5.1 Basic concepts of exports

Contents

The need to export

The **presence on international markets** leads enterprises to a gradual increase in sales, thus being a way out of a saturated domestic market, which leads to:

- increase in net profits,
- enhancement of business flexibility,
- risk-taking minimization
- significant reduction of production and operating cost.

Entering international markets and **enhancing extroversion** are the objectives of any enterprise that is determined to survive in a highly competitive economic environment.

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Reasons for developing export activity

1	The product life cycle on the international market	When a product is mature in the domestic market, the enterprise can find new markets abroad, where sales for this product have not reached the same level of growth.
2	Competition in a selected target market	May be at a lower level than domestic competition.
3	The use of overcapacity	When the internal market is experiencing downward trends or saturation, enterprises can turn to foreign markets to compensate the deficit.
4	Population dynamics and purchasing power	The consumption or absorption capacity of the product is in line with the economic feasibility of obtaining the product
4	Strategic competitive advantage	The enterprise’s objective is to enter a market that has a strategic advantage over its competitors.

Export methods

There are two categories of export activity methods:

- **Indirect** exports.
- **Direct** exports.

The producer company decides which method to follow, considering the objectives it wants to achieve, but also its resources.

Indirect exports (1)

- ✓ When they are active in the foreign market through **intermediaries** and **independent** market players.
- ✓ The enterprise is responsible for the production but does not control the export procedures of its products to foreign markets.
- ✓ Export procedures are **controlled** by another enterprise established and / or active on the **domestic market** and acting as an **intermediary** of trade between the producer and the foreign buyer.

Indirect exports (2)

Indirect exports are implemented with the following four ways:

- ***Domestic Agents***

They operate in the country of the producing company. They represent foreign companies-buyers who are interested in purchasing products with particular specifications at the lowest possible price.

- ***Domestic Traders***

They operate in the country of the producing company, but they act as local wholesalers. They purchase the products of the producer-company like any other customer, and in addition, they undertake all marketing operations in the markets they intend to export.

- ***Export Management Companies***

They undertake most of the enterprise's export processes.

They operate as if they were the export department of a small and medium-sized enterprise.

- ***International Trade Company***

They engage in export and import activity of products and raw materials purchased from various producers in different countries. Their difference with Export Management Companies is that they do not only act as representatives of domestic producers, but also as companies exploring the needs of buyers.

Direct exports (1)

Direct exports: **direct sales** to foreign enterprises or to final consumers, established on foreign markets (Albaum et al., 1998).

This implies (for the enterprise):

- the organization of Export Department
- the undertaking of market research
- the development of an integrated marketing strategy
- the customer approach
- the negotiation
- the issuance of the necessary certificates and documents
- the transportation of the products abroad

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Direct exports (2)

Direct exports are implemented with the following four ways:

- ***<u>With export department</u>***

It may have limited responsibilities or autonomy, undertaking any operation associated with the export activity.

- ***<u>With representatives in the export destination country</u>***

With a local sales agent or representative, who is an intermediary between the enterprise and its customers.

With a local trader or distributor who has the exclusive representation of the enterprise's products for a country or geographical area. The trader purchases these products and then resells it to his/her customers.

- ***<u>With a branch in the export destination country</u>***

It is the natural business expansion, since company consolidates its products position on the foreign market. The role of the branch is related to carrying out tasks similar to those of the parent company.

- ***<u>Trading Subsidiaries in the export destination country</u>***

It is an autonomous and fully organized local company, which provides commercial services and is foreign-owned, as it belongs to the parent exporting company that establishes it and owns 100% of its share capital.

Export incentives

Internationalization incentives, are defined as the **internal** and **external** forces that influence an enterprise's decision to **start**, **develop** or **maintain** its international activities.

The two categories of incentives for exports are as follows:

- **Endogenous** incentives.
- **Exogenous** incentives.

