

The pros and cons of exporting marketing essay



This report talks about what exporting is and why many countries take part in exporting, the strategies used in Exporting, the types of methods of exporting and the advantages and disadvantages of exporting.

Countries with advanced economies and services are usually the ones who have the largest economic activity. These service producing industry firms market their offerings in foreign countries. These include industries such as education, engineering, construction, architecture, travel, transportation, insurance, banking, finance, professional business services information and entertainment. An example could be construction firms who usually send their employees to other countries to go and work on major projects. Service professionals such as accountant's engineers and business consultants often provide their services via the internet, the telephone by mail and by visiting customers in their own countries. Also entertainment like Hollywood who export their movies and videos earn billions of dollars. PMI mortgage is a small Insurance firm who mortgage insurance packages to foreign markets. Insurance packages can be created in a central location such as London and then exported via mail and the internet to customers located in other countries. The firm enjoys considerable success in Asia and various European countries. Cavusgir, Knight, Riesenberger Pearson International Business Edition: page 388-389.

These sales are different from other domestic sales from the side of the seller. It's someone else who decides that the product can be sold to customers located in foreign countries because there's demand for it. This would lead to the original seller not being aware of exporting details.

However, many countries take a huge interest when they discover that their product has demand overseas and are actually being exported.

– Seeking out domestic buyers who represent foreign end users or customers

Many general contractors, foreign corporations, foreign trading companies, foreign distributors and agents just purchase for exports. These purchase a wide variety of goods and services. In this case some companies may know that their products are being exported but it is still the buyer who handles any risk involved and details of exporting.

– Exporting Indirectly through Intermediaries.

This is when a company engages the services of an intermediary who is capable of finding foreign buyers in foreign markets for its products.

International trade consultants, Export Trading Companies or Export Management Companies can give an exporter access to good trade contacts. But yet the exporter can still retain some control over the process and can still realize some of the other benefits of exporting such as market opportunities, new technologies and foreign competitors.

– Exporting directly

This is an approach where a company directly exports to foreign markets. This strategy is difficult and ambitious because it requires the company to handle every aspect of the exporting process from market research and planning foreign distributions and collections. There needs to be a lot of involvement of managers because it needs their time and attention. However

such an approach is good because maximum profits are gained as well as long term growth.

2. 2 INTERMEDIARIES USED IN EXPORTING

– Sales Representatives

This intermediary uses the companies' products which are then made present to potential buyers. Sales representatives usually work on commission basis, assume no risk or responsibility and are under contract.

The contract defines territory, terms of sales, methods of compensation and procedures to terminating the agreement.

– Agents

This is a representative who has authority to make decisions or commitment on behalf of the firm they are representing. It's important to have a contract that states whether the agent does or does not have the legal authority to obligate the firm.

– Distributors

This when an individual or company purchase goods and re-sells it for profit. The distributor provides support and service for the product. Distributors usually handle a range of non conflicting products.

– Foreign Retailers

This is when companies directly sale to foreign retailers. This method relies on traveling sales representatives who directly contact foreign retailers.

2. 3 ADVANTAGES OF EXPORTING

It increases economies of scale and reduces per unit cost of manufacturing.

It diversifies customer's base and reduces dependency on home markets therefore risk is spread. An example can be if a product is not selling in selling country a firm can have back up because the same product may be doing so well and selling in other countries.

It increases market share, increases profit and sales volume better than the domestic market.

It increases flexibility and reduces the risk if they face circumstances beyond their control, they can easily withdraw from an export market share.

The cost of entering a foreign market is so less because they are not investing or creating any physical presence there. So it's easy for a firm to use exporting to test new markets before deciding to commit to greater resources through foreign direct investment.

Leverage the capabilities and skills of foreign direct distributors and other business partners located abroad.

Enhance domestic competitiveness: Most companies become competitive in the domestic market before they venture in the international arena. Being competitive in the domestic market helps companies to acquire some strategies that help them in the international arena.

