Commercial Insights with Regions Bank

Episode #22: How Exporting Can Grow Your Business

Roughly two-thirds of the world's purchasing power exists outside the United States. So, when should you consider these potential consumers and move beyond a local, regional or national customer base? In this episode, we explore the questions a business must ask before exporting, and we'll offer examples of resources to get started, from loan sources to how to find the right buyers. We also weigh the risks and benefits of exporting and discuss the regulatory environment and other key considerations.

Episode Transcript

Carson Strickland, SVP, Regions Bank:

Around the world, foreign consumers, foreign businesses want and like US made products. And so it's really important for US companies to remember that. pricing is not always the thing that matters the most in any business, right? And so that's especially true when selling internationally. The US has a really good reputation for making high quality products.

Chris Blose, Host:

That's Carson Strickland, senior vice president at Regions. Strickland leads the bank's global trade finance relationship team — which means he spends a great deal of time helping businesses think about not only when is the right time to export, but how to go about doing it.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blose, and on this episode, Strickland is here to talk about the wide world of exporting. And it is a wide world indeed, with an abundance of untapped spending power reside outside the borders of the U.S. Strickland has perspective not only on how to find that spending power, but also how to make sure everything from logistics to financing runs smoothly.

Chris Blose:

Carson, thank you for joining us. Since we're talking about exporting today, let's start with the big picture. How many businesses in the U.S. sell internationally?

Carson Strickland:

It's actually a fairly small number. And so if you think about the US economy, it's very consumer focused, right? So big economy, lot of per capita GDP. And so most companies sell domestically. But about 5% do sell internationally. And, you know, out of that 5%, most only sell into one country. And so we think there's opportunity to grow that percentage of companies that are selling outside of the US. And then, once you're kind of in a market — so companies might just sell into Canada or companies might just sell into Mexico, for example, because they're close — but there's an opportunity to take that to another country or multiple other countries to continue to grow that part of the company's business.

Chris Blose:

So for those companies that are domestic only now, or maybe are only in one market, what is the benefit for expanding? You know, what do you tell people about the right time to consider exporting?

Carson Strickland:

About two thirds of the world's purchasing power is outside of the US. So clearly the US is the world's largest economy. But there's a lot more money to be spent globally than just in the US. And so just really from an ability to sell more standpoint, there's more outside of our borders. And then from a population standpoint, 95% of the world's population lives outside of the US. And so, while the US economy remains strong and is growing, there are other parts of the world that are growing faster. So if you think about some of the emerging markets in Latin America and Asia and Africa and the Middle East, that's really where the really strong growth is. So if you think about the US economy that's sort of grown at a 2 to 4% clip which is good, there are other parts of the world that are growing 8, 9, 10% a year. And so, you know, US companies need to think about being part of that.

The other thing to think about is really diversification of your revenue. And so companies always worry about customer diversification. For example, you don't wanna have just one big customer. You wanna have multiple customers that really comprise your business's revenue. You might have domestic geographic concerns, right? So if you're just selling in one city or one metro market or one state, kinda think about diversifying that. But beyond that, you need to think about diversifying the countries that you sell into. And so, again, while the US economy is strong and, and typically has been, through history, there are times where the US may see a downturn. And you don't see that downturn in other countries.

And a great example, if you look back at the '08, '09, crisis, that was a financial crisis and a housing crisis really. And so we had clients at that time, particularly if you think about the building product space, companies that are lumber producers or sell other products into the housing market, you know, that business sort of fell out, in that time. Right? And so we had clients that just sold into the US market that did not fare particularly well in '08, '09, '10. Because the demand for their products dropped out from under them.

And then we had companies in the same industries that had at least some overseas exposure. The companies that had maybe some European exposure or some Asian exposure, those markets weren't as impacted, they really fared better through that time frame because they did have diversification. So, you know, ultimately I think it's an area where companies can continue to grow their business really in outsized sort of GDP growth in other countries and also provide diversification that they really need to be able to weather storms we may be having in the US.

