

**FINAL REPORT ON PROVIDING
TECHNICAL ASSISTANCE TO
BARBADOS, JAMAICA, AND
THE DOMINICAN REPUBLIC**

**In Joint Ventures as an Instrument for
Their Export Development Efforts**

Sponsored by:

**The Organization of American States
Under Contract No. 6199**

By

**Ron G. Escoffery
Engineering Experiment Station
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia**

December 1982

TABLE OF CONTENTS

	<u>Page</u>
BACKGROUND	1
SCOPE OF WORK	2
WORK PERFORMED	3
SUMMARY AND CONCLUSIONS	7

BACKGROUND

The Organization of American States awarded Contract No. 6199 to the Georgia Institute of Technology in September 1980. The contract was amended in November 1981 and extended to August 31, 1982. A further amendment is expected to cover the presentation of the findings to participating firms and national agencies. This amendment is already agreed upon in principle by the OAS officer assigned to the project.

Under the terms of the contract, the contractor is to provide technical assistance to national agencies, particularly those responsible for export development in the participating member states, in the promotion of various forms of associations, especially "joint ventures," as an instrument for their export development efforts. The member states selected were Barbados, Jamaica, and the Dominican Republic.

The project was divided into six stages. Five tasks have been completed. This report, therefore, represents stage six, the final report, which summarizes the research results. The OAS in is receipt of detailed reports for the preceding stages. While this report will not repeat details of previous reports, it will however make reference to them.

SCOPE OF WORK

This report will summarize the results of the research and present some conclusions on participating firms' and national agencies' reactions to the project. Stage six tasks consisted of the following:

1. Visits to the three member states -- Barbados, Jamaica, and Dominican Republic.
2. Presentation of market profiles and lists of U.S. contacts interested in exploring opportunities with individual firms within the member states.
2. Presentation of the market profiles to those national agencies in the respective member states which are responsible for developing exports.
3. Solicitation of comments from both the member state firms and the national agencies regarding the value of the assistance given.

WORK PERFORMED

The products selected and for which market profiles were developed were: rattan furniture, dresses, citrus essential oil, wood furniture, ceramic tile, and wood parquet flooring. The team delivering the market profiles consisted of Jane Mohan, OAS representative and project coordinator, and Ron G. Escoffery of Georgia Institute of Technology, the contractor.

Barbados

On Sunday, October 17, 1982, we departed for Barbados. On Monday, we met with executives of the Barbados Export Promotion Corporation, representatives of member firms, and local OAS representatives.

The round table briefing began with an overview of the project, objectives of the project, and the methodology used to achieve the desired results. The conference was addressed by Ron Escoffery, who gave a detailed account of how the market profiles were compiled and their importance as a tool to penetrate the U.S. market. He encouraged individual firms to proceed very quickly in following up on the trade contacts which had been established on their behalf.

The conference continued with Mr. Escoffery walking the group through a typical profile, highlighting such areas as the nature of the industry, the market, as it related to size, competition, channels of distribution, entrance into the market, and import regulations and tariffs. The meeting emphasized the various options available to the potential exporter who wished to enter the market, and the advantages and disadvantages of each.

The participants were reminded of the fact that this approach to forming a joint venture partnership has several advantages, since it gives potential partners an opportunity to become familiar with one another and to determine if the partnership is "right" before a permanent relationship is established. It was enumerated that it is common practice for potential joint venture partners to begin a relationship by entering into an agreement to distribute a manufacturer's product prior to forming a joint venture partnership. In this way, the partners can evaluate each other "in action." The distributor can evaluate the manufacturer's product quality, reliability,

and pricing policy, while the manufacturer can ascertain if the distributor can move the goods at a price profitable to both. The round table conference ended with a question and answer period followed by the distribution of profiles to representatives of the individual firms and a complete set of profiles to the national agency representative.

The following day, visits with individual firms were held, mainly to present the relevant parts of the profile which addressed the firm's particular needs and to answer questions the firm had which were not answered at the earlier round table conference. The firms visited were: Forbes Craft and Industrial Rattan (rattan furniture manufacturers), Koves (a dress manufacturer), and Hampdens Company (a wood furniture manufacturer).

Jamaica

We arrived in Jamaica on Wednesday, October 20, 1982. On Thursday, we had a round table conference with officials from Jamaica National Export Corporation (JNEC), Jamaica National Investment Promotions, Ltd. (JNIP), with the managing directors of Modern Furnishing Company and Douglas C. Orane Company, Ltd., and with local OAS representatives.

The JNIP official's presence at this meeting indicated a very high level of interest and support for this effort, as this is the agency charged by the Prime Minister with the responsibility of fostering joint venture projects.

The conference was led by Ron Escoffery, who gave the participants a detailed background on the project and the objectives to be achieved. They were also briefed on the methodology used to develop the industry profiles and were encouraged to use the profiles as tools to enter the U.S. market.

The conference participants were led through the relevant industry profiles to ensure adequate understanding of the content and to reinforce the report's usefulness as a marketing tool.

