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SpinCent: Starting-Up Export[1]

Big exporters, such as Boeing, Caterpillar, and General Electric, generate about 60 percent of total exports from the United States. Their smaller shipments are usually much larger than the largest shipments of smaller companies. Still, small and medium-size enterprises (SMEs), specifically, companies with fewer than 500 workers, account for 97 percent of all U.S. exporters. One such SME is SpinCent of Pennsylvania.

SpinCent manufactures laboratory and industrial centrifuges that provide separation solutions for firms in the chemical, pharmaceutical, food, environmental, and mining industries. In brief, a centrifuge is a piece of equipment that puts an object into highspeed rotation around a fixed axis. Centripetal acceleration causes substances to separate, moving heavy elements to the bottom and lighter objects toward the top of the container; in between is liquid. SpinCent's 54 employees—45 workers, four product engineers, and five managers—operates out of its 60,000-square-foot facility in suburban Philadelphia.

SpinCent began operations in 2000 with "one goal in mind... to create a line of centrifuges our customers had absolute confidence in." Its patented technology anchored a full line of automatic and manual centrifuges known for quality, high performance, and good value. It has always taken pride in offering complete custom-engineering design and tools that serve the most demanding industries. To this day, management believes it builds "centrifuges for which there simply are no equals."

To Export or Not to Export: That Is the Question

From its start, SpinCent had passively approached export. It international sales often resulted from orders from other U.S. companies that were destined for export, occasional sales leads received at trade shows, or an unsolicited order through the Web or mail. Export results had been mixed with sales generating somewhat reasonable returns; they would have been higher but for for unexpected problems and pitfalls.

Paul Knepper, CEO and founder, explained that a few concerns had dissuaded SpinCent from aggressively developing exports. First, he and his colleagues had general misgivings about the likelihood of international success. In previous efforts, they felt as if they spent more time on unfocused searching than on purposefully growing exports. Moreover, serving customers in the domestic market kept them quite busy. Stretching their thin management structure to develop international operations would be tough. In addition, entering international markets would put SpinCent into direct competition with seasoned exporters from Germany and Japan.

Mr. Knepper knew SpinCent had to decide to export or not. Concerns about productivity, profitability, and diversification had been building for several years. The struggling U.S. economy, besides slowing SpinCent's growth, had led a few of its customers to import cheaper, lower-end centrifuges from foreign suppliers. If the trend continued, Mr. Knepper anticipated increasing price competition from both domestic and international rivals.

Add it all up and management realized it had a big decision: focus fully on the domestic market and wring out every possible efficiency or expand the company's frontier by aggressively escalating export. Ultimately, the decision was made for it. The slow-moving deindustrialization of the United States, forecasted to continue for years, would systematically reduce domestic demand. Concurrently, quickly industrializing emerging economies, particularly in Asia, signaled strong growth opportunities.

Asia's Calling

SpinCent identified key trends in Asia that signaled potential selling opportunities. "Industries were coming online everywhere and seemingly overnight," said Mr. Knepper. Pro-market reform, economic development, and globalization were industrializing activities in several countries. Increasingly, these emerging industries required the sophisticated sorts of centrifuges that SpinCent made. Unlike the United States, which was in the mature part of the product lifecycle, emerging economies were just starting and looked set to grow for years.

Getting Started

New to the idea of the Asian market, SpinCent sought help on how best to access the large, diverse region. It feared getting overstretched and wasting resources going solo. Moreover, Mr. Knepper was not looking to generate a burst of export sales. He aimed to develop relationships that would drive long-term export growth. Hence, his primary challenge was finding competent and trustworthy distributors who would take responsibility for local sales. Said Mr. Knepper, "We were looking for a long-term partner and not a quick export sale.... The right partner for SpinCent needed to be as confident and competent about the product as we are, and able to promote, educate, and serve consumers in the respective territories." To that end, he wanted background information on potential distributors beforehand, making sure possible agents were who they said they were. A few of the company's earlier export transactions, for instance, had run into problems with buyers who wouldn't pay or couldn't arrange letters of credit. Warned Mr. Knepper, "Getting paid is a huge part of running a business, and unless a company has the right payment policies in place, it will get scammed."

