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**PREMIERE
ISSUE**

So their companies
hit a wall. Lessons
from entrepreneurs
who refuse to give up.

ROUND TWO

Varsha Rao's Zoelle
stands apart with its
exclusive jewelry designs

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A man with a mustache, wearing a light blue button-down shirt, a dark patterned tie, and dark trousers, stands with his hands on his hips. He is smiling and looking towards the camera. Behind him are several large, blue, industrial-style fans with white mesh grilles and three blades each. The fans are arranged in a cluster, some overlapping. The background is a plain, light-colored wall.

SELLING

SHIPPING

Mining overseas markets can be treacherous, but entrepreneur



FANNING OUT:
Mark Finewood
and Vance Patterson
are revving up
sales in Europe

who do a little legwork can strike gold **By Charles Butler**

Mark Finewood had driven past the abandoned textile factories near the Blythewood (S.C.) headquarters of Patterson Fan countless times. But early in 2001, soon after Finewood became Patterson's vice-president for sales and marketing, the shuttered buildings seemed a warning.

True, the 80-employee supplier of high-velocity industrial fans and cooling systems was doing well, with Ford, General Motors, and Target among its customers. Revenues neared \$14 million. But a database search showed that potential sales leads had shrunk by a third in the previous five years. If he couldn't keep revenues growing, Finewood feared Patterson Fan might one day share the fate of those empty mills.

Finewood approached company founder and President Vance M. Patterson. With sales opportunities in the U.S. decreasing, they decided it was time to seek customers beyond the borders.

In so doing, Patterson Fan joined about 213,000 small businesses that were exporting in 2001, the most recent year for which figures are available. In fact, about 90% of U.S. companies that export are small businesses, and the bulk of those have fewer than 20 employees, according to a 2001 Commerce Dept. study. Those numbers are expected to stay constant when updated stats appear this summer.

Veterans of foreign shores will tell you that selling abroad comes with plenty of challenges. Exporting can strain a company's resources and staff. Language barriers and local customs can pose problems. And there's the hard-to-anticipate exchange-rate volatility. New exporters often stumble before they hit their stride, and unlike the giants of Corporate America, they don't have the deep pockets necessary to cover too many missteps.

That's not to say there isn't money to be made—or that small companies can't grow by selling overseas. Despite heightened tensions since the September 11 terrorist attacks and the war in Iraq, the current trade climate offers plenty of opportunity. In the decade since NAFTA was signed, the U.S. has continued to negotiate trade pacts, and more are on the way. Trade officials are available in 150 international cities to offer would-be exporters administrative and logistical support. For the past two years, the dollar has been weak against the euro, enhancing the allure of the European market. And the Internet has made it possible for small businesses to provide support to far-flung customers without busting travel budgets.

Succeeding abroad comes down to a single rule: Be prepared. Before you hop on a plane, determine the right market for your company and think about how you'll service overseas customers. Then you'll want to consider potential partners and work out the nuts and bolts of dis-



TOY STORY:
Toner Plastics' Graham
found a distributor at
a trade fair in Germany

tribution. Above all, keep an open mind: You may have to adjust your selling strategy, or even your product, to lure new customers.

THE VISION THING. In September, 2001, Patterson Fan's Finewood flew to Mexico. The country's proximity, warm climate, and NAFTA status were appealing, of course, but Mexico had something else going for it: Several of Patterson's customers had moved some of their operations south of the border. Finewood had a couple of referrals that he hoped would lead to fast deals. But potential clients in Mexico didn't see a compelling



SHAWN G. HENRY

need for fans in a country where hot weather is considered a fact of life. Finewood, who doesn't speak Spanish, had more trouble communicating than he expected. As he puts it: "We bombed."

James Morrison, president of the Small Business Exporters Assn. in Washington, D.C., says small business owners are often discouraged when their first forays abroad flop. Too many are following hunches instead of the kind of sound business strategy that got their companies going in the first place. Would-be exporters first must assess the need for their product or service in a potential market—something that Morrison says many entrepreneurs overestimate. Likewise, don't try to conquer customers from Rome to Edinburgh in a day. "Look at a few markets where you'll have success rather than trying to sell throughout Europe," says Benson Smith, a consultant with the Gallup Organization in Atlanta and the co-author of the book *Discover Your Sales Strengths* (Warner Business Books, 2003).

