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**MARKETING CHARACTERISTICS OF MICHIGAN HARDWOOD PRODUCTS EXPORTERS:
AN ANALYSIS**

By

Scott Denek Dickerson

A THESIS

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ABSTRACT

MARKETING CHARACTERISTICS OF MICHIGAN HARDWOOD PRODUCTS EXPORTERS: AN ANALYSIS

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The objective for this project is to evaluate the Michigan hardwood products industry's export marketing characteristics. This may establish some basic guidelines which will assist small- to medium-sized Michigan hardwood lumber manufacturers in preparing to enter international markets.

Personal and telephone interviews were conducted with firms manufacturing a variety of hardwood products for export. These companies were categorized into three groups according to their percentages of exports with respect to total annual sales, in addition to future levels of export activity. The respondents were also separated into two groups according to the level of value-added to their export products and into three groups pertaining to firm size.

The results indicate that the most active exporters, with respect to export percentages, were larger in terms of number of employees and younger with respect to average firm age. These companies have broader marketing programs, show higher levels of commitment to expanding into foreign markets, and produce a greater variety of products for foreign markets. All three groups show needs for enhancing their levels of customer service. The more active exporters rated their levels of knowledge pertaining to international business elements higher than their less active counterparts, but all three respondent groups rated fairly close their executive training and experience levels.

On the basis of value-added, those firms adding more value tended to be larger and older than their counterparts, had more international scopes of marketing, showed greater desire to wait longer periods of time to achieve a return on export investments and used more diverse elements in export sales activity. Firms adding less value had higher export percentages of total production, although both groups indicated similar desired export increases. As company size increased, so did the international orientation of the firms' marketing, the desired levels of future export activity, the importance of reasons for exporting and the levels of international business knowledge.

This manuscript is dedicated to all students interested in building their careers in the hardwood lumber industry.

ACKNOWLEDGEMENTS

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Chapter 1

INTRODUCTION

Two fundamental trends, the interconnectedness of the economic world and the upsurge of small business starts in the U.S. and around the world, raise the issue of export readiness of entrepreneurial business (Cavusgil and Nason, 1990). Many trends in today's business environment have compelled firms to investigate the feasibility and profitability of expanding into foreign markets. Narrow domestic market opportunities and increased competition have compelled some firms to increase sales and market share through exporting. Information technology advances have shortened export order response times, decreased costs in export data acquisition, and aided in the dissemination and availability of foreign market information.

Export marketing is by far the most typical type of international business involvement among firms, since it represents a less risky form of involvement and requires less commitment of company resources than foreign direct investment (Cavusgil, 1984). As the domestic markets become more competitive, exporting offers a means to expand market share and increase sales. Indeed, most companies get involved in exporting primarily to increase sales revenue (Daniels and Radebaugh, 1995). Exporting can also be a means to dispose of excess inventory or utilize excess production capacity. In addition, many firms export to a variety of different markets as a diversification strategy (Daniels and Radebaugh, 1995).

Initial involvement in international marketing is a gradual and incremental process (Cavusgil, 1980). Consideration of the desirability and feasibility of exporting is the first step that most companies will have to take when investigating exporting (Cavusgil and Nason, 1990). The complex nature of international business decisions mandates a thorough internal and external analysis of a firm's competitive potential, prior to making any substantial investments in the process of going international.

Chapter 2

THE HARDWOOD LUMBER INDUSTRY

National Hardwood Resources

The eastern section of United States is an important source of hardwoods for global hardwood products manufacturing (Araman and Tansy, 1990). The United States is covered with 737 million acres of forest land, or approximately 33% of its total area. Of this forest land, 490 million acres are classified as timber land – forest land capable of producing more than 20 cubic feet per acre per year and not withdrawn from timber production (Powell et al., 1992). Seventy percent of this timberland is located in the Eastern United States.

Growing Stock

Hardwood growing stock in the U.S. continues to improve toward providing increasing amounts of sawtimber for export-quality lumber production (Araman, 1987b). Growing stock volume on U.S. timberlands increased by 2.6% between 1987 and 1992, and net volume per acre has increased 33% since 1952 (Powell et al., 1992). Forty three percent of the timber growing stock in the U.S. consists of hardwoods, and 90% of this is located in the eastern United States. The volume of hardwoods has increased 7% between 1987 and 1992, and 82% between 1952 and 1992 (Powell et al., 1992). With respect to sawtimber, the volume of hardwoods in diameter classes greater than 19 inches has doubled since 1952. Because hardwood timber growth greatly exceeds harvest, the quantity of the U.S. hardwood resource continues to improve (Powell et al., 1992).

Species of Hardwoods for Export

The major hardwood species highly demanded on the export markets are the select red and white oaks, yellow birch, hard maple, black walnut, black cherry, and the ashes (Araman, 1987a). These are

referred to as the “select export species”. The select oaks have made up about two-thirds of the U.S. hardwood product exports (USDA Foreign Agricultural Service, 1996).

By the year 2000, U.S. inventories of select export species sawtimber could increase by 42% (Araman, 1987b). Thus, it would appear that the United States has the resources necessary to continue to supply domestic markets, to continue as a major player in the world hardwood market for log, lumber, and veneer products and to increase exports of further processed hardwood products (Araman, 1987b).

National Hardwood Products Export Potential

The United States has become a major player in the export side of the world marketplace for hardwood logs, lumber and veneer. For the past fifteen years, U.S. exports of these products have been growing, and the future looks bright (Araman and Tansey, 1990). Hardwood lumber was the most predominant commodity on the hardwood products export market from 1991 to 1996, representing approximately 54% of the total value of U.S. hardwood products exports including logs, lumber, veneer, molding, siding, flooring, and chips (USDA Foreign Agricultural Service, 1996).

Industry Outlook

There was an increased competition for logs in 1996, and mills experienced higher stumpage prices accordingly. Many mill operators stated that demand was up, yet the increase in costs of raw materials has outpaced the price increases for finished products. The prices for stumpage are actually increasing at twice the rate of inflation, and continued increases are predicted for the future (Import/Export Wood Purchasing News, December 1996/January 1997).

There are several ways to cope with the increased stumpage prices, including greater use of alternative species; using smaller-diameter, short logs; instituting increases in technological advances in machinery; and intensive forest management practices (Import/Export Wood Purchasing News, December 1996/January 1997). In addition to high stumpage prices, other problems for the hardwood lumber industry include ongoing pressure from environmental groups, and the substitution for solid lumber by materials such as medium density fiberboard, plastics, and aluminum or steel (Bezerra, 1996).

Hardwood Products Exports

Overall, the volume of U.S. hardwood products exports has been steadily increasing on an annual basis in the last six years. Hardwood siding has experienced the most significant growth, with total values of exports increasing by an annual average of 58 percent from 1991 to 1995. Veneer export values have grown by 12 percent annually, plywood exports by 11 percent, and chips by 10 percent. Molding exports have increased annually by 6 percent during this period, while log exports have increased by 5 percent.

Hardwood lumber exports have increased from 2.078 million cubic meters in 1991 to 2.405 million cubic meters in 1995 (USDA FAS, 1996), representing an increase of 39 percent for this period. In terms of value, hardwood lumber exports have increased by approximately 9 percent each year from 1991 to 1996, representing an average of 15 percent of the value of U.S. exports of commodity wood products.

Hardwood Lumber Export Markets

For the United States, Japan has been the major wood products export market for the last six years, consuming roughly 45% of total U.S. wood products exports in 1995 (USDA Foreign Agricultural Service, 1996). Canada has been the major export market for hardwood lumber, consuming approximately 22% of U.S. exports in 1995 (USDA Foreign Agricultural Service, 1996). Other major markets for hardwood lumber have included Japan, Italy, Germany, and the United Kingdom. Appendix H covers U.S. hardwood lumber markets in more detail.

Reasons for Increased Hardwood Products Exports

There are several factors which have contributed to the United States hardwood lumber industry's potential to expand exports. Global efforts to protect tropical forests have decreased supplies of tropical hardwoods and increased the demand for temperate hardwood lumber, while third-world countries usually lack the infrastructure vital to effectively market their resources (Hammett and Cubbage, 1991). European and Japanese hardwood users have switched toward the use of more temperate hardwoods (Araman, 1989a). Taiwanese and Korean demands for raw materials to make furniture that they can sell in the U.S., Canada, Japan, and Europe have also been increasing (Araman, 1989b).

Research for new products to utilize hardwoods and low quality wood use by pulp, pallet and wood composite manufacturers in the U.S. offer new domestic markets for low quality products. In fact, the northern U.S. has good markets for such low quality material, making higher grade hardwood lumber more abundant for export markets (Hammett and Cabbage, 1991).

Adding to these reasons why U.S. hardwood exports have increased are the facts that: the U.S. is the number one producer of sawn hardwoods in the world; U.S. production capacity has been increasing; dry kiln capacity has been increasing at mills and yards; suppliers have been attacking export markets; promotional efforts steadily increased through the 1980s; and the U.S. has plentiful hardwood resources (Araman, 1989a).

Meeting Export Demands

In order for the U.S. hardwood products industry to increase its exports, Araman (1984) suggests these companies: provide foreign customers with what products they need and not only what mills produce for domestic use; increase the number of companies willing to export or get more hardwood to current exporters; be willing to commit a percentage of production to the export market; and remain competitive in the international marketplace. Araman (1989b) states that the U.S. hardwood products industry will meet the demands for increased exports by: exporting more species in high volumes; exporting more upgraded lumber; exporting more dimension; exporting more character marked lumber, dimension, and veneer; and through improved processing and utilization of U.S. hardwood resources.

Michigan Hardwood Resources

Area and Ownership

The 1993 inventory conducted by the United States Forest Service revealed 19.3 million acres of forest land in Michigan, which accounts for about half of the state's 36.4 million acres of land. Forest land in Michigan increased about 5% between 1980 and 1993, while timber land increased approximately 7%. This resource base, combined with that of the adjacent Great Lakes states, provides an ample supply of select hardwood species to support the future manufacture and export of hardwood products.

Of the 18.6 million acres of timberland in Michigan (Figure 2.1), almost half is owned by individuals (8.4 million acres). A full third of Michigan's timberland (6.6 million acres) is administered

by various government agencies, while smaller portions are owned by corporations which do not operate primary wood-utilizing plants (2.1 million acres) and forest products industries (1.5 million acres) (Leatherberry and Spencer, 1993). Approximately 1 percent is owned by county and municipal entities, and less than one percent falls under "other" ownership.

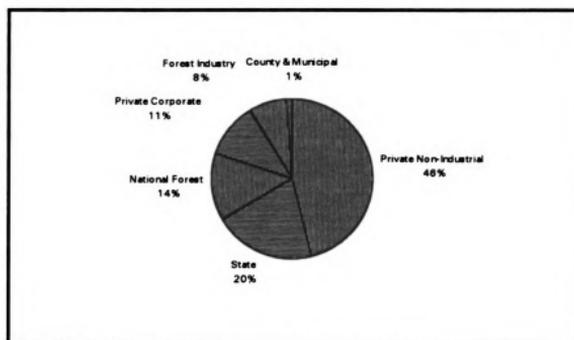


Figure 2.1 - *Michigan Timberland Ownership by Ownership Class, 1993.*
(source: Leatherberry and Spencer, 1993)

Stand Types

Michigan's timberland area (Figure 2.2) grows mostly hardwood trees, with three-fourths of its timberland area occupied by hardwood forest types (Leatherberry and Spencer, 1993). This indicates a strong supply base for the manufacture of hardwood products. In terms of select hardwood sawtimber species for export, Araman (1987a) ranked Michigan third out of the twenty-five eastern states in which these species occur. Hardwood species account for 72 percent of the 1993 Michigan timberland volume statistics.

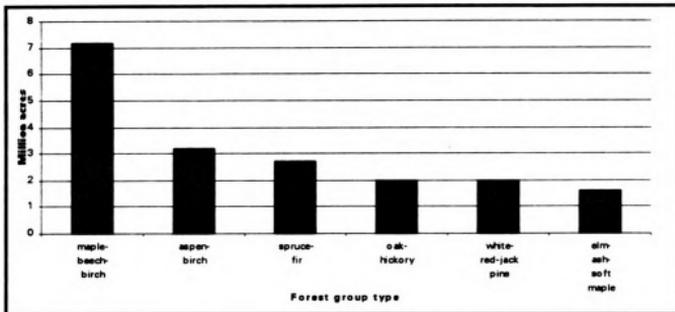


Figure 2.2 - Area of Michigan Timberland by Forest Type Group, 1993.
(Source: Leatherberry and Spencer, 1993)

Growing Stock

Stocking on timberland areas (Figure 2.3) continues to improve, and the area of sawtimber stands increased from 5.5 million acres in 1980 to 8.6 million acres in 1993. There has been a corresponding decline in poletimber-sized stands with respect to the increase in sawtimber-size stands, indicative of a continuing maturation of forest stands in Michigan (Leatherberry and Spencer, 1993).

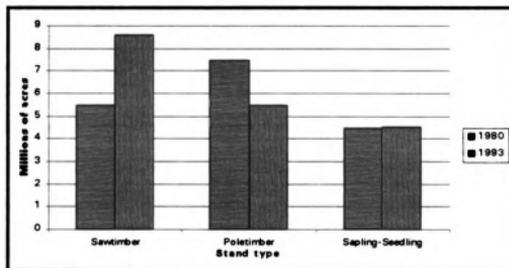


Figure 2.3 - Area of Michigan Timberland by Stand-size Class, 1980 and 1993.
(Source: Leatherberry and Spencer, 1993)

Timber removals from growing stock in 1992 represented 44 percent of net annual growth, compared with 45 percent in 1979 (Leatherberry and Spencer, 1993). Overall, sawtimber volume

increased from 45.5 to 71 billion board feet between inventories in 1980 and 1993, respectively. This increase in sawtimber volumes indicates a potential for increased activity in hardwood sawtimber harvests and hardwood lumber exports.

The Michigan Hardwood Lumber Industry

As stated previously, the need for expanding Michigan's forest products industry into the global market is evident. Michigan's hardwood products industry continues to have expandable and profitable export trade, as evidenced by only six percent of the state's hardwood grade lumber being exported in 1994 (Gregson, 1995). This is well below the national average of 16% exports of high grade lumber produced in small- to medium-sized hardwood products companies (Weekly Hardwood Review, 1996). Although state-level trend data for hardwood lumber exports was unavailable, annual international exports of lumber and other non-furniture wood products from Michigan have increased on the average of nine percent from 1989 to 1995 (University of Massachusetts, 1992, 1994, 1995, 1996).

Michigan Forest Products Export Markets

Canada has been Michigan's primary export market for wood products other than furniture, consuming 51% (\$50 million) of these products in 1995 (University of Massachusetts, 1996). Other major markets in 1995 included Germany (\$12.5 million), Germany (\$11.5 million), Mexico (\$11.5 million) and Japan (\$4.8 million). Appendix J details Michigan's forest products export markets.

Timber Utilization

Loggers delivered nearly 625 million board feet of Michigan sawlogs to mills in 1990. Aspen, hard maple and soft maple supplied 53% of the growing stock harvested in Michigan in 1990. Overall, there was a decline of 4 percent in sawlog production from 1988 to 1990. Major sawlog species included hard maple, red oak, aspen, red pine and soft maple (Hackett and Pilon, 1993). In 1990, Michigan imported 8 million board feet of sawlogs from Wisconsin, Ohio, Indiana and Minnesota. The major saw log species imported into Michigan in 1990 were red oak, basswood and hard maple.

Michigan and the eastern U.S. states have a strong hardwood resource base to sustain and develop the production of hardwood lumber and various other hardwood products. These states have large areas of timberlands which contain the species that are currently in demand in the international

marketplace, and exports of hardwood products are increasing on an annual basis. The U.S. hardwood resource base is improving in terms of sawlog quality timber availability, and will provide an adequate supply for sustaining domestic consumption and expanding exports of hardwood products in the future.

Chapter 3

LITERATURE REVIEW

Despite the need for organizational readiness in successfully initiating international business within the hardwood products industry, little research has been conducted on how Great Lakes hardwood products companies' organizational structure may affect their ability to successfully penetrate foreign markets. Existing export studies have addressed the hardwood products industry in several areas of the U.S., but data on export activities of hardwood lumber producers of Michigan is strictly descriptive (Stevens, 1994). A more detailed study of current hardwood products exporter practices was necessary in order to effectively analyze the potential for these companies to successfully expand into overseas markets.

Regional U.S. Forest Products Literature

The literature on U.S. forest products exporters varies according to region, but to date there has been little if any focus on the export behavior or organizational structure associated with wood products producers in the Great Lakes area. Hardwood products export studies which have been conducted are briefly described below by region.

Eastern Region

Ifju and Bush (1993) assess the Eastern hardwood lumber industry to determine barriers and incentives associated with export activity, and address management perceptions and practices which involve export activities. Their study maintains that non-exporting companies with no interest in becoming exporters perceived themselves as too small to export and were satisfied with the domestic market and that a lack of information concerning international markets kept non-exporters from marketing their products overseas. Ifju and Bush also found that foreign trade shows were an important means of increasing sales overseas. Ringe, Graves and Hansen (1987a and 1987b) published two articles on hardwood lumber producers from Kentucky, and indicate that firm size is not a significant factor in

successful foreign trade. Ringe et al. (1987a) also maintain that a full understanding of export markets, procedures, and customer desires, as well as a strong commitment to fulfilling them are essential elements of successful exporting among hardwood lumber companies. Their articles also indicate that a lack of knowledge was significant in hindering the exporting among these firms. Ringe et al. (1987b) address export species, grades, and markets to determine the nature of foreign consumers, and maintain that hardwood lumber exporters must be aware of the product characteristics sought by each customer to satisfy their target markets.

Araman (1987b) determined that the eastern U.S. has the resources necessary to continue as a major player in the world market for hardwoods and to increase exports of further processed hardwood products. Araman (1987a) examined the eastern U.S. in terms of hardwood resources, and ranked Michigan third in terms of hardwood sawtimber availability.

Southern Region

Hammett, Cabbage, and Luppold (1991) compare the characteristics of Southern Appalachian hardwood lumber exporters and nonexporters, and state that mills selling to international markets had greater production levels, larger lumber inventories, and sawed more of their product from higher lumber grades. In addition, Hammett et al. (1991) also found that exporting firms had significantly more people responsible for lumber sales and marketing than non-exporters, used a variety of advertising media, and served more geographically diverse areas in the domestic market. Hammett and DeForest (1992) presented keys to Southern hardwood lumber exporting success, and state that exports are important to southern exporters for creating a greater marketing base, achieving higher profit margins, eliminating cyclic production schedules, selling excess inventory, and achieving personal satisfaction. Hammett and DeForest (1993) describe Southern hardwood lumber exporter practices and problems, and identified that mills which intend to begin exporting need market-specific information, need to manufacture products desired in international markets, and require assistance with export logistics. Their research indicated that the stabilization of seasonal market fluctuations and expanding into more diverse markets were important motivational factors in exporting hardwood lumber. Hammett and DeForest (1993) also concluded that a lack of knowledge about what international customers desire is a greater obstacle to

exporting than the inability to produce hardwood lumber to their specifications. The authors found that the majority of southern hardwood lumber exporters used agents or brokers, and that a number of those firms used more than one channel to get their products to foreign markets. Additional findings included that these firms had significantly more personnel allocated toward export endeavors, that trade shows were important to these firms in increasing sales, and that southern hardwood lumber exporters did far more advertising than non-exporters.

Hammett and Cabbage (1991) describe lumber exporting in the south in terms of forest resources, the hardwood industry, exporting methods and current research, and mention that little research has studied individual firm characteristics and their effect on success in exporting. Guldin (n.d.) identified key elements for Southern forest products firms to consider when estimating the export potential of their products, and found that central to management's concern is the a lack of knowledge about exporting channels and distribution methods.

Pacific Northwest Region

Gottko and McMahon (1989a and 1989b) wrote two articles on the export activity of Oregon lumber producers during the 1980s. The first article describes attitudes and practices of lumber exporters and nonexporters, and maintains that exporters were significantly larger than non-exporters, that non-exporters had more negative attitudes about exporting, and that neither exporters or non-exporters tended to be customer-oriented. This article also states that Oregon lumber producers considered the anticipation of profit potential overseas as the most important reason to consider exporting among both exporters and non-exporters. Gottko and McMahon (1989a) also state that less than one third of their survey respondents had written business plans, but that three-fourths of those who did had marketing strategies in their plans. Gottko and McMahon (1989b) evaluate export activity of Oregon lumber producers, and indicate that a marketing strategy that employs aggressive market selection of target countries and use an appropriate mix of marketing elements is the most likely way to increase exports.

Gottko and McMahon (1989b) call for additional research on 1) the possibility of a firm's establishing and operating a department of export headed by an export marketing manager; 2) direct versus indirect exporting; 3) the types of products to be exported; and 4) such marketing decisions as the

number of countries exported to, the years exported to each one, and the number of customers served in each.

Regional Studies Review

It is evident that past studies of hardwood products exporters reveal a need for strong export commitment, thorough market research, distribution channel development, and increased information acquisition from agencies and organizations which support export activity.

Regional studies of U.S. hardwood products exporters provide valuable insight as to the marketing characteristics of their associated lumber exporters, but to date no current studies have focused on Michigan hardwood products exporters. In addition, the existing studies do not provide a systematic description of the various elements associated with international business. To aid in the analysis of the Michigan hardwood products export industry, as well as to define an export strategy and explain the various elements of exporting in general, additional literature was reviewed. This literature is described in detail below.

Additional Hardwood Products Literature

A variety of literature was incorporated into Appendices B and C, in order to develop and substantiate a strategy for hardwood lumber companies to expand into international markets. Some of these articles are described below.

Hardwood Lumber Marketing

McClintock (1987) states that U.S. hardwood lumber companies do not maintain forward-looking, effective marketing programs based on an understanding of customer requirements. Idassi et al. (1994) maintain that a central theme in competitive strategy in the hardwood lumber industry will be creating and delivering value to the customer, attainable by developing a customer-oriented marketing strategy. This article also provided evidence that “product-oriented marketing methods, by themselves, were ineffective in creating and delivering value for hardwood lumber companies (Idassi et al., 1994).” Araman (1989a) describes some packaging characteristics of hardwood lumber exports, and notes that companies should endeavor to improve their product appearance for export markets. Bush, Sinclair, and

Araman (1990) state that small- to medium-sized hardwood lumber companies should gear their domestic marketing strategies toward focusing on particular markets.

Hardwood Products Marketing

Araman (1989b) argues that U.S. hardwood firms need to increase demand for species other than select export species, upgraded lumber, and high grade dimension. Araman (1984) indicates a good potential for hardwood exports, and argues that the future of hardwood export increases depends on the acceptance of less-preferred species, increased logging and lumber production, increased acceptance of character-marked veneer, and increased shipments of strip and dimension stock made from No.1 and No.2 Common lumber.

Product Diversification

An additional area of interest with regard to exporting was in the vertical integration of operations (Appendix B). This was considered as a means for lumber companies to expand their presence in foreign markets, and as a strategy to customize their service to foreign customers. Mater (1990) investigated 'value-added' products in the hardwood industry, and stated that offering value-added specialty items offers a good chance to compete in the international marketplace. Hansen and Araman (1985b) argue that there are many possibilities and opportunities of exporting standardized hardwood dimension blanks, and that the export of dimension would: alleviate problems caused by foreign misunderstand of U.S. grading rules; facilitate the shipment of only useable material overseas; and take some of the pressure off the more limited supplies of higher-grade hardwood timber resources. Hansen and Araman (1985b) conducted a study on the investment requirements of a small-scale hardwood dimension facility, and indicate this type of facility seems suited for a firm wishing to enter the wood business on a small scale, to sawmill operators wishing to upgrade and expand their product offering, and to small furniture and cabinet manufacturers wanting more control of their raw materials situation. Araman (1990) states that the market potential for hardwood dimension stock and furniture parts is growing in both the domestic and international marketplaces.

Araman (1988a) investigated Pacific Rim and Middle Eastern markets for U.S. hardwood lumber, and proposed the markets for standardized rough dimension in these markets could help answer

the problems associated with limited high-grade resources. Cohen (1992) proposes that adding value incrementally, by providing product refinements or adding products to existing product lines through a gradual process, will enhance forest products exports to Japan.

Supporting Literature

In addition to forest products-related research, studies related to general firm characteristics and practices within a wide variety of industries were investigated. Since these references are not industry-specific, they served as general guidelines to enhance the analysis of Michigan hardwood products manufacturers. The literature also aided in developing an export strategy for these companies (Appendix B), and to explain the various elements of an international business plan (Appendix C).

Organizational Characteristics of Exporters

Activities associated with successful exporters of different industries are valuable in acting as benchmarks when evaluating firms which are considering going international. Cavusgil (1984) describes organizational characteristics associated with export activity, and maintains that although a company's size may assist in accruing certain advantages in exporting, there is not a true relationship between firm size and export behavior.

Kaynak and Kothari (1984) focus on international marketing policies for small and medium-sized manufacturers in North America, and cite several reasons why firms in Nova Scotia and Texas refrained from exporting: presence of foreign competition; lack of information on foreign markets; large domestic market; difficulty in obtaining foreign distribution; difficulties associated with collecting payment for goods; paperwork associated with international transactions; and domestic and foreign government restrictions or requirements. Rabino (1979) identifies perceived barriers to exporting encountered by small high-technology manufacturing companies in New England: lack of exposure to other countries; large domestic market; lack of staff time; paperwork and management of export operations; lack of foreign language skills; and different safety and quality standards. Bilkey and Tesar (1977) describe the export behavior of smaller-sized Wisconsin manufacturing firms, and state that the development of exporting occurs in stages, and that firm size was relatively unimportant for export behavior when accounting for the quality and dynamism of management.

Strategic Decisions in Going International

Individual components of the process of expanding into foreign markets have been explored to develop an understanding of what constitutes an international business strategy. Simpson and Kujawa (1974) propose that an export stimulus (e.g., and unsolicited order from a foreign customer) is a significant but not sufficient condition for a positive export decision, and that important variations between exporters and non-exporters in cost, profit, and risk perceptions may well account for different responses to similar stimuli by these two groups. The export behavior of firms is addressed by Cavusgil, Bilkey, and Tesar (1979), citing influences such as favorable expectations of exporting, market development planning, systematic exploration of export feasibility, and high aspiration for firm growth as important variables in a firm's decision to export.

Thorelli and Becker (1980) discuss strategic planning in international marketing, propose "that without a plan that specifies objectives and provides for the means of obtaining those objectives, an activity loses much of its purposefulness and direction." Thompson and Strickland (1995) address issues related to creating and implementing strategy in business, stating that crafting a strategy is an exercise in entrepreneurship, and that the challenge is for company managers to keep their strategies closely matched to such outside drivers as changing buyer preferences, the latest actions of rivals, market opportunities and threats, and newly appearing business conditions.

Initial Stages in Internationalization

Initial stages of the internationalization process are critical to successful exporting. Cavusgil (1980) provides valuable insight on the stages of the internationalization process of firms, and describes initial involvement in international marketing as a gradual, incremental process. Dichtl, Leibold, Köglmayr and Müller (1983) investigate the firm's decision to go international and state that important variables considered by exporters include the management's anticipation of a significant impact emanating from exports on the firm's growth as well as a high degree of commitment to export marketing. Dichtl et al. (1983) point to management's lack of determination to consistently explore the conditions for successful foreign market operations as an primary reason for refraining from exporting.

Information acquisition and export entry decisions in small firms are described by Reid (1984), who argues that smaller companies were operating on a limited information basis due to their lack of information source utilization, and that the extent of awareness and usage of government programs in general is positively related with new export market entry. Reid (1984) also indicated that membership in trade organizations had a positive correlation to success in expanding international sales. Reid (1981) states that, other than ratio of sales to export sales, indicators of export performance should include measures of growing export commitment such as firm growth, absolute level of exports, relative growth of export sales, rate of new market expansion, and rate of new product introduction into foreign markets.

The International Business Process Elements

There are a multitude of areas of interest which a potential exporter must address in developing an export business plan. Distribution channel selection, market research, negotiations processes, pricing issues, and foreign travel are just some of these issues. Thorelli (1990) discusses how building networks can benefit companies involved in international business, since the increasing complexity of modern markets and government-business relationships call for resources greater than those at the command of any single firm. This article defines the importance of the relationships between an exporter and its distributors, with regard to potential expansion within foreign markets. Delvin and Bleackley (1988) discuss guidelines for success in strategic alliances with foreign partners, stating that developing relationships with suppliers, producers, and distributors are a central aspect of a company's future direction and are a key strategic option. Beeth (1973) discusses guidelines for developing quality distribution channels, and finds that developing distributor networks is a continuous process of analyzing potential partners and evaluating existing relationships, and that finding excellent distributors is all-important in ensuring success in international markets.

Cavusgil (1985) offers guidelines for export market research, and concludes that a market-oriented clustering of countries is essential for determining potential export markets. Ghauri (1986) developed guidelines for international business negotiations, and states that a respect for different perspectives and environments is of utmost importance in successfully negotiating contract terms between a buyer and seller. Cavusgil (1988) describes the process of export pricing, and maintains that pricing

complexities exist due to the large number of variables that affect international pricing decisions and the uncertainty surrounding them. In addition, *Business International* (1987) describes the advantages of trade fairs in meeting potential suppliers and customers.

Chapter 4

RESEARCH OBJECTIVE

Overview

A more detailed study of current hardwood lumber export practices is necessary in order to analyze the potential for Michigan's hardwood lumber industry to effectively expand into overseas markets. Despite the need for organizational readiness in successfully initiating international business within the hardwood lumber industry, little research has been conducted on how Great Lakes hardwood products companies organizational structure and marketing strategies may affect their ability to successfully penetrate foreign markets.

Research Objective

The objective for this project is to provide a comprehensive evaluation of Michigan hardwood products exporters in terms of organizational structure and management behavior with regard to exporting. It will attempt to identify those marketing and organizational characteristics which set "active" exporters apart from their less internationally-oriented counterparts, and formulate an export strategy and business plan for hardwood lumber companies. This may serve to establish basic, systematic guidelines which may assist small- to medium-sized Michigan hardwood lumber manufacturers in preparing to enter international markets. These guidelines may in turn increase activity in exporting if appropriate for their objectives. The research highlights some of the current trends in successful hardwood products exporting, and defines implications of challenges and opportunities which may have an impact on the decision-making process of managers interested in going international. The research also addresses some questions pertaining to Michigan's hardwood products exporters:

1. What constitutes an "active" exporter?
2. How are Michigan hardwood products exporters conducting international marketing?

3. What do hardwood lumber companies, not currently exporting, need to consider when preparing to expand into international markets?
4. Why are companies not currently exporting uninterested in the international market?

CORE IV

An additional benefit of this research was derived from providing interested companies with an artificial-intelligence, decision-support model in the analysis of those firms' readiness to export their products overseas. As of yet, CORE IV and other decision-support models produced by MSU's CIBER have not been widely disseminated (Cavusgil, 1995), and their use within the forest products industry has been minimal to nonexistent. This instrument may potentially provide a valuable service to Michigan hardwood products manufacturers, through the use of a professional evaluation tool in the analysis of their firm's readiness to export.

What Constitutes an "Active" Exporter?

In developing the analysis for this study, it became necessary to define the characteristics of an "active" exporter. As companies gain greater expertise and experience in exporting, they diversify their markets to countries that are farther away or have business environments that differ from that of their home country (Daniels and Radebaugh, 1995). Kotabe and Czinkota (1992) propose that there are five stages (Table 4.1) which companies experience in developing their export activities.

Table 4.1 - Stages of Export Development.
(Source: Massakki Kotabe and Michael R. Czinkota. 1992.)

STAGE 1	Partial Interest in Exporting	Company fills unsolicited orders but makes no effort to explore the feasibility of exporting regularly.
STAGE 2	Exploring Exporting	Company actively explores the feasibility of exporting but currently exports less than 5% of its total sales.
STAGE 3	Experimental Exporter	Company exports on an experimental basis to countries that either are geographically close to it or a culture similar to its own. Exports represent more than 5% of its total sales.
STAGE 4	Experienced Exporter with Limited Scope	Company is experienced and exports more than 5% of its total sales. It adjusts export offerings optimally in response to changes in the foreign environment (for example, exchange rates, tariffs, etc.), although it still exports only to countries that are either geographically close to it or have cultures similar to its own.
STAGE 5	Experienced Exporter	Company is experienced and exports more than 5% of its total sales. However, it also explores the feasibility of exporting to either countries that are not geographically close or have cultures dissimilar from its own.

