

COMMERCIALISATION OF YOUR PRODUCTS TO NORTH AMERICA “IN HOUSE OR OUTSOURCED?”

Why would an inventor, manufacturer or designer hand their intellectual property over to a third party? Manufacturers' Monthly discovers a new breed of Australian entrepreneurs who are achieving success in the US by outsourcing their business development activities.

When Eye Catcher Innovations wanted to find a master distributor for their product in the United States, they didn't employ a sales team and initiate costly trips overseas to try and infiltrate the market. Instead, they outsourced the role to a company that specialises in securing business in North America for Australian inventors, manufacturers and intellectual property holders. As a result, Eye Catcher Innovations are on track to reach international sales targets of \$25 million within 5 years.

But what about, letting another firm take care of your “baby”? – the product that very often represents an investment of many years of research, development and personal sacrifice! Someone who does not have your intimate knowledge of the technology or the same level of personal commitment to its success? And does it mean the company loses control of their product?

According to Paul Huxtable from Eye Catcher Innovations, this wasn't an issue. “We own the patents and tooling and have absolute control over everything,” he said. “We also put a lot of effort into developing the relationship with our outsourcing partner, who was instrumental in us being able to access the US market.”

And how does it work from the point of view of the outsourcing partner? Jim Raz, managing director of Export Access, the company that Eye Catcher engaged to help them achieve success in the US market, explains.

“Partnering with a contracting firm like Export Access is much different than employing a consultant who's primary function is to give you advice for you to act upon. We physically do the work on behalf of our clients. The process may involve one or more of a number of specific elements from business planning, market research, identifying and qualifying potential International clients through to representing the products and formalization of business relationships with North American partners”.

“The cornerstone in our approach is that we run Export Access ‘trade missions’ where we represent a number of Australian exporters during one trip. This provides our clients with economies of scale, keeping the relative costs to each individual company lower than if they were to travel on their own. Because we travel regularly, it is easy for us to establish and then maintain ongoing relationships with various clients on behalf of a number companies.”

The commercial system in North America is set up to accommodate such arrangements. They have been operating with independent business development managers and sales agents for years, where independent sales agents may travel throughout a region or the entire country representing a number of manufacturers. The US is way ahead of Australia in terms of their ability to maximise success from this outsourcing model.”

Jim believes that, if you select the right outsourcing partner, you will find they will have an understanding, or come up to speed quite quickly with things like statutory requirements, technical specifications, approval processes, applications and unique business cultures which exist in the different geographical regions of North America for your product.

“Once we take a product on board, we are 100% committed to that product’s success. After all, our own success and our international reputation hinges on our ability not only to make the sale, but to represent our clients in a professional manner that is also culturally appropriate.”

The experience of companies like Eye Catcher Innovations shows that, with the right product and the right support, micro enterprises with limited resources can successfully capture export markets.

There are many challenges to be negotiated when a company starts on the pathway to exporting their product. Jim makes the point that, even when you decide to put your product in the hands of a company like Export Access, it is essential that you learn as much as you can about the market that you are looking to enter and that you take advantage of government assistance.

“Firstly I would recommend that manufacturers looking to export register with Austrade, the Australian Trade Commission. Austrade plays a key role in providing exporters with access to very valuable market data.”

“Importantly, emerging exporters need to appreciate the real time and effort required to realise commercial success. It should be determined early who will carry the ball in this regard. Companies like Export Access can work as a pseudo export manager or business development manager on a project basis. The exporter only carries the cost for the period of the project.”

In spite of the USA’s very powerful “Buy America” program, it is still possible for Australian exporters to compete successfully in the North American market. Whilst Americans, like Australians, can be very parochial they tend to be mindful of commercial realities and practicalities. The US Free Trade Agreement which came into force on 1 January 2005 has stripped away a number of the barriers affecting Australia-US trade. Jim says that, in his experience, where a particular product specification disadvantages an Australian company, once informed, the Americans will alter or amend that specification to conform to the rules of the day.

In terms of the USFTA’s effect on the ability of Australian exporters to access the US market, Jim admits that there may be specific circumstances where Australian exporters have been disadvantaged. “In general terms, though, we have found the FTA to be of benefit as it has removed the significant hurdle of import duties,” he said.

“The reality is that Australian manufacturers need to be efficient and to be ‘best in class’ if they are to successfully export fully processed goods.” He emphasised that issues such as transportation costs, changes in the exchange rate and mechanisms for logistics and distribution have potential for greater impact on the Australian exporters.

“The basic barriers for Australians wanting to export to the US are still the same as they were before the FTA. That is, being under prepared, under educated about the market and under resourced to do the job properly.”

One of the things you need to research thoroughly is the marketing and packaging of your product. “Marketing and packaging requirements will be dramatically different for different items being exported. The wine and food industry for example has quite specific legal requirements which must be adhered to. I would recommend that each exporter gains a clear understanding of the requirements relevant to their industry and that this intelligence is reflected in their pricing strategy.”

