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Preparedness of Local Firms for Export Development

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INTRODUCTION

This paper is divided into three major parts. As an overview, the first part of the discussion will cover issues pertaining to the problems and export potentials of local firms. A detailed discussion on the strategies for export will be covered on the second part of the paper. The paper concludes with a discussion on the types of markets for export.

This paper, in general, attempts to address the basic question, as to whether Malaysia's local firms are ready for export. Local firms basically covers small and medium sized firms with a paid-up capital of not exceeding M$2.5 million. For the purpose of this discussion, local firms will not include the following:

1. Foreign based manufacturing companies located here to take advantage of the various incentives given. Their products are ultimately exported or utilized as a part of finished product to their established overseas markets.

2. Multinationals and public companies. They are well aware of the difficulties of export development and are making good efforts to overcome them.

3. Pioneers of Malaysian exports, that is local firms dealing in commodities and resource based manufacturing concerns. They are well prepared and experienced in export development and have been successful in capturing market niches for themselves.

PRODUCTS TO EXPORT

At the current stage of industrial development in Malaysia, small firms are not in the position of exporting high technology goods such as sophisticated electronics, computers and medical equipment. Except for some rubber processing machinery exported by Guthrie and Proton

Sagas, Malaysia do not have a large base of manufactured industrial and engineering products. However, it has a great potential to tap many natural resource based products. Among the major areas that local firms can look into are furniture, rubber-based, ancillary industries, petrochemical and food industries.

Furniture is a big industry where tremendous value-added can be made instead of selling logs and sawn timber. With the imposition of export tax on sawn timber in March 1990, the furniture industry is poised to take off. Rubber-based products are currently underexploited. Malaysia sells premium rubber latex and yet still unable to capture the market for premium rubber products. Besides examination and household gloves, the country can produce high quality surgical gloves and medical rubber products. The development of the national car project should spin off a host of ancillary industries in the manufacture of car components and accessories. The petrochemical industry could easily spur off a major chemical and pharmaceutical industry in near future. Owing to the proximity of large and affluent population around Malaysia, the development of food and fruit industry is a possibility, for examples poultry, mutton and other foodstuffs. A strong leather industry can be developed from livestock industry especially cattle rearing.

Each form of trade has its own inherent problems. In export development there are various problems to overcome which are new to local companies. The major problems are:

1. Fluctuating foreign exchange rate.
2. The need to deal in a multiplicity of currencies that do not keep their relative values constant.
3. The need to forecast the performance of various countries, their political stability, their investment climate, their currencies and their economic growth.
4. The colossal power of multinational corporations (MNCs).
5. Credit risk. Like any other sale which is not paid immediately, international trade has to deal with this problem.
6. Foreign exchange risk. Governments impose foreign exchange controls.
7. Import duties and other forms of tariffs designed to make local products uncompetitive against foreign products. These have been created by developed countries and certain developing countries, for example, quarantine procedures for imports of tropical fruits into Republic of Korea, and labeling procedures on imports of processed foodstuffs into USA, which have been

applied so rigidly that several Malaysian companies have had their cargoes seized by the Federal Department of Agriculture (FDA).

8. The problem of size. Small firms find it difficult to produce quality goods in bulk regularly as demanded by the world market.

EXPORT STRATEGIES

RESEARCH AND DATA COLLECTION

With limited resources, a small and medium scale enterprise (SME) cannot have the luxury of a large export promotion budget. Therefore, there is a need for SMEs to undertake their research and data collection carefully. Research basically should encompasses social, economic and cultural aspects of the destination country; analysis of the exporter and home country's governmental support for exports and incentives. The initial research on social and economic trends will reveal whether the chosen product has a good chance of acceptability in the country of destination. There is also a need to analyze the size of the targeted market. This could be done by looking at the country's import and production statistics. It is also necessary to analyze whether the market is in its youthful, mature or old stages. In addition, as most governments have economic plans over 3-5 years, it is worthwhile to analyze them and determine the growth and declining sectors of the economy. The analysis would give an excellent idea of market size and its growth potential in the future.

The legal and political structure of the country of destination is a critical decision for the exporter. Generally, for centrally planned economies there is some difficulty in trading in hard currencies. Also, due to their bureaucratic nature it is very difficulty to commence trade.

After these investigations, the internal and support systems of the exporters should also be looked at. The whole company must be export-oriented and all levels of management and staff must be prepared for exports and they must be adequately trained in export documentation and financing.

Governmental support at this stage is very important. Many countries have emulated the Japanese successful model of Japanese External Trade Organization (JETRO). In Malaysia, we are very fortunate that the government is very sensitive to exporters' problems and has legislated tax concessions on export allowance, double deduction of overseas promotion expenses and establishment of Export Credit Refinancing (ECR) by Bank Negara.