As Table 4.1 indicates, an “active” exporter may be defined as one which exports over 5 percent of its total sales and is currently exploring the feasibility of exporting to more countries which are geographically distant from as well as culturally different than its own. Using these criteria, the survey respondents were first separated into two groups: those which export 5% or less of their total sales, and those which export over 5% of their annual sales. Those companies which export over 5% of their sales were further separated into two groups, categorized according to a desired increase in exports levels, as well as a perceived future export activity on a regular basis (with either a moderate or aggressive level of target sales). These three groups of respondents were categorized into levels (Table 4.2) modified from those proposed by Katobe and Czinkota (1992).

Table 4.2 - Proposed Stages of Export Activity.

LEVEL 1	Experimental Exporter	Company explores the feasibility of exporting but currently exports less than 5% of its total sales.
LEVEL 2	Experienced Exporter with Limited Scope	Company exports over 5% of its total sales, but does not desire increases in future exports.
LEVEL 3	Experienced Exporter with Broader Scope	Company exports over 5% of its total sales, and desires increased percentages of future exports.

The desire for increased percentages of exports in relation to total sales, as well as a perceived regular export activity, is indicative of higher commitment by upper management to the international market as a source of future company growth and profitability.

Additional Considerations

There are several descriptions of the characteristics of active exporting firms. In reviewing the export decision process of small- and medium-sized firms, Dichtl et al. (1984) describe several organizational characteristics which distinguish active exporters:

The typical exporting firm... has a definite price edge on the market and is more diversified in marketing techniques such as selling and merchandising the product than the non-exporter. Their management has very favorable expectations regarding the effect of exporting on the firm's growth, plans for developing the firm's market, takes a favorable view of the impact of exporting on the firm's market development, and the annual sales of the companies concerned amount to \$1 million or more.

Simpson and Kujawa (1974) describe personal characteristics exhibited by exporters in comparison to non-exporters:

Exporters assess their chances of success on export markets higher than non-exporters. They also enjoy a higher level of education, display less fear of risks involved, estimate the costs of export activities to be lower, and perceive less difficulties regarding communication than their colleagues focusing on the local market (Dichtl et al., 1984).

Although these are descriptions of exporters in the 1980s, the fundamental elements associated with exporters are their perception of exporting as a long-term, favorable means to expand their markets and increase their firm's profitability, and their proactive approach to expansion into foreign markets. For the basis of this analysis, it was assumed that as the level of export percentages of total production increased, so would the firms' long-term view of exporting as well as their involvement in developing export markets.

Percentages of exports in relation to total annual production is just one of many possible means of distinguishing categories of exporters. Ifju and Bush (1993) grouped exporters in the Eastern U.S. hardwood lumber industry according to their ratio of domestic to foreign sales as well as by their desire to participate in export markets. Ringe et al. (1987) separated Kentucky hardwood exporters based on their total annual manufacturing capacity. Tesar and Tarleton (1982) defined "aggressive" exporting firms in Wisconsin and Virginia as those who sought their first export order, and "passive" exporters as those who

did not. Additionally, hardwood products exporters may be separated according to what types of products they offer for international markets.

Chapter 5

METHODS

Survey Design

The survey focused on those Michigan hardwood products companies currently exporting, as indicated by their response to a recent Michigan DNR survey. The instrument incorporated questions derived from a professional export evaluation program, Company Readiness to Export (CORE) IV, developed by Dr. S. Tamer Cavusgil of Michigan State University's Center for International Business (CIBER). Additional questions specific to the hardwood lumber industry were incorporated into the instrument. A sample of the questionnaire is located in Appendix A. The data were analyzed to assess ways in which Michigan hardwood lumber producers may more effectively establish foreign trade.

Research Survey Population

The research drew its sample from the Michigan Department of Natural Resources forest products producers directory data base. The producers were stratified by their current level of export activity to select hardwood products manufacturers currently exporting within a certain range of products. There are currently 3145 forest products producers listed in the Michigan DNR data base, 2200 of which are mills or manufacturers. Of the 2200 mills and manufacturers, 370 are listed as exporters and 305 are listed as "interested" in exporting (Michigan Department of Natural Resources, 1994). The firms which are "interested in exporting" represent a potential initial increase of 14 % in the number of companies which export their products outside the United States.

Survey Population Data Base

The MDNR data base is maintained in the computer database program Microsoft Access. A query was conducted to delineate those companies producing a variety of raw and semi-finished hardwood products, including logs, lumber, dimension, veneer, flooring, architectural millwork, and moldings. A

variety of companies producing different products were sought to increase the survey population to determine if any differences in exporting characteristics existed according to the products exported.

Several inconsistencies in the Michigan DNR forest products manufacturers data base were evident as the companies were contacted. Of the 103 firms initially contacted, 46 were actually exporters of hardwood products, 37 were nonexporters, and 20 were not in the hardwood products industry or were closed. This means only 45% of the companies initially selected from the MDNR data base as exporters of specified hardwood products were actually exporting hardwood products.

Survey Instrument

The primary survey instrument incorporated personal and phone interviews utilizing a set of questions pertaining to the firms' marketing and sales efforts in international business. It consisted of a series of questions which address critical management issues related to exporting:

- Competitive capabilities in the domestic market
- Management motivation for exporting
- Commitment of management to exporting
- Product readiness for foreign markets
- Management knowledge of international business elements
- Experience and training of management

These issues and many of their respective survey questions are related to the categories of questions incorporated into the CORE IV program. The program's questionnaire was utilized to construct the survey instrument, which had to be useable in a ten to fifteen minute interview session. A random sample of companies were interviewed in person where travel and time constraints permitted or over the telephone otherwise. The results from these interviews were intended to benchmark management and marketing methods utilized in exporting hardwood products, and to determine different strategies used in exporting.

Survey Procedures

Initially letters were sent to the perspective companies to introduce them to the project. These were followed up by a phone call to inquire as to whether a personal interview was possible. In most

cases, a phone interview was requested, since most of the companies were located at distances prohibitive of personal interviews. Once the interviews were completed, a letter of thanks was sent to the interviewees. In addition, packets of information were distributed to the interviewee including a list of private and public information resources and a bibliography of international business and export articles.

Company Readiness to Export (CORE IV)

CORE IV was designed to function as a decision-support tool which assists managers of small- to medium-sized companies in developing a systematic approach to analyzing their firm's readiness to export. The program addresses six primary criteria: competitive capabilities in the domestic market; motivation for going international; commitment of owners and top management; product readiness for foreign markets; skill, knowledge and resources; and experience and training. CORE presents the user with numerical scores and interpretations for them, presents a list of the company's strengths and weaknesses in the context of exporting, provides a set of recommendations, and offers a tutorial session which encapsulates frequently encountered tasks in exporting (Cavusgil et al., 1980).

The CORE IV program weights the answers to generate an evaluation of the firm's organizational and product readiness to enter foreign markets. *Organizational readiness* is based upon managerial characteristics indicative of successful initiation of international business. These measures include the management's previous international experience, the level of upper management's motivation for expanding into international markets, the commitment of management in developing business abroad, the willingness to invest in international development, and other similar factors. *Product readiness* is associated with measures of the firm's product's potential in international markets. These measures include product adaptability to differential markets and product uniqueness (Cavusgil, 1996a).

It should be noted that although CORE IV was made available to the survey respondents, only three opted to utilize the program. This may be due to the sensitive nature of the information requested in the CORE survey, the time it would take to complete the lengthy survey, or simply because the managers did not desire the service.

Chapter 6

RESULTS

Survey Responses

Of the 46 exporters in the survey population, 37 agreed to participate in the survey, 8 declined interviews, and 1 company could not be contacted, providing an overall response rate of eighty one percent (Figure 6.1). Of the 35 nonexporters, 6 indicated an interest in exporting, and 29 were not interested in exporting. Those companies which were not exporting or interested in exporting were asked why to determine if any particular reasons were prevalent.

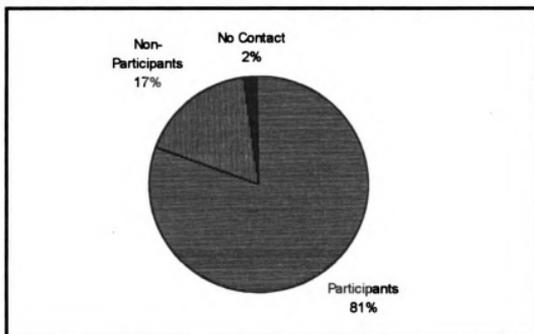


Figure 6.1 - Survey Response Rate.

Respondent Categorization

The individual survey respondents currently exporting were categorized into three groups for analysis. Those firms of which exports represented 5% or less of their annual sales were designated as Experimental Exporters. Of those companies which exported over 5% of the total annual sales, two

groups were defined according to their desired level of export increases and/or future level of activity. If the firm had no desired increase in projected target exports, they were designated as Experienced Exporters with Limited Scope, and if they indicated a desire to increase in future target exports, they were designated as Experienced Exporters with Broader Scope. For firms which did not indicate a future target level of exports, the level of exporting activity was taken into account. In this case, those firms which indicated an "occasional/as required activity" level of future exports were grouped with the Experienced Exporters with Limited Scope. Those firms which indicated a "regular activity" (with no-, moderate-, and aggressive-target) level of future exports were grouped with the Experienced Exporters with Broader Scope.

This grouping was intended to separate the exporters into three groups of export-level activity, with Experimental Exporters being least active, Experienced Exporters with Limited Scope as moderately active, and Experienced Exporters with Broader Scope being most active. Overall, there were 16 companies exporting 5% or less of their total annual sales, 10 firms which exported over 5% of their sales but had no projected increase in target exports, and 11 companies which exported over 5% of their annual sales and had an increase in projected target exports.

Additional Respondent Categories

The analysis of export marketing characteristics is a complex issue, especially when considering companies which produce a variety of goods for international trade. In order to better analyze the implications of the results, the respondents were additionally categorized according to characteristics other than their percentages of exports in relation to total annual production. This additional analysis was meant to give a broader view of how Michigan hardwood products exporters may differ in their international business activities. Two additional means of separating the respondents were based on the value-added to their primary products for export and their size. The results from these classifications were incorporated into the results whenever they highlighted significant differences between the respective groups.

Categorizing the respondents according to the level of value-added to the export products was accomplished by separating firms which produced logs, lumber and veneer from those companies which

manufactured semi-finished products such as dimension, molding, millwork and flooring. The two groups were designated as "Less Value-added Exporters" or "More Value-added Exporters", in reference to the level of domestic processing required prior to shipping their products overseas.

Another means of further dividing the respondents for further analysis was by classifying them according to their size. Since production measures were different for different products manufactured (i.e. - board feet for logs and lumber, square feet for veneer and flooring, and parts for dimension and furniture components) and production data was not available from all respondents, the firms were divided according to their number of employees. Following natural breaks in the data, the respondents were assigned to one of three groups: those with 1 to 40 employees, 41 to 100 employees, and over 100 employees.

Survey Non-Respondents

Companies unable to be contacted may pose a potential problem to bias caused by non-respondents. The nine firms which declined interviews stated they either did not have time to participate in the project or that they did not discuss their marketing programs with people outside their company. General information on those firms which did not participate (the number of employees and year of establishment) was obtained from the Michigan DNR forest products manufacturers directory for comparison with the respondents.

Overall, eight of the nine companies which refused to participate in the survey were found to be younger and smaller than the three groups of firms which did participate in the survey. Average size for these firms was approximately eighteen employees, and average age was twenty years.

The products manufactured by non-respondents were typical of those firms which did participate in the survey and included lumber, dimension, moldings, flooring, and furniture parts. This indicates that the firms which declined interviews were typically smaller and younger, typically matching those companies which were categorized as the most "active" exporters in the survey population. This may, in fact, have caused an understatement of the characteristics associated with the Michigan hardwood products firms most actively involved in exporting.

Survey Results

The survey responses were broken down into categories related to a firm's capabilities associated with successful export characteristics, as defined by the CORE IV program.

Competitive Capabilities in the Export Market

The first set of questions addressed activities and organizational attributes which reflect a level of competitive advantage in the export market. Some general firm characteristics for the three groups based on percentages of exports are presented in Table 6.1. The firms' average age tended to decrease with in relation to an increase in export activity. Generally speaking those firms with the highest levels of export activity were considerably larger in terms of their number of employees, and had one more salesperson on their staff. An analysis of annual sales was not possible due to the fact that most companies declined providing that information.

Table 6.1 - Respondent Firm Characteristics, by % of Exports.

	Average company age (in years)	Average number of full-time employees	Average number of salespersons
Experimental Exporters	39	80	2
Experienced Exporters with Limited Scope	37	60	2
Experienced Exporters with Broader Scope	26	176	3

Firm characteristics based on the level of value-added to their primary export products (Table 6.2) showed a considerable increase in age for those companies which added more value to their products. In addition, the number of employees and sales persons also increased with the level of value-added.

Table 6.2 - Respondent Firm Characteristics, by Value-added.

	Average company age (in years)	Average number of full-time employees	Average number of salespersons
Less Value-Added Exporters	26	94	2
More Value-Added Exporters	51	118	3

When considering firm size as a means of categorizing the survey respondents (Table 6.3), the smallest firms tended to be younger than those with more employees. The average number of sales persons also rose with the number of full-time employees.

Table 6.3 - Respondent Firm Characteristics, by Firm Size.

	Average company age (in years)	Average number of full-time employees	Average number of salespersons
1 to 40 employees	28	14	2
41 to 100 employees	43	69	3
over 100 employees	40	381	4

Additional items of interest were also addressed, such as the firms' current scope of marketing (Figure 6.2) and current export markets (Table 6.2). The respondents were asked to describe their marketing efforts as either a local, regional, national, or international range of activity.

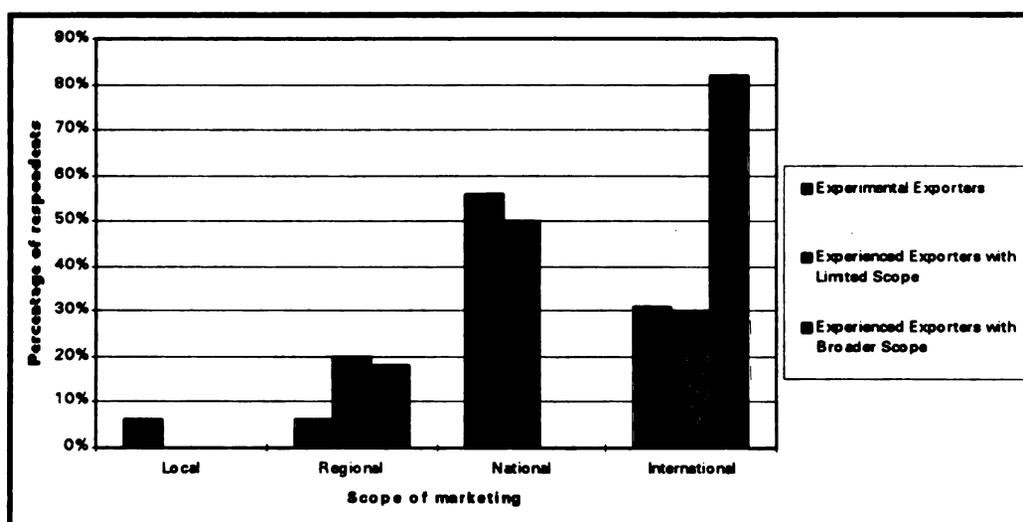


Figure 6.2 - Respondents' Current Scope of Marketing, by % of Exports.

A very small percentage of respondents in the Experimental Exporters category had only local or regional marketing activity, while those companies exporting 5% or less and firms exporting 5% or more (but with no future increase in export targets) had mostly national marketing programs. Not surprisingly, those companies which were most active in their exporting endeavors had primarily international scopes of marketing.

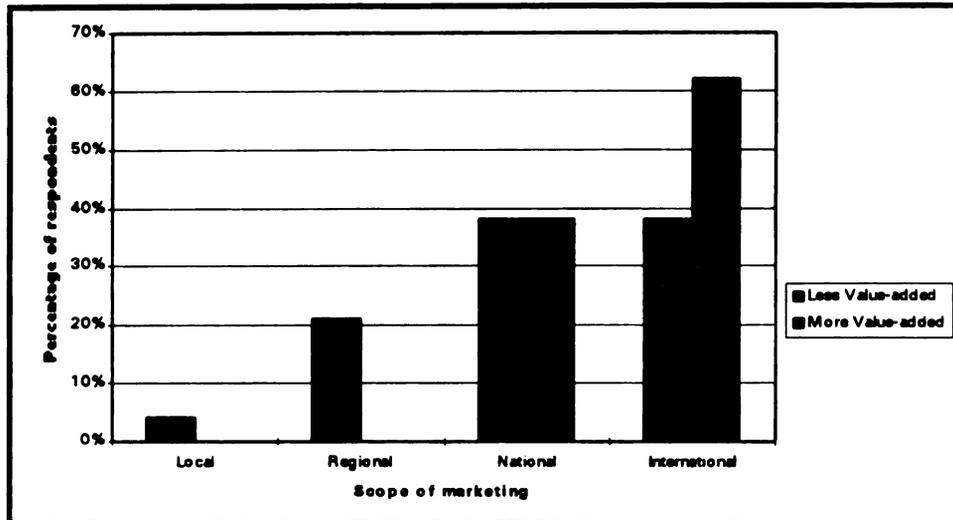


Figure 6.3 - Respondents' Current Scope of Marketing, by Value-added.

It is apparent that those firms which add more value to their export products have primarily either a national (38%) or international (62%) scope of marketing (Figure 6.3). Twenty-five percent of those firms adding less value to their products have local or regional scopes of marketing, while almost forty percent have national or international scopes, respectively.

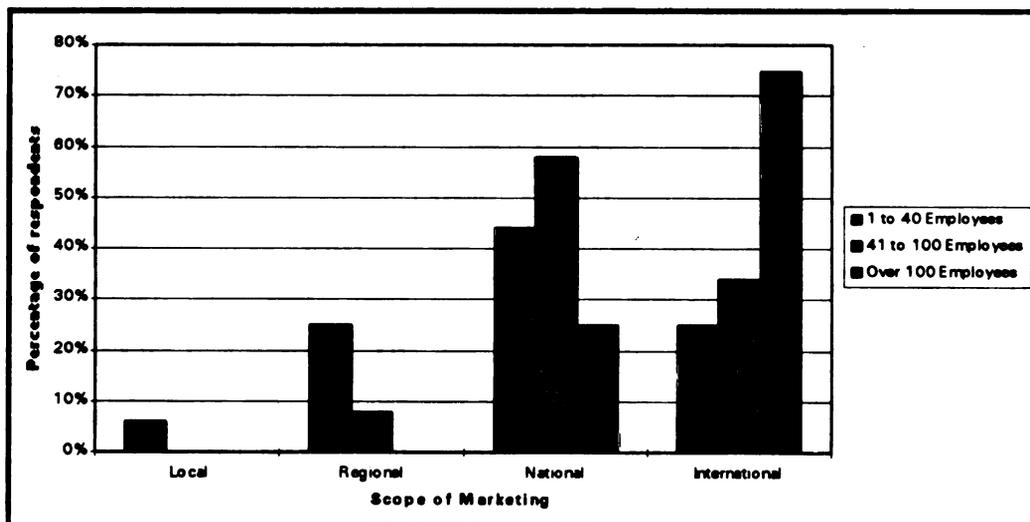


Figure 6.4 - Respondents' Current Scope of Marketing, by Firm Size.

When separated according to firm size (Figure 6.4), the highest percentages of the small and medium sized firms concentrate their marketing on a national level, while the majority of the largest firms tend to have international scopes of marketing.

The markets for export were grouped according to region for the respondent group based on percentages of exports (Table 6.4). Canada, Mexico, and Japan were listed separately since they are some of the major export markets for US hardwood products exports.

Table 6.4 - *Current Export Markets of Respondent Groups, by % of Exports.*

Markets	Experimental Exporters	Experienced Exporters with Limited Scope	Experienced Exporters with Broader Scope	Total (all groups)
Canada	75%	50%	46%	59%
Europe	44%	60%	46%	49%
Japan	44%	40%	36%	41%
Asia (excluding Japan)	31%	20%	64%	38%
Mexico	38%	0%	27%	24%
South America	0%	0%	18%	5%
Africa	0%	0%	9%	3%
Australia	0%	0%	9%	3%
More than one market	56%	50%	73%	59%

There were a wide variety of markets for each respondent groups, and greater than 50% of each group were currently exporting to more than one market. The areas of higher export percentages included Canada, Europe, Japan, Asia and Mexico. This trend coincides with current primary export markets for U.S. forest products in which Japan is the leading importer, followed respectively by Canada, Germany, Korea, the United Kingdom, and Mexico (Foreign Agricultural Service, 1996). An interesting aspect of this information lies in the fact that a higher percentage of the more active exporters sought international sales in more than one market.

Another area of interest was in the current methods of advertising utilized by the respondent groups based on percentages of exports (Figure 6.5). These methods included trade directories and journals, the Internet, and word-of-mouth. Various other methods were grouped together due to their relatively infrequent use.

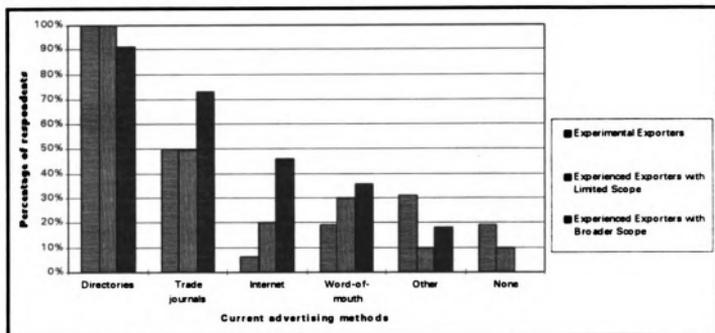


Figure 6.5 - Respondents' Current Method(s) of Advertising, by % of Exports.

In terms of advertising, almost all the companies surveyed were listed in some form of manufacturers' directory. This should have been obvious since the list of perspective companies to be surveyed came from the Michigan DNR Wood Products Manufacturers Directory. The only company which wasn't listed in a directory (to its knowledge) was one which was referred to by another respondent. The Experienced Exporters with Broader Scope had higher percentages of use of trade journals, the Internet, and word-of-mouth. Other forms of advertising mentioned by respondents included direct mail, videos, yellow pages, newspapers, associations, and trade shows.

The last item of competitiveness addressed current sales and distribution activities, in terms of their sales force elements. Figure 6.6 shows current use of different sales elements among those firms separated according to percentages of exports.

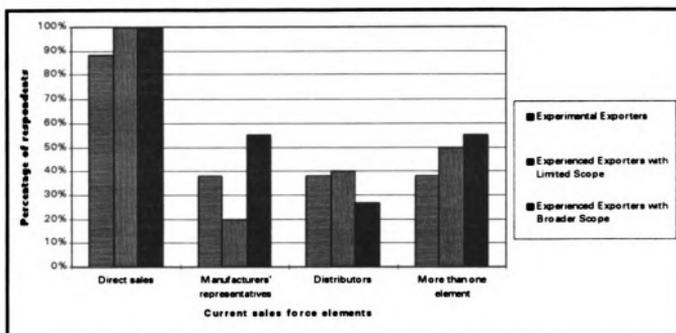


Figure 6.6 - Respondents' Sales Force Elements, by % of Exports.

It was apparent that all three groups placed a heavy emphasis on maintaining a direct sales force, and there was no discernible pattern among the three groups in terms of their use of distributors. The Experienced Exporters with Broader Scope had the highest usage of manufacturers' representatives. There was a slight increase in the use of a combination of two or more elements with the increase in export activity.

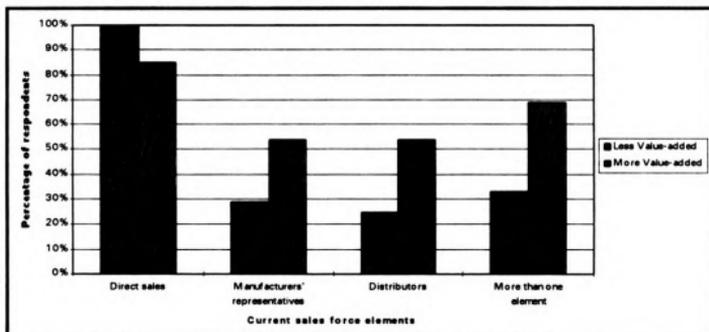


Figure 6.7 - Respondents' Sales Force Elements, by Value-added.

When looking at the respondents separated by value-added (Figure 6.7), both groups of firms placed the heaviest emphasis on direct sales, although higher percentages of those companies adding more value used manufacturers representatives and distributors to handle sales. Overall, twice the percentage of the firms adding more value utilized more than one sales element.

Motivation for Going International

There are many reasons why a company considers exporting products to the international market. Five primary reasons were presented to the respondents, and they were asked to rate each category on a scale of 1 to 5, with 1 being “not important” and 5 being “very important” (Figure 6.8). The five categories included the disposal of excess products and/or utilizing excess production capacity, stabilizing seasonal market fluctuations, supplementing domestic sales with occasional export sales, reducing risks by selling to diverse markets, and contributing to the long-term expansion of the firm.

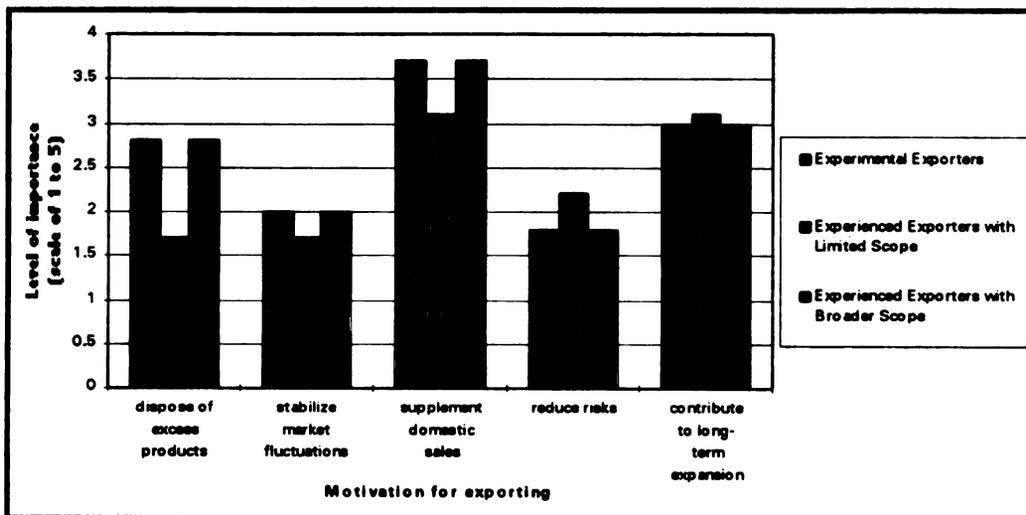


Figure 6.8 - Respondents' Primary Reasons for Exporting, by % of Exports.

Overall, all three groups considered each reason for exporting fairly consistently, with the Experienced Exporters with Limited Scope and Experienced Exporters with Broader Scope giving fairly similar responses to each reason except for disposing of excess products and/or utilizing excess production capacity. The most important reason listed by all groups was to supplement domestic sales, with contributing to the long-term expansion of the firm second-most important. The third most important

reasons for exporting given was disposing of excess products, while stabilizing seasonal market fluctuations and reducing risks by selling to diverse markets were rated least in importance.

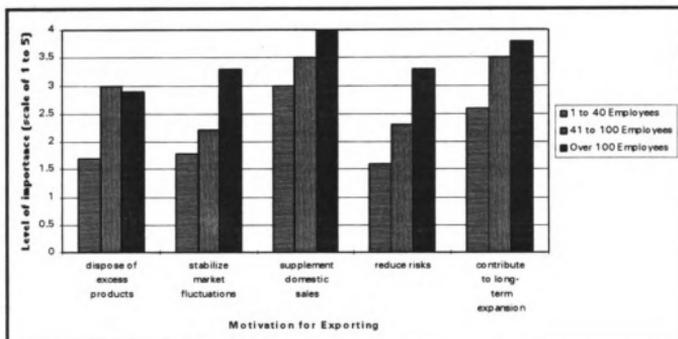


Figure 6.9 - Respondents' Primary Reasons for Exporting, by Firm Size.

When considering firm size (Figure 6.9), it is apparent that as the company size increased, so did the importance given for each reasons for exporting. The only reason given which did not fit this trend was disposing of excess products, which the medium- and large-sized firms rated approximately equal. As with the categories based on percentages of exports, supplementing domestic sales and contributing to the firms' long-term expansion were the most important reasons for exporting.

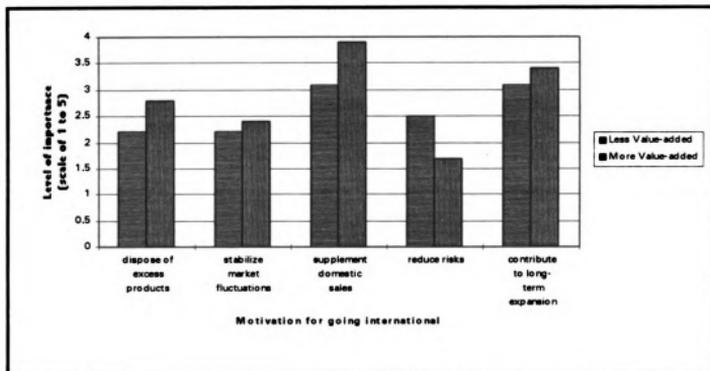


Figure 6.10 - Respondents' Primary Reasons for Exporting, by Value-added.

There was also a noticeable trend in reasons for exporting when categorizing the firms by levels of value-added (Figure 6.10). With the exception of reducing risks by selling to diverse markets, the firms adding more value to their primary export products rated all reasons for exporting somewhat higher than the those firms adding less value to their export products.

Commitment of Owners and Top Management

A very important prerequisite to establishing successful export operations lies in establishing the commitment of upper management to going international. Several questions were considered in analyzing the survey respondents, the first of which dealt with the length of time management was willing to wait in order to break-even on their investments to develop international sales (Figure 6.11). Return on Investment (ROI) is defined as a measure of performance of an investment, calculated as the ratio of the return from the investment to the average amount invested (Hoskin, 1994). ROI is generally computed as follows:

$$\text{ROI} = \text{Return} / \text{Average Investment}$$

The types of marketing investments for exporting would include (for example) travel to the foreign markets, developing customer and distributor relationships, and market and product research. Five

lengths of time were proposed to the respondents, in periods of up to 2 months, up to 6 months, up to 1 year, up to 2 years, and over 2 years.

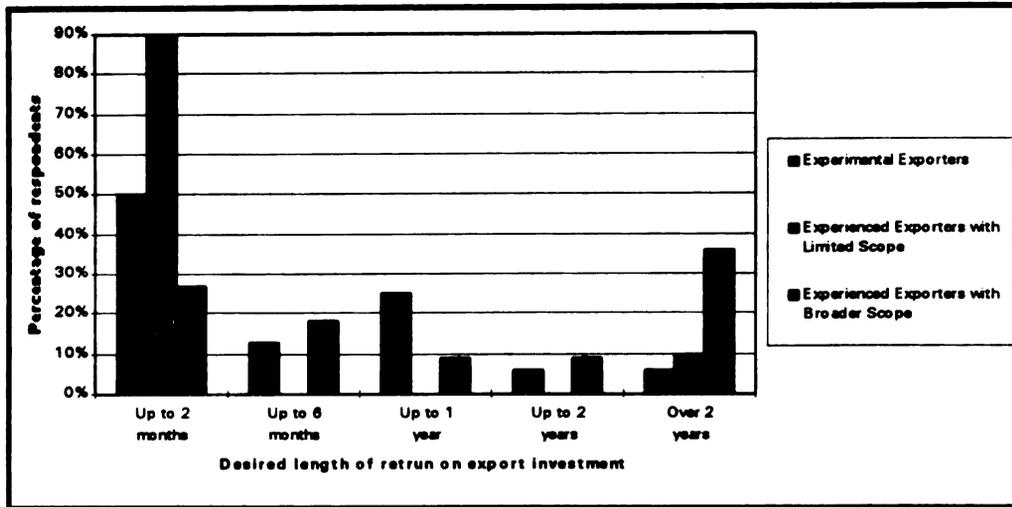


Figure 6.11 - Length of Time Which Top Management is Willing to Wait in Order to Achieve Return On Investment (ROI) for Foreign Sales Investments, by % of Exports.

For the majority of the Experimental Exporters and the Experienced Exporters with Limited Scope, a short-term ROI (up to 2 months) was most desirable. This contrasts with the Experienced Exporters with Broader Scope, of whom the majority were willing to wait longer periods of time (up to 6 months and more) to achieve returns on their international business investments.