Chris Blose:
Now hearing the example you described, it seems like oftentimes that decision may come after an event or after a realization. But, you know, in your experience, how often is the decision to become an exporter strategic versus just an opportunity or a trigger event that comes your way?

Carson Strickland:
Anecdotally, I would say most of the time it begins accidentally, You may go to trade shows or conferences where a company's decision makers, leadership, or at least, you know, their salespeople will be at a trade show and somebody that's on the purchasing side of a foreign company walks by a booth, says I'm interested in buying a product from you or buying a service from you. Or, you know, they come through a company's website. Or they call the salesperson at the company and show some interest in buying a product or a service.

And then the leadership, the business owner, CFO, credit risk manager, whoever's ultimately making those decisions to chase that opportunity ultimately just have to be receptive to that,you got a potential deal. That's great. Every company wants to sell more, I think, ultimately. And so being open to those opportunities is crucial.

We were in a client meeting just yesterday, with a company that manufactures and sells capital equipment. And they actually have a couple of clients in Papua New Guinea, which is a small country . And they have had ongoing sales of spare parts and new equipment into this country, into multiple buyers in this country, since the 1970s. And I can guarantee you the leadership at that company in the 1970s didn't wake up one morning and decide they were going to go sell machinery in Papua New Guinea, right?

Chris Blose:
Right.

Carson Strickland:

There was a fax that came through, or there was a phone call that came in to the company at some point in the 70s. And the leadership at the company decided to be open to that opportunity, and chase it. Obviously with some due diligence and thinking about managing risk and things like that. And that's a 50-year-old relationship.

Chris Blose:
So for a company that wants to be open to those happy accidents or those opportunities that come along, what questions should they ask before they consider entering a new market?

Carson Strickland:
I think there's a few things on that front. Regardless of what the opportunity is or where it is or any other sort of risk that you're thinking about, you really need to have a certain level of trust and relationship ultimately with that buyer. And so really vetting the company on the front end. Who are they? How long have they been in business? What's the reputation in the market they're in? That's very important.

And so there are some resources to help with that, really within the US government. There's a department called the US Commercial Service. That's part of the Department of Commerce. Every state's got folks in that department that help really go look at foreign companies and vet their ability to do business with a US exporter. That's our tax dollars at work. You go talk to the US Commercial Service, and then they can engage the embassies, et cetera, in those countries to really vet that buyer. Is it a good company? Is there any negative news on the company and country, et cetera? So that's really a first place to stop.

And then beyond that, really the main risk to think about, or main considerations to think about in engaging those export opportunities areon the legal side. So call your attorney. Make sure your contract's good. If there's any legal considerations in country you need to be thinking about, your legal counsel's gonna be able to help there.

On the logistics side, a lot of companies that get an export opportunity, whether that's an accidental opportunity that you've decided to pursue, or if you've been more intentional around growing your exports, you gotta have a good logistics provider. And a lot of companies don't have that today. They may have a trucking relationship or a domestic sort of logistics relationship. But ultimately, getting a product into another country is more complex. So, instead of just a truck going to the next state over, you've got a truck going maybe to a rail spur, that's going to a port, that's sending a container or some sort of product thousands of miles across the world. And so you really gotta have a good freight forwarder relationship to make sure you can execute on that side.

And then lastly is on the financing side. So you need a bank that understands international business, understands things like, you know, moving funds around the world. Currency considerations, repayment risk considerations, and, and thinking about really how that business is gonna be impacted from a working capital standpoint. . You get an order and the product arrives at the buyer's door a day or two later, potentially in good times, right? Obviously we've got some, some supply chain friction today that makes that maybe a little bit slower domestically. But ultimately, it moves very quickly.

When you've got an international customer, you gotta take all the things you're thinking about when you sell domestically and really stretch that out. Because of the logistics issues. And so that two-day transit on getting your product to a buyer the next day it may turn into a 60 or a 90 day sort of transaction. And so that slows down the turnover of cash for an exporter compared to a domestic company.

But all that being said, the little bit of extra challenge that goes into that part of business, you usually can have better margins and things of that nature if you can figure out how to navigate all those challenges.