In determining the critical factors of whether a market for a company's product does actually exist, a company needs to draw up a list of the factors that are known to affect the level of acceptance of this product within its domestic environment then investigate the degree of difference between its economy and that of its potential market. The degree of difference between markets will be expressed by evaluating the information available under the areas that are relevant to the development of Demand Analysis list (see Table 1). Before

TABLE 1. Development of demand analysis list

Area and Type of Analysis	Information Required
Economic	Market potential - Growth - Stage of development - income and expenditure patterns, other relevant economic indicators, correlated to demand for a product.
Behavioral	Purchase motivation, buyer behavior, cultural and social influences attitudes.
Industry	Technology, product cycle, product saturation, new products.
Competition Analysis	Industry structure, competitors identification, marketing policy, competitors strengths and weaknesses, company and product advantages and weaknesses, costs and margins.
Marketing Environment	Channels of distribution, promotional facilities, research facilities, pricing, transportation alternatives and costs.
Market Entry Conditions	Tariffs, quotas, other barriers, investment restrictions, availability of foreign exchange, legal environment, trade promotion.
Political Environment	Government's structure and stability, direction and control of business, policy and attitude towards foreign firms.
Company Resources	Manpower, finances, materials equipment and management skills.

embarking on exports, a potential firm needs to study in detail the following areas.

Quality and Specifications Quality and specification requirements of products may differ from country to country. The only way to sell and succeed is to manufacture your product according to what is required. If it is necessary to change in terms of quality and specification, one should not hesitate to do so.

Although quality and specifications requirements could not be changed in the short term, however such a situation can happen once the firm has been accepted and is one of the market leaders. Producers must have an open mind and learn to accept differences in each market.

Packaging It is evident that, to succeed local firms must be prepared to invest in internationally acceptable forms of packaging. This is particularly important to producers of consumer products and gift items. Attractive packaging and good designs of a product would give an aura of quality and marketability.

Much had been said on the importance of packaging. While the local firms are beginning to realize its importance they are still slow in action as it means additional costs. Producers should therefore treat the additional expenditure not as a cost but as a good investment.

Promotion and Pricing Excess Capacity Good publicity helps in creating an awareness of what could be achieved if one could look beyond the national boundary. It is also a form of encouragement to local firms to develop the export trade.

To the minds of the local companies, the achievement of trade missions and trade fairs means that foreign markets are ripe for their picking. To take advantage of the situation, local firms impose a hefty markup on their local price and expect orders to rush in. Mention must be made that this perception is unhealthy and would harm the competitiveness of Malaysian products. Generally, for every product one has to face competition from three to four local manufacturers and many more additional competitors worldwide.

Related to the problem of pricing is the reluctance amongst local firms to practice the concept of pricing on excess capacity. Export pricing based on excess capacity is relevant for firms that have their local market niches and are keen to develop exports. Pricing exports based on local price are not workable due to government's protection of local industries. In the concept of excess capacity pricing, production cost per unit falls lower when a plant is fully utilized as compared to one which is partially utilized. The projection of lower cost per unit should then be the base for costing export price per unit.

Coordinate Marketing Efforts A common phenomenon happening now is that export marketing efforts, especially among SMEs are uncoordinated. It is a fact that international trade is far different from domestic business that it calls for specialization. Therefore, it is necessary to channel and consolidate businesses to make way for efficient and effective marketing.

Government Incentives The Government has set up various trading and manufacturing houses and also introduced various incentives and abatement scheme for export development. The whole idea of incentives and abatement schemes is to increase the competitiveness of Malaysian products. This has been put across very clearly by the government. However in reality, some local companies are not using the incentives according to the idea but as a way and means to increase, not their product competitiveness, but their profitability.

Overseas Travels One very important way to encourage export development is overseas travel. In this respect our Ministry of Trade and Industry has done an excellent job in organizing trade missions and trade fairs. The participation rate is good and local companies are making use of Trade Commissioners for their overseas contacts.

As the services offered by the Ministry of Trade and Industry are excellent many local firms are becoming too dependent on them and herein lies the trap. It is therefore not surprising to learn that many firms do not dare venture abroad unless it is an organized Government trade mission. It is rare to come across firms who organize their own trade mission particularly to new frontiers.

Related to overseas travels are the costs incurred. On one hand local companies are extremely keen on export development but on the other, they are unwilling to part with the expenses. The normal expectation is to bring back enough orders to cover expenses incurred. Otherwise, the trips are considered unsuccessful and worse still, the markets are deemed as not having potential.

Contracts are not concluded as a result of a single visit but a consequent of regular visits. Companies expect their local sales personnel to be in the market for a good part of the day. Similarly, to develop exports sales personnel should be in overseas markets a good part of the year.