The industries chosen in Jamaica were wood furniture and wood parquet (flooring) manufacturers. At the completion of the industry profiles, the conference was open for questions. Some discussion ensued. The conference ended with presentation of a set of profiles to the JNEL and JNIC, and relevant copies to the participating firms. Individual meetings with two Jamaican firms -- Modern

Furnishing Company (a wood furniture manufacturer) and Douglas C. Orane, Ltd. (a mahogany door and parquet tiles manufacturer) were arranged.

The round table conference concluded, we visited with Douglas C. Orane, Ltd. We were well received by the firm's managing director, who felt the report/profile was very informative. We answered questions which she had about entering the U.S. market. She inquired if it were possible to have a follow-up project specifically for this firm, as further research on pricing policies and margins was needed in order to identify her firm's niche in the market.

Our visit to Modern Furnishing was equally well received. The firm had taken time to study the market profile and found it very informative. The fact that there were names and telephone numbers for them to use to make contacts with distributors in the market place impressed them.

We also visited with Lanaman and Morris, a shipping company with regular service to many southeastern ports. This meeting was very important, as questions regarding regularity of service, charges, and minimum quantity were clarified.

At the end of our visit to individual firms, we met again with the JNEC for a debriefing and to convey the individual firms' comments to that organization for its consideration.

The Dominican Republic

We arrived in Santo Domingo on Sunday, October 24. Monday morning, we met with the executive director of CEDPEX to brief him on our mission and to familiarize him with the full scope of the project. That same afternoon, we had our round table conference with other CEDPEX officials and representatives of individual firms. The format of the conference was similar to that used previously. Firms selected in the Dominican Republic were: Novel Nacional (wood furniture manufacturer), Artesania Rattan and Centro Rattan (rattan furniture manufacturers), and Alfareria Dominicana and Ceramica Industrial del Caribe (ceramic tile manufacturers).

Each firm was very keen on reviewing their individual reports with us. They obviously had taken time to study the market profiles and had prepared a number of questions for us. (The question and answer periods as well as firms' specific questions and our answers are on tapes in Jane Mohan's possession.)

Every firm we visited was enthusiastic about exports as a joint venture vehicle. They were most anxious to proceed with implementation of our recommendations. At the conclusion of our visits with the individual firms, we met again with CEDPEX officials for a debriefing.

SUMMARY AND CONCLUSIONS

Copies of the industry profiles referenced herein have been sent to the OAS under separate cover by Sherman Dudley. The tape recordings of meetings, also an integral part of this report, are in the possession of Jane Mohan.

The assignment under Contract 6199 is now complete. This report is the last official document to be presented. It will, therefore, summarize the activities which constituted the assignment and elaborate on some of the member countries' comments.

Notwithstanding the duration of the project, the objectives were all achieved. Firms in member states now have a blueprint from which to work to achieve their joint venture objectives. Achievement of these objectives, however, will have to be the second phase of what has emerged as a two-phased approach to successful joint venture partnership.

The benefits of the project will be shared equally by individual firms and the national agencies involved. The significance and usefulness of the project stems from the fact that for the first time a study goes to the logical ending, that is, giving the participants realistic leads in the form of names and telephones numbers of interested parties who are waiting to be contacted. The national agencies welcomed the study. In some cases they have spent consulting dollars in an attempt to achieve the same objective without the same level of success.

We did find that in almost all member states the agencies were engaging themselves in activities to foster export trade. Our presentation of market profiles of various industries was most helpful to these agencies' efforts.

TECHNICAL ASSISTANCE TO
NATIONAL EXPORT AGENCIES
BARBADOS, DOMINICAN REPUBLIC,
AND JAMAICA

Final Report
Organization of American States
Contract 6199

Engineering Experiment Station
Georgia Institute of Technology
Atlanta, Georgia

CERAMIC TILES
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

CERAMIC TILES

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	5
MARKET COMPETITION	8
MARKET CONTACTS	11
IMPORT REGULATIONS AND DUTY	16
EXPORT RECOMMENDATIONS FOR THE MANUFACTURER	17
INTRODUCTION	17
PRODUCT	18
PROMOTION	19
DISTRIBUTION	22
PRICING	28
CONCLUSIONS	29

CERAMIC TILES

INTRODUCTION

Markets for ceramic tile exist everywhere there are construction surfaces whether old or new. Almost everyone's walls and floors, indoor and outdoor, can benefit from ceramic tile. Today more than 1,000 different types, designs, colors, and shapes of ceramic tile are available.

Ceramic tiles are normally grouped in the following categories: Ceramic mosaic, paver tile, quarry tile, and glazed wall tile. Color is imparted through glazing or by use of pigments which are mixed into the clay body before firing. Tile is classified according to body composition and method of manufacture.

Ceramic mosaic tile is available in a wide range of colors and shapes, glazed or unglazed. It is the favored for residential and other light to moderate traffic installations. Ceramic mosaic is composed of porcelain or natural clay into which an abrasive mixture may be added. It may be dust-pressed which is a compaction process carried out while the body is relatively dry, or manufactured by the plastic method in which tiles are stamped-out from a sheet of clay by a cookie cutter-like device. These tiles are usually sold mounted on paper or mesh-backed sheets for easier, quicker installation.

