

Topic 2

Assessment of export readiness

Objective: to determine the export readiness and identify ways to assess it.

Plan

1. The company's readiness to export as a prerequisite for entering international markets.
2. Assessment of export readiness of goods and companies.



Basic terms and concepts

Export readiness, export potential, export activity, forms of international cooperation, risks, material and technical indicators, finances.

Thematic theses

1. The company's readiness to export as a prerequisite for entering international markets.

The globalization of the world economy covers all continents and countries, regardless of territory and level of development. Export activities are no longer the business of large enterprises.

Small and medium enterprises of many countries are introducing innovative approaches in production and management, mastering new forms of international cooperation, expanding their participation in international trade. At the same time, international trade has its own specific features, forms and types. The process of unification of norms and rules of trade for members-participants of foreign economic activity and adaptation to its specifics, which enters the world trade community of exporters, is constantly underway.

As a result, the influence of many factors on export activities is more complex due to multicomponentity than activities in the domestic market. Along with the advantages of entering the foreign market, a significant number of risks arise, stereotypes of "their" national ways of doing business disappear, the level of staff responsibility and competitiveness of the enterprise as a whole increases. As a result, before deciding to start export activities, it is important to conduct a thorough analysis of the existing potential and financial capabilities of the enterprise, determine the export potential of products / services and study the priority export markets.

At the present stage, it is important and necessary for companies to enter foreign markets, as there are a number of advantages provided by export activities. However, there are many risks. For example, starting to export, in the future the entrepreneur has many difficulties due to lack of awareness due to unwillingness to invest in the preparatory stage of the decision to export.

Note that in today's environment of entrepreneurs there are stereotypes of misperceptions of foreign economic activity, a superficial idea of how to become and be an exporter. Sometimes an indecisive entrepreneur who has all the objective opportunities to promote their product abroad, for various reasons has no right to continue production and ultimately loses the competition in today's market, or, conversely, another business representative overestimates its strength, mistakenly believing that only the availability of sufficient funds will open him the prospect of income abroad.

There are some arguments in favor of export-oriented activities:

a) Expansion of the market:

1) international trade enables producers to supply goods on the world market, where more than seven billion customers live;

2) access to foreign markets is necessary when the size of the domestic market is insufficient and additional marketing efforts of the company bring less marginal revenue;

3) the presence of a unique product or technology, or the presence of significant technological advantages in a particular industry will allow the company to easily sell products in foreign markets where it is not widely available. It is possible to use the potential of foreign markets in the interests of the enterprise.

b) Expansion of sales:

1) if the company has the opportunity to produce products / services in greater quantities than can be sold on the market within the country, the most rational direction of activity - is to maximize production capacity and promote surplus products to foreign markets.

2) Raising the level of the enterprise.

c) Export activity allows:

1) Expand the competitive advantages of the enterprise;

2) use excess production capacity when they are not fully loaded, if they arose due to lower demand (access to exports can reduce unit costs);

3) increase profits by increasing sales for export;

4) save on the scale of production: expanding sales through exports will allow the company to increase production and thus reduce unit costs;

5) use the tax and financial benefits provided to exporting enterprises: many national governments are actively promoting the export of goods. Advantages for companies specializing in seasonal products;

6) equalization of seasonal fluctuations in demand due to the export activities of the enterprise to countries where demand for seasonal products falls on other months.

Despite the many advantages, export activities, like any business, deals with external risks:

a) political risks. Instability in the world market can be seen as a threat to a successful foreign trade project. Political risks should be equated with purely market trends in the country or region chosen for export;

b) financial risks. It is very important to make sure that the company is able to resolve all financial issues (such as financing, transfers, currency exchange risks, international settlement system) before starting to export products;

c) risks arising from legislation (or legal risks). Each state has its own legal system and different from Russia's legal requirements and norms, including import procedures, taxation, labor recruitment, protection of intellectual property, the procedure for concluding contracts. Restrictions imposed by the legislation of the importing country can significantly complicate the fulfillment of obligations under a foreign trade contract;

d) risks arising from transportation and logistics. The company must be prepared for the risk of damage, loss, theft of goods for export. It is important to carefully research the most appropriate supply chains, warehousing and storage of products, as well as pay special attention to the issues of insurance of associated risks;

e) other risks. Other risks may arise for the exporter depending on the characteristics of the national market of a particular exporting country, as well as changes in the international environment. Many risks similar to those listed above may also be encountered by the company in the course of its business activities with its Russian counterparties. Experts in foreign economic activity note that today there are a huge number of mechanisms for information, financial, advisory and other assistance to exporters.