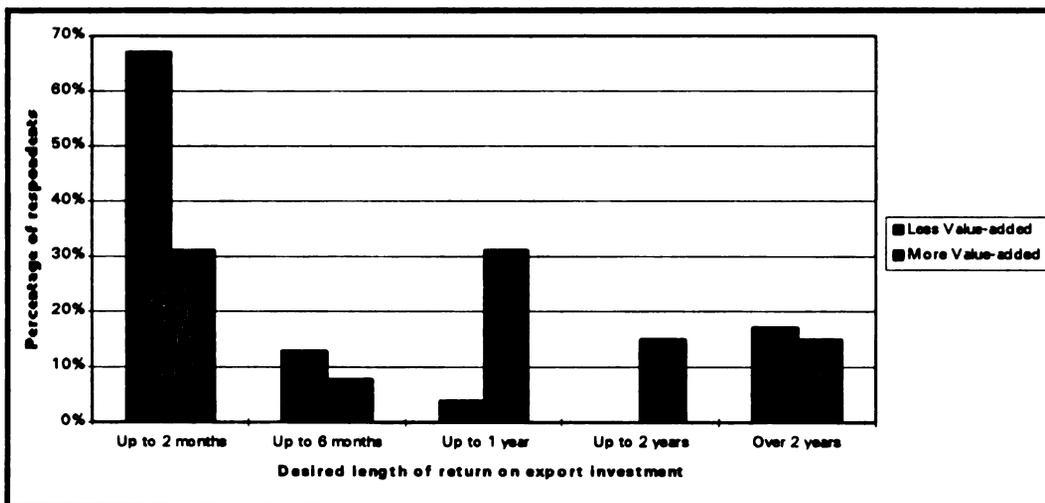


Figure 6.12 - Length of Time Which Top Management is Willing to Wait in Order to Achieve Return On Investment (ROI) for Foreign Sales Investments, by Value-added.

When looking at desired export ROI according to value-added (Figure 6.12), those companies which add less value place a heavy emphasis on achieving a short return on their export investments, while the majority of companies adding more value to their products are willing to wait six months or more to break even on their international marketing investments.

The next category pertained to future exports as a percentage of total sales in 3 to 5 years. This was compared to current average export percentages to determine which companies should be grouped into the three respective descriptions of exporting activity (Table 6.5).

Table 6.5 - Respondent Current Export % of Total Sales, Future Target % of Export Sales, and Expected Export % Increase, by % of Exports.

	Average current export % of total sales	Average target export % of total sales within 3 to 5 years
Experimental Exporters	3%	11%
Experienced Exporters with Limited Scope	31%	32%
Experienced Exporters with Broader Scope	21%	42%

The data in Table 6.5 shows the trends according to how the three groups were defined according to export activity. The three groups gave increasing amounts of future export target percentages, with regard to increasing levels of exporting activity. The Experienced Exporters with Broader Scope had the largest increase in target exports. It was interesting to note that the Experimental Exporters had a larger desired increase in exports as a percentage of total sales than that of the Experienced Exporters with Limited Scope. This may be a result of categorizing the respondents first by current levels of exports; those companies which are not exporting a large percentage of their total production but interested in increasing their export percentages may inherently desire a larger increase of exports in the future.

Table 6.6 - Respondent Current Export % of Total Sales, Future Target % of Export Sales, and Expected Export % Increase, by Value-added.

	Average current export % of total sales	Average target export % of total sales within 3 to 5 years	Difference of current export % and future target export %
Less Value-Added Exporters	20%	32%	12%
More Value-Added Exporters	8%	20%	12%

When looking at export percentages according to value-added (Table 6.6), it is apparent that the companies adding less value to their export products have higher current percentages of exports (20%) than those which add more value to their products (8%), yet both groups have the same desired increases of exports (12%, respectively). Thus it appears that the companies whose primary export products are hardwood logs, lumber and veneer export higher percentages than the older firms exporting semi-finished goods.

The respondents were also asked to identify the level of export activity they expected to develop within the next 3 to 5 years (Figure 6.13). The levels of activity were (in order of increasing amounts) either occasional/as required, regular with no target level of export sales, regular with a moderate level of export sales, or regular with an aggressive level of export sales.

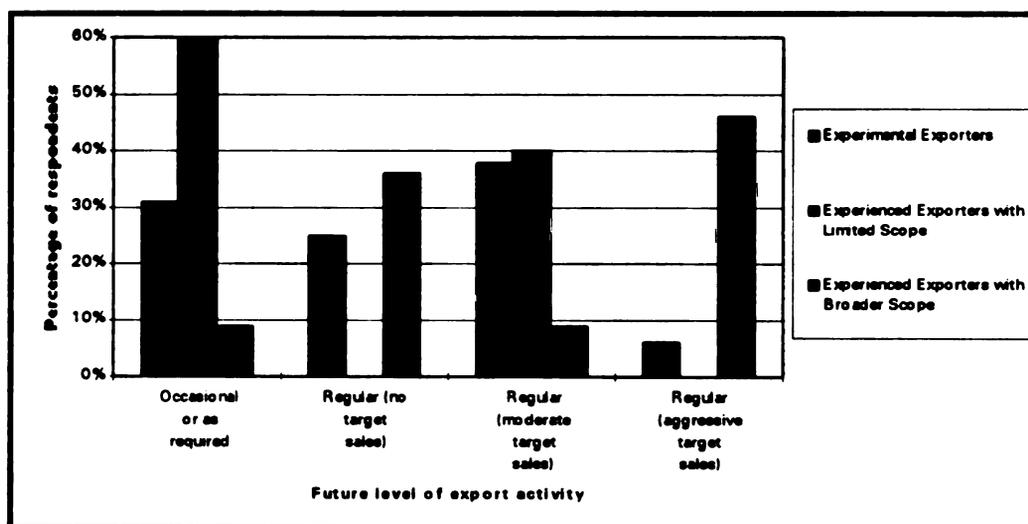


Figure 6.13 - Future Level of Export Activity (within 3 to 5 years) , by % of Exports.

The levels of activity specified by all three groups of respondents varied throughout the range of activity levels, with no apparent pattern. The Experimental Exporters and the Experienced Exporters with Limited Scope were predominantly in the lower three ranges of activity, while the Experienced Exporters with Broader Scope were concentrated in the upper three levels, indicating an increasing level of target export activity with increasing levels of export percentages.

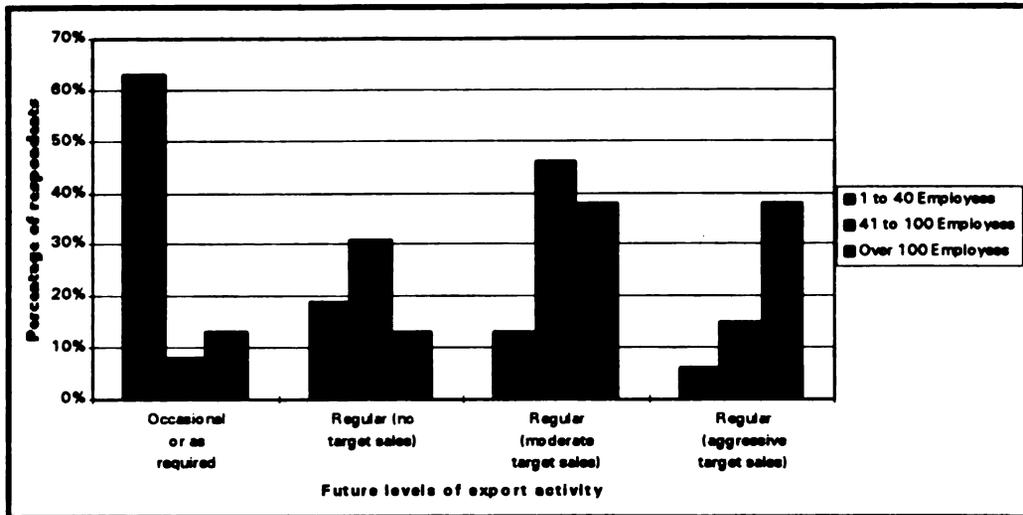


Figure 6.14 - Future Level of Export Activity (within 3 to 5 years) , by Firm Size.

Future levels of export activity based on firm size (Figure 6.14) showed a concentration of the small firms toward exporting on an occasional basis, medium firms exporting on a regular basis with either no target sales or moderate target sales, and large firms exporting on a regular basis with aggressive levels of target sales.

One method of ascertaining the level of motivation toward going international was by determining what level of resources, with regard to the allocation of manpower, the firm was willing to apply toward expanding international business activity. The respondents were asked to select from four amounts of time which they would be willing to use from their sales forces (Figure 6.15). These included manpower amounts of occasional/as required, up to half-time of one person, up to full-time of one person, and more than one full-time person.

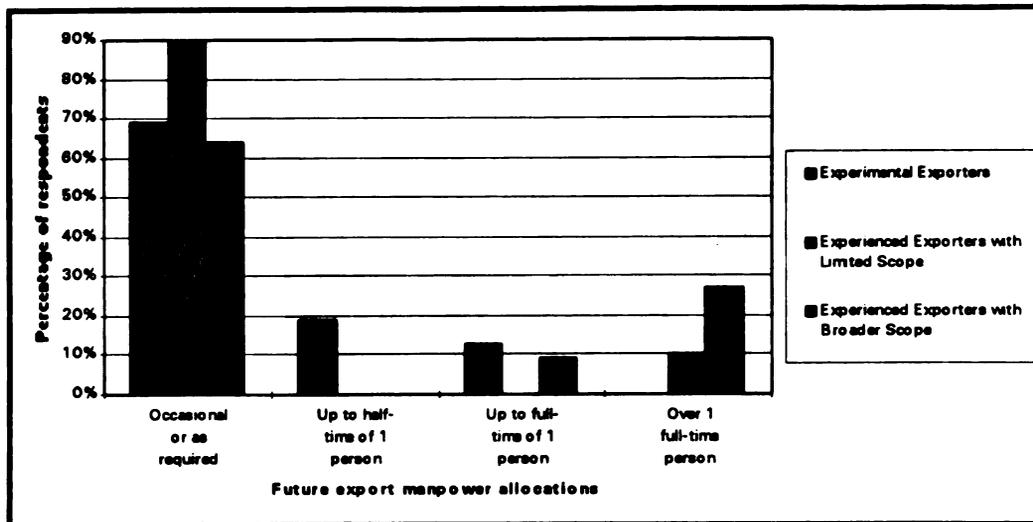


Figure 6.15 - *Levels of Manpower to be Allocated Toward the Expansion of International Business Activity, by % of Exports.*

It is apparent that most respondents were only willing to allocate sales personnel on a part-time basis. This would be indicative of the allocation of personnel only to accommodate the needs of exporting at levels in which they are required, except for the fact that some respondents did indicate they would allocate personnel at some level other than merely when it was required. The fact that the less active exporters were not willing to allocate full-time personnel to exporting may be a result of their smaller sales staffs. One third of the Experienced Exporters with Broader Scope did mention a willingness to have one full-time person or more than one person assigned to export sales, yet overall these companies were twice as large in terms of personnel and, on the average, had one more salesperson per company.

The last questions in this section pertained to current sales channels and sales channels to be used within the next 3 to 5 years (Figures 6.16 and 6.17). These included domestic middlemen, foreign middlemen and foreign product distributors, and direct sales to foreign customers. In addition, the use of a combination of two or more sales channels was calculated. In order to analyze future sales channels, it was necessary to look at the current channels utilized by the respondents.

In addition to the current sales channels, the respondents were also asked if they were exporting in response to unsolicited orders only. They were not asked this question in terms of future sales channels, since all respondents identified one or more of the other three future channels, and it was

assumed that all companies would respond to an unsolicited export order in the future if they were still involved in international business transactions.

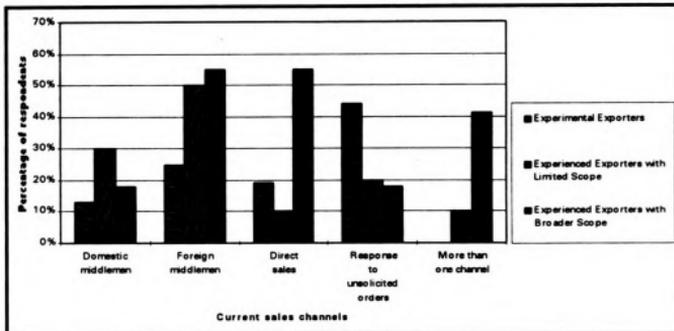


Figure 6.16 - Current Sales Channels, by % of Exports.

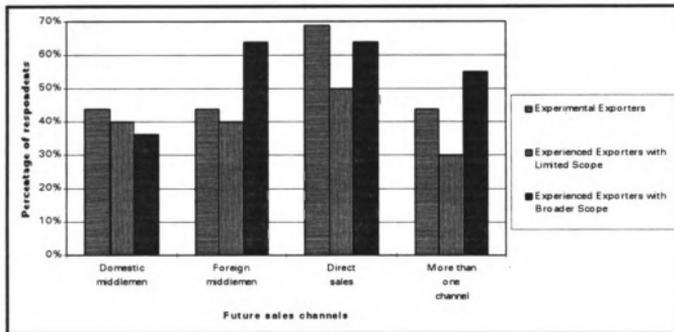


Figure 6.17 - Sales Channels to be Utilized for Exporting Within the Next 3 to 5 years, by % of Exports.

The use of different current channels was scattered among the groups, with no apparent patterns of use according to the levels of export activity. The most Experienced Exporters with Broader Scope had the highest percentage of firms which utilized a combination of two or more channels, although they equally favored direct sales and the use of foreign middlemen. The less active Experienced Exporters

with Limited Scope favored the use of foreign middlemen, followed by domestic middlemen, and then responding to unsolicited orders. The least active Experimental Exporters primarily responded to unsolicited orders, while a minority of them chose to use foreign middlemen, domestic middlemen, and direct sales.

With regard to future sales channels, all three groups indicated an increase in the use of all channels, except the Experienced Exporters with Limited Scope reducing the use of foreign middlemen by about 10%. All three groups also showed signs of increasing the use of a combination of domestic middlemen, foreign middlemen, and direct sales.

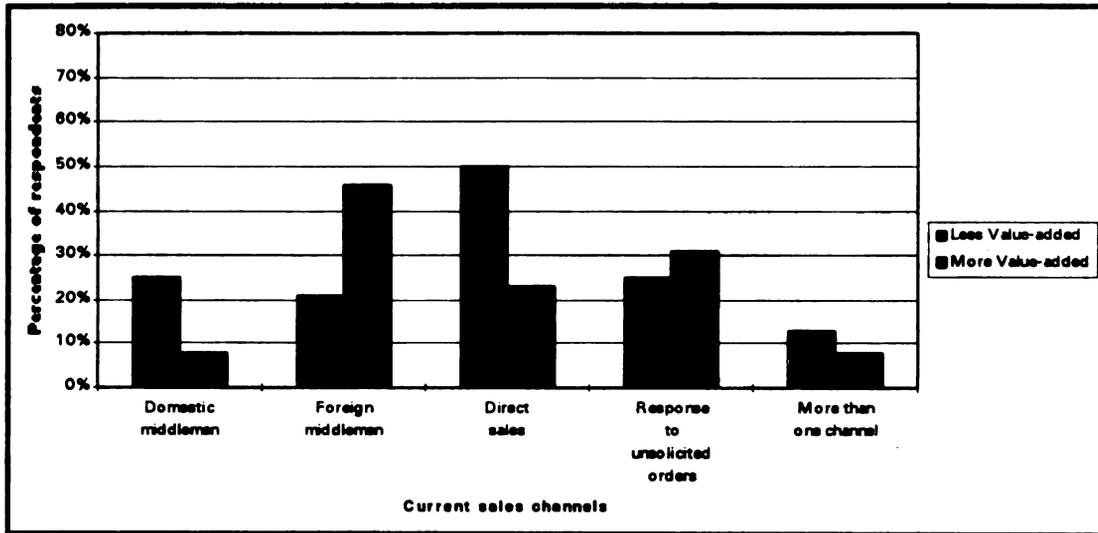


Figure 6.18 - Current Sales Channels, by Value-added.

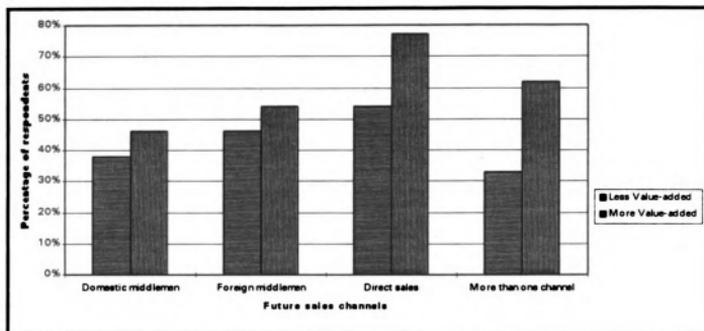


Figure 6.19 - Sales Channels to be Utilized for Exporting Within the Next 3 to 5 years, by Value-added.

When studying current sales channels based on value-added to export products (Figures 6.18), the companies adding less value favored the use of direct sales most, while those firms adding more value favored the use of foreign middlemen. Responding to unsolicited orders was fairly equal between the two respondent groups. When looking at future sales channels (Figure 6.19), both groups stated they were interested in increasing the use of all channels, with the more value-added firms stating significant increases in the use of domestic middlemen, direct sales and more than one channel.

Product Readiness for Foreign Markets

There were a variety of products associated with the manufacturers surveyed (see Table 6.7). Initially, the study was focused on Michigan hardwood lumber exporters. The product base was expanded to create a viable population (there were only fifteen hardwood lumber producers contacted which currently exported), and to provide a better analysis on product differentiation in terms of market strategy.

Table 6.7 - Survey Population Breakdown by Primary Export Product Type, by % of Exports.

Type of hardwood product	Number of companies
logs	4
lumber	15
dimension	2
veneer	5
architectural millwork, moldings, and decorative trim	3
flooring and home components	4
furniture, furniture components or miscellaneous products	4
Total	37
(combination of more than one product type)	10

The survey groups were also analyzed according to the primary types of products which they manufacture for export markets (Table 6.8), to determine if there were any differences in the level of export activity according to products offered in international markets.

Table 6.8 - Survey Respondent Groups' Breakdown by Primary Export Product Type, by % of Exports.

Product Type	Experimental Exporters	Experienced Exporters with Limited Scope	Experienced Exporters with Broader Scope	Total Weighted Average (all groups)
logs	6%	30%	0%	11%
lumber	44%	30%	45%	41%
veneer	6%	10%	27%	14%
dimension	6%	10%	0%	5%
millwork	19%	0%	0%	8%
flooring	0%	10%	27%	11%
parts	19%	10%	0%	11%
Total	100%	100%	100%	100%
more than one primary product	19%	20%	45%	27%

All three categories of respondents showed a high percentage of hardwood lumber exports, ranging from 30% to 45% of those companies surveyed, and 41% on an overall weighted average. The Experimental Exporters ranked lumber as their primary export product (44%), with millwork and parts as second highest (19% each). The Experienced Exporters with Limited Scope placed lumber and logs equally high (30% respectively), with the remaining categories ranking equally at 10% each except for millwork. The Experienced Exporters with Broader Scope listed lumber as their primary export product (45%) and veneer and flooring as second highest (27% each). No other products were exported by the

Experienced Exporters with Broader Scope. It is apparent that the Experimental Exporters and the Experienced Exporters with Limited Scope varied most by products offered for export, while the Experienced Exporters with Broader Scope offered only lumber, veneer, and flooring to their international markets.

Interestingly, a higher percentage of the Experienced Exporters with Broader Scope offered more than one primary product for their foreign customers. This does not indicate that all of these companies offer only these products for export, since a portion of firms in all groups indicated that they exported more than one product which did not include their primary export product.

An interesting aspect of the types of products offered by the three respondent groups based on percentages of exports was in the levels of value-added to their products (Figure 6.20). Although there was no noticeable trend in the data, it was apparent that the majority of the firms adding less value to their primary export products were categorized as Experienced Exporters with Broader Scope, indicating that a large portion of these firms had larger percentages of exports and/or more aggressive levels of future export activity.

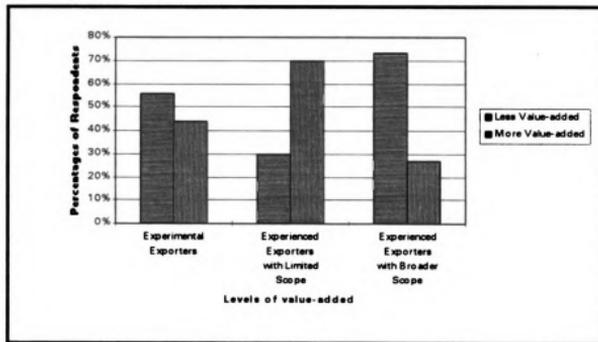


Figure 6.20 - *Levels of Value-added to Export Products, by % of Exports.*

There were three questions which pertained to the respondents' export products and their levels of customer service, which would indicate potential levels of attractiveness in foreign markets (Table 6.9). Two of these pertained to the provision of after-sales support for customers in foreign markets and

whether or not the sales staff made follow-up calls to foreign customers. The third question asked whether or not the company's product(s) and/or product packaging could be made suitable for foreign customers.

Table 6.9 - Respondent Sales and Product Characteristics, by % of Exports.

	Possess a willingness to provide after-sales support for foreign customers	Execution of follow-up calls to foreign customers	Product and/or packaging made suitable for foreign customers
Experimental Exporters	81%	75%	75%
Experienced Exporters with Limited Scope	50%	60%	90%
Experienced Exporters with Broader Scope	73%	73%	91%

It was apparent that none of the three groups placed an extremely high level of importance on providing after-sales support to foreign customers or in making follow-up calls to customers after the sales transactions had taken place, as indicated by average percentages in the 50% to 80% range. It did seem as if all three groups considered their products and/or packaging able to be modified for foreign markets, as evidenced by average percentages in the 75-91% range; when compared on the basis of value-added, 92% of the companies adding less value indicated an ability to modify their products and/or packaging for foreign markets, while only 69% of the firms adding more value indicated this characteristic.

Knowledge of International Business Elements

The knowledge of a company's sales and export sales team may ultimately have an effect on the sales performance of the firm, especially in the international business environment. The respondents were asked several questions pertaining to the companies managers' and sales teams' knowledge on a variety of issues. Figure 6.21 illustrates the differences between five different categories of knowledge, including foreign market costs, tariffs and non-tariff trade barriers, foreign competition, legal systems which affect legal agreements, foreign currencies, and export information sources.

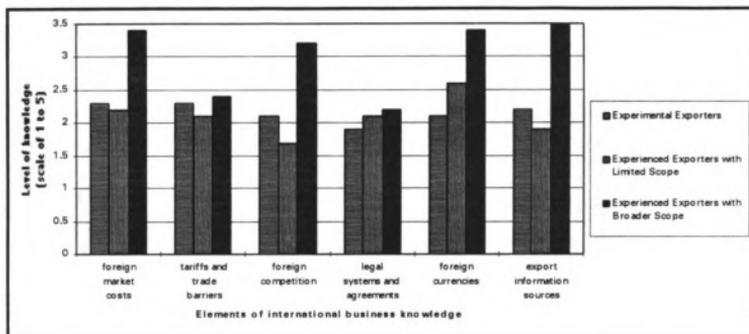


Figure 6.21 - Respondents' Self-rated Levels of Knowledge Pertaining to International Business Elements (scale of 1 to 5) , by % of Exports.

Overall the Experienced Exporters with Broader Scope had rated themselves as having considerably higher levels of knowledge in all six categories. Those companies exporting 5% or less of their products rated themselves fairly close to the Experienced Exporters with Limited Scope, and marginally higher in four out of the six categories. The one category in which all three groups rated themselves fairly closely was in legal systems and agreements which affect legal agreements, which also had the lowest scores for all three groups (except foreign competition for the Experienced Exporters with Limited Scope).

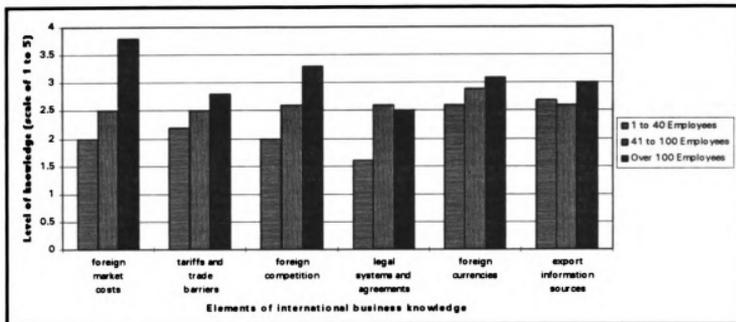


Figure 6.22 - Respondents' Self-rated Levels of Knowledge Pertaining to International Business Elements (scale of 1 to 5) , by Firm Size.

When analyzing the data according to firm size (Figure 6.22), it is apparent that as the size of the firm increases, so does the self-rated levels of knowledge of international business elements. This trend was evident with all six elements except knowledge of legal systems and agreements where the medium- and large sized firms rated themselves fairly equally, and in export information sources where the small- and medium-sized firms also rated themselves approximately the same.

Experience and Training

Another important factor in establishing a competitive export staff is in building the levels of experience and training of the team member(s). Tables 6.10 and 6.11 list several areas of experience which may assist an export manager in conducting business more efficiently, and the percentages of respondents within each group which had some level of experience in (or knowledge of) each item. These items include receiving training in cross-cultural negotiations, having a foreign language competency, and attending export seminars or training programs. Other areas of interest include participating in trade shows or fairs, using government and/or private information services, and belonging to trade organizations.

Table 6.10 - Percentages of Respondents with Experience in Areas of International Business, by % of Exports.

	Training in cross-cultural negotiations	Foreign language competency	Attendance export seminars or training programs
Experimental Exporters	13%	13%	31%
Experienced Exporters with Limited Scope	0%	0%	30%
Experienced Exporters with Broader Scope	9%	27%	36%

Table 6.11 - Percentages of Respondents with Experience in Areas of International Business, by % of Exports.

	Participation in trade shows or fairs	Use of government and/or private information services	Belong to trade organizations or associations
Experimental Exporters	44%	44%	81%
Experienced Exporters with Limited Scope	10%	20%	70%
Experienced Exporters with Broader Scope	55%	73%	73%

All three groups of respondents had very low percentages (0-27%) in both cross-cultural negotiation training and foreign language competencies. Low scores (10-55%) were also shown in attending export seminars and participating in trade shows. The percentage range increased (20-73%) with the use of information sources, and all three groups had higher percentages (70-81%) with belonging to trade associations. The lowest averages were indicated by the Experienced Exporters with Limited Scope, while the Experimental Exporters fared marginally higher. The Experienced Exporters with Broader Scope had the overall highest percentages, indicative of higher levels of experience and interaction with entities associated with international business activities.

Nonexporters

Of the 103 companies listed in the Michigan DNR data base, 37 firms were producing but not actually exporting hardwood products within the previous two years. These firms had been listed in the Michigan DNR directory as exporters, but for a variety of reasons were not currently exporting their

products. These firms represent a non-random sample of non-exporters in Michigan producing similar products to those of the survey.

Of the 37 firms not currently exporting, only 17% indicated an interest in developing export markets for their products. Figure 6.23 illustrates the percentages of respondents within this group which gave different reasons why they did not export.

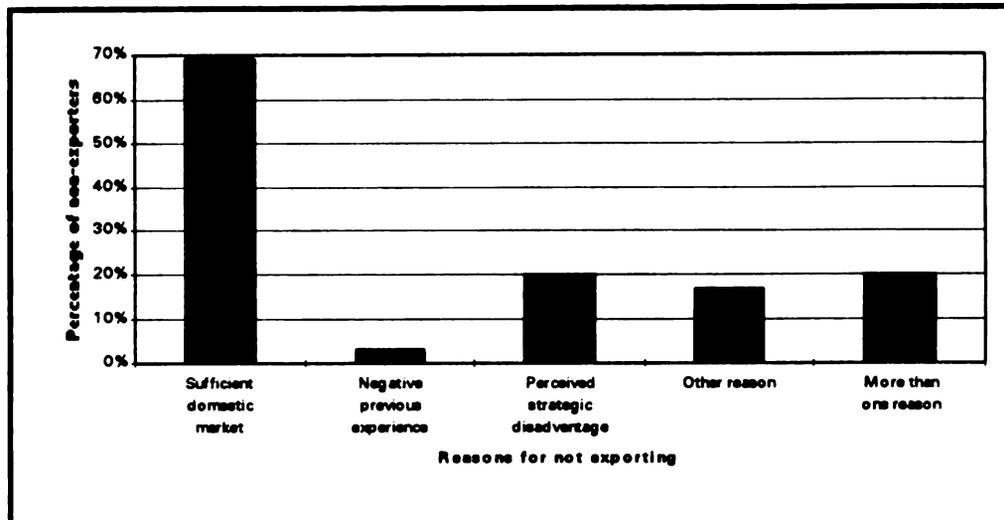


Figure 6.23 - *Non-exporters' Reasons for Not Exporting.*

The respondents were able to give more than one reasons why they did not export, although most (80%) stated only one reason. The primary reason given for not exporting (69% of respondents) was a satisfaction with the domestic market. In addition, one firm maintained that they had attempted exporting in the past but had a negative experience in doing so, and 20% felt that they had some sort of perceived strategic disadvantage. Negative previous experiences included having export orders canceled. Perceived strategic disadvantages include not having an adequate inventory base to fill export orders, not owning dry kilns, not being able to afford container loading equipment, and not being able to compete effectively due to the higher transportation costs associated with exporting.

It is obvious that most of the companies contacted which were not interested in exporting cited a sufficient domestic market as their primary reason for not exporting. This issue, in addition to perceived strategic disadvantages such as a lack of dry kilns or insufficient inventory, coincide with the findings of

Hammett and Deforest (1993) and Ifju and Bush (1994). Negative experiences may cause a firm to hesitate from attempting exporting (Hammett and DeForest, 1993). It should be noted that most business ventures should be taken with the rational conception that problems or failure in any endeavors, both domestic and foreign, are situations which will eventually increase the overall knowledge of business. Perseverance is necessary to succeed as an exporter (Gottko and McMahon, 1989a).

Chapter 7

DISCUSSION

In analyzing the survey results, the aggregate results of the survey were compared to “optimum” answers receiving high scores in the CORE program. This chapter comments on the survey results, and addresses some fundamental principles associated with preparing a firm to execute a successful international business strategy.

Competitive Capabilities in the Export Market

It has been shown through empirical studies that companies which excel in their domestic markets are inherently better suited to initially succeed in foreign markets (Cavusgil and Nason, 1996). This section focuses on the characteristics of the respondents in an attempt to reveal characteristics which may indicate success in firms considering engaging in international business activity.

Company Size

The general firm characteristics reveal a trend of increasing number of employees with the increase in level of export activity in terms of percentages of exports. This is parallel to the findings of Hammett et al. (1991) with respect to hardwood lumber exporters. It should be noted that the Experienced Exporters with Broader Scope, which had considerably larger number of employees, also had (on the average) an additional sales person, perhaps offering an opportunity to develop an export manager from within the organization. In terms of value-added to products for export, those companies adding more value also had higher numbers of employees, although this may be due in part to the various tasks associated with higher levels of manufacturing.

Although the size of the firm may influence the resources available to expand into international markets, firms may not want to consider this as being a significant factor in the decision to export, as indicated by Cavusgil and Nason (1996) and Ringe et al. (1987a). Obviously, larger firms may inherently

have more resources to allocate toward expanding international activity (Cavusgil, 1984). These resources include manufacturing capacity (Hammett et al., 1991), monetary resources, and experienced personnel (Cavusgil and Nason, 1996). Although there is inconclusive evidence, larger firms tend to do better in export marketing (Cavusgil and Nason, 1996), but in contrast, hardwood lumber firm size has not been found to be a significant factor in determining export success (Ringe et al., 1987a).

Company Age

The results of the survey show a decreasing age of the firms with increasing export percentages of total production, although the mean age for the youngest group was still twenty years. This finding contradicts the past research on exporters, and may reflect a more proactive attitude toward exporting in the younger, more active Michigan hardwood products companies. This may also coincide with the types of equipment owned by the younger firms, such as dry kilns, planers, etc., which would enable the companies to better tailor their products to foreign customers' needs.

When comparing firms on the basis of value-added, it is apparent that those firms adding more value to their products are twice as old as the companies exporting less value-added products. Since those firms adding more value to their products had lower percentages of exports in terms of total annual production, it would hold that the age of a firm does not necessarily indicate higher levels of export activity.

Scope of Marketing

In terms of scopes of marketing as a function of percentages of exports, it appears that only the Experienced Exporters with Broader Scope had a primarily international emphasis, while the other two groups placed more attention toward the domestic market on a national basis. This may coincide with the fact that the Experienced Exporters with Broader Scope had inherently higher percentages of exports. While those firms which had lower percentages of exports may have a more national emphasis on the current marketing activities, they may develop their marketing toward a more international focus if they intend to build their levels of international sales.