Quarry tile is made from either clay or a clay-shale mixture, a composition that is reflected in the reddish earthy colors found in these tiles. Quarry tiles are formed by the extrusion process, a method in which the damp clay body is forced through a mold, with a wire used to cut out the tiles. Quarry tile is often specified for high traffic areas. Quarry tile has become one of the most popular flooring materials, both for residential and commercial, interior and exterior use. It is available in glazed or unglazed versions. The unglazed comes in colors such as sand, caramel, and grey as well as traditional earthen-red. The glazed type comes in fashion colors, from snow white, fire engine red, to steel blue. Sizes usually are from four to nine-inch squares plus curved and geometric shapes.

Glazed wall tile color is fused onto the tile body during firing. This category has the largest range of colors, designs, and glazes, including a heavy duty glaze suitable for countertops and floors as well as walls.

There are a number of specialty tiles manufactured to meet the demands of specific installations. Slip resistant tile is manufactured by adding an abrasive mixture to the tile body or by cutting grooves or patterns into the tile face. Tiles may also be composed or treated to provide increased resistance to staining, acids, impact, temperature variation, as well as a number of other physical or chemical elements.

When consumers select tile for a specific project, strong consideration is given to the wear properties of the tile's face or surface, the fire-resistant qualities of its installation and backing, its acoustical properties, and its slip resistance.

According to the Tile Council of America, the millions of new two-income families, the high mortgage rates, and the sky-rocketing energy costs are all factors that make tile a higher-priority material. Homeowners are remodeling rather than moving to a bigger or newer house and tend to select top-quality materials, such as ceramic tile. In fact the National Building Materials Distributors Association has found remodeling expenditures now exceed the expenditures for new construction. At-home togetherness and entertaining were never more important and have resulted in a new type of cooking/dining/hobby and entertainment center known as "the great room" where tile installation on walls and floors can personalize a room's appearance. With remodeling increasing at a rate of 16% per year and 60,000,000 older homes in America, ceramic tile markets should expand.

Strained budgets have also made consumers extremely selective. They are passing up faddish, trendy products and selecting high-quality materials that will look good and function well for the longest possible time.

Ceramic tile always looks so luxurious that people ask about the costs. Over the life of the product, ceramic tile costs about the same as competitive materials for floors and walls. Because of improved manufacturing and installation techniques, the price of installed tile is now less than it was at the end of World War II.

In commercial buildings, glazed ceramic wall tile installed with dry-set mortar as a wall finish has been found to have the lowest costs of all permanent finishes over the life of a building. Over a 40-year life cycle, the cost of ceramic tile averaged only 21¢ per square foot per year.

Ceramic tile's most interesting new application is in passive solar design. In such installations, the thermal mass, which stores the heat of the sun, is usually provided by a concrete slab, and/or concrete block wall. Ceramic tile is an excellent thermal conductor, which aids in the storage and release of heat.

During the past five years, the demand for ceramic tile could not always be satisfied because of a shortage of craftsmen with even minimal tile setting skills. So acute was the situation that some installations were delayed for two years. Because of this situation the Tile Council of America created a curriculum for the installation of ceramic tile. The textbook, to be used by local organizations throughout the country, including vocational schools, will be marketed by a new organization especially formed for that purpose.

MARKET

Of 1981's total estimated U. S. ceramic tile consumption of about 531 million square feet, foreign imports' share was almost 255 million. Government figures show that in 1981 more than 100 million square feet of tile was imported from Italy, up 7.5% over 1980.

The U. S. ceramic tile market has become an intensely competitive area for both domestic and foreign ceramic producers. The U. S. is perceived as the world's largest undeveloped ceramic tile market and the enormous production and marketing resources of foreign manufacturers are trying to fill that void.

Until a few years ago, the largest tile usually produced was an 8-inch by 8-inch. Now companies turn out 10-inch by 10-inch, 12-inch by 12-inch, and 24-inch by 24-inch sizes. The market for these is on the rise. Particularly growing is the demand for 10-inch by 10-inch and the 12-inch by 12-inch.

The greatest hope is that the U. S. housing market will grow stronger. The current situation finds every manufacturer fighting to keep their portion of the market, a fight that has been reasonably successful. But if new construction does not pickup, competition between manufacturers could become destructive. The consumer will benefit as prices drop again. But all manufacturers, American, Italian, and other foreign countries as well, are feeling the pinch.

For many years the number of new housing units was considered to be an accurate guide for the ceramic tile market. Ceramic tile used for new residential units totaled 242 square feet per unit in 1975, 353 square feet per unit in 1979, and now totals 442 square feet per unit. Housing units in the past 30 years increased by only 120%. Tile's growth during that same period increased 380%. During the past 5 years, new housing units grew only 22% and ceramic tile sales were up 14%.

From 1980 to 1981, the amount of residential construction declined by 8 percent in constant dollars. This downturn in residential construction contributed to the general slowdown in overall economic activity in the latter part of 1981. As a result of the downturn, residential construction last year accounted for as small a share of the country's private fixed investment as in any year since 1945.