Gain global market share: By gaining international companies a firm will participate in the global market and gain a piece of their share from the huge international market place.

Compensate for Seasonal Demands: Companies whose products or services are only used at certain seasons domestically may be able to sell their products or services in different foreign markets during different seasons.

Create potential for company expansion: Companies who venture into exporting business usually have a presence or representation in the foreign market. This might require additional personnel and thus lead to expansion.

Sell excess production: Companies who have excess production for any reason can probably sell their products and not be forced to give deep discounts or even dispose of their excess production.

Gain Knowledge and Experience: Going international can yield valuable ideas and information about new technologies, new marketing techniques and foreign competitors. The gains can help a company's domestic and foreign business.

Expand Product life cycle: Many products go through stages of the product life cycle. Once the Product reaches the final stage, maturity in a given market, the same product can be introduced in a different market where the product was never marketed before.

2. 4 DISSADVANTAGE OF EXPORTING

Exporting does not require the firm to have a physical presence in the foreign market and this would lead to management having fewer opportunities to learn about customers and other aspects of the market.

Not having direct contact with customers from a foreign market would mean the exporter would fail to perceive opportunities and threats and may not acquire the knowledge that it needs to succeed in the long term.

Exporting requires management to spend time and effort to learn about freight forwarders, documentation, foreign currencies and new financing methods this usually puts a strain on firm resources.

Exporting is sensitive to tariffs and other trade barriers as well as fluctuations in exchange rates.

Extra costs: It takes more time to develop extra markets and the payback periods are longer, the up-fronts costs for developing new promotional materials allocating personal to travel and other administrative costs assuasive to market the product can strain the major financial resources of small size companies.

Production modification. When exporting companies need to modify their products to meet foreign country safety and security codes and other import restrictions. At a minimum, modification is often necessary to satisfy the importing country labeling or packaging requirement.

Financial Risk: Collections of payments using the methods that are available (open account, prepayment consignment, documentary collection and letter of credit) are time consuming and can be complicated, countries have to carefully weigh the financial risk involved in doing international transactions.

Market information: Find information on foreign markets is unquestionably more difficult and time consuming.

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Before a firm decides to export it first has to go through certain steps in order for them to know if they would be doing the right thing or not for example by assessing potential markets, acquiring appropriate skills and competences.

3. 0 TYPES OF EXPORTING

The two types of ways an organization can export are through indirect or direct exporting.

An organization can choose between the two depending on what they want to achieve in terms of market share, increase of customers and quantity of products. They can also choose according to what management can handle.

For example a company that produces tie and die outfits can decide to export through indirect or direct export. If they feel that management can not be able to manage exporting directly they can use indirect export as a means of entering into a foreign market.

3. 1 INDIRECT EXPORTING

This is when a firm contracts with intermediaries that are located in their own home market. The intermediary's then sell the products to customers located in foreign markets on behalf of the company.

An example is Lafarge Zambia PLC who deals in cement and distributes their products to a local client within Zambia. The client then decides to resell the product across borders to customers located in countries like DRC, Angola, Mozambique and Malawi.

There are different indirect exporting options which are available and these are:

International trading companies

These are companies that buy and sell products internationally. They establish branches in certain countries around the world and each branch operates as a separate business unit buying from local markets and selling the products to other branches which are located in other countries. Like the Japanese who are well known and active in countries like South Africa and have companies like Mitsui and Itochu . As well as Gerber Goldschmidt Group. These companies go beyond buying and selling, they may even buy a stake in a local market and in the end they become Trading companies or Export Trading Companies.

Multi National Companies

These are companies who have subsidiaries located in different foreign countries. Usually countries in the motor vehicle industry like Toyota, Ford or BMW buy raw materials and components and use these inputs in their manufacturing process. These companies then export their products around the world. So components that they used from their home country are found in overseas countries and yet to the supplier in the local market saw this as a local purchase.