Product Adaptation Local companies should be willing to adapt their products to meet foreign requirements. Some buyers require many changes to a product before confirming an order. Local firms must be flexible enough to adapt their products according to the needs of their buyers.

Credit Worthiness of Buyer An exporter has to establish the credit worthiness of its buyer. Fortunately, in more established countries credit information is easily available. However, in less developed countries it is very important to get a good credit evaluation.

As said earlier, Bank Negara has introduced the ECR II program to assist exporters in pre and post shipment financing. A SME can access to such facilities basing on an export order. However, in practice, SME find it difficult to get ECR facilities from them without any collateral. Also, the procedures of getting the ECR and subsequent utilization of the ECR put off a lot of SME who are not often staffed with good accountant.

Knowledge of Payment Terms Some local enterprises do lack in the knowledge of export terms and internationally accepted means of payment. While a letter of credit is an acceptable form of payment, not many know what Cash Against Documents or Documents Against Payment, means. The problem occurs when a potential buyer offers alternative forms of payment. For instance, buyers in Australia and Europe normally do not open letters of credit due to high costs or high interest rates. The nonacceptance of their form of payment means passing the business to competing countries.

When confronted by alternative forms of payment, firms should make a quick trip to meet the buyer and assess their viability and financial strength before making their decision. In addition, there are various seminars and courses organized by statutory bodies and private companies which give a good account on international terms of payments. Though these courses may be theoretical, their practical implementation would not be far off target.

Minimize Foreign Exchange Risks To minimize foreign exchange risks, the following are suggested. Lacking the basic knowledge of currency conversion may be a mathematical problem, but it is sufficient to instill losses and shy firms away from export development. One common approach is to use a much higher exchange rate under the misguided concept that a higher rate would build in the currency fluctuation factor. However, one of the first principles of exports is that the company is selling foreign currency to the bank and not the reverse. The other way is for the firm to obtain the daily exchange rate for conversion. However, this is inappropriate for shipment as it is not executed on the day itself. Allowance should be given to shipment date and the time it takes for reimbursements.

Another alternative used, to minimize currency fluctuation risks is to convert at the lowest rate possible. However this conservative method would increase the price of the product, and in a highly competitive market the product could be overpriced. Additional margins beyond normal margins are due to favorable currency movements. Therefore firms should take the trouble to study and analyze foreign exchange movements together with an adequate knowledge on the performance of the local economy.

Marketing Channels Basically, there are two methods available to a company that wishes to distribute its goods or services internationally that is, direct and indirect marketing. Whatever method is chosen, the effectiveness of the marketing effect is *dependent* upon the activities and capabilities of the intermediaries and methods used.

The choice of effective international marketing channels and their consequent development is a very costly and time consuming business and is of crucial importance to the company as the choice of channel structure is not only interrelated to the other marketing mix variables but it also determines how and where the product will be made available.

There are several channels open to the international marketeer to use. However the selection of the best method of entry depends upon several factors, of which being company goals, size, product line, competition and market share aspired. This group of variables can be seen to be within the company's influence except for competition.

THE TYPE OF MARKETS

In many overseas markets it is very difficult for the company to set up a wholly owned foreign subsidiary because of local government regulations. It is also frequently a problem to find licensees or joint-venture partners because of either lack of knowledge or finance required for local production.

Marketing information and its communication channels will depend on the type of market entry system that the company adopts. Feedback information on the acceptability of the product and the marketing effort is *crucial* to the company and the better the connection between the producer and the buyer of the product, the better will be the feedback information available.

The more the company becomes involved in the international marketing operation the more familiar with the process it will become. As a result of this familiarity the degree of control over the marketing mix of its products will become more important to the company. Wherever possible the firm will want direct control over aspects such as price, promotion, servicing and maintenance, and the degree of such control will bear heavily on the method of distribution that the company chooses. The burden of administration and the *costs* associated with administration vary with each possibilities looked at. The deeper the degree of involvement the company has in its overseas markets the greater the degree of skill that is required to handle the involvement and the more the company's general management becomes involved with areas like foreign government, legislation, labor problems, and market peculiarities as these tend to affect not only the international trading department but also other departments within the organization.

When a company is deciding upon its method of entry into a market it must be aware as to the degree of risk that the specific market entails. The amount of risk that the company becomes involved in is not only a function of the market itself and its inherent political or environmental stability but is also a function of the company's entry into that market. Generally the more *direct* the company's entry into an overseas market, the more *vulnerable* it becomes to both economic and political variables.

As mentioned, there are two basic methods that a firm may choose to enter a market, indirect entry and direct entry.