One low-cost way to gauge interest is simply to check the traffic on your company's Web site and tally the inquiries from other countries. Smith suggests examining the annual reports of companies in your industry that are already exporting. You'll see where they have found success, and you may turn up hints about which markets to avoid. Of course, you'll also get good information on your competition and maybe some guidance on pricing. If you're located near a business school, contact the head of its entrepreneurship program and ask whether students will do some more detailed research for you, suggests Peter

K. Schott, assistant professor of economics at the Yale School of Management.

Uncle Sam can help, too. First, bone up on any trade agreements the U.S. may have with the country you're considering (page 48). The U.S. Chamber of Commerce and the Commerce Dept. will often provide free export counseling, leads, and market research, including demographics and economic trends. Be sure to ask trade officials about regulatory issues that might affect your sales. There are restrictions on some wines imported into Europe from the U.S., for example, and telecom companies face barriers in Japan. A review of trade barriers can be found at www.ustr.gov/reports/nte/2004/index.htm.

BE PREPARED: LOCAL B-SCHOOLS AND UNCLE SAM CAN HELP

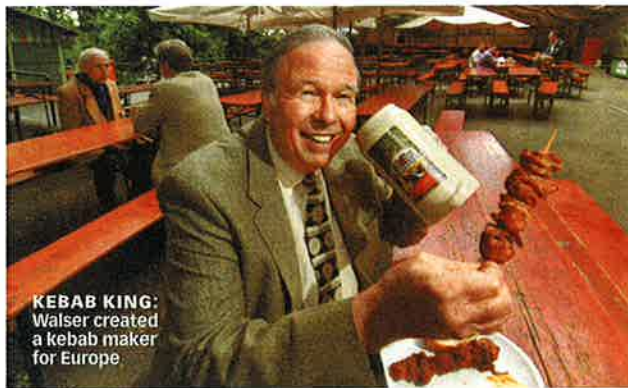
G **OING THE DISTANCE.** Carlyne Turner made sure her 14-employee company in Chicago, Information Development Consultants (iDC), was well-prepared before it went after foreign business. In 2002, Turner heard from her banking contacts that some Pacific Island governments were embarking on new economic development programs. She thought this might be a new market for iDC, which brings in about \$2.5 million annually selling financial software to governments and nonprofits. But before that could happen, "we needed to think creatively about how we would support customers 8,000 miles and several time zones away," says Turner.

Building on trade-show contacts, iDC won business in Palau, Micronesia, and the Marshall Islands, where it recently beat back Microsoft to win a \$1.1 million contract. When iDC scores a Pacific Island contract, four employees work on-site with the new customer for as long as 10 months, installing software and training staff. After that, support is handled from Chicago via the Internet. Turner sets up chat rooms on Yahoo! so her staff can answer client questions that don't crop up during formal training, such as how to request a cash advance for a government official or what forms are needed to buy new computers. "Anyone who wants to go international has to put their customer support on Web steroids," says Turner.

Unlike Turner, Steve Graham, president of Toner Plastics in Agawam, Mass., was in for several surprises when he started selling in Europe. In the U.S., Toner sells children's crafts products directly to megaretailers such as Wal-Mart Stores and arts-and-crafts chain Michaels Stores, bringing in about \$5 million a year. But he found large European retailers resistant to buying directly from manufacturers. Graham eventually signed on with a German-based distributor he had met at the 1999 Nuremberg Toy Fair, who cut deals in Germany and France.

Then Graham hit another snag. Toner sells some small products in the U.S. with a warning that they may not be appropriate for children under six. European coun-





KEBAB KING: Walser created a kebab maker for Europe.

tries require a specific warning symbol in addition to the notice. Graham spent \$6,000 printing 30,000 new packages, a considerable cost when he had already set the price. "A newcomer just doesn't know about these things," Graham says. He advises business owners to make sure they ask federal and regional trade officials plenty of questions before exporting—something he admits he could have done better.

THE INSIDE TRACK. No one knows a place better than the people who live there, and as Glenn Walser found, insiders can provide invaluable market research. For a dozen years, Walser's 11-employee company, Automated Food Systems, shipped corn-dog makers from its Duncanville (Tex.) headquarters to Europe. The German distributor that Walser had worked with since 1994 sold a handful of the machines to distributors who supplied caterers, restaurants, and food stores in Germany, Hungary, and Russia. "But for the most part, the European Community has not really taken to corn dogs," Walser admits.