State and regional authorities, business associations and other non-governmental organizations provide support in conducting pre-export consultations, including on currency restrictions on exports, protective measures, protection of intellectual property, etc.

There are a number of stereotypes and widespread judgments that deter enterprises from export activities. Consider some of them that have become widespread in the business community:

a) export activity is the task of only large companies. Small and medium-sized enterprises simply do not have enough start-up funds to enter the market on their own. State policy in the field of foreign economic activity is based today on the assessment of small business as a necessary system-forming element of the modern economy;

b) there is an opinion that it is impossible for small and medium-sized enterprises to obtain financing for export activities;

c) in most cases, it is considered that the enterprise that has decided to export remains left alone with the problem of studying the practical conduct of export activities;

d) does not meet modern requirements for economic development and the position of those who believe that if the company maintains a stable segment in

the domestic market, then there is no need to seek access to foreign markets. First, it is necessary to expand sales and not limit the company's potential within the regional market. Secondly, competing in the international market, the company increases its efficiency and acquires representation. Experts say that the exporting business has great prospects for growth, trained and motivated staff, the ability to quickly implement and adapt innovative technologies.

e) the mistake is the position of those entrepreneurs who believe that to go abroad the company needs to have highly qualified specialists in the field of foreign economic activity, and employees must speak foreign languages.

It is better to choose staff who are able to navigate in the field of information, who knows and knows how to find special literature at the professional level. In order for a specialist to be fluent in all aspects of foreign economic activity, he must be an expert who is equally well versed in currency regulation, patent protection, contracts of sale on basic terms and measures for their legal protection in foreign countries, has a number of special issues in the field of law, economics and finance, and still has knowledge of the specifics of exported goods. Even enterprises staffed with specialists in the field of foreign economic activity must resort to the help of specialists at the stage of pre-export training. If you want to reduce time and financial costs, it is important to turn to the relevant bodies and organizations that provide free of charge individual advice to various experts and specialists on specific issues;

a) export activity is too risky. Risks associated with the conduct of export activities are not higher than the risks arising from the sale of goods on the domestic market. Simply export activity has its own specifics. Letters of guarantee, export credit insurance, international law aimed at protecting the interests of honest suppliers, legal advice on the protection of contractual obligations are fully available.

Most modern researchers in the field of economics argue that exports are the "engine" and locomotive of economic development in general and individual businesses in particular. Foreign economic activity in many respects is more complex, broader than work in the domestic market.

Promotion of products, goods and services of small and medium enterprises in highly competitive markets requires, in addition to the world standards of high-tech level of products, also additional financial costs for marketing, advertising, operating costs, among which a significant share falls on consulting, information and legal services.

2. Assessment of export readiness of goods and companies.

At the initial stage of export activity it is necessary to diagnose the export potential of the enterprise and determine not only quantitative indicators of its activities (market share, growth rates, etc.), but also qualitative, for example, assessment of human resources. These assessments should be made taking into

account international requirements and standards, as well as the foreign economic situation in the region where exports will be targeted.

The main directions of assessing the company's readiness for export will be presented schematically (Fig. 2.1).

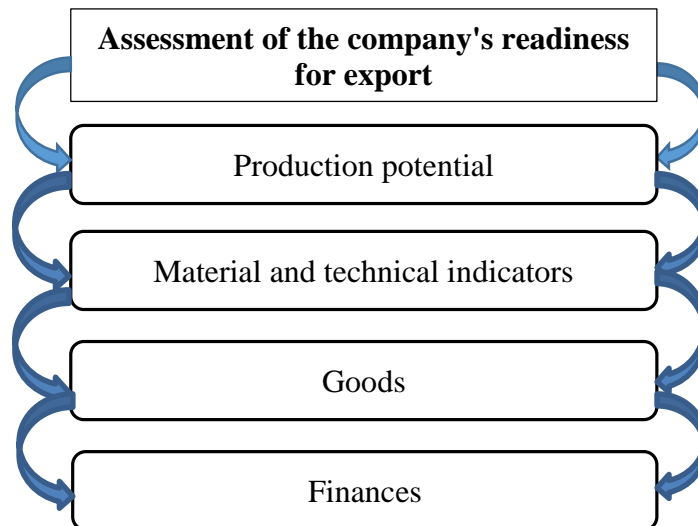


Fig. 2.1 - Directions for assessing the readiness of the company for export

Consider in detail the areas of assessment of the company's readiness for export.

a) Production potential. Production potential is one of the important components in determining the opportunities to decide on the start of export activities. It is necessary to assess the ability of the enterprise to produce and accumulate products. It is also important to consider the ability to be flexible in the production process as a whole. An enterprise that wants to export must be prepared for a potential increase in demand and be able to fulfill orders. It is necessary to take into account their material and technical characteristics, such as the possibility of the existing distribution system, the main function of which is to deliver the goods to the buyer in proper form and in a timely manner.