Mindful of these issues, Mr. Knepper attended a trade seminar sponsored by the U.S. Commercial Service's Export Assistance Center of Philadelphia. It featured market analysis and trade reports on the fast-growing, emerging economies of Asia. As he took his seat, his mind couldn't help but wonder about the opportunities. Sure, they sounded great. However, he had seen hype like this before come back to bite. Furthermore, he had heard various horror stories at trade shows about the inevitable problems and evolving pitfalls of exports. Indeed, he reflected, a key reason for attending the seminar was to reconcile his vague sense of the opportunities and threats.

Since exports promote economic growth, policymakers and government agencies offer extensive assistance. Trade seminars, market research, training programs, and financial planning are just some of the many services. Trade officials directed their energies toward SMEs, like SpinCent, seeing them as the major beneficiaries of initiatives to improve and accelerate international trade activity. U.S. trade officials, for instance, reasoned that since 60 percent of all SME exporters posted sales to only one foreign market, many could sharply boost exports by entering one or two new markets. Expanding SMEs' market horizons, through trade seminars and such, reduced their fear of the unfamiliar.

After a full morning of profiles and presentations, of the sort seen in our chapter's opening photo, Mr. Knepper increasingly believed the Asian markets held more opportunities than risk. While he learnt quite a bit about Asia, as well as general technicalities of exporting, his unfamiliarity with the region, compounded by the company's lack of local sales representatives, bothered him. He believed that grassroots research was necessary before committing. Before leaving that day, he spoke to Commercial Service agents. He arranged to tag along a 10-day trade mission that was heading to Hong Kong, Philippines, Vietnam, and Taiwan the next month.

Goal Setting

The goals of his trip were straightforward: assess market potential, identify competitors, get a sense of reasonable price points, and recruit local sales representatives. Although he had never traveled to Asia before, he believed he was well-prepared. His time with the trade experts in Philadelphia had educated him on the general characteristics and industry conditions in Asian markets. Also, in the past, SpinCent had received inquiries from Asian distributors asking to represent the company as well as the occasional request for product information. Depending on how busy the company had been with its domestic customers, which usually was quite, SpinCent tried to respond. Still, it saved all contacts; as such, he had a start on potential distributors and likely customers. In addition, Mr. Knepper tapped the Commercial Services Gold Key program to prescreen potential distributors. This service helps SMEs enlist Commercial Services agents overseas to scan local markets for qualified agents, distributors, and representatives.

Thinking back to his days as a Boy Scout, Mr. Knepper took comfort in the fact that he believed he had met the sacred command—Be Prepared. With a briefcase chock-full of brochures, a laptop loaded with profiles of his product line, and the sense of doing something potentially great, Mr. Knepper headed to Asia. Over the next 10 days, he interviewed potential agents, chatted with likely customers, scouted competitors' offerings, test called their service support, spoke to freight forwarders and logistics companies, and visited local government officials and customs agent.

SpinCent Answers

On the flight home, tired but charged, Mr. Knepper realized that despite all he had learned, he had been wrong about the whole thing. Yes, there were risks, but they were far more opportunities than he had imagined. Exporting was no longer an option for SpinCent. It was an imperative. Perhaps more importantly, he had a new sense of commitment. Too, he had a bit more confidence given that he had signed new distributorships in the Philippines and Taiwan as well as generated sales leads there and in Hong Kong.

Back in the office, he tested the Asian market a bit more. He sampled potential interest by advertising in trade publications as well as running banner ads on relevant trade sites in tandem with his newly signed distributors—he took care of the English ads, they managed the Mandarin versions. In addition, Mr. Knepper began working with an agent from Commercial Services on an export plan. This work helped SpinCent secure its largest overseas partner to date, a distributor in Hong Kong who served the booming Chinese market. Commercial Services also helped SpinCent set up meetings with others, eventually leading to signing a distributor in Singapore and getting leads in Australia.

Having found strong partners, SpinCent continues using the counseling and market intelligence provided by the various government agencies to improve its export plan. Indeed, the more he dealt with them, the more Mr. Knepper appreciated a friend's advice, "Let the government do it for you. This is their niche and they're the best at it."[2] Now, with the export plan in hand, Mr. Knepper had begun working with the Export-Import Bank to secure financing options for its overseas distributors and customers.[3]

Going Forward

Steadily, as SpinCent gained experience in Taiwan, Philippines, Hong Kong, and Singapore, it looks onward. Although exporting has created challenges, it helped SpinCent improve its performance. Indeed, overseas sales had provided SpinCent with a steady stream of business during the economic downturn in the United States; rivals who had not diversified via exports struggled. More importantly, exporting had given SpinCent a low-cost, high-return opportunity to leverage its core competency in centrifuge technology.