The concept of outsourcing the international sales function clearly works for some companies such as Eye Catcher Innovations. But is it for everyone? What gains can a manufacturer make by using this model of operation? As Eye Catcher and other Export Access clients have found, it all comes down to cost.

“Running your own sales team in start up is costly and can be a significant drain on cash flow. In comparison the use of sales agents and representatives in North America is quite sophisticated and has the capacity for significant returns. Over the past 20 years there have been a number of seasoned specialist representatives who have formed sales agency businesses that operate solely on commission. The whole system in the US is set up in such a way that this process works very efficiently. It is an accepted practice for one person to represent a number of companies with a suite of products. “

Jim says this system is particularly efficient for highly specialised or innovative products where the number of interested clients is likely to be limited. “My clients recognise that taking on the task themselves and doing it properly is a major drain on their time. It is false economy and takes them away from doing what they should be doing and that is concentrating on their day to day business. Engaging a specialist company to assist meet export objectives does not take the client out of the decision making mix. To date our experience the regular communication has been regular and consistent, as the process is akin to that of a specialist manager working for the principle for the period of the project”.

Manufacturers looking to export their products can access financial support if they comply with certain criteria. There are state based grants which are generally administered by the individual State Government department responsible for trade and economic development. Federally, Austrade administers the Export Market Development Grant (EMDG) scheme which compensates exporters for eligible expenses on a dollar for dollar basis once minimum expenditure levels are reached. If a company engages an outsourcing partner such as Export Access to help them market and sell their product in an international market, the costs to employ such a firm are generally eligible to be claimed under this scheme.

Contact Austrade and your relevant State Government department for more information on these schemes. In most states and territories there are private companies who specialise in helping exporters to access EMDG funds.

Some final words of wisdom to Australian companies who are looking to access the North American market? Jim Raz says it’s important to plan, understand the market and market dynamics, and know the rules, regulations and obligations that apply to your particular product.

“Companies that have most success look at planning as a prelude to the commercialisation process. Don’t start with the product. And be aware that ground breaking technology is harder to sell. Take advantage of advice and information provided by Austrade, tap into government funding to help offset some of the costs and utilise specialists like Export Access who know the market and the culture and who already have a strong network in place. All of these steps will move you toward long term success in North America.”

CASE STUDIES AND EXAMPLES OF EXPORT PROJECTS COORDINATED BY EXPORT ACCESS

Export Access was established to provide services to companies wishing to explore opportunities in international markets. The companies represented by Export Access are diverse in terms of their objectives, products and services, but the tried and true formula is paying dividends for entrepreneurial designers, inventors and IP owners.

Eye Catcher Innovations

Eye Catcher Innovations, part of the Proen Group, is the creator of "Protect-it", a protective device that fits on to warehouse racking in order to protect it from impact by fork lifts. Eye Catcher's export objective was to find a master distributor capable of importing their product in minimum quantities of container loads into the USA and Canada. Export Access was brought on board to research the market, determine who Eye Catcher's competitors are and to identify the retail and wholesale price points. Export Access also compiled a shortlist of potential distributors, establishing contact and building relationships with them during Export Access trade missions.

As a result, Eye Catcher has secured an exclusive master distributor to service Canada and a non-exclusive distributor in the USA. The company is now enjoying sales equivalent to one container load of product per month.

Baleen Filters

Baleen Filters manufactures specialised filtration technology which is used in a variety of applications including food processing. The company's specific objective was to find credible trial sites in the USA that could be used as vehicles to launch their technology, creating even greater business opportunities. Export Access identified the appropriate people within Tyson Foods, one of the three largest food processing companies in North America. As a result there is now an agreement in place to conduct the necessary trials of Baleen Filters.

Inovec

Inovec is the inventor of a specialised quick change boss and arbor system in the electrical hardware sector. Their

export objective was to secure a licensee to manufacture and distribute the system throughout North America. Initially, this process will involve the export of finished product manufactured in Australia. As with Eye Catcher Innovations, Inovec engaged Export Access to research the market, identify competitors and ascertain retail and wholesale price points. Contact was made with potential distributors during Export Access trade missions.

At the time of writing a heads of agreement has been reached with a North American company.

Augersafe

Augersafe is the inventor of a safety device designed for, amongst other things, grain augers in the agricultural sector. Their export objective was to license the intellectual property into North America, as well as qualifying potential suitors. During the process an opportunity was extended to present a paper highlighting the need for the technology at a major conference.

As a result, Augersafe is now in negotiations with a large Canadian based auger manufacturer.

Houseboat Concepts

Houseboat Concepts is an Australian designer and manufacturer of houseboats. Their export objective was to establish a joint venture or strategic partnership to allow them to build and market Houseboat Concepts designed vessels in the US. On their behalf Export Access approached companies with the entrepreneurial spirit to engage in this activity. One such company has already visited Australia to explore this opportunity with Houseboat Concepts.