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Endogenous incentives

01 Increase in profits and sales

02 Domestic markets protection

03 Achieve economies of scale

04 Differentiation of business risks through geographic expansion

05 Raw materials exploitation

06 Reduction of production costs by introducing cheaper raw materials and human resources

07 Competitive marketing advantages

08 Qualitative and technological superiority of products

09 Executives with international experience and knowledge

10 Management Board’s willingness for international development and business reputation

Exogenous incentives

01 Orders from foreign customers

02 Saturation of the local market

03 Strong competitive environment in the domestic market

04 Strategic position of a foreign country and access to new markets

05 Possibility to increase sales for seasonal products

06 Hostile institutional environment and unattractive macroeconomic policy by the domestic government

07 Access to qualified human resources

08 Financial incentives from foreign governments

09 Political and economic stability in foreign countries

10 Favorable exchange rates

Problems - export barriers (1)

The major barriers related to exports are the following:

- The difficulty in finding customers and high competition.
- Lack of executives with the appropriate knowledge, skills and experience in exports.
- Lack of executives who speak the language of target-countries.
- Difficulties in communicating with foreign clients.
- The difficulty in finding reliable representatives and/or distributors in international markets, as well as motivating them to actively promote the enterprise’s products.
- Lack of valid and timely information on foreign markets.
- Difficulties in controlling the enterprise's activities (e.g. market research, advertising, promotion, distribution) in foreign markets.

Problems - export barriers (2)

The major barriers related to exports are the following:

- Lack of knowledge about bureaucratic procedures in destination countries of exports.
- The problems associated with securing export funding.
- The problems associated with tariff and non-tariff restrictions introduced by each country.
- The additional cost if the enterprise is to adapt its product to preferences of foreign customers and to requirements of the export destination country's legislation.
- Problems related to ensuring adequate and reliable means of transport.
- Lack of satisfactory assistance and technical support from the competent public bodies of the parent country.

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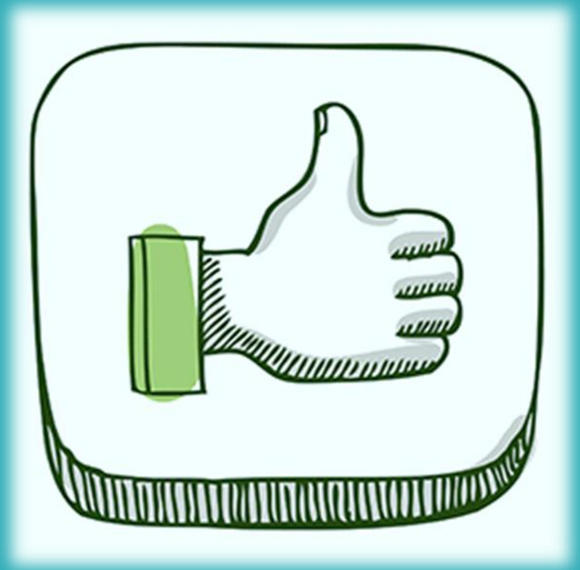
Advantages of Exports

The export benefits can be summarized as follows:



- The business risks that the exporting company undertakes, are relatively insignificant as it uses the existing production facilities.
- They are a fast and cost-effective way of entering new markets.
- Export activities give the company the opportunity to understand the requirements and specificities of foreign markets.
- It is an opportunity for the company to explore the acceptance, capabilities and competitiveness of its products on the foreign market.

Disadvantages of Exports

The disadvantages of exporting companies:

- The additional cost for promotion and movement of exported goods.
- The direct and indirect barriers posed by many national governments to imports through tariffs, quotas, exchange restrictions etc.
- Lack of direct contact with the markets where the products are exported, particularly in the case of indirect exports.
- Some products require after sales service, which presents difficulties when distance between the enterprise and the export destination country is significant.
- Enterprises that trade branded products face additional difficulties such as monitoring of their legal or illegal use.