

CLICKS AND MORTAR HELP QUENCH HONG KONG'S THIRST

by Erin Butler

Office of the Director General, U.S. Commercial Service

California exporter H. Thorp Minister III just shipped \$13,000 of sports beverages to a buyer in Hong Kong that he's never met. How did his customer find a supplier to quench his thirst? Enter BuyUSA.com and some changes taking place in the e-commerce world.

A worldwide brick-and-mortar network sets BuyUSA.com apart from other e-marketplaces. The service, created by the U.S. Commercial Service and IBM, offers online access to U.S. trade specialists who can assist buyers and sellers with issues like regulatory compliance and export financing — things that can tongue-tie most e-commerce 1-800 help desks. "It's a really good platform to promote U.S.

goods," says Minister. Plus, as he explains, "It has a great name" — so international buyers in search of U.S. products know exactly where to look.

Minister's company, Export Los Angeles, provides sourcing, pricing, buying, transportation and financing services for international buyers who want U.S. products. Minister, who emphasizes the importance of visibility for a small company like his, uses his BuyUSA subscription to supplement his own web site and marketing efforts to create an online presence that will reach more potential buyers. Now most of his business is generated through buyers that call him with specific needs. He sees BuyUSA as a way to make his small company "more nimble" in the global marketplace. "My most valuable tool in promoting my export business is the Internet," Minister explains.

Minister learned about BuyUSA through longtime contact Rey Makalintal, an international trade specialist with the West Los Angeles U.S. Export Assistance Center. The center is one of more than 100 United States Commercial Service offices in the United States, and part of the worldwide network that makes BuyUSA unique. Trade specialists at these offices provide a variety of services to help small and mid-sized companies succeed in international markets.

Of the most value to Minister was Makalintal's introduction to the array of export assistance services provided by government agencies such as the U.S. Commercial Service, Small Business Administration, Export-Import Bank and state agencies. "I'm learning a lot as a small business owner — its kind of fun. I never knew that there was such a huge push to help small exporters," he says.

The initial order from Minister's Hong Kong buyer will likely turn into repeat business, and he is expecting to handle additional shipments totaling \$40,000 per month. Minister points out that with luck, a half million dollars in yearly revenue could result from only days of exposure on BuyUSA. And he might be riding the early wave of what some analysts are predicting may be a sea of change in the way business is conducted.



Photo courtesy of U.S. Commercial Service.

Trade specialist Rey Makalintal (left) of the West Los Angeles U.S. Export Assistance Center with H. Thorp Minister III (right) of Export Los Angeles.

POINT, CLICK, TRADE

According to the Internet research firm Jupiter Communications, business-to-business (B2B) transactions over the

Internet will reach an astounding \$16 trillion in 2005. MIT's Media Lab estimates that worldwide online sales will reach \$1 trillion this year, and 70 percent will be B2B. Merrill Lynch predicts that some portion of 85 percent of all business transactions will be online by 2009. Forrester estimates that B2B is entering a hyper-growth stage, and will grow to \$1.3 trillion in 2003. Another study predicts that exports arranged online will grow to \$100 billion by the end of the year.

By 2004, B2B transactions are expected to jump to \$1.4 trillion, or 18 percent of total global trade. One estimate has e-marketplaces conducting 30 percent of all exports by 2004. Even if these figures prove overly optimistic, the trend seems to be clear. Combine this trend with falling trade barriers around the world, and the outlook for small business growth through online international trade seems promising.

While these numbers are breathtaking, there is evidence to suggest that while the train may be leaving the station, not many businesses are on it. The Yankee Group, another e-commerce consulting firm, polled 250 large and mid-size businesses last year and found that three-quarters did not yet have Web sites that could support transactions or tie in with their customers' databases and those of their suppliers, though many were working on it.

SMALL BUSINESS PARTICIPATION AND CONCERNS

Another survey, by Access Markets International Partners of New York, had some troubling news. It found that while many small business owners are comfortable shopping online, 9 out of 10 said they were not interested in selling online and that they were overwhelmed by the technical challenges. This may be the case today, but improvements in software and in the markets themselves are likely to make B2B buying and selling easier — and less expensive to

participate. And the pressure will build on businesses to participate whether they are "comfortable" or not. For failure to participate is likely to become more uncomfortable, and possibly fatal.

What are the advantages of online product exchanges? One advantage according to users is cost savings, with some companies reporting savings of between 2 - 15 percent over traditional off-line wholesalers.

A second advantage is the end of market fragmentation, meaning that because more buyers and sellers are coming together online there is more information available about products, inventories, and prices.

SOME DRAWBACKS TO ONLINE MARKETS

While there are many advantages of these B2B markets, there are a number of drawbacks.

One drawback is that if these markets work the way they are supposed to, price competition will get more brutal and margins will fall. Non-marketplace participants and inefficient suppliers of all kinds will feel intense heat and many may be forced out of business.

Another drawback is that these B2B markets may eventually be dominated by a few big names, raising restraint of trade issues that the legal system is just beginning to worry about.

Despite its other reported advantages, online trading provides mainly lower-cost and more widely available access to world markets, allowing smaller producers to find buyers far beyond their home base. However, it has been argued that the globalization of markets and exchanges will be important only if sellers have real need for global access. And when they do, the existence of the online exchanges, in part, makes geographical separation no longer as relevant as a barrier to trading, as long as the item's description is

clear enough to be communicated without too much ambiguity, and its value is sufficient enough to justify shipping costs.

There are also barriers in the areas of public policy and law. Until these issues — such as taxation, privacy and consumer protection — are resolved, true global e-commerce will not be possible. But that doesn't mean there won't be a lot of opportunities as marketplaces and nations work out the kinks in the next phase of the global trading system's development.

ASSESSING ONLINE MARKETPLACES

As things develop, Export LA's Minister is content with the space he occupies, reasoning that small businesses like his need multiple channels through which they can buy and sell. He has a stall in the global marketplace for a few hundred dollars a year, and doesn't have to worry about keeping up with the latest online technologies or whether he can trust the buyers who contact him via BuyUSA.com.

Minister says he has the right skill set and does seem to bring an unusual background to the export business — he spent several years in film and television production. "Believe it or not, there are some strong parallels between film production and exporting," he says. "Both are choreographed down to the smallest detail." He goes on to describe his plans for Export LA in action-movie terms befitting his Hollywood background: "I'm gonna blow the doors off this thing," he laughs. And with BuyUSA.com, he just might do it. ■