

Export Revival Underway For Small Businesses

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NEW YORK (AP) — When Lawrence Scheer began selling baby clothes in 2010, he didn't realize it then, but he was on the leading edge of a recovery in small business exports.

Scheer's company, Magnificent Baby, manufactures its products in China and then sells them in about 20 countries around the world.

"Our goal from the beginning was to sell as much clothes as possible — so when international interest was there, we pursued it," says Scheer, whose business is based in New York.

Scheer took a chance that many small business owners have only recently decided to take. A growing number of companies are turning to exporting to build their sales, reversing a downturn that began with the recession and was likely made worse by the financial crisis in Europe.

Research shows an increase in overseas sales by companies already exporting, and a growing interest in exporting among those who have yet to test the international waters. Exporters say demand for their goods, from clothing to blankets to crop dusting planes, is rising. That makes it worth their while to deal with the complexities of exporting, including logistics and complying with the varying regulations of overseas markets.

Magnificent Baby gets between 5 percent and 10 percent of its revenue from exports — strong enough that the company is adding to its network of distributors, local businesspeople who accept delivery of exported goods and get them into customers' hands. He hired his first distributor in Canada in the spring of 2012, and has since added distributors in Hong Kong, Australia and New Zealand. He's looking for someone in Britain.

Sixty-four percent of small businesses are exporting goods or services, up from 52 percent in 2010, according to a survey by the National Small Business Association and the Small Business Exporters Association. And 63 percent of non-exporters said they're interested in selling overseas, up from 43 percent, according to the trade groups. Of those who are exporting, the majority — 54 percent — get less than 10 percent of their revenue from overseas sales.

That's a comeback from the decline that started when the economy began to slump. The number of established small businesses that received at least 25 percent of their revenue from exports fell from 12 percent in 2008 to 10 percent in 2009, and then dropped to between 5 percent and 6 percent from 2009-12, according to a study by Babson College researchers. An established small business is at least 3 ½ years old.

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The drop was less steep among younger businesses. Seventeen percent of new businesses were getting a quarter of their revenue from exports in 2007. That number was down to 12 percent to 13 percent the last three years. One reason for the difference between older and younger businesses is that established business owners may decide to focus on their core U.S. businesses and take fewer risks overseas during a downturn, says Donna Kelley, a professor of entrepreneurship at Babson College who co-authored the study on exports.

"We saw people's perception about opportunities (like exporting) just go down," Kelley says. But newer exporters may not yet have as solid a U.S. base to rely on, she says.

Another reason for the decline in exporting was the difficulty small businesses had finding financing for their exports. Many banks that believed small companies including exporters were too risky to lend to, says David Ickert, chairman of the National Small Business Association.

But the drop in domestic business during the downturn also made many companies consider exporting for the first time, says Ickert, who's also a vice president at Air Tractor, an Olney, Texas-based manufacturer and exporter of crop-dusting and firefighting aircraft.

"Our country has had to look for more sources of revenue. One of the most obvious but most overlooked was exports," he says.

For some companies, overseas demand for their goods is growing faster than domestic demand. Love and Quiches, which supplies cheesecake and other desserts to restaurants and stores, has had a 20 percent to 30 percent increase in export sales each year for the past five years, according to the company's president, Andy Axelrod. U.S. sales rose between 5 percent and 12 percent.

Love and Quiches, which gets 25 percent of its revenue from exports of desserts including cakes, cheesecakes and brownies, sells to customers in more than a dozen countries that want U.S.-made products, particularly those considered high-end, Axelrod says.

"A New York cheesecake has to be made in New York. There's a demand for that in all areas of the world," he says. Love and Quiches is located in Freeport, N.Y., east of New York City.

Breaking into the export market can be intimidating. Many small businesses have shied away from selling overseas because of concerns about risk and the unfamiliarity of business practices in foreign cultures, especially where English isn't spoken, Babson's Kelley says.

"We tend to sell to what we're familiar with — and we're familiar with the U.S. culture," she says.

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Small businesses that export to a number of countries have a learning curve each time they enter a new market.

The first time Kingsdown shipped its mattresses to another country, it was a little daunting because it was an unfamiliar market with different business customs from the U.S., says Frank Hood, CEO of the Mebane, N.C.-based manufacturer. That was 20 years ago, and the customer was in Kuwait. Now the company sells to more than 20 countries, with China the most recent addition. Exports account for between 10 percent and 15 percent of Kingsdown's revenue.

When Hood considers exporting to a country for the first time, he has to decide whether the mattresses should be manufactured at one of the company's five U.S. factories, or in plants overseas. He has to learn about regulations in each country that might affect how products are made. For example, he says, some countries require mattresses to meet standards for being fire retardant. Some want the mattresses to be fumigated so that pests aren't brought into the country.

And Kingsdown structures each deal to minimize the risk that it takes because it's working with customers thousands of miles away. Hood says the company has never been burned by an export customer.

"If it's based in a country we're not familiar with, we ask for 30 percent to be paid up front to cover any risks," he says. "It's not unheard of to get even 100 percent."

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