This experience, reflected Mr. Knepper, suggested straightforward lessons: "If you are thinking about exporting internationally, do it. Get going, do your homework, utilize low-cost resources, participate in trade missions, learn about cultures, and build international relationships.... Always check on your potential business partners. Gather as much information as you can. Don't assume; the wrong choice costs your business time and money.... Above all, no matter the problems you run into, stay committed to the goal. All of these seem tough, but they only cost pennies on the dollar and the returns can be substantial."

CRN Case Review Note

Introduction

Exporting and importing is one of the fastest growing economic activities in the world.

International trade in the form of exports and imports has always been important for the global economy. As globalization, free trade agreements, and institutional development opened the economies of more and more countries, the importance of trade increased. In addition, the composition and direction of trade flows have changed significantly, given the ongoing transformation of developing economy into industrializing versions, emerging markets tapping developed countries for tools to continue doing so, and developed countries looking to their developing counterparts for competitively priced goods and services. For example, in mid-year 2011, China's exports were grown nearly 30 percent while its imports were up 20 percent.[4] Moreover, reflecting the changing composition of trade, firms trade a growing number of products among a larger set of countries—U.S. companies, as of 2010, exported products to 233 countries and territories.[5].

Companies worldwide respond accordingly, seeing exporting and importing as powerful means to engage international business. Granted, companies engage international business in a variety of modes. This chapter emphasizes the options of export and import. The choice a company makes, say, export versus licensing versus joint ventures versus FDI, follows its interpretation of external factors as well as internal competencies (See Figure 13.1).

Exporting sends products to another country; importing bring products in from another country.

Exporting and importing are the most common modes of international business. There has been steady and substantial growth in the number of firms that export and import. Popularity follows from the fact that both modes impose minimum business risk, require relatively low resource commitment, and improve marketplace flexibility. Moreover, whether large or small, international trade helps companies increase sales

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A Little Electronic Magic at Alibaba.com

E-commerce, by changing the way companies around the world do business, makes trade easier and cheaper.[93] Before the Internet, tracking down a product to import, or finding foreign customers to export to, was daunting for the typical SME. Most relied on occasional trade shows and expensive, time-consuming foreign travels to identify possible products or assess potential suppliers. Certainly, traders could tap local embassies to support export promotion or provide import assistance. Although sounding straightforward, in practice they were cumbersome. Consequently, international trade was largely limited to big companies that could afford to attend trade shows, translate brochures, travel internationally, hire intermediaries, and supervise activities.

Today, the Internet gives SMEs cost-effective means to manage these demands. It makes information on any conceivable product from virtually any market readily and inexpensively accessible. Falling trade barriers, courtesy of the WTO, and more efficient logistics from 3PLs like FedEx, DHL, and UPS, offer an array of trade possibilities.[94]

The emergence of country-specific portals and Web exchanges accelerates this process. Replicating what eBay has done for consumer-to-consumer e-commerce, several sites offer online bazaars for international traders. Here, exporters can lay out their wares on the digital carpet and haggle with potential buyers from the far corners of the world. For instance, potential importers looking for products from South Korea can access www.koreatradeworld.com; those targeting India can check out www.trade-india.com; and those focusing on Europe need only visit www.bizeurope.com to tap into high-quality electronic trade boards. One can also ignore locking into one area and instead shop the world at or www.tradekey.com.

These and similar sites promote the commercial potential of a country or region. They provide direct services to large and small international traders, such as export training, cyber trade infrastructures, international special exhibitions, virtual trade shows, and trade strategies. Conceptually, they are straightforward: They help move products from sellers in one place to buyers in another. Operationally, they represent powerful business-to-business tools that improve the mechanics of trade, creating flexible and dynamic platforms that let buyers and sellers of everything from bamboo toothpicks to industrial equipment find each other, negotiate the terms of trade, and seal the deal.