In 1981, construction was begun on about 1.1 million housing units, of which about 700,000 were single-family units. This was the smallest number of housing starts in any year since 1946. The total number of starts in 1981 was less than half the peak level of 2.4 million units, which was reached in 1972.

Housing starts totalled 175.9 million units in 1982's first quarter. Annual starts for 1982 are forecast at 1.25 million. Next year, projections are for 1.6 million units, with growth continuing in 1984.

U. S. floor and wall tile shipments declined 3.4% in 1981 to 287 million square feet. U. S. imports declined only .3%. Domestic shipments will approach 295 million square feet in 1982, with a projected 9% increase in 1983 bringing shipments to 321 million square feet.

Ceramic Do-It-Yourself outlets assure greater visibility and availability to the consumer for ceramic tile. The Do-It-Yourself market for ceramic tile increased at least 500% since 1977. Twenty-five hundred ceramic tile distributors are making tile readily available to the consumer.

The Tile Council of America shows the following information for the United States Ceramic Tile market as of July 1982.

	<u>Glazed Wall Tile</u>	<u>Mosaic Tile</u>	<u>Quarry Tile</u>	<u>Total</u>	<u>% Imports</u>
(Thousands of Square Feet)					
<u>1980</u>					
U. S. Mfr. Shipments	218,984	36,504	42,147	297,635	46.35%
U. S. Imports	176,975	35,861	42,576	255,412	
U. S. Exports	5,297	2,645	0	7,942	
U. S. Consumption	390,662	69,720	84,723	545,105	
<u>1981</u>					
U. S. Mfr. Shipments	208,264	40,064	39,181	287,509	47.96%
U. S. Imports	177,650	38,988	38,020	254,658	
U. S. Exports	7,436	3,715	0	11,151	
U. S. Consumption	378,478	75,337	77,201	531,016	

MARKET COMPETITION

Italy dominates ceramic tile production followed by Brazil and Japan. Brazil's modern tile plant's production matches that of the entire U. S. industry. In Italy 470 factories employ 46,000 people and produce about 3.3 billion square feet or 40% of the world's tile.

U. S. Imports of Italian ceramic tile were \$63.7 million for the first nine months of 1981, up 22% from a total of \$52.2 million for the same period in the previous year.

Italian tile imports for 1981 exceeded 76 million square feet, up slightly from the 1980 total of 68 million square feet. Growing U. S. acceptance of the product is evidenced by increased participation in industry trade shows. The number of Italian tile manufacturers exhibiting at the Ceramic Tile Distributors of America Convention is expected to double from last year's show. Regionally, Italian tile sales appear strongest in the Northwest where 94% of dealers claimed increases in sales.

Approximately 90 percent of Italy's tile exports is glazed ceramic tile. In this category, Italy has 52 percent of the dollar value of all U. S. tile imports, representing \$68 million and 83.6 million square feet. The Italian Tile Center, the U. S. information course for Italian tile manufacturers, anticipates that Italian tile sales will double by year-end 1982.

Most tile imported from Italy are made from red clay, and 90% are glazed. White body tile comprises the rest. Although considered the best kind of Italian tile, white body products, more solid and stronger, also are more expensive. This high costs limits their exports.

Because of worldwide demand for Italian floor and wall tile, the Italian industry has progressed rapidly and manufacturer its tile efficiently and at an extremely low cost. Both equipment suppliers and the tile manufacturers themselves constantly change and improve equipment and manufacturing processes.

More than half of the Italian tile sales went into remodeling. While the economy and the new construction business are not going well, imports of Italian tile hold up. The over all market share for Italian tile is not really expanding; the strong remodeling market just continues to grow.

Promotion plays a key role in penetrating the remodeling construction sector. The Italian manufacturers have developed a working association throughout the United States. This organization launched a campaign with advertising placed in consumer and trade magazines. These advertisements project an industry image and extol advantages of using Italian tile. Collectively, advertising for Italian tile in the U. S. totals roughly \$1 million per year. The almost 100 million square feet of Italian tile imported in the U. S. last year represents only a small fraction of the billion square feet of tile produced.

Imports for TSUSA - 5322400 - Ceramic floor and wall tiles,
glazed, are as follows:

Mexico	16,726,639	square feet
Dominican Republic	1,251,142	
Columbia	444,925	
Brazil	5,311,847	
Finland	58,516	
Denmark	168,276	
United Kingdom	497,349	
Netherlands	184,725	
Belguim	101,054	
France	619,570	
Fr. Germ.	2,802,243	
Spain	18,778,819	
Portugal	738,170	
Italy	83,594,608	
Italy (6)	74,247	
Sri Lka	2,030,790	
Phil R	1,118,826	
Kor. Rep.	1,210,526	
Japan	40,490,459	
Japan (6)	278,488	
Other Countries	493,579	

Imports for TSUSA - 5322700 - Ceramic floor and wall tile except
mosaic, not glazed.

