss. 16, p. A8.
16. Wiersema, William H. Beating the Big Guys, Electrical Apparatus. Chicago: Aug. 2007, Vol. 60, Iss. 8, p. 36.