Then, in 1999, the distributor mentioned that kebabs were popular throughout Europe. Walser's \$3 million

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company spent 18 months and more than \$300,000 designing and engineering a machine that makes about 4,000 kebabs an hour and sells for about \$105,000. The kebab maker now accounts for most of Walser's \$350,000 in annual international sales.

So how do you find savvy partners? Walser, like Toner Plastics' Graham and Turner at iDC, had good luck at trade fairs. Patterson Fan's Finewood turned to the Commerce Dept. After the disappointing trip to Mexico, Finewood and Patterson shifted their focus to Europe. They hired a sales rep based in Britain, but he didn't have much success selling outside the country. Finewood then tried the Commerce Dept.'s Gold Key program. For \$500 to \$1,000 a day, depending on the country, Gold Key staff will set up a small business with up to five potential distributors or customers.

Finewood met distributors in Spain and Germany, among other countries. "Usually someone from the U.S. consulate takes us to various distributors and I pull out my PowerPoint," he says. Results have been good, but Finewood notes that the relationship doesn't end once a contract is signed. "You have to train them, because they don't have a clue as to how you sell your product," Finewood says.

PHOTOGRAPHS BY (TOP TO BOTTOM) PETER SCHINZLER; MICHAEL L. ABRAMSON

Trade Pacts: Boon or Bust?

Last September, just weeks after the U.S. signed a free-trade agreement with Chile, Jack Warnell flew to Santiago. Warnell's Wilsonville (Ore.)-based JM Machinery & Parts Supply was already selling canning equipment in Mexico and Ecuador. About 20% of the company's \$700,000 in sales was coming from outside the U.S. Warnell, knowing there was quite a bit of canned fish in Chile, expected Chilean sales to quickly add to that.

After a nine-day trip and several months of follow-up, Warnell's Chilean sales totaled only \$6,200. "It's a mys-

tery," he says. One possible culprit: The 19% value-added tax and the 7% duty charges levied on his wares, despite the trade pact.

Since NAFTA went into effect a decade ago, the U.S. has continued to negotiate trade agreements with dozens of countries. Agreements with Singapore and Chile went into effect in January, while those with Australia and five Central American countries await Congressional approval. Trade officials promote the agreements as a boon to small businesses. But for small businesses as well as others,

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No matter how you locate your partners, don't sign up before you do some digging. "Find out from other U.S. companies what they think of a customer or distributor you're considering working with," says Smith. And check financial-information services such as Dun & Bradstreet, which tracks 83 million companies worldwide, to get a picture of the outfit's financial health.

To sidestep one of small exporters' most common problems—getting paid—run a similar credit and reference check on potential customers before you make a deal. If a company isn't paying its other bills on time, there's a good chance it won't pay yours promptly, either.

Unless you plan on all-cash transactions, you'll also need to arrange financing. "There are very few banks in the U.S. that handle trade finance for smaller businesses that are not already long-term customers of the bank," says Morrison. That's because it's difficult for a bank to judge the creditworthiness of a foreign customer or that customer's lender. Entrepreneurs can work with the Export-Import Bank

certain period of time for a fee. If your customers pay in euros, for instance, the bank can give you a guaranteed rate for a year or two, so you'll know exactly how much you'll be paid—in dollars—during that time.

STAYING THE COURSE. Toner Plastics' international sales were still growing when, in 2001, Graham decided not to seek new foreign customers. One reason was personal: "I have three daughters, and they're growing up fast," says Graham, who wasn't thrilled about the traveling involved. And as the head of a 20-person staff, he also knew that repeatedly sending himself or one of his two salespeople abroad cut into face time with domestic customers. Although he'll continue to supply existing international customers, for now, Graham is sticking closer to home.

But at Patterson Fan, optimism about overseas expansion runs high. Their new factory in Dundee, Scot-



they've been a mixed bag. Generally, the pacts reduce tariffs, improve legal channels for U.S. exporters, and help protect intellectual-property rights. Rajib Sanyal, professor of international business at the College of New Jersey in Ewing, N.J., says they help small companies explore markets and find partners. The pacts' legal protections mean exporters can enter these markets with confidence they'll get paid, or at least have a way to address the problem if they don't.