Canada	1,752,749	square feet
Mexico	11,283,408	
Brazil	554,113	
Sweden	303,482	
United Kingdom	10,589,802	
France	384,615	
Fr. Germ.	3,844,942	
Spain	3,777,959	
Italy	9,178,435	
Japan	508,534	
Japan (6)	113,451	
Other Countries	285,545	

(6) Foreign Trade Zone Privileged status.

Ceramic Tile Contacts

Alabama

Mr. Thomas D. Shuford
Fletcher & Associates
1403 Morris Ave.
Birmingham, Ala. 35203

Florida

Mr. Donald Edwards
Gulf Tile Distributors
of Florida*
408 S. Saturn Ave.
Clearwater, Fl. 33515

Mr. Lee W. Forelich, Jr.
Sun State Tile Inc.
13670 Roosevelt Blvd.
Clearwater, FL. 33520

Mr. Bruce M. Lee
South Florida Tile & Marble
Distributors Inc.
268 S.W. 12th Ave.
Deerfield Beach, Fl. 33441

Mr. Marty Hurley
Tamiami Tile of Delray Inc.*
1085 S.W. 14th Ave.
Delray Beach, Fl. 33444

Mr. Joseph Balsamo
Building Materials International
Inc.
204 S.W. 21st Terrace
Ft. Lauderdale, Fl. 33312

Mr. Antonia Torelli
Ceramic International N.A. Inc.
1641 N.W. 70th Ct.
Ft. Lauderdale, Fl. 33309

(*) - Denotes Branch Location

Florida continued

Mr. Denis Degentile
Decorative Tiles, Inc.
1201 N.E. 45th St.
Ft. Lauderdale, Fl. 33334

Mr. Svend P. Olsen, Jr.
Tile Contractors Inc.*
2821 N.E. 20th Way
Gainesville, Fl 32601

Mr. David A. Yarborough
D & B Tile Distributor
5800 Rodman Street
Hollywood, Fl. 33023

Mr. John F. Adams
Design Materials Company
6967 Phillips Hwy.
Jacksonville, Fl. 32216

Mr. E. Kent Fleming
Fleming & Sons Inc.
464 Cassat Ave.
Jacksonville, Fla. 32205

Mr. Robert Drehmann
Ceramic Concepts Inc.
200 N. Old Dixie
Jupiter, Fl. 33458

Mr. David J. Miles
Florida Tile Ceramic Center
2635 Skyview Dr.
Lakeland, Fl. 33801

Mr. Dennis F. Infante
Central Tile Inc.
7006 N.W. 46th St.
Miami, Fl. 33166

Ms. Cindy Bell
D & B Tile Distributor
8940 S.W. 129th Terrace
Miami, Fl. 33156

Mr. Mario L. Adriani
Forms and Surfaces Inc.
130 N.E. 40th St.
Miami, Fl. 33137

Ms. Susan Neumann
Kendall Tile of Tamiami Inc.*
12620 N. Kendall Dr.
Miami, Fl. 33186

Mr. Philip LeFort
Marble & Tile Corp. of America
13195 N.W. 38 Ave.
Opa Locka, Fl. 33054

Mr. David Neumann
Plain & Fancy of Tamiami Inc.*
96 N.E. 40th St.
Miami, Fl. 33137

Mr. Jorge Zardoya
Sikes Tile Distributors Inc.*
4010 N.W. 24th St.
Miami, Fl. 33142

Mr. Richard A. Waldorf
Tamiami Tile Supply Corp.
7500 Northwest 41st St.
Miami, Fl. 33166

Mr. L. Robert Toll
Tolco Corporation
4550 S.W. 75th Ave.
Miami, Fl. 33155

Florida continued

Mr. Leon R. Sikes, Jr.
Sikes Tile Distributors Inc.
3484 N.E. 12th Ave.
P. O. Nox 23038
Oakland Park, Fl. 33307

Mr. Craig W. Brackett
Heritage Supply Corp.
3868 Bengert St.
Orlando, Fl. 32804

Mr. Richard E. Plymale
Prestige Distributors Inc.
4420 Parkway Commerce Blvd.
Orlando, Fl. 32804

Mr. William Auvil
Florida Tile Ceramic Center*
3820 Liggett St.
Pensacola, Fl. 32505

Mr. Ronald Jackson
Gulf Tile Distributors of Florida*
320 River Gulf Rd.
Port Richey, Fl. 33568

Mr. Thomas P. Cosky, Jr.
Alpha Tile Distributors
3244 44th Ave., N.
St. Petersburg, Fl. 33714

Ms. Bobbie Cady
Florida Tile Ceramic Center*
Town Square
1004 S.E. Lakeview
Sebring, Fl. 33870

Mr. John Mahoney
Intercoastal Distributors
1740 S. Segrave St.
South Daytona, Fl. 32019

Mr. Bob Hoover
Sikes Tile Distributors Inc.*
3170 S.E. Dominica Terrace
Sturat, Fl. 33494

Mr. Ron McCarty
Florida Tile Ceramic Center*
1416 S. Adams St.
Tallahassee, Fl. 32301

Mr. Frank L. Garcia
Gulf Tile Distributors of Florida
2318 W. Columbus Dr.
Tampa, Fl. 33607