Those companies which added more value to their export products also had higher percentages of international marketing scopes than the firms which added less value. Although the more value-added

firms have lower overall percentages of exports, they have more international scopes of marketing. This may be due to higher levels of competition in the domestic market within more finished product categories such as flooring, dimension and panels, or simply because they may be able to achieve higher profit margins in foreign markets than those firms adding less value to their export products. Another possible reason may be due to more complicated market structure or difficult market penetration associated with semi-finished goods.

When looking at the respondents according to firm size, as the average firm size increased, so did the scope of marketing. Since firm size decreased with higher levels of export percentages (Figure 6.2), this may be due to larger firms having to seek a broader market base in which to sell their products. As a firm grows larger, it may have to seek new markets as it saturates local and regional markets. In addition, larger firms may have an inherently larger available pool of manpower to broaden their marketing efforts, as indicated by an increasing number of sales persons with increasing company size.

Companies interested in exporting should consider that by serving an increasing national base of customers, it may be possible to develop skills necessary in expanding into foreign markets. Research has found that active hardwood lumber exporters sold more of their production to areas outside their local area or state (Hammett et al., 1991), which would increase the level of experience of these firms in serving geographically diverse markets.

Current Export Markets

While many markets were being served by each respondent group, the three markets receiving the heaviest amounts of exports were Canada, Europe, and Japan. This is a very likely scenario since Japan ranked first as the heaviest importer of US hardwood products in 1995-96, while Canada ranked number two and Mexico placed sixth (USDA Foreign Agriculture Service, 1996). These rankings also hold for total values of imports of U.S. hardwood lumber. An interesting aspect of this export market information lies in the fact that while 50% of the first two groups exported to more than one market, 75% of the Experienced Exporters with Broader Scope serviced more than one major market. This coincides with current empirical research which indicates that more active exporters focus on more than just one foreign market (Gottko and McMahon, 1989b).

A careful analysis of potential markets warrants close attention to market information and its subsequent analysis. Appendix C describes market analysis in greater depth, while Appendices H and I provide examples of market-specific information which may be used in analyzing markets for export potential.

Methods of Advertising

Advertising and promotions are the principal methods producers use to improve their corporate recognition (Guldin, n.d.). There are a variety of methods used in advertising, and many of the survey respondents utilized more than one. This is parallel to the findings of Hammett and Deforest (1993). Manufacturers' directories was used by nearly all the respondents, a point attributable to the fact that the data base used to contact these companies was derived from the Michigan DNR Forest Products Manufacturers Directory. Trade journals were also popular among the respondents, and would prove to be an effective method of advertising since they are directly related to the types of companies and products associated with those firms which advertise in them.

Overall, the Experienced Exporters with Broader Scope utilized the widest variety of advertising instruments. This may be due to the fact that these companies are attempting to cover a broader range of markets. The increase in marketing scope and percentages of exports in the Experienced Exporters with Broader Scope may suggest that a company which wants to export its products should consider increasing activity in foreign market advertising (Hammett et al., 1991). This may serve to increase potential foreign buyer awareness of the company and its products, as well as develop the company's reputation on a global level within the industry.

Current Sales Force Elements

A final note on competitive capability pertains to the firms' current sales elements. One of the complex aspects of export marketing is the need to work with additional distribution channels and other types of intermediaries (Cavusgil and Nason, 1996). When separated according to percentages of exports, all three groups placed a heavy emphasis on having a direct sales force and a low emphasis on using distributors, while the Experienced Exporters with Broader Scope placed a higher importance on using manufacturers' representatives than the other two groups. The interesting aspect of this information lies

in the fact that as the percentages of export activity increased, so did the use of a combination of the sales force elements.

When considering the respondents according to the value-added to their export products, both groups placed a heavy emphasis on direct sales, although the firms adding more value to their products placed heavier emphasis on using distributors and manufacturers' representatives than those companies adding less value. The companies adding more value, on the average, had a higher percentage of companies which utilized more than one sales element in selling their products overseas.

In developing export markets, companies should consider building a strong sales force presence incorporating a combination of all three sales elements: direct sales force, manufacturer's representatives, and distributors (Cavusgil and Nason, 1996). This assumption is reinforced by current research channel (Hammett et al., 1993) and the fact that the Experienced Exporters with Broader Scope showed the highest percentage of using more than one sales element.

Motivation for Going International

There are many reasons why a company would seek foreign markets as a means to expand market share. The following items were proposed to the survey respondents in order to gain a better insight as to why Michigan hardwood products exporters sought foreign markets for their products. These include some of the more important issues facing any firm wishing to engage in international business, according to the CORE IV program.

As noted earlier, those firms which added more value to their primary export products rated most of the reasons for exporting somewhat higher than the firms which added less value to their export products. This may indicate that the companies which add less value have greater chances of selling their products in the domestic market (and don't consider exporting as important to the profitability of the firm), or that those firms adding more value exist in a competitive domestic market and look toward foreign markets as a means of expanding total annual sales.

Dispose of Excess Products

Disposing of excess products and utilizing excess production capacity was an important reason for exporting among the Experimental Exporters and Experienced Exporters with Broader Scope, when

categorized according to percentages of exports. This may be attributed to the size of the firms in questions, since this was not an important reason for the small companies, but rated among higher among the medium- and large-sized companies. This may be attributable to the fact that larger companies may have inherently larger inventories, and would benefit from expanding sales in foreign markets to eliminate items not readily salable in the domestic market.

Stabilize Market Fluctuations

All three respondent groups, categorized by percentages of exports, rated the stabilization of market fluctuations fairly low. This was also an unimportant reason when looking at the respondents according to firm size. This finding coincides with suggestions in international business literature (Hackett, 1977), but diverges with research on hardwood lumber exporters (Hammett and Deforest, 1993).

While export markets can provide a cushion against downturns in domestic demand, they only do so when overseas markets have been assiduously cultivated during times of domestic prosperity (Guldin, n.d.). The constant development and maintenance of export markets, both in times of domestic market prosperity and down-turns, should be considered for companies interested in expanding international sales, for “although it is useful for some companies to be able to sell products into another country because its seasons are opposite of the home market, it is a poor reason to get into foreign markets solely for the purpose of stabilizing market fluctuations” (Cavusgil and Nason, 1996). Although there is nothing wrong with developing certain markets when others decline in activity, the opportunistic attitude toward cultivating foreign markets during times of domestic market slumps, and then decreasing activity or even ignoring them in times of domestic market growth may give foreign customers a negative impression of the firm’s commitment to servicing their needs on a continual basis.

Supplement Domestic Sales

It is apparent that the primary reason for exporting among all three respondent groups is to supplement domestic sales with export sales, when separating them both in terms of percentages of exports and firm size. Although supplementing domestic sales by exporting to foreign markets may increase annual sales, exporting solely for this reason may inhibit the development of commitment to full-scale international business activity. “To start exporting only for the purpose of supplementing domestic

sales is a poor reason, and exporting for such companies is never likely to be important to the company's sales and profitability" (Cavusgil and Nason, 1996).

A firm which intends to make exports a viable element of their business strategy should make an honest commitment to an export program by setting aside a specific percentage of output for export that can be guaranteed for three to five years (Keller, 1981). Because the amount of output allocated for export influences the choice of marketing channels, the initial commitment of volume and assortment of products should be made prior to beginning the export feasibility study (Guldin, n.d.).

Risk Reduction

When looking at the respondents according to percentages of exports, the more Experienced Exporters with Broader Scope rated reducing risks by selling to diverse markets as the least important of the five reasons given for exporting. This contradicts the suggestions of current literature on export strategy, since empirical studies of exporting suggest that successful exporting is associated with the willingness to take risks. Cavusgil and Nason (1996) note that "experienced exporters often comment that export sales can compliment domestic sales very favorably, and also that balancing marketing efforts between both domestic and export markets gives the international marketer an edge over the purely domestic marketer."

The data does indicate an increasing level of importance for reducing risks with increasing average size of the firm. In fact, other research on Southern hardwood lumber exporters suggests that risk reduction by creating more diverse markets is an important factor in these firms' decision to expand on an international basis (Hammett and DeForest, 1993). Their findings also concluded that exporting Southern hardwood lumber companies were, on the average, twice as large as non-exporters.

Although many firms inherently consider international business transactions as more risky, due to the possibility of product claims or non-payment, a firm engaging in international business should seek ways to protect itself through the compliance of financial contracts. Ifju and Bush (1994) suggest that U.S. hardwood lumber exporters are most interested in reducing the risk involved in transactions with foreign buyers and that an increased emphasis should be placed on the types of services which provide a means to improve risk management.

Long-Term Expansion

The second-most important motivation for exporting among all three groups, both in terms of percentages of exports and firm size, was to enhance the firms' long-term expansion. "A company should only launch into export markets if that business will contribute to the company's long-term expansion" (Cavusgil and Nason, 1996). From the initial phases of considering exporting, hardwood lumber companies should consider taking a long-term approach in developing their organization as well as their export markets.

Additional Considerations

Another reason given to export was to respond to unsolicited orders. Although there is nothing wrong with taking unsolicited orders to learn about foreign markets, a strategy relying solely on filling such orders will never yield significant favorable results (Cavusgil and Nason, 1996). One primary reason for exporting involves realizing potentially higher profit margins from foreign sales (Gottko and McMahon, 1987a). Other favorable reasons for exporting applicable to hardwood lumber manufacturers include expanding into key world markets, enhancing the company's competitiveness by acquiring market knowledge, improving long-term return on investment for the entire company, and preempting aggressive moves of other competitors in global markets (Cavusgil and Nason, 1996). Higher market growth outside of the United States has also been a primary motive for many firms seeking to increase their market share (Hammett and DeForest, 1993).

Commitment of Owners and Top Management

Successful exporting requires the commitment of top management (Brady, 1978; Marion, 1981; Dichtl, Leibold, Köglmayr and Müller, 1983; Ringe et al., 1987a). The following items were considered determinants of the survey respondents overall commitment to exporting, to ascertain how each group regarded their current and future international business endeavors.

Return on Investment

Achieving a rapid return on investment is desirable, but when expanding into foreign markets it may be necessary to expect a slower return than in domestic markets (Cavusgil and Nason, 1996). Both the Experimental Exporters and Experienced Exporters with Limited Scope desired a rapid return on their

investments, while the Experienced Exporters with Broader Scope gave a higher emphasis on longer ROIs. This indicates that the more Experienced Exporters with Broader Scope had a much longer-term vision of their international business activities.

When looking at the respondents according to the levels of value-added, it is apparent that the majority of the companies exporting lower value-added products sought an ROI within two months of their investment, whereas the majority of the companies adding more value were willing to wait six months or longer. Since those companies adding more value to their products have more international-related scopes of marketing, as well as potentially more capital tied up in the finished product, they may be willing to wait longer to achieve returns on their investments. It may also indicate a willingness to sacrifice profits in the short-term to achieve a sustained competitive advantage by expanding markets overseas in the long-term.

Cavusgil and Nason (1996) explain that “experienced exporters suggest an initial period of approximately two to three years before exporting effort return profits.” Cavusgil and Nason also indicate that “if current research points to a single most important determinant of success in foreign markets, it has to be a whole-hearted commitment to developing export markets, which means a willingness to take reasonable risks and sacrifice profits and ROI in the short range.”

Hardwood lumber companies often have much-needed capital invested in their inventory, and desire a rapid turnover rate to compensate for low profit margins. It should be noted that a company may not want to consider expansion into any market if it does not expect to achieve a profit in the long-term and build a sustained competitive advantage. This would mandate the need for thorough market research to determine costs associated with the production, marketing, transportation and documentation associated with export activities, with respect to expected returns on these investments.

Export Target Sales

Although all three respondent groups, based on their percentages of exports, indicated an average increase in future exports as a percentage of their total sales, only the Experienced Exporters with Limited Scope and Experienced Exporters with Broader Scope showed signs of future export activity greater than 30%. As mentioned earlier, this was a primary factor in dividing the respondents into their respective

groups. Of the two more active groups, the Experienced Exporters with Broader Scope showed an intention of increasing exports more than 20% in the next three to five years. This is an important factor in determining the commitment of managers toward expanding international business, since Cavusgil and Nason (1996) state that "the greater the willingness to commit the resources necessary to obtain a significant share of a company's business in foreign markets (for example, 30% or more), the greater the likelihood of their success."

Since the Experienced Exporters with Limited Scope had lower desired increases in exports than the Experimental Exporters, it was necessary to look at the data from the perspective of value-added to export products. In this light, it was apparent that the companies adding less value to their products had higher current export levels as a percentage of annual production, perhaps indicating that less-finished products require less complicated marketing or have greater foreign demand. Both groups, although different in terms of current export percentages, were similar in terms of expanding their international markets. This may also indicate that Michigan's future hardwood products exports may consist of higher percentages of less-finished goods (such as logs, lumber and veneer) than the semi-finished products.

Future Export Activity

Another means of dividing the respondent groups according to their export activity was according to the level of future export activity they envisioned for their firms. Although there was no apparent pattern to the respondents' answers, it was obvious that the Experienced Exporters with Broader Scope gave more consideration to developing exports as a regular activity, in most cases with some level of sales targets.

A noticeable trend did occur when categorizing the respondents according to firm size. As firm size increased, so did the future level of export activity. This was interesting since the larger firms also had more international scopes of marketing and used a wider variety of sales channels. When considering that the size of the groups increased with levels of export activity, the data may indicate that larger firms may have to become more aggressive in developing new markets for their products, especially if their regional or national markets are saturated.

Firms interested in developing foreign markets may want to consider the implications of how high they set their goals for exports, especially in the initial stages of developing an international business plan. "Exporting is most successful when it is done as an integral part of the overall marketing process, since sporadic and occasional export efforts are usually too fragmented to result in significant gain for the company" (Cavusgil and Nason, 1996).

Manpower Allocation

The results of the survey indicated a reluctance of the firms to allocate full-time personnel toward handling export activities among all three respondent groups, when categorized by percentages of exports. This may be somewhat unrealistic in light of the fact that many of the respondents sought to increase export percentages, yet indicated that they were uninterested in allocating the very important resource of personnel toward achieving target export increases. The appointment of a full-time export sales person should be considered by companies interested in expanding international sales, since it may allow companies to better cultivate export markets (Hammett and Deforest, 1993; Cavusgil and Nason, 1996).

In many cases, the respondents stated that the person responsible for exporting was the senior manager, while in other cases it may have been a sales person, manufacturer's representative, or distributor. Cavusgil and Nason (1996) explain that not only should the firm consider appointing a full-time export representative, but also that senior management should participate in the process of developing export strategy and procedures. The selection of the export representative is covered in more detail in Appendix C.

Current and Future Sales Channels

Of the three respondent groups based on percentages of exports, only the Experienced Exporters with Broader Scope had a large percentage of companies which utilized a combination of sales channels. All three groups indicated a desire to increase the use of the listed sales channels. When looking at the respondents according to value-added, both groups again indicated a future increase in the use of a combination of sales channels. This may indicate that although both the companies adding less value and those adding more value intend to increase their export percentages, those firms adding more value to their export products anticipate making greater changes in their future sales patterns.

As stated earlier, a combination of channels increases flexibility and performance in developing international markets. The response to unsolicited orders would be a natural and often important channel for any firm to use in developing overseas customers (Gottko and McMahon, 1987), but in itself does not lend to successful exporting (Cavusgil and Nason, 1996). A company should consider the development of multiple channels for sales activity to ensure broader coverage of foreign markets, as well as to diversify their marketing efforts.

Additional Considerations

It is also important for hardwood lumber companies interested in exporting to consider other areas of interest with respect to developing upper management's commitment toward going international. The strategic emphasis should be placed on developing strong market shares in key global markets. Market planning and budgeting should be assigned for each foreign market, and each product or service line. In addition, establishing long-term relationships with overseas customers is beneficial to developing foreign markets.

Product Readiness for Foreign Markets

Although a firm may have products desired in markets overseas, it is sometimes necessary to alter those products or their packaging to meet the needs of foreign customers. In addition, the level of sales service required for foreign markets may need to be increased to meet customer demands and expectations. This section addresses the types of primary export products of the survey respondents (according to their levels of export percentages), and highlights just a few of the sales requirements which may enable firms to better service foreign customers.

It should be noted that there was a trend for the Experienced Exporters with Limited Scope to have lower percentages than the Experimental Exporters. This was only due to the method of categorizing them according to their levels of export percentages and future export activity, but may reflect a reluctance on the part of the Experimental Exporters with Limited Scope to enhance their chances of succeeding in increasing their exports by developing the skills of their export sales staff.

Types of Export Products

The greatest concentration of primary production for export among all three groups was in hardwood lumber, with all three groups having fairly consistent percentages of exports of this product. The Experimental exporters' next highest categories of products were millwork and parts, while the Experienced Exporters with Limited Scope exported the same percentage logs as lumber. The only other categories of export products for the Experienced Exporters with Broader scope were veneer and flooring.

The most interesting fact pertaining to the types of products offered by all three respondent groups was that as the level of export activity increased, so did the percentage of firms which offered a combination of products to foreign markets (including goods other than their primary export products). Whereas approximately one fifth of the Experimental Exporters and the Experienced Exporters with Limited Scope exported more than one product, almost half of the Experienced Exporters with Broader Scope offered a combination of products to their export markets. Current research indicates that more progressive exporters offer a variety of products to tailor their production to the needs of a broader base of foreign customers (Cavusgil and Nason, 1996).

The fact that the majority of the Experienced Exporters with Broader Scope were firms adding less value to their primary export products may indicate that those types of goods may have the greatest chance of success in foreign markets. As foreign countries attempt to add more value to their export products, the possibility of supplying them with raw or less-finished materials may be greater than offering finished goods which may compete with local manufacturing.

After-sales Support

The survey indicates that greater than 50% of the respondents are willing to provide after-sales support for their customers. For sports flooring or other more processed hardwood products, consulting on installation or maintenance may be necessary. Since hardwood lumber is not an overly-complex product in terms of product attributes, after-sales support may mainly entail ensuring customer satisfaction and determining customer needs. In cases where there is a dispute concerning grade or quality issues such as wane, sapwood, checks or staining, a representative or distributor in the foreign market should be able to handle these issues effectively and in a timely manner to aid in ensuring customer satisfaction.

Providing after-sales support for customers, both in the domestic and foreign markets, is part of establishing strong partnerships over time. In some cases, after-sales support may be contracted through an overseas agent. A representative in foreign markets should be fully knowledgeable of the standards and attributes of the firm's products, as well as of the particular requirements of their respective market.

Follow-up Calls

Today more companies are recognizing the importance of retaining current customers. According to current studies, companies can improve profits anywhere from 25% to 85% by reducing customer defections by 5% (Kotler, 1994). The survey indicates a willingness of over 60% of the respondents to follow up on sales with phone calls or some other form of correspondence. Companies interested in developing export markets should consider developing customer communication, since it has been noted that maintaining a current customer is much less expensive than developing a new one (Kotler, 1994). It would also be advisable to ensure customer satisfaction through a variety of tools including complaint and suggestion systems, customer satisfaction surveys, and lost customer analysis (Kotler, 1994).

Product/Packaging Modification

Greater than 75% of all respondents stated that packaging needed to be adapted to ship their products overseas. This may be due to the nature of the products shipped overseas, as indicated by the fact that the majority of companies adding less value to their products stated they were able or willing to modify their products for foreign markets (only two thirds of the firms adding more value indicated the same). This may indicate another unrealistic expectation of those companies interested in exporting but uninterested in modifying their products for foreign markets, which may perhaps enhance the possibility of higher growth in less value-added products exports.

Commodities such as hardwood lumber are considered bulky products with high transportation costs. In the worst case, the cost of transporting (lumber) to a foreign market may be such a high percentage of the landed cost in that market that a firm may find it uneconomical to export (Cavusgil and Nason, 1996). In almost all export shipments, hardwood lumber has to be shipped overseas in a container, to alleviate product damage and/or pilferage en-route to its destination. When shipping to Canada,

containers for hardwood lumber were usually not required due to the use of flat-bed trucks or rail cars. Additionally, export shipments of lumber are usually kiln-dried to alleviate spoilage during shipment in containers and to reduce shipment weight.

In addition to containers, hardwood lumber may be end-coated with specially-formulated paint to identify the shipments with the company's desired color. Logos painted on the sides of lumber packs may also aid in reducing pilferage, as well as itemized end-tallies listing the contents of each pack. "Based on what (a firm) knows of the desires of the distributors and potential end-users, (a company) should determine what changes are needed in order to increase their product's appeal to the export market (Cavusgil and Nason, 1996)." Hardwood lumber packaging is discussed further in Appendix C.

Additional Considerations

It will be important for hardwood lumber companies to ensure their products are competitively priced in foreign markets, especially in the initial stages of exporting. This would coincide with the fact that there is a high substitutability for hardwood lumber, especially concerning lumber from Eastern and Southern U.S. states. Inventory levels and availability should be investigated and monitored in detail, to ensure the ability to fill and sustain export shipment requirements. Storage requirements of distributors should also be evaluated to ensure compliance with their needs.

Knowledge of International Business Elements

When categorized on the basis of percentage of exports, the Experienced Exporters with Broader Scope had higher self-rated levels of knowledge than the other two groups in all six categories, while the latter two groups rated themselves fairly equally in terms of their knowledge. This would indicate that higher levels of knowledge may aid exporters in expanding international business transactions, which coincides with the findings of Hammett et al. (1991). In fact, a lack of knowledge of foreign markets has been found to be an impediment to hardwood products companies interested in exporting (Ifju and Bush, 1993). It should be noted that the level of knowledge may be a direct result of the levels of activity in exporting among these firms; higher levels of export activity and experience may inherently lead to higher levels of knowledge in international business activities. The same could be stated when considering the size of the firm, since the respondents showed an increasing self-rated level of knowledge with an increase

in company size. The following sections describe some of the basic areas of export knowledge, in terms of the respondent groups' self-rated proficiency.

Foreign Market Costs

The Experienced Exporters with Broader Scope claimed to have higher knowledge of costs associated with exporting their products overseas than their less aggressive counterparts. This is probably due to the higher level of international business activity of these firms. By increasing the levels of experience through higher levels of export activity, a firm's management may become more knowledgeable of the costs associated with international business transactions. This would reduce the chances of those firms initially overestimating these costs (Brady, 1978), increasing the feasibility of exporting overseas.

On the basis of firm size, the largest firms rated their level of knowledge considerably higher than their small- and medium-sized counterparts. This may also be due to the larger firms having higher levels of current exports than the small- and medium-sized firms (18% versus 11% and 12% respectively).

Careful consideration to the costs associated with getting the shipments into foreign markets should be weighed prior to engaging in any international business activity. Cavusgil and Nason (1996) explain that knowing costs in a foreign market, or knowing where to get those cost estimates as they are needed, is vital to the attainment of profitability from exporting. There are a wide variety of private and government agencies, associations, and firms which may provide information associated with foreign market costs. Appendix F lists just some of the government agencies and university departments which may provide such services.

Tariffs and Non-tariff Barriers

Tariffs are defined as a governmental tax levied on goods, usually imports, shipped internationally, and are noted to be the most common type of trade control (Daniels and Radebaugh, 1995). Non-tariff barriers include quotas, subsidies, import licensing, customs barriers, product standards and certification. Indeed, government regulations pertaining to exports can be very complex, and affect firms in a variety of ways depending on the country and the products exported. Even the Experienced Exporters with Broader Scope, as well as the largest firms, did not rate themselves very high in terms of

knowing the government policies affecting international business. Knowledge of the mechanics and consequences of tariffs is an important element of international business knowledge, since they can add considerably to the landed cost of the product in the importing market.

Foreign Competition

The Experienced Exporters with Broader Scope rated themselves high in terms of knowing their foreign competition. The largest companies also indicated a higher level of this knowledge in comparison to their smaller counterparts. Literature indicates that a detailed knowledge of competitors is important in ensuring expansion in foreign markets.

Knowing the number, size, structure and other characteristics of firms which will be competing for customers may assist a firm to effectively compete in foreign markets. The National Trade Data Bank (Appendix F) is just one source of information pertaining to industry statistics. Attendance of trade shows (discussed further in this chapter) is also a very effective means to evaluate competition. In addition, visiting potential customers and distributors may also reveal insights as to which companies are servicing sectors of a market, as well as information pertaining to their products and/or service.

Legal Systems

Knowledge of legal systems which affect key legal agreements was also one category in which even the Experienced Exporters with Broader Scope did not rate themselves very high. When comparing the respondents in terms of firm size, all three groups again did not rate themselves very high.

In an exporter's first sales transaction, the exporter should have a sales agreement which protects them in the transaction, therefore it is important that the exporter have legal counsel who can help them through the development of the appropriate legal agreements. Since legal systems and contract requirements are very complex fields of knowledge, it is often prudent for a firm interested in exporting to contract services regarding legal matters from an outside source. There are a large number of legal firms in the U.S. which specialize in providing legal assistance to exporters. Financial institutions which aid in financing exports may also have in-house legal counsel to ensure proper and timely payment, as well as insurance, for companies with little or no legal knowledge of foreign market requirements. Many

government agencies are also available to either provide legal counsel, or guide companies to firms which are capable of tending to these matters.

Foreign Currencies

Foreign currencies can have positive or adverse impacts on international business transactions, depending on knowing one currency's strength against another. The Experienced Exporters with Broader Scope rated themselves as having much higher levels of knowledge pertaining to international currencies than their counterparts, while the largest firms only rated themselves marginally higher than their counterparts. This type of knowledge is very helpful in effectively negotiating international business transactions. Even though it is desirable for U.S. exporters to conduct international transactions in dollars, there may be times when an importer may desire to deal in their home currency.

It is also important to be aware of the economic trends with the target market, since that environment will have a direct effect on the value of the country's currency. Hoskin (1994) notes that the exchange rate for a given currency is influenced by the differential inflation rates in the two countries as well as by trade policies, trade surpluses or deficits, and other factors. Exchange rate fluctuations can affect the value and profit margin of an international transaction. Ringe et al. (1987b) caution that the exporter must be aware of how changes in exchange rates from the time of negotiation to the time of payment might affect the profitability of the shipment. Financial elements of exporting are discussed further in Appendix C.

Information Sources

Lack of knowledge about foreign markets is the major cause of failure in exporting (Cavusgil and Nason, 1996). Market research is extremely helpful in successfully implementing an export strategy (Ringe et al., 1987a; Northeastern Forestry Alliance, 1989; Ifju and Bush, 1993, 1994). The Experienced Exporters with Broader Scope, as well as the largest firms, rated themselves higher in terms of their knowledge of export information sources, indicating the significance of these types of resources.

Often, a considerable amount of time and money is needed to gather information on foreign markets, and managers must be aware of the requirements to build their market intelligence base. The desirability and feasibility of gathering foreign market information may thus depend on the resources



available to the individual firm (Reid, 1984; Cavusgil and Nason, 1996). Market information and export assistance is discussed in further detail in Appendix C.

Additional Considerations

Another area of knowledge which may contribute to success in international business is in developing a budget for foreign market development. This would include determining the availability of time and money to sustain international business expansion, especially in times of strong and weak domestic market performance.

Experience and Training

In five of the six areas of experience or training, all three respondent groups (based on their percentage of exports) indicated low levels of these attributes. This may again reflect unrealistic expectations of these firms in expanding export markets, since training is an essential element of developing an export program (Nason and Cavusgil, 1996). The only category listed in this section in which all three groups actively participated was in the membership of trade organizations. It was noted that the Experienced Exporters with Limited Scope showed the lowest averages for all six categories. It is difficult to determine exactly why this trend occurred, since those firms indicated higher export percentages than the Experimental Exporters and also desired increases in their exports. It should be noted that the Experienced Exporters showed less self-rated levels of knowledge in international business elements than the Experimental Exporters in four of the six given categories.

This section lists several areas in which exporters or firms interested in exporting may consider developing their export staff's expertise in international business.

Cross-cultural Negotiations

Knowing how to address people from different cultures is very helpful in establishing a positive reputation in foreign countries. Of the 37 survey respondents, only a few stated they had received some sort of formal training in cross-cultural negotiations. This may indicate that the actual negotiation process comprises a less important element of an international business transaction in hardwood products than in other industries. This would especially hold true if those companies were indirectly exporting through domestic intermediaries, yet as a company progresses toward directly exporting to foreign

distributors and/or customers, it may become increasingly important for an exporter manager become proficient in dealing with buyers in a foreign market.

Negotiation characteristics are just one aspect of the many cultural differences which exist between countries. Cavusgil and Nason (1996) note that an exporter's management should be traveling to foreign markets to meet customers and to develop relationships with partners in those markets. Cultural differences, such as history, politics, and language, may have an impact on the outcome of an international business transaction. Coinciding with this outlook is that of Ghauri (1996) who states that while "respect for different perspectives and environments is of utmost importance... it is not necessary to adapt or change oneself to local environments - it is more important to be aware of these differences and to show them due respect or acceptance." Cross-cultural negotiations and negotiator characteristics are discussed further in Appendix C.

Foreign Languages

Another area of low involvement by all three respondent groups was a knowledge of foreign languages. Although English is spoken prevalently in 44 countries (Daniels and Radebaugh, 1995), it often times necessary to use a translator to converse with people in other countries. Indeed, communication has been noted as a primary barrier to exporting (Rabino, 1979).

Indirect exporting (through an intermediary) negates the need for learning another language, since the middlemen take responsibility of conducting the business transactions. But when a company decides to export directly, it may become more important to study another language to demonstrate a representative's cultural awareness, as well to gain a competitive advantage in the international business setting (Daniels and Radebaugh, 1995). As Cavusgil and Nason (1996) note:

If key members of (a firm's) management team have competency in one or more foreign languages, (their) company is much more likely to succeed in exporting. If none of (the company's) key managers has a competence in a foreign language, (they) will be at a competitive disadvantage in (their) exporting efforts, because it is likely that the leading global competitors will have that competency.

Of course, the second language preferable to any exporter would depend on which foreign markets are most desirable. If the use of English in particular markets is not widespread, then the utilization of an interpreter or the development of the exporter's language skills may be necessary. Due to

the time associated with learning another language, it may be useful to learn one which is used more extensively in international trade, such as French, Spanish, Japanese or Chinese. Even though it often takes years to master another language, it shows a sign of respect for a foreign customer's culture for the seller to have studied their language, even at a very basic level, prior to a business meeting. Foreign languages are addressed further in Appendix C.

Training Programs

Again, a low percentage of all respondent groups indicated that they had not participated in any form of export training programs nor attended any private or government-sponsored export seminars. Many hardwood lumber exporters consider training programs important in developing international business expertise (Ifju and Bush, 1994). There are a variety of private and government-sponsored training programs available to potential or current exporters. These programs may offer low-cost means of building the export manager's knowledge of international business elements and the mechanics of exporting.

Trade Shows

Current research on hardwood lumber exporters maintains that those firms considered trade shows beneficial to export activity (Hammett and DeForest, 1993; Ifju and Bush, 1994). The survey results show that a low percentage of respondents had attended trade shows, from 10% (Experienced Exporters with Limited Scope) to 55% (Experienced Exporters with Broader Scope). As mentioned earlier, trade shows and foreign travel can yield a wealth of customer, market, and competitor information. Cavusgil and Nason (1996) state that attendance at foreign trade fairs is one of the most effective ways to get a perspective of (a firm's) industry on a regional and global basis. The participation in trade shows is an inexpensive means of promoting a firm's products, and is discussed in more detail in Appendix C.

Use of Information Services

Current literature suggests that the use of information sources is important to developing export markets (Hammett and Deforest, 1993; Ifju and Bush, 1994). A much higher percentage (73%) of the Experienced Exporters with Broader Scope, in comparison to their less active counterparts, stated that

they had actually used or were using some form of private or government information service. By setting more aggressive export goals for the company, the Experienced Exporters with Broader Scope would inherently need more information to successfully support their marketing efforts. Of course, the particular information service utilized would depend on the type of information or services needed. Those companies starting to assess the feasibility and profitability of exporting may need a much broader base of information than the exporter who is fine-tuning his or her knowledge of specific areas of interest.

Trade Associations

The final question pertaining to export skills and experience related to the membership in various trade organizations. The majority of all three respondent groups belonged to some sort of trade association, although it was not determined whether these organizations aided in those companies developing their export activities. The importance of trade associations in assisting firms to develop their export activities is substantiated by Reid (1984). Trade associations can be very helpful to their members in developing international business, providing that trade association has made a commitment to that effort (Cavusgil and Nason, 1996; Hammett and DeForest, 1993). Appendix G lists several trade associations which assist hardwood lumber companies in developing export opportunities.