Chris Blose:
Let’s go a little deeper on the financing side of this too. Are there different tools available to people who are exporting? Are there different concerns?

Carson Strickland:

Credit risk is a really big concern when selling internationally compared to domestically. Obviously there's good companies in the US and there's bad companies in the US. Bad potential customers when you're looking at expanding sales. The same goes internationally. There may be very credit-worthy international buyers. And there's others that might not be.

From a financing standpoint, companies really have to think about credit risk. Most US companies that sell outside of the US need to be more open minded about the terms that they give their foreign buyers. So cash in advance, while preferable, usually isn't gonna get you anywhere when you're trying to increase those sales.

So some of the tools that companies use are things like letters of credit. That's something Regions has offered for over 100 years as part of a trade finance solution. And that's really replacing your foreign customer's credit strength with that of a bank. So, you know, thinking about their bank giving your company a guarantee of payment if you perform.

Another way to mitigate some of that risk might be, if you're giving terms, you know, 30, 60, 90 day terms to those buyers, you can insure those sales. When you look at a company's balance sheet, one of the largest items on the balance sheet are accounts receivable, and that's both for domestic companies and for companies that sell overseas. But most companies, while they're gonna insure other things on their balance sheet, their warehouse space, office space, they're going to insure that. The cash they have on deposit at the bank is insured. The receivables usually are not. So there's a tool called credit insurance which allows you to insure your sales. And that's especially effective when selling internationally.

And then the other financial risk to think about in addition to credit is really how your working capital would be impacted by those international sales. As we were saying earlier, you have the additional risk from credit. You also have the additional risk of working capital because those sales tend to turn slower. Right? So I'll give you an example. We have a client that sells renewable energy products internationally. And they're large dollar transactions. And so, they're accumulating product at a port over weeks or months. They load that product into a vessel and ship the vessel to Europe. And so they have a working capital need for weeks or months to accumulate this inventory. They have to pay a shipping company freight upfront to get that vessel in place and load that vessel. And then they don't get paid for several weeks, until after they ship. And so that's really challenging to finance, right?

And so what we did, we worked with the Export/Import Bank of the United States to get a credit guarantee for that loan. And then that allowed us to finance that inventory over the course of weeks or months. And ultimately finance those receivables. So it helped the company make a sale they usually would be unable to make.

Chris Blose:
Well, something that strikes me is a lot of this is about the timeline, right? The timeline for payment may change. The timeline for inventory may change if you're dealing internationally.

I'm curious though on the flip side of that, what might a company that wants to be intentional about this, what should they look for internally from a human resources perspective?

Carson Strickland:
So, On the sales side, it would be really helpful to have bilingual or multilingual salespeople, So if you're gonna sell into broader Latin America and Caribbean, it would be really helpful to have Spanish speaking sales folks, right? So we see companies really focus on hiring staff that's bilingual or multilingual. And if you're gonna go sell into China, Mandarin would be good to know for a salesperson there, right? So that's a consideration.

On the credit risk management side, depending on the size of the business, the business owner may be making credit risk decisions, or maybe the CFO, or there may actually be a dedicated credit manager at the company. And they really need to understand some of the nuances of nonpayment risk in international trade. So that's something that companies can sort of coach up on over time. Or if they've got the resources and the staffing capacity in place to go add people in credit risk management that understand international, that's also helpful.

And lastly, thinking about logistics. You really need somebody within the company that understands international logistics or understands how to interact with the freight forwarder community I was mentioning earlier. So again, you need somebody that can go beyond calling a trucking company, for example, to move something to the next state. And really interacting with a forwarder. And that forwarder's booking ocean freight, air freight, rail freight, things of that nature. And so those are really the internalHR considerations I would think about if I was wanting to grow my export business.

Chris Blose:
Yeah, that makes sense. You're going from one mode of transportation potentially to a full multimodal operation.

Carson Strickland:
That's right.

Chris Blose:
Now when I think of this sort of exporting, I automatically think of products. But you've mentioned both products and services. So what types of businesses are likely to benefit from exporting?