Ms. Karen Kruglick
Tamiami Tile of Tampa, Inc.
5694 W. Crenshaw St.
Tampa, Fl. 33614

Ms. Lillian B. Miotto
Decorative Dimensions Inc.
926 26th St.
West Palm Beach, Fl. 33407

Sikes Tile Distributors*
433 Avon Rd.
West Palm Beach, Fl. 33402

Mr. Herbert Watson
Watson Distributors Inc.
958 Orange Ave.
Winter Park, Fl. 32789

Georgia

Mr. Thomas Ellis
Palmer Brick & Tile Co.*
67 Peachtree Park Dr., N.E. #110
Atlanta, Ga. 30309

Mr. Dennis Hall
Southeast Ceramics Inc.
752 Miami Circle, N.E.
Atlanta, Ga. 30324

Mr. Richard F. King
Georgia Tile Distributors Inc.
4520 Palazzo Way
P. O. Box 781
Douglasville, Ga. 30133

Mr. James Zumpano
Zumpano Enterprises Inc.
6292 Warren Drive
Norcross, Ga. 30093

Mr. Mack E. Palmer
Palmer Brick & Tile Company
2305 Fourth St.
P. O. Box 796
Tucker, Ga. 30084

North Carolina

Mr. Donald Scott
McCullough Ceramic South*
4141-C Barringer Dr.
Charlotte, N.C. 28210

Mr. J. R. Renfrow
Renfrow Distributing Co.
1822 Sunnyside Ave.
P. O. Box 9388
Charlotte, N.C. 28299

Mr. Sam Marshall
Cherokee Brick Company
of North Carolina
P. O. Box 33128
Raleigh, N.C. 27606

Mr. Walter Hogg
McCullough Ceramic Carolina*
2601 Timberlake Dr.
Raleigh, N.C. 27604

Ms. Patricia Payne
McCullough Ceramic West*
5272 Germantown Rd.
Winston Salem, N.C. 27105

South Carolina

Mr. Henry Goldberg
Tile Center Inc.
2517 Two Notch Rd.
Columbia, S.C. 29204

Mr. B. F. Shaw, Jr.
Caro-Tile Ltd.
P. O. Box 17263, Sta. B
Greenville, S.C. 29606

Tennessee

Mr. Sam Widener
Winco, Inc.
P. O. Box 5252
Johnson City, Tenn. 37601

Mr. W. A. Oyler
W. A. Oyler Distributing Co.
2636 Summer Ave.
Memphis, Tenn. 38112

IMPORT REGULATIONS AND DUTY

All articles imported into the customs territory of the United States are subject to duty. In the usual case, liability for the payment of duty becomes fixed at the time an entry for consumption or for warehouse and is filed with Customs. The obligation for payment is upon the person or firm in whose name the entry is filed. When goods have been entered for warehouse, the liability for the payment of duties may be transferred to any person who purchases the goods and desires to withdraw them in their own name.

Although most products from the Dominican Republic are eligible under the provisions of the Generalized Systems of Preferences, Ceramic Tiles, TSUS 532240, are excluded and they are subject to a 21.9% import duty.

EXPORT RECOMMENDATIONS FOR THE MANUFACTURER

INTRODUCTION

Beyond the profits to be derived from increased sales opportunities, exports can provide companies with diversification of markets, more flexibility in production scheduling, extended product life, and favorable taxation incentives.

Basically, the same principles apply to selling abroad as to successful selling at home. A business starts by analyzing the foreign markets. That task has already been accomplished for this project with the preparation of the market profiles. After determining whether or not it is profitable to enter the market. The factors to be considered in making this decision are:

1. Present capital-on-hand.
2. General financial status.
3. Market potential for the specific product.
4. Competition abroad.
5. Product prices including shipping to foreign market compared with those of the competition.
6. Government regulations.
7. Available management personnel to supervise the export operation.
8. Available marketing personnel to handle distribution, sales and promotional work.
9. Raw materials necessary to produce the product.
10. Banking facilities for loans.
11. Channels of distribution available to sell the product.
12. Development of transportation and communication in the export country.

PRODUCT

For Ceramic Tile an essential part of product strategy is market information. Both consumer and competitive information can be of immense value since it can alert the manufacturer to changes in the general market or design changes at competitors. The following trade publications should be obtained directly or as an industry group through the export promotion organization.

Ceramic Industry
Cahners Publishing Company
Five South Wabash Ave.
Chicago, Ill. 60603

Ceramic Monthly
Professional Publications
P. O. Box 4548
Columbus, Ohio 43212

Flooring: The Magazine of Interior Surfaces
Harcourt Brace Jovanovich Inc.
757 Third Ave.
New York, N.Y. 10017

An exporter should allocate a reasonable amount of time using these periodicals to investigate the products, processes, and actions of other manufacturers in the industry. With a small investment in subscription fees handsome dividends can be paid in the form of improved marketing decisions.

Another consideration is the size of a company's export product line. To enter the export market it is generally recommended that the manufacturer simplify their product line so that volume saving in materials and labor can be obtained. Also confusion in distribution can be reduced. The evaluation of competition will assist with product line decisions, along with careful cost analysis to determine break-even.