Additional Considerations

It would be beneficial for the export managers to have had experience working and/or living in foreign markets. This would include short-term project work or study experience. Travel enhances the cultural perspective of managers, and provides valuable experience in dealing with foreign markets (Ifju and Bush, 1994). Research indicates that executive trips to foreign markets serve as the primary source of information product decisions and assessment of risks and are also helpful in the actual processes of sales negotiations and customer liaison (Cavusgil, 1980).

Experience in working with domestic trade facilitators (e.g. banks, law firms, freight forwarding companies, market research firms) would also be beneficial for export managers (Cavusgil and Nason, 1996). Gaining experience in building trust and relationships with foreign companies, as well as in international business transactions, would also build the confidence and capabilities of an exporter manager.

Chapter 8

SUMMARY AND CONCLUSIONS

Summary of Results

In terms of company characteristics, the most Experienced Exporters with Broader Scope tended to be larger and younger. More of these firms had international scopes of marketing and had a higher percentage servicing more than one export market. Looking at the respondents in terms of value-added to their export products, those firms adding more value to their products were twice as old as their counterparts, tending to have a larger international scope of marketing yet a lower percentage of exports. When compared in terms of firm size, the smaller firms were younger than the medium- and large-sized firms. The scope of marketing increased from a local level to an international basis as firm size increased, and the larger companies tended to export higher percentages of their annual production than the small- and medium-sized firms.

Overall, more active exporters (based on percentage of exports) advertised through a variety of different media, including trade journals, directories, the Internet, word-of-mouth, and direct mail. They also showed the highest percentage of firms using more than one sales element, including direct sales, sales representatives, and distributors. Those firms adding more value to their export products also tended to use more than one element for their international sales.

All three respondent groups indicated that supplementing domestic sales with export sales and contributing to the long-term expansion of the firm were important reasons for exporting. The Experienced Exporters with Limited Scope rated disposing of excess products to be not important, but the Experimental Exporters and Experienced Exporters with Broader Scope did rate this as important. The least important reasons for exporting were reducing risks by selling to diverse markets and stabilizing seasonal market fluctuations. When comparing the respondents in terms of firm size, as the size of the

firm increased, so did the level of importance associated with each reason for exporting. Supplementing domestic sales and contributing to the long-term expansion of the firm were also the most important reasons for exporting among these three groups.

Those companies showing the most active exporting showed a greater willingness to wait longer periods to break-even on their foreign market investments. On a basis of value-added to export products, a greater percentage of the companies adding more value stated they were willing to wait longer periods of time to achieve a return on their foreign market investments. The most active firms (in terms of percentages of exports) indicated greater target increases for export sales in the future, as well as higher levels of export activity, whereas both groups of respondents (based on value-added) showed similar desired increases in export sales. The majority of the respondents showed a reluctance to allocate full-time personnel toward expanding their international business. Only the Experienced Exporters with Broader Scope indicated that a large percentage of them were using a combination of sales channels, including direct sales, domestic and foreign middlemen, although all three groups indicated that they intended to increase the use of all three of these channels in the future. When compared in terms of value-added, both groups of respondents also stated they were interested in expanding the use of multiple sales channels.

The survey respondents produced a variety of hardwood products for export, although a greater percentage of the most active exporters tended to export more than one product. More than half of all three respondent groups stated that they provide after-sales support to their customers, while greater than two-thirds of the respondents indicated that they made follow-up calls to their customers. The majority of all respondents stated that their products and/or packaging could or were made to suit the needs of foreign markets, except when categorized by value-added; the majority of those firms adding less value to their export products stated they could modify their products or packaging for international markets, whereas only two-thirds of the firms adding more value stated they were able to do this for their foreign customers.

Overall, the most Experienced Exporters with Broader Scope had higher self-rated levels of knowledge concerning various elements of international business. Awareness of foreign market costs, foreign competition, foreign currencies, and sources of export information were rated high among this

group, while their knowledge of tariffs and non-tariff barriers to trade and legal systems and agreements were considered lacking. When comparing the firms according to size, self-rated levels of knowledge increased as company size increased.

Only a few of the respondents stated they had some sort of training in cross-cultural negotiations, as well as a competency in any foreign language. All three groups (based on percentages of exports) also indicated a low attendance of export training programs or seminars. A high percentage of the most active exporters indicated that they had used some form of export information services, and the majority of all three groups stated that they were members of at least one trade organization.

It should be noted that, given the goals of these companies in terms of increasing export percentages, the data suggests that the exporters may experience difficulty further cultivating foreign markets due to overall low future allocations of resources toward exporting. Since these companies are already exporting to varying degrees of activity, they may already have the essential resources to sustain current levels of exports. These companies should consider the implications of not allocating essential manpower to export programs, developing effective training programs for their export sales staff, or instituting more aggressive follow-up procedures for their foreign customers.

Determining an effective desired length of time to achieve returns on foreign market investments would depend on the firm and its resources as well as the products supplied to foreign markets. As mentioned previously, many companies have a great deal of capital tied up in their products, so some companies may need to achieve faster returns than others. It would benefit a firm interested in developing foreign markets to investigate the lengths of time for achieving an ROI for each customer as well as the particular markets in which they intend to export.

Of those firms which did not export, the most common reason for abstaining from international trade was a satisfaction with the domestic market. Another reason pertained to perceived strategic disadvantages such as the lack of dry kiln facilities or equipment to load export containers. Another reason had to do with negative previous experiences with international orders, such as having export orders canceled after they had been prepared for shipment.

Survey Problems

One important item of information not present in the survey was the length of time each company had been exporting. This would have provided insight as to the length of time needed to achieve status as an “aggressive” exporter.

Another problem related to the nature of the data base from which the potential survey respondents were drawn. The erroneous data concerning the status of the individual firms as exporters and non-exporters shows that the Michigan DNR data base is in need of revision to reflect the true nature of the hardwood products manufacturers current marketing focus. This factor may have inhibited the research from contacting all hardwood companies within the selected product range which may be currently exporting their products.

Needs for Additional Research

One area which would benefit hardwood lumber companies interested in exporting would entail the analysis of the costs associated with producing and transporting various products to different overseas destinations. This would give a future exporter an insight into a very important element of the pricing strategy.

Another area of research would focus on the number of countries exported to, the years exported to each one, and the number of customers served in each (Gottko and McMahon (1989b)). This would aid in identifying the markets deemed most attractive by hardwood lumber exporters, as well as help in determining which markets are under-served.

A study of hardwood lumber exporters in the Great Lakes region as a whole would also serve to identify any trends among these manufacturers, since they are located within a geographical area which has similar hardwood timber resources.

Since public assistance is an important and low-cost means of sourcing information and assistance in exporting, a study of the perceptions of Michigan hardwood products exporters may serve to identify what types of information are most sought-after, and what types of deficiencies this form of assistance holds.

Conclusions

There are a multitude of organizational and marketing elements which must be considered when a firm is preparing to export its products to foreign markets. This survey just highlighted some of the more important aspects associated with international marketing practices, and answered just a few of the many questions pertaining to exporting. The survey respondents were asked to define aspects of their current competitive characteristics, describe their motivation for going international and their commitment to expanding into international markets, and rate their levels of knowledge and experience in international business activities.

It is difficult to define a "successful" exporter on the basis of the company's level of exporting. When taking the view that the survey respondents are all currently exporting to some degree, they may in fact all be "successful" exporters, depending on their individual goals related to international business. The key issue is whether or not these firms will be able to achieve their exporting goals given the resources that they are willing to allocate to the international business process.

In defining an "active" exporter, it was assumed that the level of export activity was a function of the percentages of annual production exported, in combination with the desired increases for future export percentages. Other characteristics associated with active exporters include having a positive attitude toward exporting and accepting the risks associated with international transactions, actively seeking the first export order, estimating the costs associated with exporting and planning to develop export markets.

The task of analyzing exporters for trends in their marketing techniques is a complex task, since there are many factors which may drive an individual firm to use various marketing methods. These factors may include the types of products offered to foreign markets, the size of the particular firm, the international markets which the companies seek to develop, etc. To better analyze the survey respondents, they were additionally categorized according to the level of value-added to their export products, as well as by the size of their firms in terms of their numbers of employees.

It would appear that Michigan hardwood products exporters are younger and larger as they increase in export activity. The decreasing age of the more active firms diverges from current literature on hardwood lumber exporters, although the size of these firms compliments current research. The firms

engaging in more active levels of exporting become increasingly dedicated to committing resources toward exporting their products overseas, although the majority of all respondents were not willing to wait long periods of time to achieve returns on their export investments. The active exporters have more internationally-oriented scopes of marketing, use a variety of sales force elements, and seek to increase the use of multiple sales channels. These firms have higher self-rated levels of knowledge concerning international business elements, although there are no significant differences in the respondents' levels of experience and training in international business activities. With the exception of the respondents' desire for returns on export investments and the active firms' levels of experience and training, these findings are parallel to current hardwood products research.

When the respondents were categorized according to value-added products, they tended to be older and larger when adding more value to export products, although they had less percentages of exports in relation to their total annual production. The companies adding more value tended to have more internationally-oriented scopes of marketing, were willing to wait longer periods of time to achieve a return on their export investments, used a greater variety of sales force elements and sought greater increases in their use of multiple sales channels.

When looking at the respondents in terms of their size, the larger firms tended to be older than the smallest firms and had higher percentages of exports. As firms size increased, so did the international orientation of their scopes of marketing. As the size of the firms increased, there was a noticeable increase in the level of importance for all given reasons to export. In addition, the self-rated levels of knowledge tended to increase with the size of the companies. These findings support current research on hardwood lumber exporters.

Available empirical evidence points conclusively to the decision-makers attitude, experience, motivation, and expectations as primary determinants in firms engaging in foreign market activity (Reid, 1981). Hardwood lumber companies interested in exporting should consider preparing their organizations for the rigors of international trade by increasing their scope of markets, strengthening their commitment to going international, developing their products to suit the needs of foreign customers, and increasing

their knowledge and experience in terms of the many elements which are associated with exporting and international business.

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APPENDICES

APPENDIX A

APPENDIX A
SURVEY QUESTIONS

Competitive Capabilities in the Export Market

1. Approximately how long has your firm been in business?
2. How many full-time employees do you have?
3. How many sales people do you have?
4. What is your current scope of marketing (local, regional, national, international)?
5. What markets does your company market to (Canada, Mexico, South America, Europe, Japan, Asia, Africa, Australia)?
6. What methods of advertising do you use (directories, trade journals, Internet, word-of-mouth, other, none)?
7. How would you describe your sales and distribution activities (direct sales, manufacture's representatives, distributors)?

Motivation for Going International

9. On a scale of 1 to 5, 1 being not important and 5 being very important, how would you rate the following motivating factors for your company to expand into foreign markets
 - a. dispose of excess products/utilize excess production capacity
 - b. stabilize seasonal market fluctuations
 - c. supplement domestic sales with occasional export sales
 - d. reduce risks by selling to diverse markets
 - e. contribute to the long-term expansion of the company

Commitment of Owners and Top Management

10. How long is your company willing to wait before achieving the break-even point on their foreign market investments (<2months, <6 months, <1 year, <2 years, > 2 years)?
11. What is your average yearly sales as a percentage of total sales?
12. What percentage of your total sales should be represented by foreign market sales within the next 3 to 5 years?
13. Which of the following ways does senior management envision exporting?
 - a. occasional activity
 - b. regular activity (no target sales)
 - c. regular activity (moderate target sales)
 - d. regular activity (aggressive target sales)
14. How much of the following time descriptions is senior management willing to allocate to international expansion efforts?
 - a. occasional/as required
 - b. up to half-time of one person
 - c. up to full-time of one person
 - d. more than one full-time person
15. Which of the following descriptions best characterizes your firm's export activity?
 - a. exporting through domestic middlemen
 - b. exporting through foreign middlemen
 - c. direct sales to foreign customers
 - d. exporting only in response to unsolicited orders
16. Which of the following channels does your firm intend to use to sell to foreign markets within the next 3 to 5 years?
 - a. domestic middlemen
 - b. foreign middlemen
 - c. direct sales to foreign customers

Product Readiness for Foreign Markets

17. What types of hardwood products do you export?
18. Is your company willing to provide after-sales support competitively for customers in foreign markets (Yes/No)?
19. Does your sales team make follow-up calls to customers (Yes/No)?
20. Is your product and/or packaging made suitable for foreign customers?

Skill, Knowledge and Resources

21. On a scale of 1 to 5, 1 being poor and 5 being excellent, how would you rate your sales team's knowledge of:
 - a. foreign market costs
 - b. tariffs and non-tariff barriers
 - c. foreign competitors
 - d. legal systems and legal agreements
 - e. foreign currencies
 - f. export information sources

Experience and Training

22. Does your management have training in cross-cultural negotiations?
23. Do key members of your management team have language competency in at least one foreign language?
24. Have you/do you attend any export seminars or training programs?
25. Has your company participated in domestic or foreign trade fairs?
26. Have you/do you use any government or other information sources?
27. Are you involved with any forest products trade organizations?

APPENDIX B

APPENDIX B

AN EXAMPLE OF AN EXPORT STRATEGY: COMPANY A

The successful development an international business strategy is considered an incremental, systematic process (Cavusgil, 1980). It is then assumed that the description of the development of an export strategy should be defined in a systematic process, in order to give the prospective exporter a guideline to develop an export strategy in an incremental manner. The purpose of this appendix is to provide an example of how a smaller-sized hardwood lumber wholesale company, for this purpose named "Company A", might decide to enter into international markets, and then expand its presence within those markets.

Initial Assumptions

There are many aspects of Company A which may give it a competitive advantage over its competitors. These can include management capabilities, personnel expertise, financial resources, product attributes, and production techniques and facilities. Since the first four elements mentioned can vary widely from firm to firm, it is the production characteristics which may be used as the general standard by which Company A will be defined for this analysis.

Hardwood Lumber Company Production Characteristics

Hardwood lumber companies can incorporate a wide base of production capabilities, depending on their size and types of products offered. For instance, if Company A is control of a sawmill, it may have a more stable supply of hardwood lumber. Also, if Company A owns timber land, it may have a relatively stable supply of timber to support its sawmill. These types of assets would give Company A a sustained competitive advantage over its competitors, since it would have achieved backward vertical integration and have better control over the supply and quality of its raw materials in the long-term production of hardwood lumber. Forward vertical integration, in which Company A would purchase or establish a secondary processing facility which uses lumber as its raw materials, could also give it an advantage over its competition. An example of this type of subsidiary would be a dimension mill or flooring production facility. It could also take the form of a plant producing a more finished product like

architectural millwork or cabinet components. Additional competitive capabilities would include the possession of dry kilns, surfacing equipment, double-end-trim saws and rip saws. These types of equipment would allow the lumber company to tailor its lumber to the needs of a more diverse population of customers. Vertical integration is discussed further in this appendix.

Company A Assumptions

For the purposes of this study, we will assume that Company A is a wholesale lumber company which has dry kilns. This type of asset, or access to them, would be instrumental in facilitating the export of hardwood lumber overseas (Araman, 1989a; Hammett et al., 1991; Hammett and Deforest, 1993).

By kiln-drying lumber, there is minimal possibility of spoilage while the shipments of lumber are enclosed in containers en-route overseas, not to mention a drastic reduction in weight to minimize transportation costs. Realistically, a Michigan hardwood lumber company without dry kilns could at best service the Canadian or Mexican market, since containers are not necessary to cross the US-Canadian or US-Mexican borders.

Access to or possession of primary and/or secondary manufacturing facilities and equipment will not be considered, except in the proposition of alternatives to producing only kiln-dried hardwood lumber.

Michigan Hardwood Lumber Company Competitive Analysis

Competitive analysis is the process by which a company attempts to define and understand its industry, identify its competitors, determine the strengths and weaknesses of its rivals, and anticipate their moves (Thompson and Strickland, 1995). A very simple form of analysis involves defining the strengths, weaknesses, opportunities and threats (SWOT analysis) of an industry or company. This competitive analysis will focus on Company A in the Michigan hardwood lumber industry.

Strengths

Michigan has a strong natural resource base of standing hardwood timber. The stand structure is maturing into sawlog size trees, and a variety of select export species exists in these forests. The presence of hard maple, red and white oak, birch, cherry, and ash indicate a good source of export material for Company A. The proximity of Michigan to other Great lakes states may also provide a means for Company A to obtain lumber which may not be presently available in the state.

The Michigan hardwood lumber industry has been established for many decades, and is known for producing high-quality lumber. The experience of marketing their products to other areas in the U.S. may have provided Company A with business skills useful in developing exports markets.

There is a stable domestic demand for hardwood lumber, providing a solid economic situation to support Company A's growth into international markets. The presence of a large market for low-grade material would provide a means for Company A to market its non-export grades of lumber.

In addition to the market and manufacturer attributes, the high costs associated with starting a hardwood lumber company may inhibit many entrepreneurs from entering this market without substantial financial backing.

Weaknesses

One of the primary weaknesses of the Michigan hardwood lumber industry is that it consists of many fragmented, smaller companies. This indicates that Company A has less financial resources and lower inventory volumes available to fill export orders. In addition, Company A may have little or no export experience, and perceive barriers to exporting as a hindrance to international business activity.

The geographical distance to coasts may create a disadvantage in terms of transportation costs. The bulky nature of hardwood lumber would necessitate a thorough understanding of the distribution process in order to be competitive in the international marketplace.

The maturity of the hardwood lumber industry also creates a very competitive environment for Company A, in which margins are reduced and raw material costs are elevated. In addition, other northeastern states may provide readily available substitutes for Michigan hardwood lumber.

Although there are high start-up costs for lumber mills, the lower costs to establish a lumber brokerage may create the opportunity for these types of businesses to proliferate if the profitability of the industry is very attractive. This could increase the competition affecting Company A's markets.

Opportunities

The market growth in the Pacific Rim has opened export opportunities for Company A. The legislation passed to prohibit the harvesting of tropical timber has stimulated the demand for U.S. temperate hardwoods, in addition to the desire of foreign companies to manufacture hardwood goods

which appeal to U.S. consumers. In the absence of export knowledge, domestic middlemen may assist Company A in developing these export markets.

It may be possible for Company A to develop foreign markets by focusing on market segments not currently serviced to capacity, or by pinpointing potential customers which may require increased customer service. Product differentiation may be feasible through adding product characteristics such as surfacing and customer-specified lengths and widths. By initially exporting to smaller customers overseas, Company A may develop its foreign market base, building its reputation and brand identification.

If Company A becomes interested in expanding, the possibility of vertical integration may afford it better control of its value chain. This may be accomplished by purchasing timberlands or primary or secondary processing facilities. Hardwood dimension may also offer additional opportunities to meet unsatisfied foreign market needs. A cooperative effort between Company A and other hardwood lumber companies to fill export orders may also ensure that adequate inventory is available for international transactions.

Lastly, Michigan government agencies may provide information and services which will aid Company A in identifying markets, their requirements, and potential customers. This may also serve to increase the Company A's knowledge of the mechanics of exporting, to facilitate more efficient foreign transactions.

Threats

The threats of hardwood substitutes such as plastics and metals may have an impact on the future consumption of hardwood lumber, creating less demand for Company A's hardwood lumber. In addition, southern hardwood species of oak may compete on a basis of price to the nondiscriminating foreign consumer.

Domestic middlemen and foreign lumber distributors may contribute to the competition for acquiring raw material, as well as increase competition for end-user customers in foreign markets.

Lastly, the performance of foreign economies will have a direct impact on the demand for Company A's hardwood lumber by hardwood products manufacturers overseas.

Conclusions

Since the Michigan hardwood lumber industry is at a mature stage, the primary means of building a customer base will entail Company A acquiring market share from its competitors. This would mean that Company A should focus its efforts on first identifying lucrative markets for its products, and then identifying the specific needs of the customers within each market segment.

The stable domestic economy and demand for hardwood lumber will enhance the financial situation of Company A. The economic performance of foreign countries may dictate which of those markets may be most attractive in terms of future growth. To cope with the threat of substitute products, Company A may promote its lumber in terms of appealing characteristics to the domestic market, for attracting overseas manufacturers wishing to export their products back to the United States. Company A may also publicize the energy-intensive methods of production for materials such as steel and plastics.

By building market share in foreign markets, Company A may establish its reputation and develop customer and distributor relationships, in an attempt to counter aggressive moves by competing domestic and foreign lumber companies and middlemen. Developing channels of distribution may also increase the possibilities of reducing shipping costs by receiving discounts on consolidated shipments overseas, and reducing the time associated with processing international orders.

Lastly, by accessing the many information sources available to small companies, Company A may increase its knowledge of foreign markets and the mechanics of exporting. This would serve to increase their overall competitiveness within both the domestic and foreign marketplaces.

Basic Export Strategy for a Hardwood Lumber Company

In terms of hardwood lumber companies, exporting is recommended to be approached as a gradual, systematic process following three major steps: indirect exporting, direct exporting, and product diversification. The first two strategies concern the selection of channels to be used for exporting, while product diversification implies expanding markets through the incremental development of new products to tailor production to a greater variety of customer needs.

Indirect Exporting

The first phase of Company A's export strategy would involve *indirect exporting*. This is when the exporter deals through an indirect domestic intermediary before entering the international marketplace. Guldin () describes indirect exporting further:

If the sale is negotiated and title exchanged for payment in the United States, exporting is called "indirect". The entire sale is transacted in an environment where conventional domestic business practices, payment procedures and contract laws apply. Export merchants buying wood products are treated like domestic customers. Some firms may already have consummated sales to export merchants without being aware of the fact. This highlights a major concern of using indirect exporting - the short extent of control allows little information to be gathered on foreign markets and consumers' needs.

By exporting indirectly, Company A may gradually gather information and experience associated with the mechanics of exporting. Guldin () further explains the benefits of indirect exporting:

This approach has several advantages. Sales require only a limited number of middlemen, so channel control problems are simplified. Another major advantage of indirect exporting is stems from the fact that the export merchant takes title to the goods and profits from their resale... the producer is paid for his products quickly in dollars, need not extend credit to new foreign customers, and bears no risk of losing money due to currency fluctuations. Third, export merchants provide valuable sorting functions... this provides a profitable sales outlet for small volumes of high quality or specialty products that a single producer would not normally be able to market separately at a premium price. The fourth major advantage of indirect exporting is that export merchants... are used to working with small mills.

Although indirect exporting through domestic middlemen may benefit Company A in the short-term, it would be advisable for the firm to expand exports by marketing through more direct channels in the future:

Exporting through domestic market intermediaries such as export trading/management companies may be a good alternative if you are planing marginal and intermittent exporting. Such intermediaries will reduce the burden of export transactions in return for a commission. However, although such an indirect exporting approach may be advisable for early phases of involvement, (a company) should consider a more direct approach as soon as possible to fully benefit from exporting. Direct involvement in the foreign market through agents and distributors, then later enhanced with (its) own marketing subsidiaries, will give (a company) the opportunity to gain first-hand familiarity with the export markets and all that is involved in serving them from (its) home market (Cavusgil and Nason, 1996).

It is clear that for a smaller-sized, internationally-inexperienced lumber manufacturer such as Company A, indirect exporting provides a very uncomplicated, low-risk alternative to direct sales in foreign markets. Less expertise and effort is required of Company A and, in the case of export merchants,

the entire transaction is domestic and all overseas risks are borne by the middleman (Ringe et al., 1987b). The disadvantages of indirect exporting are that the charges for export services reduce Company A's profit margins realized with exporting, and Company A relinquishes the greater extent of control over the marketing functions. If indirect channels are chosen, the reputations of middlemen should be established and trusted (Ringe et al., 1987a).

Direct Exporting

The second stage of the process would be for Company A to engage in *direct exporting*. This entails Company A negotiating a sale with an import merchant in a foreign market.

Direct exporting offers better market information, the ability to develop in-house expertise in international marketing, and the potential for increased sales and profits. The firms, however, must make a greater investment, bear more risk, and deal with more "red tape" and middlemen than if an indirect exporting channel is used. Direct exporting requires a greater extent of control, because more of the channel functions are performed by the producer and intermediaries before title passes to the buyer (Guldin, n.d.).

Direct exporting, as the term implies, involves the sale of lumber directly to overseas customers; additional effort on the part of Company A in preparing overseas documents and in making arrangements may be required, but higher revenues than with other types of sales can often be realized (Ringe et al., 1987b). Ringe et al. (1987b) point out that in direct exporting, producers retain greater control over their export operations, thereby reducing the potential for damage and pilferage. They also indicate that while indirect exporting is often recommended for smaller companies, the majority of independent exporters in their study exhibited a strong preference for maintaining direct control over their export operations.

By shifting to direct exporting, after acquiring export knowledge and experience through indirect exporting, Company A may increase its profits and exercise greater control over its marketing channels. If direct exporting is preferred, full understanding of foreign trade procedures and customer desires is necessary as is a strong commitment to fulfilling them (Ringe et al., 1987a).

Product Diversification

The third phase of export expansion would be involve Company A diversifying its product base to include more value-added goods. These may be in the form of hardwood dimension, panels, millwork,

flooring, or other products or components in the semi-finished form. By diversifying Company A's product base, it may be possible to expand its market share by attracting additional customers.

Cohen (1992) states that there are two means of increasing the value of solid wood products: secondary manufacturing and incrementally adding value in the primary process. While those companies with stronger financial resources may be in the position to establish or purchase a full-scale secondary wood products facility, smaller companies such as Company A may elect to gradually add value by first offering options in the manufacture of hardwood lumber. These would include product options such as surfacing, cutting to lengths, or ripping to widths. Gradually Company A may add even more processing to its lumber, in the form of rough or finished dimension blanks.

By incrementally adding value to its products, Company A may gradually differentiate its products and services from those of its competitors. Hill and Utterback (1979) define incremental innovations as extensions of existing technology that improve product performances, cost, or quality step by step. Incremental improvements in products and processes are not as dramatic as major product innovation or major process change (Cohen, 1992). The concept of adding value is discussed further in this appendix.

Conclusions

For the purposes of this study, it is important to note that the particular export strategy selected by Company A would depend on its financial resources and the existing production equipment. It would therefore be argued that small- to medium-sized lumber companies such as Company A should initially focus on specific market segments in overseas markets in an effort to differentiate their products, while medium- to large-sized companies may choose to diversify their product base to satisfy unmet needs in different markets. In deciding which course of action to pursue, Company A must weigh the potential risks involved with middlemen handling the lumber shipment against the degree of effort they wish to expand in preparing overseas orders (Ringe et al., 1987a).

The Market Segment Focus

There are three potentially successful generic approaches to outperforming other firms in an industry: (1) overall cost leadership; (2) differentiation; and (3) focus (Porter, 1980). Although each of

the three generic competitive strategies discussed by Porter (1980) may work to increase Company A's competitive advantage, if Company A is not interested in undertaking large capital investments, the market-segment focus strategy may be the most appropriate (Bush et al., 1990). This could be substantiated by the facts that low cost production involves investments in more efficient production machinery and/or timberlands, and producing and marketing a new product entails extensive product and market research in combination with capital investment. Both of these strategies may be beyond the means of small companies (Bush et al., 1990).

Customer Focus

McLintock (1987) argues that U.S. hardwood lumber companies do not maintain forward-looking, effective marketing programs based on an understanding of customer requirements. *Customer orientation* involves a commitment to the understanding of customer needs and a willingness to adjust to market forces to satisfy these needs. The method is based on the philosophy of establishing close working relationships with customers on an individual basis (Idassi et al., 1994). This entails not only identifying the customer's desired level of product attributes, but also developing an effective means to collect customer feedback on delivered products. Gottko and McMahon (1989a) state that if a company focuses on the latter three elements as well as on a product, it is said to be consumer-oriented. As Idassi et al. (1994) note, "learning about customers is important, but in itself such information does not ensure that customers are satisfied; competitive business strategies must be developed from customer value information that will ensure that value is created and delivered."

In addition to focusing on particular markets in exporting, a central theme in competitive strategy is reaffirmation of the importance of being customer-oriented by creating and delivering value to the customer (Idassi et al., 1994). Before accepting an overseas order for hardwood lumber, Company A must fully understand what the buyer is looking for (Ringe et al., 1987b). A successful marketing strategy includes emphasis not only on the product itself but also on the such non-product elements as pricing, promotion, and distribution (Gottko and McMahon, 1989a). Gottko and McMahon found that Oregon lumber producers considered communicating with customers and selling to be the most important

consumer-oriented components of a marketing strategy. To effectively service particular markets, it is imperative that Company A aims to satisfy the individual requirements of each market's customers.

Vertical Integration

Since hardwood lumber is not considered an "adaptable" product in terms of physical characteristics, product adaptation beyond quality and physical appearance is non-existent, except as semi-finished goods. Although exporting hardwood logs is a more lucrative market for log producers, the sale of unprocessed hardwood material overseas may aid in the elimination potential jobs within the semi-finished or finished forest products industry. By exporting extremely high grade hardwood logs for veneer producers overseas, this material becomes less available for domestic uses.

Company A may eventually consider the possibility of expanding its operations vertically in an attempt to control a greater extent of its value chain, once it has the financial resources to support such a strategy. Downward vertical integration within the hardwood lumber industry may be achieved by purchasing or establishing a primary processing facility such as a sawmill. Company A may achieve upward integration by purchasing or establishing a secondary processing plant to produce a finished or semi-finished product.

By controlling a sawmill, Company A may be able to ensure quality control from the very start of the manufacturing process. It could monitor local forest management, timber contracts, logging activities and sawmill operations, in addition to dry kiln and surfacing operations. This may possibly alleviate Company A of some quality variability in inbound green lumber, as well as ensure supply scheduling conformance.

Another implication of Company A expanding its operations vertically may pertain to the availability of stock for filling overseas orders, which consumes a large volume of high-quality stock. One problem with channeling a large percentage of the high-quality lumber to just a few foreign customers is that regular domestic customers have to be sold the "left-overs". This reduction in the availability of premium lumber may in turn create customer dissatisfaction within Company A's domestic market. By vertically integrating a primary processing facility, in a strategic location with reference to available resources, Company A may increase the availability of desired species and higher grades of lumber.

Product Diversification: Hardwood Dimension

The mill that adapts completely to overseas markets often must change its product line to suit the needs of its customers (Hammett and Cabbage, 1991). This section focuses on one means in which Company A may gradually increase the processing of its lumber to meet the needs of a broader hardwood products market.

Value-Added Processing

Adding value to a product may be defined as providing more service with the sale, engaging in some additional fabrication of the product, or by doing subassembly or assembly of components before they are sold to the customer (Porter, 1980). Two different means of increasing the value of solid wood products are secondary manufacturing and incrementally adding value during the primary process (Cohen, 1992). In the case of the hardwood lumber industry, this could entail producing more finished products such as dimension or millwork, or adding lumber features such as surfacing, straight-line-rip-one-edge, or double-end trimming. Adding value requires: an understanding of what connotes value to the customer; the ability to assess what value can be added domestically prior to shipment; and the gradual incremental evolution toward exporting value-added products (Cohen, 1992).

Adding value to a solid wood product does not necessarily require secondary manufacturing (Cohen, 1992). Value can be added through sorting products by dimension or species, process control, quality control, choice of grading systems, material handling, packaging, and marketing; none of which require secondary manufacturing (Sinclair and Cohen, 1991). Although there are a variety of products a hardwood lumber company may manufacture to meet a wide range of customer needs, especially if they incorporate secondary processing facilities, the focus of this section is on the production of hardwood dimension for export markets.

Manufacturing Hardwood Dimension

Hardwood dimension are pieces cut from hardwood lumber to meet specified measurements usable by hardwood products manufacturers. The definition of hardwood dimension is described by Araman and Lamb (1985):

Hardwood dimension stock is kiln-dried material that has been processed to a size and quality that permits maximum utility by users in assembling their products. The users

of this material are typically companies that produce furniture, cabinets, millwork, toys, novelties and other similar woodworking operations. The material is produced in specified thicknesses, widths, and lengths; it may be solid or glued up, including panels. Furniture dimension stock may be classified as rough, semi-finished, or finished. Rough dimension stock consists of rectangular pieces of wood cut and ripped to specific sizes and normally rough surfaced on two faces. Semi-finished dimension stock is rough stock that is machined one or two steps further in the manufacturing process. It may include such steps as re-ripping, finish surfacing, moulding, trimming, shaping, and mitering.