INDIRECT EXPORTING (INDIRECT MARKETING)

A company is exporting its products indirectly when its products are carried abroad, or sold abroad by others, that is when no special activities to sell the products abroad are carried on by the company. This is the case when the company sells its products on an 'ex-work' basis and a buyer, or agent, takes the goods to a foreign market. The manufacturer who sells abroad indirectly can hardly be considered an exporter since he simply disposes of its products to an export middleman located in his own country who will frequently take his goods on an 'ex-work' basis and make all arrangements required pertinent to distribution of the goods abroad. Under these circumstances the real exporter is the middleman for it is he who is concerned with the problems originating from the transportation and overseas distribution of the goods.

When dealing indirectly in this fashion the company can choose any one of the eight types of export middlemen, which are listed below, export merchants and jobbers, export commission houses, combination of manufacturer's export manager or manufacturer's export agent, resident buyers, export and import brokers, trading companies, 'piggyback' trading for exporting and appointment of "Nakodo".

A Malaysian exporter will not benefit much in terms of acquiring the skills of international trading through indirect exporting. This method is not encouraged except in cases where the exporter is truly a "green horn" in the export business. The characteristic of the channels are as follows:

1. Export merchants and jobbers buy outright from the manufacturer and bear the risks and problems inherent in transporting and distribution. The main disadvantage is that the Malaysian manufacturer may lose control over the price, promotion and distribution of his product.

2. Export Commission houses act in the interest of the buyer, receiving a commission from the buyer for his services such as the Crown Agents of the United Kingdom.

3. A combination of a manufacturer's export manager or manufacturer's export agent may be a good channel. He will normally develop a foreign market, arrange for local distribution in the foreign market, arrange for local publicity for the product and will frequently assume the credit risks associated with the customers that he introduced.

4. Resident buyers normally constitute offices of foreign multinational companies or even governments which buy goods in Malaysia.

5. Export and import brokers are mainly commodity traders and they normally specialize in one or two products.

6. Trading companies buy and sell on a global scale and manage and finance their own operations.

7. 'Piggyback' trading is handled by exporters who have already established market distribution channels in a foreign country and use their intelligence or expertise to sell other goods complimentary to their own.

8. "Nakodo" is the Japanese word for a "go-between" or a matchmaker who is usually an independent person who can sniff a deal and help to make it happen. A "Nakodo" is an effective and efficient way of increasing local firms international sales.

DIRECT EXPORTING (DIRECT MARKETING)

In the past Malaysian manufacturers have concentrated their efforts in the area of production and development of domestic markets for their products. As a result of this action they have left the foreign sales of Malaysian products and commodities in the hands of middlemen. Whilst this action had been adequate for the development of overseas markets which had been subjected to minimal competition, it is now found insufficient to compete against aggressive international marketing.

Direct exporting is important. Fortunately, Malaysian goods have been introduced to foreign markets and have found a degree of acceptability. To further improve performance we need to sharpen and develop export skills. The advantages of this lie not only in the areas of greater sales but also in the degree of control in deciding the elements of their marketing mix applied to that market and also in the quantity and quality of the information that becomes available to the manufacturer pertaining to the markets.

In direct exporting, overseas agents and distributors are frequently used. Although the terms "agent" and "distributor" are used synonymously there is a distinct difference between the two. In certain overseas countries it is not possible to distribute goods or tender for government contracts without agents or distributors who are not nationals of those countries. The Middle East is one such area where it is impossible to sell goods without an agent or distributor who is a local resident. The Arabs, being highly skilled traders use this fact to their advantage and demand better than average agency conditions or even exclusive selling rights. However the selection of an agent or distributor does not assure an exporter will be successful in selling his products into a country or area. Agents and distributors represent several different companies, so the exporter needs to train and motivate his agent if he hopes to achieve his marketing objectives.

The terms defining the relationship between the exporter and his agent or distributor are an important factor in developing a long term working relationship and need to clearly indicate the duties and liabilities of each party.

EXPORT 4 "P"s

The basic four "P"s in marketing still apply in international marketing and it would be foolhardy for an exporter to ignore them. Of all the 4 "P"s, "Price" of the export product may be the most critical of all. It would be a convenient tendency for an exporter to load the cost of overhead especially of an inefficient factory into its pricing structure, by that pricing itself squeezes them out from the market.

It must be borne in mind that in international marketing, an exporter is not only competing with his local exporters but other international exporters as well. Therefore, price could be the critical factor, other factors being equal.

CONCLUSION

To a successful exporter, the "world is his market". However to many, it is a labyrinth of problems and has been pitfalls to many export managers. The key to successful export is to do your homework, literally walk the market, don't rush into contracts or relationships, manage your house well, manage your bankers, suppliers and customers well and lastly, acquire a "nose" for a good market.

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