PROMOTION

The attention given to the promotional effort by a ceramic tile exporter will have a great deal of influence on the success of the export program. Product brochures and catalogs should be carefully designed to give high visual impact. Promotional materials should have simplicity, good balance, proportion, and sequence. They should be professionally printed with the upmost attention given to quality details. In addition to product material, general background photographs of the plant and production facilities can be included in catalogs. It is essential that the product literature get the attention of the customer, hold their interest, arouse a desire, and obtain an action.

Sometimes it is difficult to sell a product, depending on its nature if the potential buyer is unable to physically examine it. Sales letters and brochures are beneficial but it is impossible to judge the quality or sturdiness of an item unless it can be examined. Trade shows are shopwindows in which thousands of firms display their products and shows serve as marketplaces in which buyer and seller meet. For thousand of years, merchants, manufacturers, and artisans have gathered together to exchange their goods. Today, in spite of new ways to communicate, business people are still getting together to display their products at trade shows. As an additional promotional method it is recommended that ceramic tile exporters should attend, and, where financially feasible, display at home builders trade shows. The following home builder show has major representation from the Southeast United States and is appropriate for participation.

Ms. Eloise Fisher
National Association of Home Builders
15th & M Street, N.W.
Washington, D.C. 20005
Show Date: January 22-25, 1983
Houston, Texas

Start by writing show management for the literature it has prepared for prospective exhibitors. This is a selling document, designed to present the show in its strongest light, but it should give a better idea of the nature of the audience the show attracts. Most shows issue detailed breakdowns of attendance which can be valuable in the decision process. Another important source of information about a show is the list of exhibitors.

The effectiveness of a booth depends to a great degree on the effectiveness of the people working in it. It is a different and sometimes bewildering place for most sales representatives, who are more used to visiting prospects one at a time in their offices, not having prospects come up and ask for information.

Booth personnel must be friendly, must be able to tell good prospects from curiosity seekers, and must be able to move quickly towards advancing the sale. It is important to let booth workers know what your objectives are, so that they can work towards reaching your goals, whether it is setting up appointments, getting literature into the right hands, giving a demonstration, or making a sale. When your people are on duty, they should be fully on duty. That means: being up front, ready to welcome visitors, not talking in a corner with others on the staff and not sitting down except when a visitor

prefers to sit and talk. Trades shows have a number of strengths and advantages including:

- ° An opportunity for the seller and the buyer to meet face-to-face, where the products being shown can be demonstrated and handled and sales made;
- ° A pre-selected audience, with specified interests, and at the show for the purpose of learning about products;
- ° An opportunity to reach people who are ordinarily not accessible to sales representatives, and to uncover unknown buying interest.
- ° A place where buyers can do comparative shopping, can discuss their problems with many technical people, and thus a place where the buying process can be shortened.
- ° An opportunity to maintain an image and continuing contact with customers;
- ° The chance to create an image, initiate contact with potential customers, and qualify buyers or introduce a new product;
- ° It builds morale of the sales force;
- ° The opportunity to conduct market research and evaluate the competition; and
- ° It provides an opportunity to recruit personnel or attract new dealers.

Participation in trade shows not only exposes products to the markets but it often leads to off floor sales. Thus, trade shows can be a very cost effective means to test a market, size up the competition, or establish market contacts.

It is important to always have an objective before entering a show. Whenever possible, this objective should be stated numerically - so many appointments, so many new names for your mailing list, so many orders, so many new wholesalers. After the show, look at the results, Was your exhibit adequate? Did you have too much space?

Were your people functioning adequately? It is only by looking at these factors that a record can be improved. You will learn from experience only if you study your experience systematically. Those who use shows correctly have found that it is a productive, economical medium.

DISTRIBUTION

Basically, a company has a choice between three types of distribution methods. The first alternative is a "joint venture." The joint venture is an enterprise in which two or more parties share the financial risks and the decision making through joint equity and management participation in a common enterprise. For joint ventures it is essential the exporter carefully examine the foreign company's management approach. An understanding must be reached by executives of both firms on such factors as potential market position, growth, financial policy, and product development. Only then should a written agreement between the two firms be concluded. Normally strong incentives must exist for both parties in order for a joint venture to be created. Since access to Southeastern United States markets is the primary motive of this project, it is recommended that market maturity should be developed using either indirect or direct distribution of ceramic tile products prior to seeking a joint venture partner.

The second approach a company can employ is known as the "indirect method" and delegates export sales responsibility to a firm such as an export management company, overseas importer, a trading company or a producer of related products. Usually, the sales intermediary which is selected will assume responsibility for shipping the product overseas; or a company will use the "direct method" and sell abroad through a sales agent, distributor, retail store, or directly to customers. Under this type of arrangement, the manufacturer will normally retain responsibility for shipping products to export markets.

The indirect or direct distribution methods are not mutually exclusive. It is often possible to use both simultaneously. A CASE IN POINT is a firm might appoint representatives in one or two states and also sell to a buyer for export with the understanding that the product they handle will be marketed elsewhere. This would allow the exporter to concentrate its effort on a limited number of markets and at the same time take advantage of the broad coverage the buyer for export gives. However, this approach sometimes creates undue competition which can discourage product representatives.