Araman and Lamb (1990) also describe the cross-cut-first production process of manufacturing hardwood dimension and edge-glued panels, after the lumber drying process:

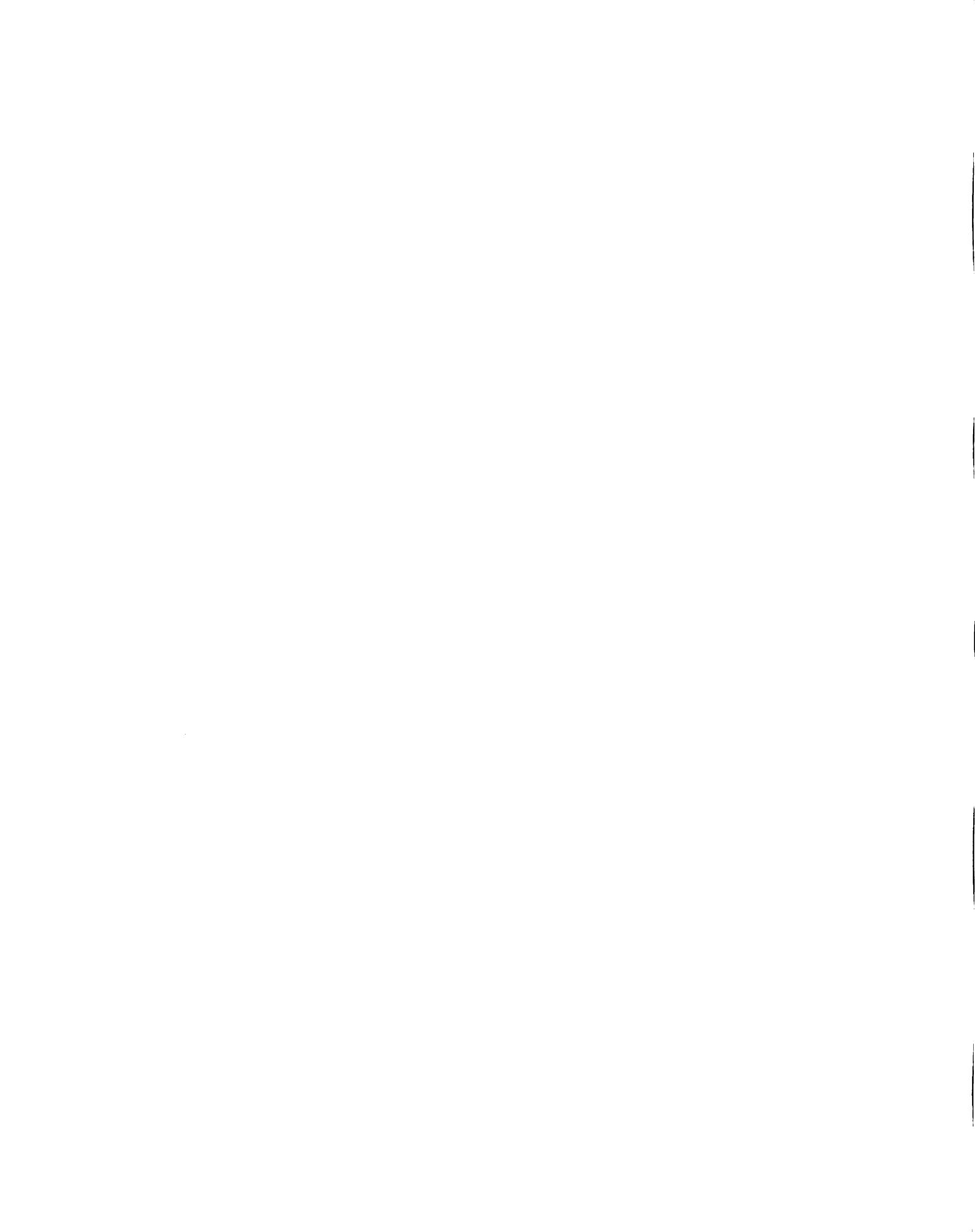
As needed, dry lumber is moved from the dry storage area to an unstacker that feeds the cut and rip line. A cut-off saw equipped with a back gauge is used to cut the lumber into pieces. A conveyor carries the pieces through a rough planer. The material then moves to a sorting table and individual lengths are packed off into carts. The carts are moved to straight-line rip saws for ripping the pieces into fixed and random widths. This material is also packed off into carts. A salvage saw will recover parts from the waste material.

The random width material goes to the edge-glued panel operation. Here, the material moves by conveyor over the glue rolls and the pieces are placed into panels and clamped in a clamp carrier. After gluing, the material is stored for final curing and then surfaced on two faces and end-trimmed square.

The fixed width stock, if going to semi-finished dimension stock, will be further processed through a molder and end-trimmed and mitered. Also, panels can be ripped to the fixed width pieces for molding or further processing. All of the material will then move to a dry storage area to await packaging and shipping.

Hardwood Dimension Market Outlook

The projected outlook of the demand for dimension is bright (Hansen and Aramn, 1985). The United States is looked to as a large, reliable source of raw material and for finished products such as furniture parts, finished furniture parts, and knock-down furniture pieces. There have been indications that foreign markets may be receptive to purchasing pre-cut hardwood blanks versus rough or planed lumber (Hansen and Araman, 1985a). Cut-to-size dimension blanks account for almost one-third of total U.S. dimension and component export shipments. American hardwood dimension and component exports continue to grow, having increased by an annual rate of 10% during the past five years, and expected to continue increasing for the next several years (Lawser, 1996).



Reasons for Exporting Dimension

The production of dimension blanks would reduce the volume of waste transported overseas (Araman, 1985), thus lowering the shipping cost per-unit utilized by the final customer. Trade in dimension would also eliminate some of the misunderstandings currently existing because of foreign markets' lack of knowledge of U.S. lumber grades (Araman, 1985). Foreign buyers would no longer have to inspect, re-grade and further handle lumber on its arrival, or reprocess and re-dry lumber to meet local standards (Hammett and Cabbage, 1991). In addition, secondary processing would provide additional value-added activities in the United States, creating jobs and reducing the energy needed to transport usable material overseas.

Some additional arguments for the manufacture of secondary wood products to increase the value added to lumber include (Mater, 1990):

- when log costs rise, secondary processing can increase income to make up the difference
- secondary products earn higher profits by meeting specific customer needs, thus bringing higher prices
- secondary processors can plan to smooth the ups and downs associated with primary products
- making products instead of commodities permits quick response to new markets, and allows a producer to respond to new trends
- secondary products broaden the customer base
- in the long run products, not commodities, help protect all wood markets from continued encroachment by competing materials such as steel and plastics

Utilization of Lower Lumber Grades

Perhaps one of the most compelling arguments for producing dimension stock is the fact that Company A could effectively utilize intermediate and lower grades of lumber, as well as lesser-used species found on U.S. forest lands (Lawser, 1996). This not only means better resource utilization, but also an expansion of the resource base available for export and alleviation of the pressure on the more limited supplies of higher-grade material (Araman, 1985). If Company A has determined exporting as an attractive and feasible means to expand, then there may an inherently larger amount of lower-grade

material left in its inventory. Hansen and Araman (1985b) found that the dimension plant they described would be particularly suited for investment by sawmill operators, since they would benefit by having a means to use some of their medium- and low-grade lumber (1C and 2C). This concept could also be applied to Company A if it purchased green lumber from sawmills in random grade bundles.

By utilizing lesser-used hardwoods not readily disposed of in the domestic or foreign markets, in the manufacture of dimension, Company A may be able to take advantage of lower prices of these species. This would present a significant advantage in terms of raw materials costs. One disadvantage of using lesser known species is that they are not known in foreign markets with respect to color, machining properties, and finishing characteristics (Ringe et al., 1987b). Also, Ringe et al. (1987b) maintain that some foreign buyers express a regional preference for certain species, and that lighter colored woods are preferred in many of the foreign markets.

Generally, the markets for the top grade lumber are the most profitable though output in these grades is limited. In terms of producing dimension, sawmillers are satisfied to cover their costs in the sale of below 2C material. Therefore, the 1C/2C lumber, which accounts for 50% of a typical sawmill's total production, must have adequate and profitable outlets if the sawmill's profit picture is to be positive (Araman, 1989b). This would indicate that sawmills offer a good source of low- and medium-grade lumber at moderate prices to supply Company A's production of hardwood dimension blanks.

Additional Reasons For Producing Dimension

With a dimension facility as a subsidiary, Company A would have ready access to production material since it manufactures and markets hardwood lumber. The feasibility and ease of acquiring and operating a dimension facility would depend on the level of processing Company A achieves with its inventory. If Company A surfaces and/or double-end-trims its lumber, perhaps to feed its boilers and run its kilns, then the initial stages of lumber processing have already been accomplished prior to the dimension facility receiving its inbound lumber. Also, the machinery required to produce dimension stock is similar to that of a lumber company which already surfaces, rips or trims to width and length specifications, providing a smoother transition into that type of manufacturing.

Standardized hardwood blanks and dimension may offer a more diversified market for Company A. In addition, by establishing a hardwood dimension mill to manufacture custom-order and/or standardized blanks, Company A could also control the quality of hardwood components from the start of the drying process.

Current and potential customers may be surveyed to determine the receptivity of dimension products in both the foreign and domestic markets. Made-to-order semi-finished stock may become more lucrative as domestic and foreign businesses continue to out-source non-core activities.

Standard-Sized Blanks

Hardwood blanks are rough-dimension parts of specific size (Araman, 1985). This surrounds the idea that of the thousands of sizes of hardwood dimension used by wood products manufacturers, there are a great many parts and panels which could be ripped from a particular number of dimension sizes with minimal waste. The standard-size blank concept opens up many opportunities and seems particularly well-suited to meet the demands of the international marketplace (Araman, 1985). The goal in developing the proposed standards was to reduce the number of different sizes for production and inventory (Araman, 1988a). Standard sizes would increase Company A's yields and lower its product costs, offering inventory advantages and reduced shipping volumes which lower shipping costs (Hammett and Cabbage, 1991).

Araman (1988b) researched the possibility of creating a series of standard sizes for rough hardwood dimension blanks. He noted that there were several advantages to manufacturing stand-size blanks for overseas consumption: many standard lengths could be cut at one time using either the longest length first or an optimizing cut-off technique; random width cuttings could be produced; the gang-ripping first option could be used; the material could be made in the green condition and then kiln-dried, eliminating the drying of non-usable material; and the dimension could be manufactured to fill and maintain an inventory.

Working with standard-size rough dimension needs for the European and Japanese markets, a condensed set of standard sizes was developed that could be used for both markets. The lengths range from 12 to 72 inches in 4-inch increments, and from 84 to 108 inches in 12-inch increments. Overseas requirements for longer pieces can be satisfied with lumber. The widths are in groupings 2+, 2-3/8+, 2-3/4+, and 3-1/8+ inches, or they could be provided in random sizes with a 2-inch minimum. The

thicknesses are listed at 4/4 and 5/4. It should be noted that atmospheric conditions in Europe and Japan dictate the need for 10 to 12 percent kiln-dried moisture content rather than the customary 6 to 8 percent needed for most of the United States (Araman, 1988a).

From a strategic marketing perspective, value-added wood products must create more value for Company A's customers. Value can be added, from the customer's perspective, by either lowering price relative to the product performance or by increasing performance relative to the price (Cohen, 1992).

Some customer-related advantages of buying standard-sized blanks include: reduced manufacturing; reduced waste; reduced inventory storage needs; and reduced shipping costs.

Capital Outlays

The initial stages of producing dimension do not necessarily have to include large capital outlays. Hansen and Araman (1985b) studied the manufacture of hardwood dimension on a small scale, and proposed a 'modest' capital outlay for the establishment of a small dimension plant. Of course, 'modest' would depend on the financial resources available to Company A. Araman and Lamb (1990) propose that the initial capital costs can range from \$200 thousand to over \$3 million depending on the facility size and production capacity. If Company A was relatively small, lumber would be purchased kiln dried and processing would be limited to the production of rough dimension for domestic or export customers, and employ approximately six workers and two administrative people. If Company A was a larger facility that had dry kilns and the equipment to process 32,000 board feet per day into rough dimension stock in a two-shift operation, a dimension facility would cost about \$3 million and may employ up to seventy people. The addition of moulders, trim saws, and other equipment needed to produce semi-finished dimension could cost an additional \$100 thousand to \$1 million (Araman and Lamb, 1990). Araman and Lamb (1990) calculate the internal rate of return on a small dimension mill in between 20 to 40 percent, whereas the large dimension plant would bring a return of over 40 percent.

Conclusions

Opportunities for increasing the value-added to wood product exports continue to exist. However, building new manufacturing facilities to produce products targeted to an export market without developing a cultural understanding and a long-term relationship can lead to great difficulties (Cohen, 1992).

Perhaps the most important aspects of manufacturing hardwood blanks are that it would permit Company A to ship a higher valued product and to keep jobs at home for American labor (Araman, 1985). In fact, most states with timber resources seek to diversify manufacturing in order to save jobs in rural areas (Mater, 1990).

Summary

There are a wide range of variables associated with international business in general and exporting specifically. The main concerns of a firm which intends to expand internationally should include determining market potential, selecting the pace for internationalization, growth alternatives, and market entry strategies. Early international success factors include a strong product demand, product uniqueness, product quality, and a customer orientation. Potential barriers to exporting include import or export restrictions, cost and availability of shipping, exchange rate fluctuations, credit policies, and expansion of distribution. Some critical elements in international operations involve product quality, distribution channel development, competitive pricing, and the extension of credit (Cavusgil, 1980).

As successful internationalization of the firm is a gradual, systematic process, a long-term approach will be imperative in building productive relationships with foreign companies. Exporting should initially be accomplished on a selective, reactive basis, in order to gradually build international business experience (Cavusgil, 1980). Initial international business transactions should be accepted only when risk and economic commitment are reasonable, utilizing domestic intermediaries such as export agents and financial institutions. Aggressive follow-up procedures must be implemented to increase the chances of retaining customers. Gradual information gathering and organizational development over a period of years can increase a company's capabilities in serving foreign markets, and competitors should be closely monitored in both their domestic and international activities. In the meantime, it will be important to strengthen the firm's domestic business, in order to reinforce the company's position when competing in the foreign market. Unsolicited overseas orders may be filled whenever possible, and upper management should initiate or continue to visit foreign facilities, participate in trade shows, and advertise in trade journals. Ultimately, future contractual agreements may enable Michigan hardwood products

producers to increase their overseas sales volumes, build their customer relationships and expand their business activities abroad.

APPENDIX C

APPENDIX C

THE EXPORT BUSINESS PLAN

Once the upper management has made the commitment to expand business overseas, they must determine which foreign markets appear most attractive in terms of profitability and growth potential. A business plan must then be defined, to outline the goals and objectives and to construct a budget and timeline for activities.

The mechanics of exporting add extra steps and costs to an international marketing sale that not incurred when marketing domestically. In addition to selecting a target market, designing an appropriate product, establishing a price, planning a promotional program, and selecting a distribution channel, the international marketer must meet the legal requirements of moving goods from one country to another. The exporting process includes the licenses and documentation necessary to leave the country, an international carrier to transport the goods, and fulfillment of the requirements necessary to get the shipment legally into another country. The mechanics of exporting are sometimes considered the essence of foreign marketing (Cateora, 1996).

Daniels and Radebaugh (1995) propose a general export business plan (Appendix E) to aid companies interested in establishing international business activity. Cateora (1996) discusses a general marketing plan (Appendix D) which may be applied to exporting, and Kotler (1994) also presents a marketing plan which may benefit any manager in developing a marketing strategy. The following export business outline has been formulated in the context of these references, with some modifications, to facilitate an orderly and systematic approach to describing the basic business elements associated with exporting hardwood lumber and hardwood products. This outline is by no means exhaustive; it is meant to serve the prospective exporter as a guideline in approaching the mechanics of exporting.

Executive Summary

The planning document should open with a short summary of the plan's main goals and recommendations. This permits higher management to grasp quickly the plan's major thrust (Kotler, 1994). A table of contents should follow the executive summary.

Business History

General Information

Various types of information may be presented pertaining to the company's current markets, products, competition, distribution and macroenvironment situations. A brief summary of financial statistics on the firm's performance may also be presented. Kotler (1994) provides a brief description of these elements:

Size and growth of the markets may be shown for several years in total and by market and geographical segments. Data may also be presented on customer needs, perceptions, and buying-behavior trends. In terms of products, the sales, prices, contribution margins, and net profits may be shown for each major product in the line for several past years. The major competitors are identified in terms of their size, goals, market share, product quality, marketing strategies, and other characteristics that are needed to understand their intentions and behavior. Data on the size, location and importance of each distribution channel is also presented. Finally, the macroenvironment situation refers to the broad trends - demographic, economic, technological, political/legal, socio-cultural - that bear on the product line's future.

Export Feasibility Study

Prior to engaging in international activity, it is imperative for the company to address the issue of determining the feasibility of success in particular markets of interest. Guldin (n.d.) describes the mechanics of such a study:

An export feasibility study should begin with a review of the major business and economic trends and the firm's past performance in its sector of the wood products industry. The goal is to estimate the significance of exporting as an alternative to domestic markets, and the firm's capacity to serve both markets. Once a particular market is identified as offering attractive profit potential, the study proceeds to examine alternative channels for distributing the firm's product to consumers within that market segment. An *export marketing channel* is a channel of interdependent institutions and entities that forms to facilitate the transfer of a wood producer's output to users in another country. Marketing channel options and strategies should be examined from the perspective of the control a producer can exercise over the channel and, ultimately, the profits from exporting.

Individual Company Assessment

A general guideline for developing an export strategy would begin with considering the desirability and feasibility of going international. One method of determining a company's potential for expanding overseas is to obtain counseling through one of many private or government agencies. Appendix F lists several government agencies which provide information or services to firms interested in exporting their products to overseas markets, and itemizes a few of the publications available. Another

sound method of self-analysis would incorporate the use of computer programs such as CORE IV. This would offer a systematic assessment of the company's strengths and weaknesses, and offer suggestions on how to improve the organization and its product.

Objectives

This section describes the financial and marketing objectives associated with exporting the firm's products. Financial objectives may include provisions such as the improvement of return on investment, the increase of net profits, or the improvement of operating cash flow. The financial objectives must be converted into marketing objectives (Kotler, 1994). For example, if the company wants to increase its profit, and it has a certain profit margin, then it would have to set a goal in export sales which would facilitate the attainment of the increase in profit.

Market Research

The objective of market research is to identify the most profitable foreign markets for the firm's products. In order to effectively conduct market research, a firm must: classify its product; find countries with the largest and fastest growing markets for its product; determine which foreign markets will be the most penetrable; define and narrow down those export markets the firm intends to pursue; talk to U.S. customers doing business internationally; and research the export efforts of U.S. competitors (U.S. Small Business Administration and AT&T, 1995).

Market Analysis

In order to effectively serve a particular market segment well, a firm must fully understand the needs of the customers in the segment (Bush et al., 1990). There are four primary segments in the market for hardwood lumber: furniture, cabinet, dimension and flooring, and molding/millwork manufacturers.

In approaching its market analysis, the firm should first conduct a preliminary screening by clustering, ranking, and targeting specific markets (Cavusgil, ____). Market selection can thus be seen as a decision process which involves narrowing down from a considered set of markets for entry what can be regarded as part of the total market space available for future export activity (Reid, 1981). It would be recommended that the senior management select one or two initial target markets, then expand gradually (Cavusgil and Nason, 1990). Some measures of market attractiveness may include industry size and

growth, geographic location, or government regulations. Management could then determine individual market industry potential, through market segmentation, market access potential, and industry trend analysis. Past industry behavior, economic stability, barriers to market entry, and supply and distribution systems would be evaluated for desirability. Trend analysis, regression, or indicators of attractiveness may be analyzed to determine important market characteristics. The evaluation of company sales potential would follow, incorporating activities such as partner selection, competitive analysis, marketing strategy formulation, and risk assessment. Some measures of sales potential may include financial resources, operational readiness, and management motivation to expand or change their supply base.

Assistance in gathering information may be requested from either from a private or public source, to include trade associations, world trade clubs, and government agencies. Appendix F lists government agencies which may provide useful information on markets. Other sources include distributors, suppliers, advertising agencies, secondary statistics, and trade fairs. Information may also be obtained through the use of surveys, trade audits, competitor analysis, or sales potential calculations.

Marketing Information System

Marketing managers, in order to carry out their analyses, planning, implementation, and control responsibilities, need information about developments in the marketing environment (Kotler, 1994). The four elements of a Marketing Information System (MIS) described by Kotler (1994) are the internal records system, the marketing research system, the marketing intelligence system, and the marketing decision support analysis. The role of the MIS is to assess the manager's information needs, develop the needed information, and distribute the information in a timely fashion to the marketing managers (Kotler, 1994).

Export Assistance

There is a wide variety of information which may assist an export manager in developing an overseas market, as well as a wide variety of public and private firms which may assist them in their international business endeavors. Hammett and DeForest (1993) found that some of the most popular sources of export sales assistance among southern hardwood lumber exporters were state economic departments, lumber manufacturing or trade associations, and university or extension organizations.

Hammett and DeForest (1993) found that some of the most common types of export assistance received by southern hardwood lumber exporters included trade leads, overseas market information, trade contacts, logistics and financing information. Appendix F lists just some of the government and university agencies which lend export assistance, while Appendix G gives names of some trade organizations which also assist hardwood lumber exporters.

Marketing Plan

A *market* consists of all the potential customers sharing a particular need or want who might be willing and able to engage in exchange to satisfy that need or want. A *marketer* is someone seeking a resource from someone else and willing to offer something of value in exchange. *Marketing* is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering, and exchanging products of value with others. *Marketing management* is the process of planning and executing the conception, pricing, promotion and distribution of goods, services, and ideas to create exchanges with target groups that satisfy customer and organizational objectives (Kotler, 1994).

International marketing poses a considerably more complex environment than marketing in the domestic arena. This is due primarily to the cultural differences between the United States and other countries. Psychic or cultural distance is proposed to be a function of the differences between any two countries in terms of their level of development, the level of education, business and everyday languages, cultural differences and the extent of commercial connections (Cavusgil, 1980).

Kaynak and Kothari (1984) address three critical elements in creating an export marketing plan: 1) an accurate assessment of the exporter's objectives in a foreign market; 2) an informed understanding of the competitive situation facing the exporter within an overseas market; and 3) an understanding of how much market demand exists for the company's product(s) abroad. In developing a marketing plan, it is essential to delineate both short- and long-term objectives for the firm. Gottko and McMahon (1989a) found that less than one-third of the Oregon lumber producers had prepared written plans for the future, and that among those which did, the exporters tended to have longer planning periods than the non-exporters.

A *marketing mix* is defined as the set of marketing tools that the firm uses to pursue its marketing objectives in the target market (Kotler, 1994). Competence in managing the elements of the marketing mix is a major determinant of the firm's long-run performance and commitment to international marketing (Cavusgil, 1980). A popular four-factor classification of the primary marketing tools is referred to as the "4 Ps": product, price, place, and promotion. These four elements of a marketing plan are discussed in the following paragraphs.

Product Differentiation

By establishing a solid reputation for producing high quality hardwood lumber, an introduction of its products via unsolicited orders and occasional direct shipments may gradually create a positive image for a firm throughout the foreign hardwood products industry. In exporting hardwood lumber, there are several ways to create a positive image of a firm's product, the most important of which would be quality. A firm should take great care to ensure that its shipments of hardwood lumber to domestic and foreign markets meet the quality and grade specifications set forth by the national Hardwood Lumber Association (1996). Attention to ensuring the absence of drying defects such as checks, splits, cracks, warp, and stain are paramount to establishing a reputation for high quality lumber. Many of these defects are preventable by utilizing properly dried lumber and alleviating processing problems (Cesa, 1992). Reinspection after drying, to remove poorly dried boards, will ensure that only quality lumber will be shipped.

Hardwood lumber loads for export are normally shipped in containers for protection and security (Araman, 1989a). Most bundles are accompanied by a tally sheet showing the measurements of all the boards (Araman, 1989a). Since packaging is very important on the export market (Araman, 1989a), a lumber company should add quality features such as double-end trimming, end-painting, and company logos on the sides of lumber packs. The use of heavy strapping and corner protectors may also help to enhance the product's image and reduce damage in shipment. In some cases companies actually put wrapping over the lumber (Araman, 1989a). In addition, ensuring that board wane faces inside the pack enhances the lumber packs' overall appearance.

Pricing Strategies

Assessing whether a product can be made and sold at a profit is another important factor to consider when planning a firm's marketing strategy (Cesa, 1992). There are basically two types of factors to consider when developing a pricing strategy. *Tangible factors* include fixed costs, variable costs, and profit.

Fixed costs include expenses such as building and equipment expenses, which require payment whether a product is produced or not. Variable costs, such as raw material, labor, and electrical costs, are expenses which are incurred in manufacturing a product and vary based on production levels. Raw material (lumber) costs are of particular importance to wood products manufacturers. For example, according to the National Dimension Manufacturers Association, raw material (lumber) can be 40 to 60 percent of the production cost to manufacturers of dimension and component parts. Profit is the amount of monetary return desired as the reward for producing and marketing a product (Cesa, 1992).

Intangible factors vary in importance depending on the company size, product line, product life cycles, and time (Cesa, 1992).

Export pricing is a complex issue, and simple decision rules are often inadequate. The complexity lies in the large number of variables that affect international pricing decisions and the uncertainty surrounding them. These variables can be classified as either internal or external to the organization. The internal group includes corporate goals, desire for control over prices, approach to costing, and degree of company internationalization. The external group includes competitive pressures, demand levels, legal and government regulations, general economic conditions, and exchange rates (Cavusgil, 1988).

Cavusgil (1988) notes that there are six important influences on export pricing: the nature of the product and/or industry; location of the production facility; the chosen system of distribution; the location and environment of the foreign market; U.S. government regulations; and the attitude of the firm's management. Many firms' export pricing strategies are also influenced by industry-specific factors, such as dramatic fluctuations in the price of raw materials and predatory pricing practices by foreign competitors (Cavusgil, 1980).

Firms typically choose one of three approaches to pricing. These can be called the rigid cost-plus, the flexible costs-plus, and dynamic-incremental pricing strategies (Cavusgil, 1980). Cavusgil (1980) explains the differences between these three types of pricing strategies:

The rigid cost-plus price strategy establishes the foreign list price by adding international customer costs and a gross margin to domestic manufacturing costs. The final cost to the customer includes administrative and R&D overhead costs,

transportation, insurance, packaging, marketing, documentation, and customs charges, as well as the profit margins for both the distributor and the manufacturer. Although this type of pricing ensures margins, the final price may be so high that it keeps the firm from being competitive in major foreign markets. Nevertheless, cost-plus pricing appears to be the most dominant strategy among American firms. Approximately 70% of (U.S.) firms use this strategy.

Flexible cost-plus price strategy is identical to the rigid strategy in establishing list prices. Flexible strategy, however, allows for price variations in special circumstances. For example, discounts may be granted, depending on the customer, the size of the order, or the intensity of competition. Although discounts occasionally are granted on a case-by-case basis, the primary objective of flexible cost-plus pricing is profit. Thus, static pricing is still a static element of the marketing mix... The flexible cost-plus pricing strategy... may be the most logical strategy for companies that are in the process of moving away from their traditionally rigid pricing policies.

The dynamic incremental strategy... is based on the assumption that fixed and variable domestic costs are incurred regardless of export sales. Therefore, only variable and international customer costs need to be recovered on exported products. This makes it possible for a company to maintain profit margins while selling its exported products at prices below U.S. lists. It is assumed that unused production capacity exists and that the exported products could not be otherwise sold at full cost. Companies can thus lower their prices and be competitive in markets that may otherwise be prohibitive to enter or penetrate.

The descriptions of each pricing strategy make it clear that unless a firm has excess production capacity, or is in possession of excess inventory, hardwood lumber companies should utilize either a rigid cost-plus or flexible cost-plus strategy. Most exporting firms appear to establish their pricing policies reactively, changing only when external pressures force the issue (Cavusgil, 1980). Although this strategy may be defensible, it is noted that creating pricing policies in this manner may cause the firms to lose valuable sales during the transition periods.

Cavusgil (1980) proposes a decision process for systematically determining export prices to increase global competitiveness:

1. Verify the export market potential.
2. Estimate the target price range: floor, ceiling, and expected prices.
3. Determine the company sales potential at given prices.
4. Analyze the import, distribution and transaction barriers.
5. Examine the corporate goals and preference for pricing strategy.
6. Select the suitable pricing strategy: rigid cost-plus, flexible cost-plus, or dynamic-incremental.

7. Check the consistency with current price setting.
8. Design the implementation: select the tactics, distributor prices, and end-user prices.
9. Monitor the export market performance and make adjustments as necessary.

In terms of price control among wood products exporters, Guldin (n.d.) notes that market share plays an important role:

Wood products exporters seldom capture a large enough share of the total foreign market for their product to be able to dictate or manipulate the price consumers pay. Thus, price control options available to the producer are restricted to how the amount received is divided among (the firm) and the various middlemen in the channel.

Issues to consider when quoting prices to foreign customers are discussed in the section pertaining to financial decisions and the pro forma statement.

Place

Price, another key marketing-mix tool, stands for the various activities the company undertakes to make the product accessible and available to target customers (Kotler, 1994). This includes the identification and recruitment of various middlemen and marketing facilitators so that the firm's products are efficiently supplied to its target market. It also entails developing the linkages between them to enhance the efficiency of delivering service to the customers. A firm must understand the various types of users, retailers, wholesalers, and physical distribution firms and how they make their decisions.

Promotion Strategies

Promotion is communication used by companies to inform customers about who they are and what they are selling. Types of promotion include advertising, selling, packaging, and, to a lesser extent, public relations (Cesa, 1992). Financial incentives such as extended credit, price concessions, or cash incentives, merchandise, and expense paid "show-me" trips and vacations have all been used to build goodwill for producers and enhance corporate images (Guldin, n.d.). Various means of advertising used by hardwood products exporters are discussed in Chapters 6 and 7. Other means of advertising include: catalogs; print advertisements such as pens, coffee mugs, etc.; and conducting trade seminars and workshops. A large part of any advertising campaign should be aimed at middleman promotions (Guldin, n.d.). Packaging, as discussed earlier, also plays a key role in brand quality identification.

A firm has to hire, train, and motivate salespeople (Kotler, 1994). The sales staff of a firm is often in direct contact with customers, and the image of the company which they convey to the users of their products has a direct reflection on the organization. The firm also has to set up communication and programs consisting of direct marketing and sales promotion (Kotler, 1994).

A very effective means of promotion is by participating in trade shows. For competitive reasons alone, participation in such shows is becoming an essential component of any global marketing strategy (*Business International*, 1987). Industry associations organize annual trade shows and conventions. Firms selling products and services to the particular industry buy space and set up booths and displays to demonstrate their products at the trade shows (Kotler, 1994). Obtaining booth space at a trade show enables a firm to promote its products to a select audience that, by its very nature, is interested in the type of product the firm is manufacturing (Cesa, 1992). Trade shows can also serve as a market-test method, since they draw a large number of buyers, who view products in a few concentrated days. The vendor can observe how much interest buyers show in a product, how they react to various features and terms, and how many express intentions to place orders (Kotler, 1994).

Preliminary Marketing Plan

To facilitate a systematic, detailed marketing plan, it is often helpful to utilize a general guide for its initial design.

Marketing Plan Outline

Some basic elements which constitute a marketing plan are described by Kotler (1994), and are detailed Appendix D:

1. *executive summary*: outlines the plans' goals and objectives
2. *current marketing situation*: describes the internal and external environments
3. *opportunity and issue analysis*: analyses the main opportunities and threats facing the company
4. *objectives*: develops marketing goals from financial goals
5. *marketing strategy*: outlines the mechanics of the marketing plan
6. *action programs*: represents the broad marketing thrusts to achieve the business objectives

7. *projected profit and loss statement*: allow the product manager to build a supporting budget
8. *controls*: concerns the controls for monitoring the plan's progress

Market Information

There are wide variety of information sources, both public and private, from which a firm interested in exporting may obtain market information. For example, the USDA Foreign Agricultural Service (1996) produces a publication which highlights exports of various forest products to specific markets, both in terms of values and volumes. When evaluating a particular market for signs of attractiveness, two obvious aspects would be total consumption and more importantly consumption growth.

Market growth may be considered on the basis of total amounts, and past trends in terms of steady increases, decreases, or fluctuation between the two. Two basic examples of market analysis information for hardwood lumber consumption are located in Appendices H and I. Appendix H lists the value of U.S. exports of hardwood lumber by country for the last five years. Appendix I characterizes the markets from Appendix H in terms of market growth. When identifying those countries which import the highest value of U.S. hardwood lumber, Canada, Japan, Italy, Germany, and the United Kingdom rank in the top five. But when considering which of these markets offer the highest opportunity for future market growth, Indonesia, The Peoples Republic of China, Hong Kong, Thailand, and Portugal, and Thailand lead in average yearly percentages of import increases. This may indicate that these markets may offer more potential for smaller companies interested in exporting, since those markets with the higher import values may already be saturated and highly competitive in terms of prices.

Appendices J and K offer similar information on export markets for forest products from Michigan. Canada, Germany, Mexico, Japan and Spain are currently the largest markets for these products (Appendix J), yet looking at the markets in terms of growth (Appendix K) the areas of highest potential include South Africa, Mexico, Finland, France and Taiwan.