Tourist Purchase

These are foreigners who travel and visit new countries depending on where they are like in South Africa they can purchase products like wines, fruits

and gifts that they take back home. To the supplier this was seen as a local purchase.

Piggybank Exporting

This is when companies sell their goods internationally and who already have a market network abroad. In order to maximize the power or popularity the company decide to have complimentary products to their existing range of products which they sale through their networks to their foreign customer base.

3. 2 ADVANTAGES OF INDIRECT EXPORTING

It not a risky strategy

Depending on the intermediary used indirect exporting requires minimal involvement because they don't concern themselves with shipment and other logistics.

It allows firms to focus on their home country rather than focus on other countries which make the work become hectic. An example can be Trade kings limited who produce sweets, soaps and washing powder. Exporting in indirectly is good for them because it allows them to pay more attention to their domestic customer needs which help them to serve them better and come up with quality products.

You can easily point at someone else incase there's a problem or error so it limits their liability.

Selling through an intermediary is cheap and it saves up on time.

The intermediary sometimes answers questions from the consumer and provides technical support.

3.3 DISSADVANTAGES OF INDIRECT EXPORTING

There's no direct contact with the end user which can cause a firm to not knowing how they can improve their product and how the consumer feels about their product. An example can be a shoe making company who exports indirectly cannot be able to know what customers feel about their product and what they can do to make a better product and to gain more customers.

The intermediary used will still require sales support from the firm that they purchase from.

Firms who export indirectly have less control on the final transactions made.

When an intermediary is used firms do not get the whole hundred percent the intermediary also get a margin.

Using intermediaries slows down a firm's expansion in the long term around the world because they would not get to learn about the different types of markets.

An intermediary can sometimes sale similar products as to the one a firm has as well as a product that is directly competitive to a firm. An example is when someone when the intermediary sales Black Opal make up and MAC make up these two compete with each other which can cause conflict.

When an intermediary is selling the product they may not do it as well as the actual firm because putting a product in another person's hands means that the other person can sell it if they want to and some sales won't reflect the goodness of an organization.

3.4 DIRECT EXPORTING

This involves the direct selling of products using intermediaries located in foreign markets.

Firms who usually export directly to foreign markets usually make some internal changes to their organization and these internal changes they make have to support more complex functions than the ones that were there before.

Direct exporters normally choose the markets where they think they can easily operate, easily give them profit and can increase their market share as well as which one would have good distribution channels.

When a firm decides to sell to customers it prevents other businesses taking part of their margins. However, this approach requires a large commitment of financial and human resources and takes some time to gain good relationships with customers, negotiate deals and understand the market.

3.5 ADVANTAGES OF DIRECT EXPORTING

The firm is in control of their pricing, they decide how much to sell the product for. An example can be a firm who makes hair products. If they can export directly they can easily come up with a price that suits them rather

than letting someone else sell the product for them and coming up with their own price.

The firm takes total control of their brand and brands it according to what suits them.

They get to have direct contact with their customers who help them come with ways of how they can satisfy their customers and come up ways of how to produce high quality products which will suit the needs of the customer.

It's easy to identify opportunities.

Customers prefer to deal with producers directly so this in the end becomes easy for the customer and producer and in the end a customer relationship is made.

3. 6 DISADVANTGES OF DIRECT EXPORTING

It's expensive because it needs s of time and energy, staff resources and requires a lot of money.

Sometimes they would not be able to respond to customers as quickly as the way the local agents to do it

They have to handle all logistics and risks.

Depending on which country they export to the may have a problem because of the language barriers and cultures.

4.0 CONCLUSION

Exporting is one of the best ways of entering foreign markets. In the world that we live in today many countries have now engaged themselves into exporting rather than depending on their domestic market. Exporting also gives a chance to consumers in a local market because they would not have to travel to find a product because through exporting they get to find the products in their home market. Exporting has given lots of firms and countries a huge increase in profit and has developed many economies.