

Exporting Exposures

As an important link in the global supply chain, exporters face many exposures



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Small and midsize U.S. companies are sharply increasing their exports, encouraged by falling trade barriers, a weakening dollar that makes their goods and services more affordable to overseas buyers, and by the ease of e-commerce and international travel.

U.S. exports rose 12.2 percent last year to a record \$1.6 trillion, or 11.9 percent of the nation's economy. Moreover, 97 percent of exporters were small or midsize firms, many with fewer than 50 employees. Their ranks ranged from manufacturers, distributors and engineering companies to law firms, accountants, insurance agents and consultants.

Exporters entering the international business arena are just one more link in an ever-expanding global supply chain of producers, sellers and buyers. As such, they may lack the kind of control they are accustomed to over other players in their network.

In addition, the sheer geographic distances these business transactions may traverse present even more obstacles in transporting ingredients, components or unfinished products from one place to another.

Although expanding supply chains bring additional exposures that impact companies of all sizes, small or midsize companies can be at greater risk. They may have less experience or lack the financial wherewithal to deal with problems on an international basis, especially if they haven't anticipated them. This gives them fewer alternatives when things go wrong. The sudden loss of a much-needed alpaca wool supplier in Peru, for instance, could leave a midsize U.S. clothing manufacturer scrambling to find another source with deadlines to fill orders for the following season.

Strengthening the Chain

An emerging exporter faces several key areas of concern when putting together a network of sourcing, production and sales on a global scale. The longer the chain — both in terms of the number of links and the distance between them — the larger the business risk

for the company.

When exporters first assess a new marketplace, reputable, proven local sources and contacts can be an important source of guidance and support. Local resources can provide insights into the cultural aspects of transactions and help reinforce an exporter's understanding of business and cultural norms in the country. Relationships matter a great deal and help form the foundation of any business partnership or engagement. Investing time building relationships upfront, before signing contracts, is time well spent.

Despite the need to focus on relationship building, good business basics remain as important as ever. One rule of thumb for expanding business owners is to continue with the same practical business practices and due diligence they engage in while doing business in their home country. The rigor of strong business fundamentals will not insult or put off qualified potential business opportunities. In the long run, exporters will be glad they maintained good process.

Businesses should also know their partners well and ensure that expectations are clearly set for the relationship. This includes both the quality of the materials they are purchasing or sourcing as well as creating clear service-level agreements for production, process or logistics.

They should establish a means for regular and documented quality control over all aspects of the operation to ensure that standards and

agreements are being kept. Many U.S. businesses have little knowledge of quality control organizations overseas. Therefore, there is always a danger that certificates of acceptance, which are issued by a testing organization to a supplier to affirm that its products or components meet certain criteria, could be fraudulent.

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continued on page N20