Canada as an Initial Export Market

The cultural distance between the United States and other nations varies according to the given countries. Most writers agree that decision-makers are likely to explore first those foreign markets which

they perceive as having some similarity with their home market (Reid, 1981). While there is a great difference between the culture of Japan and that of the United States, there is far less of a cultural difference between the U.S. and Canada. If the customer groups is culturally similar to the producing group, then it is not a daunting task to understand their concepts of performance (Cohen, 1992). This is one reason why Canada is such a good prospect for initial export activity. Other reasons for developing export opportunities in Canada include a close geographical proximity and a stable currency exchange.

Exports of U.S. hardwood lumber to Canada have increased steadily, although at slower rates than the Pacific Rim and Europe (Araman, 1988b). In the first half of 1996, Canada was responsible for importing \$193 million FAS value of U.S. hardwood lumber, or roughly 21% of the total value of hardwood lumber exported from the U.S. during that period (USDA Foreign Agricultural Service, 1996). This makes Canada the number one importer of U.S. hardwood lumber in 1996. Canada's demand for U.S. hardwood lumber is expected to remain strong due to its preferences for fine hardwoods and its limited supplies of them. Another reason for continuing strong demand is that some Canadian firms process U.S. lumber and logs for export (Araman, 1988b).

Legal Considerations

Agent and Distributor Agreements

Beeth (1973) describes the importance of a distributor contract in terms of its impact on both the buyer and the seller:

An active, aggressive, changing distributor list produces more sales. In addition, aggressive policies tend to keep the medium distributors on their toes.

The lengthy distributor contract has only one important clause: the cancellation clause. The remainder is mainly a listing of who does what, written in legalese.

What happens to the distributors stock in case of cancellation should be spelled out. It will vary considerably from country to country because of local laws, but in no case should the manufacturer be required to take back any obsolete or otherwise unsaleable inventory. If the manufacturer must agree to take back any other inventory, it should be at the net f.o.b., factory price, less a hefty restocking charge, unless local laws force (the firm) to do otherwise.

Prior to signing a distributor contract, the cancellation clause should be checked by a local lawyer to minimize any local indemnification requirements to distributors upon cancellation.

Since the laws governing a distributor contract vary widely from country to country, their impact on cancellation of distributor contracts must be taken into account when choosing the country from which (the firm) wants to service and supervise distributors.

U.S. and Foreign Government Export Regulations

Cateora (1996) describes some of the general reasons why many countries engage in export controls:

There are many reasons why countries impose some form of regulation and restriction on the exporting and importing of goods. Export regulations can be designed to conserve scarce goods for home consumption or to control the flow of strategic goods to actual or potential enemies. Import regulations may be imposed to protect health, conserve foreign exchange, serve as economic reprisals, protect home industry, or provide revenue in the form of tariffs.

To comply with various regulations, the exporter may have to acquire licenses or permits from the home country and ascertain the potential customer has the necessary permits for importing goods (Clark, 1994). In the United States, most items requiring special permission or a license for exportation are under the control of the Department of Commerce (Cateora, 1996). Export licensing controls administered by the Department of Commerce include exports of commodities from the U.S. A *general license* permits the exportation of certain commodities with nothing more than a declaration of the type of product, its value, and its destination; a *validated license* is a specific document authorizing exportation within specific limitations.

All regulations imposed by the Department of Commerce are published in the *Export Administration Regulations*, periodically revised and supplemented by the *Current Export Bulletin*. Most commodities can be exported from the United States under a general license, but a validated license is required when exporting strategic goods or when exporting to unfriendly countries. An exporter must consult the *Commerce Control List and Country Groups Supplement* of the *Export Administration Regulations* to determine whether a validated or general license is required for shipment of a particular commodity to a specific country (Cateora, 1996).

Dispute Resolution

It is advisable to specify how and where any disputes will be resolved, as well as which nation's law would be applied. Managers should bear in mind that different countries have varying arbitration laws and systems which may apply (AT&T and the U.S. Small Business Administration, 1995). This should be discussed in the contract negotiations with the foreign buyer.

Contract Negotiations

Ghauri (1986) describes the generic stages associated with the international business negotiations process:

1. *The offer*: begins with the first contact between the parties concerning a particular venture, and ends when the vendor has submitted a final offer.
2. *Informal meetings*: occur after the buyer has received the offer; the parties meet to discuss the terms and to get acquainted.
3. *Strategy formulation*: when the parties try to build their relative power; the buyer compares the offers submitted by different vendors, makes checklists and assigns pro and con arguments to all competing vendors. The seller decides on what points concession is most likely, and to what extent his firm can concede.
4. *Face-to-face negotiations*: observations reveal that it is always the party having the relative power which arranges the agenda. A “tough” strategy is when one party starts with a high initial offer and avoids making concessions; a “soft” strategy is when the granting of concessions enhances trust and facilitates negotiations. It is in this stage when parties take the initiative by asking questions about the other party, the offer, price, quality, delivery, and credit possibilities. After the negotiations, a summary of the discussions should be prepared to facilitate swift contract preparation.
5. *Implementation*: once the terms are agreed upon, a contract is drawn up and signed.

Ghauri (1986) suggests some basic ways in which international business executives may prepare for international negotiations:

- *Identify the contents of the deal*: these include implications of the deal, the concepts at stake, the “fit” of the deal with organizational objectives, and possible economic, political, or other restrictions between the countries.
- *Create alternatives*: the parties, particularly the buyers, should investigate available market alternatives and numbers of suppliers, their relative positions and technology levels.
- *Put oneself in their shoes*: develop an understanding of the other party’s position, and foresee their reactions to the firm’s arguments.

- *Develop the appropriateness of the message:* the information exchanges should be tailored to the other parties to the deal.

Cavusgil (1996b) provides some helpful hints to conducting business negotiations in a multi-cultural environment:

- Prepare oneself and set objectives in advance.
- Don't go alone; use observers.
- Have patience; take time to establish trust and friendships.
- Recognize language difficulties; avoid using slang.
- Research and follow their traditions and customs.
- Focus on conflicts; avoid personal attacks.
- Listen carefully.
- Recognize silence as a powerful tool.
- Be careful with open legal references; this may be considered offensive.
- Don't pressure if no conclusion is reached; suggest another meeting.
- Avoid making concessions until all issues are discussed.

Ilké (1964) defined a good negotiator as having a "quick mind but unlimited patience, one that knows how to dissemble without being a liar, inspire trust without trusting others, be modest but assertive, charm others without succumbing to their charm, and possess plenty of money and a beautiful (spouse) while remaining indifferent to all temptations of riches and (members of the opposite sex)."

Respect for different perspectives and environments is of utmost importance. It is not necessary to adapt or change oneself to local environments - it is more important to be aware of these differences and to show them due respect or acceptance (Ghuari, 1986).

Manufacturing & Operations

Production Facilities

As discussed in Appendix B, the production facilities of the firm would depend on its size and types of products, as well as the decision and ability to establish additional facilities in different locations.

Mill location affects prospective exporters in two ways: inland freight costs and log quality (Guldin, n.d.). This substantiates an additional argument against low-cost strategy for Michigan hardwood lumber producers based on the fact that these companies are at a disadvantage with respect to transportation costs, due to the geographical distance to coastal shipping ports. Many export companies seek producers which are geographically closer to their ports of departure. An exception may be if those firms outside an "optimal" geographic radius offer products which are scarce in the nearby market and in high demand overseas. For example, Guldin (n.d.) states:

In the southern U.S., export merchants usually purchase common export-quality products from producers within a 200-mile radius of major southern ports. Over that distance, the price paid the producer, minus trucking costs, usually yields an acceptable profit. If the products sought are scarce, they can command a premium price making 400 to 800 mile hauls profitable.

For Michigan hardwood lumber producers, the high quality and species of hardwood resources available to produce select grades lumber should give them an advantage in offering export-quality lumber in high demand, such as hard maple, red and white oak, and ash. Thus, although the transportation costs may place them at a disadvantage with respect to their competitors in other states, this setback may be offset by the regional availability of high-grade hardwood sawtimber for lumber production.

Inventory and Production Capacity

Prior to initiating export sales, it would be prudent to determine what types of products the target markets are interested in, as well as the future availability of these items. For hardwood lumber, it may be necessary at times to broker various grades, thicknesses, and species from other companies, in order to maintain a continuous flow of goods overseas.

Suppliers

A variety of hardwood lumber suppliers may be necessary to fill orders for high-quality shipments. The most important aspects of determining which suppliers will best suit the firm's export needs would focus on availability and quality of their lumber. It may be necessary to cultivate relationships with suppliers closer to export ports, in order to decrease shipping costs. Regional characteristics of lumber may also play an important role in supplier selection.

Distribution

Distribution of hardwood lumber is usually accomplished by truck, train, or ship. The proximity of the company's production facilities to ports of export would determine the mode of transportation utilized. Cateora (1996) describes the differences in exporting from domestic marketing in terms of transportation:

Whenever and however title to goods is transferred, those goods must be transported. Shipping goods to another country presents some important differences from shipping to a domestic site. The goods can be out of the shipper's control for longer periods of time than in domestic distribution; more shipping and collections documents are required; packaging must be suitable; and shipping insurance coverage is necessarily more extensive. The task is to match each order of goods to the shipping modes best suited for swift, safe, and economical delivery. Shipping costs are an important factor in a product's price in export marketing; the transportation mode must be selected in terms of total impact on cost.

There are several types of distributors which can assist a company in getting its products to customers in foreign markets. Guldin () describes export marketing channel options:

Channel intermediaries are usually specialists. They can either specialize in providing particular marketing services or in handling particular products. A producer seeking to construct a market channel for exporting forest products tailors the channel to meet the firm's needs, as well as those of its overseas buyers, by combining one or more service and product middlemen into a distribution network. *Service middlemen* keep transactions and products flowing smoothly through the distribution channel by "routinizing" transactions, but provide little channel direction. *Service middlemen* are commonly agents who profit from fees charged for their services. A *product middleman* restricts the availability of a firm's products to his clientele and should be viewed primarily as a purchasing agent who serves to focus the demand of a large group of customers for whom he buys. Product middlemen are frequently merchants, taking title to the goods and profiting from resale, although product middlemen who are agents carrying a line of goods for a commission on sales are not rare.

In the initial stages of exporting, a firm may want to consider working with an export agent or an export broker. These people are familiar with export documentation, payment methods, and specific country markets. Indeed, Ifju and Bush (1993) cited communication with export distributors or brokers as an important stimulus to exporting with eastern hardwood lumber manufacturers. *Export agents* assist a firm by setting up customer contacts and selling the firm's products to them, but they control the majority of the marketing. *Export brokers* purchase products directly from a firm and resell them to foreign customers (Cesa, 1992).

Once a firm has become more familiar with the process of exporting, it may wish to bypass domestic middlemen in favor of selling to foreign distributors. A *distributor* is a merchant in a foreign country that purchases products from the manufacturer and sells them at a profit (Daniels and Radebaugh, 1995). The use of foreign distributors may help to introduce a company's lumber into a target market. Close communication with export distributors should be maintained, in order receive feedback which would indicate deficiencies (Cavusgil and Nason, 1990). By interacting with domestic middlemen and foreign businesses, useful data may be gathered on customer and market requirements and preferences, costs of production and shipping, and elements of international negotiations and transactions. Cultural information on attractive target market segments may also be compiled, to construct segment profiles which may aid in successfully introducing the company and its products to those areas. The producer's most successful tool to help forge an export marketing channel is the promise of profits. The producer must allow each middleman to an adequate profit from fees, commission, or resale as an incentive to push the products expeditiously through the export marketing channel (Guldin, n.d.).

The most involved form of exporting is by *selling direct*. This is the sale of goods directly to distributors or final consumers rather than trading companies or other intermediaries in order to achieve greater control over the marketing function and to earn higher profits (Daniels and Radebaugh, 1995). This places greater responsibility for the pricing, shipment, and documentation of exports on the exporter. Brady (1978) found that firms using direct export channels had significantly more export experience than firms using indirect channels, because inexperienced firms usually began using indirect channels and then switched to direct channels as they gained exporting experience. Brady (1978) also concluded that executives of exporting firms felt that direct exporting provided more control over marketing programs and fed more information back to the producer.

Product Inspection

Since hardwood lumber is a natural resource, susceptible to the presence of disease, there are regulations for importing these goods into other countries which must be addressed prior to shipment from the United States. For example, regardless of the channels employed, oak lumber exported to the European community must be kiln-dried to 20 percent moisture content, free of all bark, and certified as

such by an inspector, to prevent the spread of oak wilt disease (National Forest Products Association, 1985). This phytosanitary inspection can be performed at the exporter's facilities, often involving some delay, or at the port, involving a fee and increasing the risk of damage and pilferage (Ringe et al., 1987a).

An additional benefit of inspection would address potential disputes between the buyer and seller. "Since the exporter can receive payment before the lumber arrives overseas, the importer faces the risk of documentation that does not faithfully describe the shipment, or the receipt of lumber that does not meet the desired quality standards. Requiring inspection by a third party and inclusion of an inspection certificate in the terms of the letter of credit can reduce this risk (Dun's Marketing Services, 1986)."

Shipping Containers

Hardwood lumber exported to foreign markets is typically shipped in metal containers with a capacity of 11 to 14 thousand board feet. Like phytosanitary inspections, the loading of lumber into ocean freight containers can be done either at the exporter's facilities or at port facilities (Ringe et al., 1987a). Of the hardwood lumber exporters surveyed by Ringe et al. (1987a), most preferred to expend the additional effort to load the containers themselves, and avoid the potential for damage and pilferage by in-port containerization.

All countries regulate the marking of goods and containers on imports and noncompliance can result in severe penalties. The exporter must be careful that all marking on the container conforms exactly to the data on the export documents because discrepancies are often interpreted by customs officials as an attempt to defraud (Cateora, 1996). A basic source of information for American exporters is the Department of Commerce pamphlet series entitled *Preparing Shipment to (Country)* which details the necessary export documents and pertinent U.S. and foreign government regulations for labeling, marking, packing, and customs procedures (Business America, 1994).

Shipping Documentation

In general, there are four main categories of export documents that may be necessary in order to ship a product to a foreign destination. These documents may be provided by the seller, the U.S. government, a foreign government, and/or the buyer (Stern et al., 1994):

- *Commercial documents*: these refer to the underlying business transaction between the buyer and seller; the pro forma invoice, discussed further, is one of the primary commercial documents.
- *Banking documents*: these include letters of credit, drafts connected to the letters, and any other agreement between a bank and the seller and buyer.
- *Transportation documents*: documents that facilitate or monitor merchandise in transit are called transportation documents; these include bills of lading, delivery instructions, dock receipts, insurance certificates, transmittal letters, packing lists, shipper's letters of instruction, freight release forms, etc.
- A *bill of lading* is a contract between the owner of the goods and the carrier (Daniels and Radebaugh, 1995).
- *Government control documents*: This category includes import licenses and other documents that may be required by customs in an importing country:
 - *Export declaration*: controls exports and is used to compile trade statistics (Daniels and Radebaugh, 1995); this is the principal U.S. government export control document.
 - *Consular invoice*: this is a document sometimes required by importing countries as a means of controlling imports (Daniels and Radebaugh, 1995).
 - *Certificate of origin*: this indicates where the products originate and usually is validated by an external source, such as the chamber of commerce, it helps countries determine the specific tariff schedule for imports (Daniels and Radebaugh, 1995).

Resource Requirements

As stated in Chapter 8, Michigan and the Great Lake States have an abundant supply of hardwood species, of which annual growth exceeds annual harvests (Leatherberry and Spencer, 1993). This suggests that Michigan hardwood lumber produces have a competitive advantage in terms of supply of raw materials.

ISO 9000

In the future, export customers requirements may become even more stringent, as the world moves increasingly toward environmentally sound management practices for its forest resources. In addition, the European Union, and other major US companies, have become increasingly aware of the

need for total quality management throughout their value chains. *Quality management* refers to all activities of the overall management function that determine the quality policy, objectives and responsibilities and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system (Peach, 1995). ISO 9000 is a series of three international standards and supplementary guidelines on quality management and quality assurance, which were first published in 1987 and revised in 1994 by the International Organization for Standardization (Struebing, 1996). The primary requirement of ISO standards is the documentation of how each system element functions, and specifications of how the firm's quality assurance process must occur. The company is expected to adhere to its guidelines, while reviewing each process and implementing changes when necessary (Peach, 1995). The company is then responsible for proving its conformance to the approved guidelines (Struebing, 1996).

In 1994, several large U.S. furniture manufacturers started to jointly encourage their suppliers to pursue ISO 9000 certification (Avery, 1994). These furniture companies included Hayworth, Steelcase, and Herman Miller, some of Michigan's largest hardwood-using finished products manufacturers. Purchasing managers of these companies and suppliers alike agreed that by standardizing quality systems specifications through a program such as ISO 9000, both suppliers and manufacturers could reduce the cost of doing business (Evans-Correia, 1993). As many of the large companies in the U.S. have started similar initiatives, it is increasingly likely that many smaller suppliers, such as hardwood lumber companies, will have to conform to these types of quality assurance specifications in the future. It may only be a matter of time before these standards are even applied to the management of natural resources, a situation in which hardwood lumber companies may have to certify that their suppliers are conforming to environmentally-sound land management practices.

Personnel Strategies: The Export Organization

There are several ways in which a firm may improve its organization with respect to going international, the Senior and middle management must make first contacts, by either direct mail, telemarketing, or participation in export forums. Indirect exporting through domestic middlemen or piggyback exporting with other companies will increase knowledge on international business transactions.

Once the organization is thoroughly prepared, it may increase its level of involvement in international business activity.

Upper Management

As evidenced by the survey analysis, a very important move toward going international would undoubtedly involve solidifying the upper management's commitment and motivation to expand business abroad. The company goals and upper-level management's vision reflect the firm's desire to succeed in domestic markets, but should also include the goal of expanding internationally when targeting exports as a means to increase profitability. For Michigan hardwood products producers, a greater percentage of upper management time and company resources are necessary in developing opportunities abroad. The goals set toward developing export markets should be communicated throughout the entire organization, to aid in establishing a company-wide mentality toward building international expansion efforts.

The Export Manager

The internationalization process incorporates organizational change when necessary. The addition of a part-time or full-time international sales representative would significantly increase a company's chances of succeeding in foreign markets. Indeed, the relative status of the separate (export) organizational unit or personnel within organization reflects the relative significance attached to foreign marketing (Cavusgil, 1980). The appointed export representative should possess the education, experience, and marketing skills which may be indicative of potential success at home or abroad. Hammett et al. (1991) found that southern hardwood lumber exporters' sales managers tended to be slightly younger and possess significantly more education than the sales managers of non-exporting firms. Daniels and Radebaugh (1995) point out that the criteria for an export manager and his or her selection are not easy to identify:

The qualifications for an export manager are complex. There are a wide variety of skills necessary to successfully compete in today's global markets. A company may recruit an export manager from within its organization, from another company, or from a college or university. Business schools are increasing their international offerings and requirements, but there is no consensus as to what students should learn for international responsibilities. Two distinct approaches are to convey specific knowledge about foreign environments and international operating adjustments and to train in interpersonal awareness and adaptability.

Since exposure to the target markets and their cultures could be extremely helpful in developing an educated “international perspective”, travel expenses would be incurred in preparing an export representative for effectively competing in each market. Hammett and DeForest (1993) found that the majority of southern hardwood exporters had sent representatives on overseas sales trips, and that those trips were thought by 42% of the responding companies to have increased export sales. Reid (1984) indicated that there was an overwhelming agreement among exporters on the importance of personal visits to foreign markets for gathering export information.

The export representative’s skills should be strengthened through relevant additional education, including seminars and programs associated with exporting. The representative would need to interact with all levels of management in order to effectively coordinate export activities, including procurement, production, inventory, and distribution. This would coincide with the need for a more decentralized, flexible organizational structure, which may enable a company to become more responsive to changing customer requirements, increasing customer demands, and decreasing effective response time.

Experience and Expertise of Existing Personnel

The benefits of taking a long-term approach in exporting start with developing management’s international business skills through limited overseas transactions. The interaction with US middlemen, foreign businesses, and related associations will also serve to establish a firm’s reputation in the overseas market. Participation in trade shows and in-country visits will serve to introduce the company to a broader base of potential customers than just shipping indirectly through intermediaries, and allow the export managers to become more familiar with diverse cultures. In addition, word-of-mouth advertising will increase customer awareness of the firm’s product.

Training Needs

In general, *training* refers to a planned effort by a company to facilitate the learning of job-related knowledge, skills, or behavior by employees (Noe et al., 1997). Noe et al. (1997) define the components of instructional design:

1. conducting needs assessment (organizational analysis; person analysis; task analysis)
2. ensuring employee’s readiness for training (attitudes and motivation; basic skills)

3. creating a learning environment (identification of learning objective and training outcomes; meaningful material; practice; feedback; observation of others; administering and coordinating program)
4. ensuring transfer of training (self-management strategies; peer and management support)
5. selecting training methods (presentational techniques; hands-on techniques; group techniques)
6. evaluating training programs (identification of training outcomes and evaluation design; cost-benefit analysis)

There are a wide variety of methods to ensure international business representatives acquire the knowledge necessary to efficiently conduct export operations. Government and private training programs and seminars are available to facilitate this type of learning.

Language training should be an important part of the export manager's training. The choice of language would be a function of the employer's target markets. One poll of U.S. companies put Spanish clearly in front with 44 percent of responses; Japanese followed at 33 percent; the only other languages receiving at least 1 percent of responses were French (8%), Chinese (6%), German (5%), and Russian (1%) (Daniels and Radebaugh, 1995).

Hiring Needs - Short and Long Term Requirements

The need to hire an additional sales representative calls for a procedure for the selection and placement of the individual. The export manager should have characteristic qualities associated with efficient sales staff, such as a solid foundation of knowledge about the hardwood lumber industry and an adequate level of sales experience. They should also display a willingness to travel, as well as a desire to learn the mechanics of exporting in general. In addition, it is important for an international sales representative to be aware of the cultural issues surrounding international business transactions.

Financial Decisions

Identification of Key Assumptions

When considering exporting, a company must address financial issues which it deems important with respect to the advantages it expects to accrue from international business transactions. These include additional costs and revenues, changes in profit margins, and various difficulties which may be

encountered in exporting. *Financial disincentives* refer to economic conditions that discourage exporting (Ringe et al., 1987a). Some financial problems identified by Ringe et al. (1987a) among hardwood lumber exporters include unfavorable exchange rates and payment terms and reduced market volumes and prices due to economic recession. Additional disincentives included the strengthening of the U.S. dollar (decreasing the volume of orders from foreign customers), and losses associated with shipment rejections and bankruptcies of intermediaries.

Foreign Currencies

Hoskin (1994) describes the importance of currency exchange rates in reference to international business transactions:

In purchase and sale transactions, the contract, either explicit or implicit, between the buyer and seller can be denominated, or expressed, in foreign currency units or U.S. dollars. If the transaction is denominated in foreign currency units, the U.S. firm will either receive foreign currency (in a sale transaction) or pay in foreign currency (in a purchase transaction). A U.S. buyer will (then) have to convert the foreign currency it receives into U.S. dollars.

In order to convert foreign currency units into U.S. dollars, a conversion rate, or exchange rate, must be used. Exchange rates fluctuate continuously and are reported in the financial press (*The Wall Street Journal*, *Barrons*, etc.). These exchange rates or prices are either stated in a direct quote as the number of dollars per foreign currency unit or in an indirect quote as the number of foreign currency units per U.S. dollar. The exchange rate for a given currency is influenced by the differential inflation rates in the two countries as well as by trade policies, trade surpluses or deficits, etc.

Terms of Sale

Cateora (1996) describes the terms of trade in international business:

Terms of sale, or trade terms, differ somewhat in international marketing from those of the United States. In U.S. domestic trade, it is customary to ship FOB (free on board, meaning that the price is established at the door of the) factory, freight collect, prepaid, and/or COD (cash, or collect, on delivery). International trade terms often sound similar to those used in domestic business but generally have different meanings. International terms indicate how a buyer and seller divide risks and obligations and, therefore, the costs of specific kinds of international trade transactions. When quoting prices, it is important to make them meaningful.

Some of the most common trade terms include (Cateora, 1996):

- *CIF (cost, insurance, freight)* - to a named overseas port of import. A CIF quote is more meaningful to the overseas buyer because it includes the costs of goods, insurance, and all transportation and miscellaneous charges to the named place of debarkation.

- *C&F (cost and freight)* - to named overseas port. The price includes the cost of the goods and transportation costs to the named place of debarkation. The cost of insurance is borne by the buyer.
- *FAS (free alongside)* - at a named U.S. port of export. The price includes cost of goods and charges for delivery of the goods alongside the shipping vessel. The buyer is responsible for the cost of loading onto the vessel, transportation, and insurance.
- *FOB (free on board)* - at a named inland point of origin; at a named port of exportation; or a named vessel and port of export. The price includes the cost of the goods and delivery to the place named.
- *EX (named port of origin)* - the price quoted covers costs only at the point of origin. All other charges are the buyer's concern.

It is important for the exporter to understand exactly the meanings of terms used in quotations. A simple misunderstanding regarding delivery terms may prevent the exporter from meeting contractual obligations or make that person responsible for shipping costs he or she did not intend to incur (Business America, 1993).

Methods of Payment

The U.S. Small Business Administration (1995) describes the basic concerns of a company in ensuring payment in export sales:

To succeed in the international marketplace, small firms must offer their customers competitive payment methods. A small business exporter's principal concern should be to ensure that he or she gets paid in full and on time for each export sale. Foreign buyers have concerns as well, such as ensuring that their orders arrive on time and as requested. Therefore, it is important that the terms of payment be negotiated carefully to meet the needs of both the buyer and the seller. The payment method used can significantly affect the financial risk of the buyer and seller in an export sale. In general, the more generous the sales terms are to a foreign buyer, the greater the risk to the exporter.

There are several methods of payment for international transactions (USSBA, 1995), listed in descending order in terms of security:

- *Payment in advance*: requiring payment in advance of shipment as a term of sale is not uncommon, but in many cases it is too expensive and too risky for foreign buyers.
- *Letters of credit*: these are one of the most common and safest payment methods available; the typical procedures for the issuance of letters of credit is explained in detail at the end of this section.

- *Documentary collections (drafts)*: these involve the use of a draft, drawn by the seller on the buyer, requiring the buyer to pay the face amount either on sight (sight draft) or on a specified date in the future (future draft); the draft is an unconditional order to make such payment in accordance with its terms. Because the title to the goods does not pass until the draft is paid or accepted, to some degree both the buyer and seller are protected.
- *Consignment*: under this type of payment method, no money is received by the exporter until after the goods have been sold by the purchaser; title to the goods remains with the exporter until such time as all the purchase conditions are satisfied. Consignment is very risky to the exporter, since there is no way to predict how long it might take for to sell the goods, and also since the exporter would have to pay the costs of recovering the goods from the foreign consignee in the event they were never sold.
- *Open account*: this means that the goods are manufactured and delivered before payment is required; in international business transactions, this method of payment should not be used unless the buyer is credit worthy and the country of destination is politically and economically stable, or unless the receivables are covered by export insurance.
- *Other payment methods*, such as consignment sales or countertrade (Daniels and Radebaugh, 1995).

Projected Cash Flows

In order to assess the feasibility and profitability of exporting, the future revenues and costs associated with the transactions will have to be assessed. *Cash flow from operations* is defined as sales less cost of goods sold, other costs, and taxes (Brealey and Meyers, 1991). Financial analysis of operations and investment opportunities is a complex undertaking, but a brief description will be provided for calculating the present value of an investment, such as capital investment to support exporting.

One of the basic principles of finance is that “a dollar today is worth a dollar tomorrow”, given the fact that a dollar today can be invested to start earning interest immediately. If an investment is not expected to offer a return until a later point in time, such the investment in equipment to support export activities, it will be necessary to calculate the *present value* of the investment. To calculate the present value of a delayed payoff, it is necessary to multiply the payoff by a *discount factor* which is less than one (Brealey and Meyers, 1991). The discount factor is expressed as the reciprocal of 1 plus a rate of return:

$$\text{Discount factor} = \frac{1}{(1 + r)}$$

where the rate of return r is the reward that investors demand for accepting delayed payment (Brealey and Meyers, 1991). Most often this is compared to the rate of return for a risk-free investment option, such as government bonds.

To calculate present value, expected future payoffs must be discounted by the rate of return offered by comparable investment alternatives, or, the *opportunity cost of capital*. The basic formula for calculating the present value of is as follows:

$$\text{Present Value} = \text{discount factor} * C$$

where C denotes the expected payoff at the time in the future. The concepts of present value and the opportunity cost of capital make sense even for risky investments. It is proper to discount the payoff of an investment by the return offered by a comparable investment, but a manager has to think of expected payoffs and the expected rates of return on other investments (Brealey and Meyers, 1991),

Pro Forma Financial Statements

Conducting international business transactions involves the risk of experiencing currency fluctuations between the two countries. The *pro forma* financial statement is a binding agreement that can protect the seller against adverse currency fluctuations and can be used by the buyer to apply for foreign exchange (U.S. dollars) or to open a letter of credit. “Pro forma” means that the invoice is only a quotation, although the actual invoice for a sale would look identical (Stern, et al., 1994). Stern et al. describe information included on the Pro forma invoice:

- insurance and shipping costs
- terms of payment
- delivery point and other details
- volumes
- list of requested products
- product descriptions

- gross and net shipping weights
- prices

Even if some of the costs change before the product is delivered, U.S. companies can protect themselves from fluctuations that may have a negative impact by putting an expiration date on the pro forma invoice (Stern et al., 1994). Stern et al. (1994) recommend addressing the following issues when quoting a price directly to a foreign buyer:

- Make sure the price quotation is in the local language and have a bilingual response procedure.
- State the duration of the offer. If you are running specials, let the consumer know the exact beginning and final dates of the offer. State how long delivery is expected to take.
- Be sure to state the currency the prices are quoted in, and indicate the forms of payment you will accept.
- Define shipping and handling costs and clearly state whether they are included in the price or will be an additional cost.

Export Financing

In the United States, small businesses typically turn to their local banks for working capital financing. However, most smaller banks do not retain staff with expertise in international trade (USSBA, 1995). Prior to approaching a bank about borrowing capital, the manager should define the purpose of the loan, the amount to be borrowed, and how the loan will be repaid. The U.S. Small Business Administration (1995) briefly describes some key definitions associated with capital:

- *Venture capitalists vs. lenders*: venture capitalists invest in a business with the expectation that as the business grows, their equity in the business will grow exponentially; lenders make their money on the difference between the rate at which they borrow money and the rate at which they lend it to their customers.
- *Services vs. lending*: international trade services include advising, negotiating, and confirming letters of credit; many banks international divisions are not authorized to lend capital.
- *Working capital financing vs. trade financing*: permanent working capital is the amount of money needed to pay short-term liabilities that remain steady over a period of several years, for example,

non-fluctuating accounts receivable; trade finance generally refers to financing the fluctuating working capital needs of a business, including specific export transactions.

There are numerous private sources of financing and services available to small firms interested in exporting their products to overseas markets. These include private trade financing companies, export trading companies and export management companies. Another source are factoring houses, which purchase export receivables on a discount basis, which enables the exporter to receive immediate payment for goods. Forfaiting houses also allow the exporter to relinquish their rights to future payment in return for immediate cash.

Government sources of funding include the U.S. Small Business Administration's Regular Business Program, which offers money for fixed assets or working capital to companies which are operated for profit and fall within size standards set by the USSBA. Another source is the Export Working Capital Program, again offered by the USSBA, which supports single transactions or multiple export sales. A manager interested in seeking funding assistance from the government should contact the U.S. Small Business Administration (Appendix F) for additional information.

Tax Consequences of Export Activity

If the advice "consult your tax accountant" applies to domestic business, it applies tenfold to international business (Butler, 1997). Differences in national taxation laws would apply to a firm which is operating a foreign subsidiary, such a distribution facility or sales office. In that case, the source of income is generally taxed by the foreign government of the country in which the operation is located (Daniels and Radebaugh, 1995).

In the United States, a foreign tax credit for income taxes paid to a foreign government prevents double taxation of foreign earned income. Foreign branches of a U.S. corporation are treated as a part of the parent rather than as a separate legal entity (Butler, 1997). Prior to exporting goods to overseas markets, a manager should consult with the firm's tax accountant to determine which laws will apply to the shipment of goods overseas.

Potential Risk and Sources of Protection

There are many risks associated with exporting, the most important of which is ensuring payment for goods or services offered to foreign customers. Export credit insurance programs reduce an exporter's risk and can be obtained through an insurance agent or broker or from Ex-Im Bank's (Appendix F) Insurance Division. The U.S. Small Business Administration also offers short-term insurance geared to meet the needs of smaller, less experienced exporters.