Carson Strickland:
On the product side, it's important to know that the US really excels in producing value-added products. And so that might be manufactured goods. Or it could be commodities, food products, things of that nature. And so around the world, foreign consumers, foreign businesses want and like US made products. And so it's really important for US companies to remember that. You know, pricing is not always the thing that matters the most in any business, right? And so that's especially true when selling internationally.

Think about things like food stuffs, right? So think about farmers, companies that sell food products domestically. There will be a strong demand for those products internationally because we have a good reputation for food safety, for example. And so we see really strong demand for companies that sell US food products internationally.

But really the highest growing part of the global trade economy around the world is on the service side.The service sector grows faster domestically. And it's also growing faster internationally. And so if you think about IT services, architectural services, engineering services, companies that are in the contracting space, they're going out and building things and building facilities here in the US. They can also do that internationally. 'Cause US companies, a lot of times, have expertise you don't have in foreign countries. That's an export too. If there's a foreign buyer of a product or a service, that's considered to be an export.

But even on service exports, you have some of the same risk and same considerations that you would have when selling a product. And I'll give you a good example. We have a client that's an engineering company and won a large contract in Africa to provide a water infrastructure. And so some of the things we sort of take for granted in the US, you know, power, water, roads, things of that nature. In a lot of emerging markets, they're really just now getting around to building that infrastructure. And so they won a contract to engineer and manufacture in country a water delivery system.

The challenge they had was both getting paid for the work. And then the contract; this was a government contract, and so there wasn't a ton of flexibility on the contract terms, they didn't get paid until the contract was completed. So small deposit when the contract was awarded. They do all the engineering work here. They're sending people to that country to execute in country. And they didn't get paid until the end of the contract, which was 12 to 18 months after the contract was awarded.

And so ultimately what we did is we engaged a credit insurance company. They were able to insure those sales. And so if that governmental agency in Africa was unable to pay, they can file a claim on the insurance, get their money back. And then we went to the SBA and got a credit guarantee to provide purchase order financing for that company. And so we gave them 85 cents on the dollar of that contract up front that allowed them to finance their personnel cost, travel cost, you name it to execute on that contract over the course of 12 to 18 months.

For companies that have this purchase order financing need in their business, the SBA has a great tool. It's called the Export Working Capital Program. Regions has actually been the number one SBA export lender in the country over the last four years. So it's something that we really like to do. And it's something that we've really seen our clients benefit from over the last few years.

Chris Blose:
Well, yeah, it sounds like in some of these cases it's just a matter of connecting people to the right tools 'cause the tools do exist to mitigate that risk.

Carson Strickland:
That's right. The US government does a really good job of finding solutions to help support exporters.

And I think a lot of companies don't know those resources exist. And a lot of banks even don't know those resources exist. So we've just been fortunate kind of to figure that out over the years. And really, to your point, connect the dots between what does that US company need to help them export?

Chris Blose:
That's great. Sounds like a lot of good resources are available. If I'm a decision maker or an owner at a company that either wants to be strategic about exporting, you know, I wanna pursue those opportunities, or I at least wanna prepare my business to be ready for one of those opportunities, where do I start?

Carson Strickland:
I would make sure you got good legal counsel that understands international business. Make sure you have good logistics partners that understand international business, i.e. a good freight forwarder. Make sure you have a bank that understands international business as well. A lot of companies, especially when they're starting in exporting, aren't gonna have the internal resources they need to support that business. But the right external partners are gonna help you bridge that gap. So, again, legal, logistics, finance are really the external relationships you need to strengthen to make sure you can execute on those strategies.

Chris Blose:
If you think your next customer may be across the globe instead of one state over, heed that last bit of advice: Make sure you have the right partners and expertise to find that customer, get your goods or services to them, and ensure smooth financing and payment from start to finish. An expanded market is out there — as long as you know the landscape.

A big thank you to Carson Strickland for sharing his experience in exporting on today's episode. Get related resources for your business and listen to future episodes at regions.com/commercialpodcast. And subscribe to this podcast on your favorite podcast service.