SMEs
Small and medium-sized enterprises

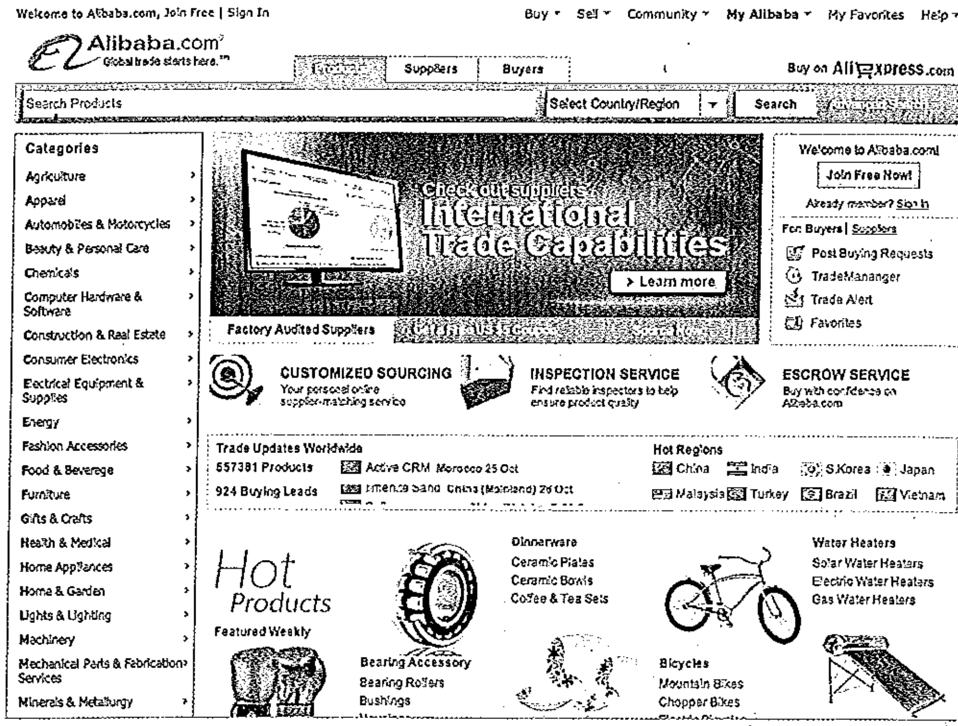
Alibaba: Opening Global Markets

Spearheading these changes is Alibaba, a Chinese Internet company that specializes in introducing Chinese manufacturers to buyers worldwide. Founded in 1999 by Jack Ma, who has been dubbed "the Father of the Chinese Internet," it makes international trade cheaper, faster, and easier. Based in Hangzhou, about a two-hour drive south of Shanghai, Alibaba began operations with the goal of getting big by staying small. Jack Ma believes that his target customers are SMEs, not MNEs, or, in his words, "shrimps," not "whales."

The Framework

Making this happen is the world of www.alibaba.com, an English language global trade website that connects international buyers with Chinese sellers. Today, it is the world's largest online business-to-business marketplace, reaching Internet users in more than 240 countries and territories. The site supports an interactive community of millions of buyers and sellers who meet, chat, trade, and work online. Basically running an online global trade fair, Alibaba enables "shrimps" with import and export ambition but tight budgets to reach the global market. Alibaba also provides an array of business management software, Internet infrastructure services, payement processing, and export-related services.

Many Alibaba users are SMEs in developing countries around the world, from rural areas to large cities, in countries such as Kyrgyzstan, Sierra Leone, and Peru. Few are glamorous and high-tech; most are low-tech firms making labor-intensive, scale-insensitive products. However, Alibaba provides tools to expand their market reach and grow their businesses. An SME, working from even the smallest apartment anywhere in the world, can create a global business.



A New Face of International Trade

This straightforward screenshot of Alibaba's web portal only hints at its immense opportunities for importers and exporters to trade. Clicking through to any of categories opens many international trade gateways.

Source: Courtesy of alibaba.com

Operations

The mechanics of Alibaba are straightforward: Importers around the world request bids from suppliers for a mind-boggling array of goods—from cookware to poker chips, washing machines to MP3 players—as seen on the adjacent image of Alibaba's home page. Alibaba has organized more than a thousand product categories, each with many subcategories, and offers new channels to trade services. For example, the classic garage inventor in, say, Caracas or Chicago has the option to design a product and then use Alibaba to find Chinese factories to make, package, and ship it to customers worldwide.