That doesn't mean small companies should rush into a country just because a trade pact has been signed. Peter Morici, a professor at the University of Maryland's Robert

H. Smith School of Business and former director of economics at the U.S. International Trade Commission, notes that Australia's economy was already fairly open and that Chile's is very small. And the challenge of distance and market development costs remain. Still, he thinks some entrepreneurs may benefit from the trickle-down effect. "Small businesses are more likely to profit on the basis of who they supply in the U.S.," says Morici.

As for Warnell, he's not giving up on Chile. "It's just going to take more patience than I thought," he says, sounding like a veteran exporter.

Iraq: Risky Business

Michael Fleischer, director of private sector development for the Coalition Provisional Authority (CPA), is well aware of the effect of violent images from Iraq flashing on TV screens. "One car bomb drowns out an entire booming economy," he says. "Small businesses could be taking more advantage of Iraq."

How many entrepreneurs share Fleischer's view is impossible to know. Those undaunted by security concerns can try going the official route, through government agencies, or can strike out on their own. Information, though, hasn't been easy to find.

The multinationals snagging much of the \$18.4 billion in contracts the CPA is expected to award this year are required to use small companies for subcontracting. But the CPA's Program Management Office organized only two U.S. conferences for prime contractors to network with entrepreneurs. Many prime contractors are still in the planning stages. John Chisholm, subcontracting manager for Framingham (Mass.)-based Perini Corp., says 29 small companies have approached him about working in Iraq. Perini has a \$500 million contract for electrical work, but Chisholm is still figuring out what help his company will need.

James Morrison, president of the Small Business Exporters Assn., says he has had about 50 inquiries about Iraq, many from frustrated small-business owners. "They've had a hard time reaching the right people at the CPA," Morrison says. A new Web site that lists prime contractors, www.iraqbusinesscenter.org, should help.

There's opportunity beyond the big contractors. The CPA's Fleischer says Iraq increasingly will need

services and conveniences from auto repair shops to theaters, and U.S. companies could supply those businesses—say, by providing machines or parts. Small businesses can contact local U.S. Export Assistance Centers or the Commerce Dept.'s Iraq site at www.export.gov/iraq.

Lyle Clemenson, the 69-year-old owner of 25-person

Clemenson Enterprises in Brooklyn Park, Minn., plans to go to Iraq this summer. The Commerce Dept. gave him leads on oil refinery companies that may need PermaWrap, a fiberglass product his \$3 million company sells to fix corroded or leaking pipes. "I'm not going casually," says Clemenson, who's trying to decide which areas are safest and concentrate his travel in those regions.

Gamal Osman, president and CEO of Tifa Ltd., scored a hefty deal without leaving his Millington (N.J.) office. His 25-person company supplied Iraq with defogging equipment used to

combat disease-spreading insects until 1990, when U.N. sanctions against Iraq went into effect. Earlier this year, though, the Iraqi Ministry of Health contacted Tifa. The \$3 million company landed a four-year, \$15 million contract. "It's very important to be in touch with the Iraqi government," Osman says.

But Osman is waiting until security improves before he books a flight. For those going to Iraq, the CPA recommends private security firms. The cheapest charge from \$300 a day for guards around a house to \$5,000 a day for a convoy. Others ask as much as \$12,000 daily for a driver and three guards. Sounds like only the flush—and daring—need apply.



FROM AFAR: Osman made an Iraqi deal without leaving the U.S.

land, with four local employees, has cut tariffs, duty charges, and shipping. It also lets the company offer 48-hour delivery to customers in Europe—the same promise Patterson Fan makes to U.S. customers. International sales accounted for 3% of Patterson's 2003 revenues of \$15 million. It may not sound like much, but it's a start toward the 20% total Finewood expects for foreign sales by 2007.

Earlier this year, Michael Hodgdon, one of Fine-

wood's sales reps, spent two months wooing potential customers throughout the Mideast—in Bahrain, Qatar, the United Arab Emirates, and Saudi Arabia. Hodgdon was apprehensive about the trip, but after a few weeks abroad he called Finewood and said, "This place is a gold mine for American businesses." Hodgdon returned with an appreciation of what he called the region's "impressive hospitality"—and \$78,000 in sales. **SB**