Credit Documentation

The International Chamber of Commerce (1985) publishes an excellent guide to educate the export executive on the mechanics of trade documentation. *Documentary credit* is defined as a conditional bank undertaking of payment for international business transactions. Payment is made on behalf of the buyer against documents which may represent goods and gives (the buyer) rights in them. Because the documentary credit is a bank undertaking, the seller can look to the bank for payment, instead of relying on the ability or willingness of the buyer to pay (International Chamber of Commerce, 1985). The buyer may have to make an advance deposit of requesting the issuance of the credit they may be required to place the issuing bank in funds at the time documents are presented to the overseas banking correspondent of the issuing bank. The seller only has the right to demand payment if they meet all the requirements of the credit (International Chamber of Commerce, 1985). There are several types of credit which vary in terms of revocability.

Payment through a letter of credit was found to be the most preferred method of payment by hardwood lumber exporters in Kentucky (Ringe et al., 1987b). Ringe et al. (1987b) explain that although this procedure is essentially the least risky (except for payment in advance) for the exporter, some risk does potentially exist for both the buyer and seller. "Nonpayment can occur if the seller fails to meet the requirements of the letter of credit or, in the case of an unconfirmed letter of credit, if the financial institution of the buyer, the political stability of his or her country, or its importing policy changes. Full understanding of the terms and compliance by all who handle the lumber (staff, freight forwarders, carriers, etc.) will minimize the risks of nonpayment (Ringe et al., 1987b).

“Despite the protection available to buyers, letters of credit are not always available in all markets. Firms beginning to export or entering new export markets may experience difficulty in obtaining them until they become known and trusted by importers. Experienced firms may also encounter difficulty in obtaining letters of credit as this method of financing can be expensive to buyers (Ringe et al., 1987b).”

A summary of the credit documentation procedure is as follows (International Chamber of Commerce, 1985):

- 1. The buyer and seller conclude a sales contract providing for payment by documentary credit.**
- 2. The buyer then instructs their bank (the “issuing” bank) to issue a credit in favor of the seller.**
- 3. The issuing bank asks another bank, usually in the country of the seller, to advise or confirm the credit.**
- 4. The advising or confirming bank then informs the seller that the credit has been issued.**
- 5. As soon as the seller receives the credit and is satisfied that (the seller) can meet its terms and conditions, (the seller) is in a position to load the goods and dispatch them.**
- 6. The seller then sends the documents evidencing the shipment to the bank where the credit is available (the nominated bank). This may be the issuing bank, or the confirming bank, or a bank named in the credit as the paying, accepting, or negotiating bank. If the credit allows for negotiation by any bank there will not be “nominated bank” and documents may be sent to any bank willing to negotiate under the credit.**
- 7. The bank then checks the documents against the credit. If the documents meet the requirements of the credit, the bank will pay, accept or negotiate, according to the terms of the credit. In the case of a credit available by negotiation, the issuing bank or the confirming bank will negotiate without recourse. Any other bank, including the advising bank if it has not confirmed the credit, which negotiates, will do so without recourse.**
- 8. The bank, if other than the issuing bank, sends the documents to the issuing bank.**

9. The issuing bank checks the documents and, if they meet the credit requirements, either:
- a. effects payment in accordance with the terms of the credit, either to the seller if they have sent the documents directly to the issuing bank, or to the bank that has made funds available to (the seller) in anticipation, or
 - b. reimburses in the pre-agreed manner the confirming bank or any bank that has paid, accepted or negotiated under the credit (Article 21, UCP)
10. When the documents have been checked by the issuing bank and found to meet the credit requirements, they are released to the buyer upon payment of the amount due, or upon other terms agreed between (the buyer) and the issuing bank.

It is apparent that the length of time to prepare the transaction as well as the documentation necessitates a thorough understanding of the documentation requirements. Attention to detail and accuracy in completing the documents will help to ensure a timely response by the banks, and reduce the possibility of having to correct mistakes which may lengthen response time by the respective parties.

Implementation Schedule

Kotler (1994) describes the importance of the organization in terms of successfully implementing a business strategy:

Even a clear strategy and well thought-out supporting programs may not be enough. The firm may fail at implementation. Strategy is only one of seven elements, according to the McKinsey Consulting Firm (Peters and Waterman, 1987), that the best-managed companies exhibit... the first three elements - strategy, structure, and systems - are considered the "hardware" of success. The next four - style, staff, skills, and shared values - are the "software".

The first "soft" element, style, means that employees in that company share a common way of behaving and thinking. The second, skills, means that the employees have the skills needed to carry out the company's strategy. The third, staffing, means that the company has hired able people, trained them well, and assigned them to the right jobs. The fourth, shared values, means that the employees share the same guiding values and missions. When these "soft" elements are present, companies are usually more successful at implementation (Deal and Kennedy, 1982).

Follow-up Procedures

The last section of a business plan outlines the controls for monitoring the plan's progress (Kotler, 1994). Management should continuously monitor the firm's performance, comparing actual

levels of activity, efficiency, and profitability with predicted levels, in order to ensure that the firm's goals are being met at all stages of its export activity.

APPENDIX D

APPENDIX D

A GUIDE FOR DEVELOPING A MARKETING PLAN

I. Cultural Analysis

- A. Introduction (company, products, target countries)**
- B. Brief Discussion (country's relevant history)**
- C. Geographical Setting**
 - 1. location**
 - 2. climate**
 - 3. topography**
- D. Social Institutions**
 - 1. family**
 - a. the nuclear family**
 - b. the extended family**
 - c. family dynamics**
 - 2. education**
 - a. the role in society**
 - b. literacy rates**
 - 3. political system**
 - a. political structure**
 - b. political parties**
 - c. government stability**
 - d. special taxes**
 - e. roles of local government**
 - 4. legal system**
 - a. organization of the judiciary system**
 - b. type of law (code, common, socialist, Islamic)**
 - c. participation in patents, trademarks, and other conventions**
 - 5. social organizations**
 - a. group behavior**
 - b. social classes**
 - c. clubs and other organizations**
 - d. race, ethnicity, and subcultures**
 - 6. business customs and practices**
- E. Religion and Aesthetics**
 - 1. religion and other belief systems**
 - a. orthodox doctrines and structures**
 - b. relationship with people**
 - c. prominent religions**
 - d. religion membership**
 - e. powerful or influential cults**
 - 2. aesthetics**
 - a. visual arts**
 - b. music**
 - c. performing arts**
 - d. folklore and relevant symbols**
- F. Living Conditions**
 - 1. diet and nutrition**
 - 2. housing**
 - 3. clothing**
 - 4. recreation and other leisure activities**

- 5. social security
- 6. health care
- G. Language
 - 1. official language(s)
 - 2. spoken versus written languages
 - 3. dialects
- H. Executive Summary
- I. Sources of Information
- J. Appendixes
- II. Economic Analysis
 - A. Introduction
 - B. Population
 - 1. total
 - a. growth rates
 - b. number of live births
 - c. birthrates
 - 2. population distribution
 - a. age
 - b. sex
 - c. geographic areas
 - d. migration rates and patterns
 - e. ethnic groups
 - C. Economic Statistics and Activity
 - 1. Gross National Product (GNP)
 - a. total
 - b. rate of growth
 - 2. personal income per capita
 - 3. average family income
 - 4. distribution of wealth
 - 5. minerals and resources
 - 6. surface transportation
 - a. modes
 - b. availability
 - c. usage rates
 - d. ports
 - 7. communications systems
 - 8. working conditions
 - 9. principal industries
 - 10. foreign investment
 - 11. international trade statistics
 - a. major exports
 - (1) dollar value
 - (2) trends
 - b. major imports
 - (1) dollar value
 - (2) trends
 - c. balance-of-payments situation
 - d. exchange rates
 - (1) single or multiple exchange rates?
 - (2) current rate of exchange
 - (3) trends
 - 12. trade restrictions
 - a. embargoes
 - b. quotas

- c. import taxes
 - d. tariffs
 - e. licensing
 - f. customs duties
 - 13. economic activity not included in cash income activities
 - a. countertrades
 - b. foreign aid received
 - 14. labor force
 - a. size
 - b. unemployment rates
 - 15. inflation rates
 - D. Developments in Science and Technology
 - 1. current technology available
 - 2. % of GNP invested in R&D
 - 3. technological skills of the labor force and the general population
 - E. Channels of Distribution
 - 1. middlemen
 - a. retailers
 - (1) number
 - (2) size
 - (3) customary markup for various classes of goods
 - (4) methods of operation (cash/credit)
 - (5) scale of operation
 - (6) role of chain stores and specialty shops
 - b. wholesale middlemen
 - (1) number and size
 - (2) customary markup
 - (3) method of operation
 - c. import/export agents
 - d. warehousing
 - e. penetration of urban and rural markets
 - F. Media
 - 1. availability
 - 2. costs
 - 3. agency resistance
 - 4. coverage
 - 5. percentage of population reached by media
 - G. Executive Summary
 - H. Sources of Information
 - I. Appendixes
- III. Market Audit and Competitive Market Analysis
- A. Introduction
 - B. The Product
 - 1. innovation as perceived by the target market
 - a. relative advantage
 - b. compatibility
 - c. complexity
 - d. trailability
 - e. observability
 - 2. major problems and resistance
 - C. The Market
 - 1. market description
 - a. geographical region(s)
 - b. available transportation and communications

- c. consumer buying habits
- d. distribution of the product
- e. advertising and promotion
- f. pricing strategy
- 2. comparison of company's product and the competition's product
 - a. competitor's product(s)
 - (1) brand name
 - (2) features
 - (3) packaging
 - b. competitor's prices
 - c. competitor's promotion and advertising methods
 - d. competitor's distribution channels
- 3. market size
 - a. estimated industry sales
 - b. company's your estimated sales
- 4. government participation in the marketplace
 - a. helpful agencies
 - b. pertinent regulations

D. Executive Summary

E. Sources of Information

F. Appendixes

IV. Preliminary Marketing Plan

A. The Marketing Plan

- 1. marketing objectives
 - a. target market(s): specific descriptions
 - b. expected sales
 - c. profit expectations
 - d. market penetration and coverage
- 2. product adaptation or modification
 - a. core component
 - b. packaging component
 - c. support services component
- 3. promotion mix
 - a. advertising
 - (1) objectives
 - (2) media mix
 - (3) message
 - (4) costs
 - b. sales promotions
 - (1) objectives
 - (2) coupons
 - (3) premiums
 - (4) costs
 - c. personal selling
 - d. other promotional methods
- 4. distribution: from origin to destination
 - a. port selection
 - (1) origin port
 - (2) destination port
 - b. mode selection: advantages and disadvantages of each mode
 - (1) railroads
 - (2) air carriers
 - (3) ocean carriers
 - (4) motor carriers

- c. **packing**
 - (1) **marking and labeling regulations**
 - (2) **containerization**
 - (3) **costs**
- d. **documentation**
 - (1) **Bill of Lading**
 - (2) **dock receipt**
 - (3) **air bill**
 - (4) **commercial invoice**
 - (5) **Pro forma invoice**
 - (6) **shipper's export declaration**
 - (7) **special documentation**
- e. **insurance**
- f. **freight forwarder**
- 5. **channels of distribution (micro analysis)**
 - a. **retailers**
 - (1) **type and number of retail stores**
 - (2) **retail markups for products in each type of retail store**
 - (3) **method of operation for each type (cash/credit)**
 - (4) **scale of operation for each type (small/large)**
 - b. **wholesale middlemen**
 - (1) **type and number of wholesale middlemen**
 - (2) **markup for each class of products by each type**
 - (3) **method of operation for each type (cash/credit)**
 - (4) **scale of operation (small/large)**
 - c. **import/export agents**
 - d. **warehousing**
 - (1) **type**
 - (2) **location**
- 6. **price determination**
 - a. **cost of the shipment of goods**
 - b. **transportation costs**
 - c. **handling expenses**
 - (1) **pier charges**
 - (2) **wharf fees**
 - (3) **loading and unloading charges**
 - d. **insurance costs**
 - e. **customs duties**
 - f. **import taxes and value-added taxes**
 - g. **wholesale and retail markups and discounts**
 - h. **company's gross margins**
 - i. **retail price**
- 7. **terms of sale**
 - a. **Ex works, fob, fas, c&f, cif**
 - b. **advantages/disadvantages of each**
- 8. **methods of payment**
 - a. **cash in advance**
 - b. **open accounts**
 - c. **consignment sales**
 - d. **sight, time, or date drafts**
 - e. **letters of credit**

- B. Pro forma financial statements and budgets**
 - 1. marketing budget**
 - a. selling expense**
 - b. advertising/promotion expense**
 - c. distribution expense**
 - d. product cost**
 - e. other costs**
 - 2. Pro forma annual profit and loss statement (first year and fifth year)**
- C. resource requirements**
 - 1. finances**
 - 2. personnel**
 - 3. production capacity**
- D. executive summary**
- E. sources of information**
- F. appendixes**

(Source: Cateora, Phillip R., 1996.)

APPENDIX E

APPENDIX E

AN EXPORT BUSINESS PLAN OUTLINE

- I. Executive Summary**
 - A. Key elements of the plan
 - B. Description of business and target markets
 - C. Brief description of management team
 - D. Summary of financial projections
- II. Business History**
 - A. History of company
 - B. Products/services offered and their unique advantages
 - C. Domestic market experience
 - D. Foreign market experience
 - E. Production facilities
 - F. Personnel - international experience and expertise
 - G. Industry structure, competition
- III. Market Research**
 - A. Target countries
 - 1. Primary
 - 2. Secondary
 - 3. Tertiary
 - B. Market conditions in target countries
 - 1. Existing demand
 - 2. Competition
 - 3. Strengths and weaknesses of the economy - barriers to entry, etc.
- IV. Marketing Decisions**
 - A. Distribution strategies
 - 1. Indirect exporting
 - 2. Direct exporting
 - 3. Documentation
 - 4. Direct investment, strategic alliances
 - B. Pricing strategy
 - C. Promotion strategy
- V. Legal Decisions**
 - A. Agent/distributor agreements
 - B. Patent, trademark, copyright protection
 - C. Export/import regulations
 - D. ISO 9000
 - E. Dispute resolution
- VI. Manufacturing and Operations**
 - A. Location of production facilities
 - B. Capacity of existing facilities
 - C. Plans for expansion
 - D. Product modification necessary to adapt to local environment
- VII. Personnel Strategies**
 - A. Personnel needed to manage exports
 - B. Experience and expertise of existing personnel
 - C. Training needs of existing personnel
 - D. Hiring needs in the short term and long term

VIII. Financial Decisions

- A. Pro forma financial statements and projected cash flows assuming export activity
- B. Identification of key assumptions
- C. Current sources of funding - private and bank funding
- D. Financial needs and future sources of funding
- E. Tax consequences of export activity
- F. Potential risk and sources of protection

IX. Implementation Schedule

(Source: John D. Daniels and Lee H. Radebaugh, 1995.)

APPENDIX F

APPENDIX F

GOVERNMENT AGENCIES AND UNIVERSITIES WHICH PROVIDE EXPORT INFORMATION

Table F.1 - *Government Agencies and Universities Which Provide Export Information Sources.*
(Source: Dr. James A. Stevens and Scott D. Dickerson, 1996.)

1	<p>Center for International Trade Development Oklahoma State University (Contact: Zona Noyles) 204 CITD Stillwater, OK 74078 (405)744-7693 (405)744-8973 - FAX</p>	<p><i>Export Marketing: Getting Started</i> (free) <i>Export Marketing Information Series</i> -publications with information on market research, marketing planning, pricing, international business plans, documentation, etc.</p>
2	<p>Center for International Business and Research (CIBER) Michigan State University 7 Eppley Center East Lansing, MI 48824-1121 (517)353-4336 (517)432-1009 - FAX</p>	<p><i>Company Readiness To Export (CORE IV)</i> - software (\$300) <i>Partner</i> - software (\$2000) <i>Distributor</i> - software (\$2000) <i>Freight</i> -software (\$2000) <u><i>Advances in International Marketing</i></u> - by S. Tamer Cavusgil & C.N. Axinn (\$73.25)</p>
3	<p>Center for International Trade in Forest Products (CINTRAFOR) College of Forest Resources Box 352100 University of Washington Seattle, WA 98195-2100 (206)543-8684 (206) 685-0790 - FAX</p>	<p>(offers a variety of papers and fact sheets pertaining to the forest products industry) <i>"Exporting Value-added Wood Products to Europe: A Quality Imperative"</i> - by H. Ekstrom (\$7.50) <i>"Developing Intangible Resources: The New Battleground for Export Success Among Small- and Medium Sized Firms"</i> - by Illinitch et al. (\$7.50)</p>
4	<p>Michigan Department of Natural Resources Forest Management Division PO Box 30452 Lansing, MI 48909-7952 (517)373-1275</p>	<p><i>Michigan Forest Products Manufacturers Directory</i> (\$15)</p>
5	<p>Michigan Jobs Commission International and national Business Development 201 North Washington Square Lansing, MI 48913 (517)335-5884 (517)335-1947 - FAX</p>	<p><i>Wood Products Export Directory</i> (\$12) - a listing of forest products-related companies which are involved in exporting <i>International Business Partnerships</i> (free) <i>Foreign Subsidiaries in Michigan</i> (\$25)</p>

6	<p>Michigan Small Business Development Center Wayne State University 2727 Second Avenue Detroit, MI 48201 (313)964-1798 (313)964-3648 - FAX</p>	<p><i>Developing Your International Business Plan</i> (free) <i>International Business Resources</i> (free) <i>Low Cost/No Cost International Resources</i> (free) <i>The Magic Guide to the NTDB</i> (free) <i>Trade Secrets: The Export Answer Book</i> (\$25)</p>
7	<p>Michigan State Library 717 West Allegan Lansing, MI 48909 (517)373-5400</p>	<p>(contact the Government Desk or the Reference Desk; CD ROM for the <i>National Trade Data Bank</i> and other government and private references available for use or loan)</p>
8	<p>Michigan State University Department of Forestry (Contact: Jim Stevens) 126 Natural Resources East Lansing, MI 48824 (517)432-3353 (517)432-1143 - FAX</p>	<p>(offers assistance in sourcing information or services associated with international business in forest products)</p>
9	<p>Michigan State University Main Library Circle Drive East Lansing, MI 48824 (517)353-8700 Government Documents Section (517)353-8707 Business Library (517)355-3380</p>	<p>(provides access to a variety of information depending on the user's needs)</p>
10	<p>US Chamber of Commerce International Division Publications H Street, NW Washington, DC 20062-2000 (202)463-3173 (202)463-3114 - FAX</p>	<p><i>International Quick-Reference Guide</i> [\$25 (members), \$35 (nonmembers)] <i>ISO9000: A Satellite Seminar</i> - 2 hour video (\$75) <i>ISO9000: An Introduction for US Businesses</i> (\$5)</p>
11	<p>USDA Foreign Agricultural Division Information Service USDA, Room 5074 Washington, DC 20250-1000 (202)720-9445</p>	<p><i>A Guide to Exporting Solid Wood Products</i> [\$28 (US), \$56 (international)] <i>Agexporter</i> [\$51/yr. (US), \$59/yr. (international)] <i>Food & Agricultural Export Directory</i> [\$19.50 (US), \$39 (international)] <i>Wood Products: International Trade and Foreign Markets</i> [\$35 (US), \$188 (international)] - published 5 times/yr.</p>
12	<p>USDA Forest Service Northeastern Forest Experiment Station Route 2, Box 562-B Princeton, WV 24740 (304)425-8106</p>	<p>(provides a variety of publications on the forest products industry) <i>Bulletin of Hardwood Market Statistics</i> (free) <i>"US Hardwood: the Market in Europe"</i> - by West & Hansen</p>

13	<p>USDA Agricultural Marketing Service Transportation and Marketing Division (Contact: Bryan McGregor) Washington, DC 20230 (202)690-1314 (202)690-1340 - FAX http://www.usda.gov/ams/tmdsea.htm</p>	<p><i>A Business of Details - Exporting High Value U.S. Agricultural Products</i> (video & Publication) (free) <i>Agricultural Export Transportation Workbook</i> (free)</p>
14	<p>US Department of Commerce International Trade Administration 14th and Constitution Avenue, NW Washington, DC 20230 (202)482-0543 Trade Information Center (800)USA-TRAD http://www.ita.doc.gov</p>	<p><i>Business America</i> <i>Commercial News USA</i> (free) <i>Export Programs: A Business Directory of US Government Services</i> (free) <i>How To Get The Most From Overseas Exhibitions</i> <i>International Countertrade: A Guide for Managers and Executives</i> <i>International Countertrade: Individual Country Practices</i> <i>National Trade Data Bank - CD ROM</i> (\$360/yr.); call (800)STAT-USA to order</p>
15	<p>US Export-Import Bank (Eximbank) Business Development Group 811 Vermont Avenue, NW Washington, DC 20571 (800)565-EXIM (202)565-3900 (202)565-3931 - FAX</p>	<p>(offers a small business package containing information on how to get started in exporting)</p>
16	<p>US Government Printing Office Superintendent of Documents Washington, DC 20402 (202)512-1800</p>	<p><i>Atlas of Eastern Europe</i> (\$16) <i>Background Notes</i> (all countries) (\$58/set or \$20/yr.) S/N 044-000-91214-7 <i>Business America</i> (\$61/yr.) ISSN 0190-6275 <i>Export Yellow Pages</i> (free) <i>Export Trading Company Guidebook</i> (\$8.50) <i>Export Administration Regulations</i> (\$87) <i>World Fact Book</i> (\$23) S/N 041-15-00167-1 <i>World Population</i> (\$4.50) S/N 003-024-06706-4</p>
17	<p>US Postal Service International Product Management Room 1140 L'Enfant Plaza, SW Washington, DC 20260-6520 (202)268-2263</p>	<p><i>International Direct Marketing Guide to Canada</i> (free) <i>International Marketing Resource Guide</i> (free) <i>USPS Worldpost Services</i> (free)</p>
18	<p>US Small Business Administration Office of International Trade Washington, DC 20416 (202)364-6644</p>	<p><i>SBAtlas</i> (free) <i>Breaking Into The Trade Game</i> (free) <i>Is Exporting For You?</i> (free) <i>The Facts About... International Trade Assistance</i> (free)</p>

APPENDIX G

APPENDIX G

EXPORT-RELATED TRADE ASSOCIATIONS

Table G.1 - *Export-Related Trade Associations.*
(Source: Dr. James A. Stevens and Scott D. Dickerson, 1996.)

1	<p>American Association of Exporters and Importers 11 West 42nd Street New York, NY 10036 (212)944-2230 (212)382-2606 - FAX</p>	<p>(a private association which deals with trade regulations and policies) <i>Weekly Trade Alert</i> - AAEI member publication</p>
2	<p>American Hardwood Export Council (AHEC) 1111 19th Street, NW Suite 800 Washington, DC 20036 (202)463-2720 (202)463-2787 - FAX</p>	<p>(an association of wholesalers and retailers; may provide some forms of assistance to companies interested in exporting)</p>
3	<p>Lake States Lumber Association (LSLA) 500 South Stephenson Avenue Suite 301 Iron Mountain, MI 49801 (906)774-6767 (906)774-7255 - FAX Export Committee Contact: Larry Wright (615)724-9190</p>	<p>(the LSLA Export Committee provides information to forest products companies interested in exporting)</p>
4	<p>National Customs Brokers and Forwarders Association of America (NCBFAA) One World Trade Center, Suite 1153 New York, NY 10048 (212)432-0050 (212)432-5709 - FAX http://www.ncbfaa.org/ncbfaa</p>	<p>[a trade association which sells it's membership list of customs brokers and freight forwarders (\$25 annually)]</p>
5	<p>National Hardwood Lumber Association (NHLA) PO Box 34518 Memphis, TN 38184-0518 (901)377-1818 (901)382-6419 - FAX</p>	<p><i>Directory of North American Hardwood Exporters</i> (\$25) - lists NHLA exporting members, their products, consumers and buyers in the US and abroad (over 1200 listings) <i>NHLA Membership Directory</i> (\$85)</p>

6	Small Business Exporters Association (SBEA) 4603 John Taylor Court Annandale, VA 22003 (703)642-2490 (703)750-9655 - FAX http://www.sbeaorg/sbea	<i>The Export Expert</i> - software on export questions; includes information on the many facets of getting started in exporting and a lot more (\$169.95) <i>International Sales and the Middleman: Managing Your Agents and Distributors</i> (\$40 or free to new members)
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APPENDIX H

APPENDIX H

VALUE OF U.S. EXPORTS OF HARDWOOD LUMBER BY COUNTRY 1991 - September 1996

Table H.1 - U.S. Exports of Hardwood Lumber by Country (\$ Thousand F.A.S. Value), 1991-1996.
(Source: USDA Foreign Agricultural Service, 1996.)

Country	1991	1992	1993	1994	1995	Jan - Sep 1996
Canada	169,841	199,581	238,313	255,471	259,841	192,556
Japan	138,446	132,802	152,362	134,501	151,170	103,241
Italy	70,719	79,549	67,812	87,857	89,062	65,522
Germany	53,009	80,125	93,810	85,029	97,104	65,522
United Kingdom	63,572	64,607	65,837	60,830	67,952	52,198
Mexico	32,801	42,790	48,379	54,828	56,658	49,771
Taiwan	68,673	71,801	75,044	75,362	70,466	46,694
Spain	35,804	46,916	40,631	47,484	50,142	45,506
Republic of Korea	16,028	21,535	31,178	50,377	52,301	40,169
Belgium-Luxembourg	62,710	67,417	63,880	60,321	63,969	37,524
Hong Kong	6,227	7,589	15,449	24,309	32,224	30,885
Netherlands	21,346	27,526	26,834	24,053	21,292	18,508
France	31,896	28,480	35,391	28,466	26,170	18,216
Republic of South Africa	14,881	15,737	21,224	20,858	18,399	15,387
Thailand	4,660	6,834	12,799	13,731	19,691	14,148
Saudi Arabia	6,826	6,606	8,426	5,657	9,878	10,911
Portugal	3,828	6,895	4,542	5,638	6,039	7,123
Peoples Republic of China	1,191	1,003	1,574	1,855	5,851	7,058
Malaysia	3,965	4,674	7,557	3,886	6,492	6,240
Sweden	3,917	4,805	5,900	7,346	8,197	6,135
Denmark	3,124	4,170	4,579	7,229	5,915	5,870
Ireland	5,526	5,735	5,691	6,014	6,106	5,031
Indonesia	685	2,425	3,282	4,272	7,843	4,836
Greece	4,041	5,406	3,676	4,382	6,818	3,908
Australia	3,029	4,103	3,428	4,204	5,677	3,839
All Others	35,329	35,346	39,682	44,136	55,968	45,135
Total World Exports	862,074	974,456	1,077,280	1,118,094	1,201,224	905,275

APPENDIX I

APPENDIX I

**GROWTH OF THE VALUE OF U.S. EXPORTS OF HARDWOOD LUMBER
1991 - September 1996**

Table I.1 - *Increases and Decreases of U.S. Exports of Hardwood Lumber by Country, 1991-1996.*
(Information Source: USDA Foreign Agricultural Service, 1996.)

Country	1991 - 1992	1992 - 1993	1993 - 1994	1994 - 1995	Jan/Sep 1995-1996	Average Growth (1991- 1996)
Canada	17.5%	19.4%	7.2%	1.7%	-5.5%	8.1%
Japan	-4.1%	14.7%	-11.7%	12.4%	-13.5%	-0.4%
Italy	12.5%	-14.8%	29.6%	1.4%	-11.7%	3.4%
Germany	51.2%	17.1%	-9.4%	14.2%	-11.7%	12.3%
United Kingdom	1.6%	1.9%	-7.6%	11.7%	-0.1%	1.5%
Mexico	30.5%	13.1%	13.3%	3.3%	17.9%	15.6%
Taiwan	4.6%	4.5%	0.4%	-6.5%	-16.2%	-2.6%
Spain	31.0%	-13.4%	16.9%	5.6%	28.0%	13.6%
Republic of Korea	34.4%	44.8%	61.6%	3.8%	5.5%	30%
Belgium- Luxembourg	7.5%	-5.2%	-5.6%	6.0%	-25.3%	-4.5%
Hong Kong	21.9%	103.6%	57.3%	32.6%	32.6%	39.6%
Netherlands	29.0%	-2.5%	-10.4%	-11.5%	8.8%	2.7%
France	-10.7%	24.3%	-19.6%	-8.1%	-9.6%	-4.7%
Republic of South Africa	5.8%	34.9%	-1.7%	-11.8%	7.5%	6.9%
Thailand	46.7%	87.3%	7.3%	45.4%	-5.7%	36.2%
Saudi Arabia	-3.2%	27.6%	-32.9%	74.6%	55.1%	24.2%
Portugal	80.1%	-34.1%	24.1%	7.1%	90.0%	33.4%
Peoples Republic of China	-15.8%	56.9%	17.9%	215.4%	71.0%	69.1%
Malaysia	17.9%	61.7%	-48.6%	67.1%	38.6%	27.3%
Sweden	22.7%	22.8%	24.5%	11.6%	5.5%	17.4%
Denmark	33.5%	9.8%	57.9%	-18.2%	24.2%	21.4%
Ireland	3.8%	-0.8%	5.7%	1.5%	1.3%	2.3%
Indonesia	254.0%	35.3%	30.2%	83.6%	-13.3%	78%
Greece	33.8%	-32.0%	19.2%	55.6%	-12.5%	12.8%
Australia	35.5%	-16.5%	22.6%	35.0%	-11.1%	13.1%
All Others	0.0%	12.3%	11.2%	26.8%	15.7%	13.2%
Total World Exports	13.0%	10.6%	3.8%	7.4%	-1.7%	6.6%

APPENDIX J

APPENDIX J**VALUE OF MICHIGAN EXPORTS OF FOREST PRODUCTS (SIC 24) BY COUNTRY,
1991 -1995**

Table J.1 - *Value of Michigan Exports of Forest Products (SIC-24) by Country (\$ Thousand Value), 1991-1995.* (Source: University of Massachusetts, 1996, 1995, 1994, 1992.)

Country	1991	1992	1993	1994	1995
Canada	26,604	40,455	51,139	56,590	49,958
Germany	17,335	11,332	18,264	16,700	12,571
Mexico	1,537	1,393	1,677	7,639	11,503
Japan	5,401	3,720	3,613	4,335	4,810
Spain	8,940	2,261	3,729	2,854	3,928
Belgium	2,439	2,702	1,010	1,623	2,393
Taiwan	682	570	1,343	1,125	1,839
Great Britain	14,311	10,537	4,986	3,174	1,485
Finland	190	455	993	1,232	1,022
Italy	1,228	1,499	1,607	3,336	696
France	434	1,156	536	295	614
South Korea	512	563	802	1,054	451
South Africa	229	114	858	326	409
Hong Kong	332	258	235	315	360
Singapore	332	306	226	522	359
Total World Exports	84,441	79,222	94,371	104,824	97,900

APPENDIX K

APPENDIX K

**GROWTH OF THE VALUE OF MICHIGAN EXPORTS OF FOREST PRODUCTS (SIC 24)
BY COUNTRY, 1991 - 1995**

Table K.1 - *Increases and Decreases of Michigan Exports of forest Products (SIC-24) by Country, 1991-1995.* (Information Source: University of Massachusetts, 1996, 1995, 1994, 1992.)

Country	1991 - 1992	1992 - 1993	1993 - 1994	1994 - 1995	Average Growth (1991-1996)
Canada	52.1%	26.4%	10.7%	-11.7%	19.4%
Germany	-34.6%	61.2%	-8.6%	-24.7%	-1.7%
Mexico	-9.4%	20.4%	355.4%	50.6%	104.3%
Japan	-31.1%	-2.9%	20.0%	11.0%	-0.8%
Spain	-74.7%	65.0%	-23.5%	37.7%	1.1%
Belgium	10.8%	-62.6%	60.6%	47.5%	14.1%
Taiwan	-16.5%	135.7%	-16.3%	63.5%	41.6%
Great Britain	-26.4%	-52.7%	-36.4%	-53.2%	-42.2%
Finland	140.0%	118.1%	24.1%	-17.1%	66.3%
Italy	22.0%	7.2%	107.6%	-79.1%	14.4%
France	166.3%	-53.6%	-45.0%	108.3%	44.0%
South Korea	9.9%	42.6%	31.3%	-57.2%	6.7%
South Africa	-50.3%	654.8%	-62.0%	25.3%	142.0%
Hong Kong	-22.3%	-9.1%	34.4%	14.1%	4.3%
Singapore	-4.9%	-26.2%	131.1%	-31.2%	17.2%
Total World Exports	-6.2%	19.1%	11.1%	-6.6%	4.4%

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