Assessing the possibilities to support the projected increase in demand when concluding export contracts, the company should work out the following areas of future activities: the volume of used and available production capacity; opportunities to increase productivity without additional significant financial costs; the ability to connect subcontractors or purchase products from other manufacturers in case of insufficient production capacity.

b) Material and technical indicators. Analyzing the material and technical indicators, it is necessary to take into account the following factors:

- 1) capabilities of the product distribution system;
- 2) the level of basic knowledge in the field of customs operations, the level of transport services of the enterprise, issues of packaging, warehousing, transportation;

3) compliance of product packaging with international standards (whether it is reusable);

4) the size of the share of logistics in the selling price;

5) availability of electronic information exchange systems. Is the company able to technically adapt its product (packaging, labels) depending on the needs and desires of customers, climatic and geographical conditions, current legislation and regulations in foreign markets, and at the lowest cost.

Ability and resources of the enterprise to provide service abroad, its form (replacement, repair, transfer to temporary use and cost of service) and cost.

c) Cargo. The export potential of the goods is determined based on the following indicators:

1) assortment; opportunities to expand the range (various models, sizes, colors, different pricing policies), the coefficient of product renewal;

2) whether the product or service has a unique market advantage (quality, price, innovative technology) for foreign consumers; technological characteristics of the goods;

3) compliance of the product with international standards in the field of environmental protection and sanitary norms (materials used, recycling, sanitary norms). At the same time, it is important to determine the level of trademark protection; whether the company has international licenses and patents or is ready to obtain them. As part of increasing export potential in the market, it is necessary to obtain answers to questions about the integration characteristics of exported goods, namely: the degree of assimilation of the product on the national market and the extent to which the product meets the demands, traditions and habits of local consumers.

It is important to assess how effective the sales and sales system of the existing company and what opportunities to transfer it to foreign markets, as well as whether there are conditions for changes to it, how mobile is the program to stimulate and motivate the sales network.

d) Finance. Exporting can take a long time to become profitable. Businesses must calculate and prepare for the following:

1) additional short-term costs, such as increasing production capacity;

2) adaptation of the product to the requirements of the planned market;

3) search for new markets and partners;

4) conducting market research;

5) staff training;

6) trips abroad;

7) conducting information and advertising campaigns to promote the product;

8) financing of the distribution system;

9) insurance costs;

10) commercial and financial risks (exchange and non-payment risk).

The company must start exporting by drawing up a financial plan for a new type of activity (export). The main goal of the plan should be to calculate the amount of financial resources to cover costs both in the domestic market and abroad. Analysis of the financial capacity of the company will assess its ability to invest in launching a project to enter foreign markets, as well as learn to properly allocate financial resources.

In addition, it is necessary to calculate whether there is a need to borrow or lend.

It is important to assess the company's readiness for export is the analysis of human resources, its ability to adapt and learn.

Export activities in contrast to the domestic market obviously has its own specifics and more complex due to cross-border links, characterized by differences in cultural and linguistic characteristics of different countries, as well as the peculiarities of commercial habits of foreign markets, complex legislation and a number of other characteristics. It requires a higher level of education and skills of staff involved in solving foreign economic issues of the enterprise. This requires not only knowledge of foreign languages and cultural features of the exporting country, but also knowledge of international procedures for registration of export cargo, foreign legal systems and other areas of activity.

One of the key factors of success in foreign markets is the competence of staff, their level of education and availability of special experience, professionalism and reliability. The company will be more successful if from the very beginning of export activity it will rely on its own staff with excellent knowledge and experience in the following areas:

- a) knowledge of foreign languages;
- b) awareness of potential customers (tastes, habits, decision-making process, lifestyle, religion, etc.);
- c) experience of commercial activity abroad;
- d) knowledge of foreign legal systems;
- e) possession of special techniques of export activity;
- f) marketing;
- g) the ability to negotiate;
- h) other specific knowledge of selected markets.

It is important to assess the level of readiness of employees to conduct export activities. To do this, it is necessary to determine the range of employees with experience in export activities (if any), to determine in which areas of knowledge you need to improve skills, or to involve external experts on a part-time basis. The time factor plays an important role.

Thus, having determined the company's readiness for export, the next step is to select international markets and study it to ensure successful operations and outline prospects for future development.



Questions for self-control

1. What is the company's willingness to export?
2. What is the export potential?
3. Describe the methods of assessing the export readiness of goods and companies.
4. Describe the role of human resources in export readiness.
5. Name the methods of increasing the level of export readiness of the enterprise.