Operationally, buyers use Alibaba to find potential suppliers, thereby eliminating the need to hire a local representative to negotiate with Chinese manufacturers. So, for example, an enterprising company in Argentina looking to buy 500 DVD players can visit Alibaba.com, search among the dozens of potential suppliers, learn their terms of trade, contact the preferred vendor, negotiate the specifics, and set the deal in motion. Said the cofounder of www.meetchina.com, a similar e-commerce site, "We want to make buying 1,000 bicycles from China as easy as buying a book from Amazon.com."

Trust and Transparency

As a rule, importers worry about being defrauded by unknown suppliers. More practically, how does an importer in Buenos Aires find a trustworthy supplier in Guangzhou? As sites like Alibaba inject more transparency into trade, buyers worry less about fraud. Alibaba users, like those on similar e-commerce sites, post information about their companies as well as review information about a vendor's reliability from other users. Buyers access Alibaba's profiles of its registered users, as well as the seller's posted references, to verify their status. These data let the importer in Argentina cross-check the credibility of potential trade partners.

This system of checks and balances is how Alibaba makes money. It offers a basic service of listing a company and its products on its Web site free of charge. It generates revenue from the 85,000 members who pay a few hundred to several thousand of dollars annually for services such as personalized Web pages, high-quality online introduction, and priority listing of products.

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Crisis and Change

The global financial crisis, Jack Ma reasons, created an opportunity to transform Alibaba from a China-focused e-commerce provider into a global Web marketplace. "Before this financial crisis, we were helping China's products abroad. Now we are thinking about helping small and medium-sized enterprises in other parts of the world," says Ma. Too, he saw the chance to expand China's historic outward flow of products to the world to include flows throughout the world. "We want to help them sell across the nations, help them sell to China," explains Ma. "I believe in the next three years, China will be one of the world's largest buying markets. China needs to buy these things."

As the crisis diminished, Alibaba set its sights higher. It plans to build a network of warehouses across China to transform the country's logistics business. "Hopefully within 10 years' time, anyone placing an order online from anywhere in China will receive their goods within eight hours, allowing for the virtual urbanization of every village across China," said Ma. "In order to achieve this, we will need to establish a modern, 21st century logistics network." In addition, Alibaba expanded AliExpress to offer traders warehousing, shipping and logistics options. Essentially, noted an analyst, Alibaba "wants to be Amazon."[95] ■

QUESTIONS

1. Identify a product you would like to import. Visit www.alibaba.com, go to the advanced search field, and enter it. Select required criteria and click on "Search." Review the list of companies that qualify. Find a suitable seller. Analyze this process for ease, usefulness, and potential value.
2. List, in separate columns, the benefits and costs of using sites like Alibaba to trade internationally. What does your analysis say to companies like SpinCent (our opening case) as they develop an export plan?
3. Visit www.alibaba.com, www.trade-india.com, and www.europages.com. Compare and contrast these Web sites from the view of the seller to the buyer.
4. Do you think most trade between countries and companies might eventually take place through sites like Alibaba.com? If so, does that influence your interest in importing and exporting?
5. How transparent do sites like Alibaba.com make import-export transactions? Would you still worry about fraud?

Now that you have finished this chapter, go back to www.myiblab.com to continue practicing and applying the concepts you've learned.

MyIBLab

SUMMARY

- Exporting refers to the sale of goods or services produced by a company based in one country to customers that reside in another. Importing is the opposite: the purchase of products by a buyer in one country from a seller in another.
- A company's export activity is (1) related to but not determined by its size and (2) related to and often determined by a range of firm-specific characteristics, such as management interest, production efficiency, labor costs, and R&D advantages that are independent of its size.
- The incremental internationalization view holds that exporting begins as a sequential process of careful trial and reasonable error that leads a company to expand from its home market to the most geographically and psychologically proximate markets. It then progressively sells to customers in increasingly distant and dissimilar countries.
- The born-global perspective holds that companies step straight onto the world stage, exporting from inception.
- The idea of serendipity refers to so-called accidental traders who, responding to happenstance or odd circumstances, successfully begin exporting or importing.
- A service import does not result in ownership and is rendered by nonresidents to the local residents in a country.