Many manufacturers maintain that direct exporting better advances and protects a firm's interests, provides stronger controls over marketing strategy, and increases net profitability. Direct exporters can stay in close touch with their overseas markets, remain current with market demands, and meet the needs of the sales organizations as they occur.

Some firms successfully sell their products directly to overseas retailers or actual end-user customers, particularly high quality items, but the majority of direct export companies sell their products through sales representatives or distributors already established in local markets. This direct method can help an exporter to develop considerable expertise of its own in the markets of its product overseas. Should the exporter want to change representatives or establish its own overseas marketing operation, it is in a good position to do so.

In evaluating how a manufacturer should market directly overseas, these options should be considered:

Sales Representative - Many small firms employ one or more full-time sales representatives who work under contract and by commission. Product literature and samples are used to present the product to potential buyers. If this approach is to be a success, these people must be properly selected. The sales representative should be familiar with the market area where you intent to market; be familiar with market practices; be familiar with your product line, and agree to travel extensively. It is most important to carefully investigate the person's work experiences and their business and financial references.

Frequent checks should be made of the quality of the representative's work through sales activity reports as well as sales quota performance. To protect the company, carefully define the sales representative's authority with respect to agreements with customers, pricing, and promises for product delivery times. Be sure that your agreement with the representative accurately reflects your best interests.

Distributor - The distributor is a merchant who purchases merchandise from a manufacturer at the greatest possible discount and resells it for his profits. This would be the preferred arrangement if the product being sold requires periodic servicing. The prospective distributor should be willing to carry a sufficient inventory. The important thing is that these companies want to be treated as "clients" or "Customers" rather than "Representatives."

Retailer - This generally includes retail stores or specialty shops and relies mainly on the mailing of catalogs, brochures, or other literature. Even though this approach eliminates sales commissions and traveling expenses, the manufacturer who uses the direct approach may suffer because his proposal may not receive proper consideration.

No matter which marketing approach is selected the following practices should be standardized in dealing with all contacts:

1. All overseas requests should be answered promptly.
2. Credit information should not be requested in the first letter.
3. The company and its product should be properly introduced so that quality and delivery are positively established.
4. It is important to be courteous and friendly but without undue familiarity.
5. Personally sign all letters. Form letter do not impress.
6. Check the postage, send all correspondence airmail.

After initial contacts with potential market associations, it is necessary to learn if they are reliable. Use Dun and Bradstreet, U. S. Bank References, or their overseas branches for checks.

If travel budget permits, exporters definitely should not commit themselves to a representative without making a visit to the prospective associate's home ground. An executive on the spot can obtain firsthand knowledge of a candidate's reputation through local trade and banking sources. While you are determining the effectiveness of the sales organization through its proven track record, the marketing company will be doing an evaluation of its own. Top sales firms are in great demand and need assurance that the imported product will sell and that the offshore company can deliver the product with consistent quality and on time.

Initially, the exporter and the foreign associate will mutually agree upon a trial sales plan for a period of one year or longer. Terms of the working relationship may be spelled out broadly in a written contract, drafted with the assistance of attorneys well-versed in export complexities. Thereafter, to maintain an effective liaison, the producer will have to provide adequate guidance, offer cooperation and support, promptly answer queries and correspondence, remain responsive to the needs of overseas sales people, and make periodic visits abroad. Eventually, a comfortable and long-term producer/associate relationship will be forged, profitable to each side.

After successfully making this contact with a prospective representative and investigating his integrity, financial responsibility, community standing, share of the market, and other product lines which he represents for conflict of interest, the next step is to consider the foreign sales agreement itself.

An agreement of this type can be either relatively simple or detailed. The following basic items normally are included in a typical foreign sales agreement:

- ° Names and addresses of both parties.
- ° Date when the agreement goes into effect.
- ° Duration of the agreement.
- ° Provisions for extending or terminating the agreement.
- ° Description of product lines included.
- ° Definition of sales territory.
- ° Establishment of discount and/or commission schedules and determination of when and how paid.
- ° Provisions for revising the commission or discount schedules.
- ° Establishment of a policy governing resale prices.
- ° Maintenance of appropriate service facilities.
- ° Restrictions to prohibit the manufacture and sale of similar and competitive products.
- ° Designation of responsibility for patent and trademark negotiations and/or policing.
- ° The assignability or non-assignability of the agreement and limiting factors.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firms or reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.

PRICING

Most exporters consider pricing strategy the critical part of their marketing program since prices are what determines the amount of revenue the firm is going to receive. The other strategy elements are supportive in that they make it possible for a particular good to be sold at a price that is profitable to the firm. Many new exporters arrive at export prices by using the product's domestic price as starting point and tacking on any export costs like packing, shipping and insurance. However, the domestic price may not provide a reasonable base since it normally reflects domestic marketing costs; prices of export goods determined by this method might not be competitive.

In order to establish an effective export price and obtain an accurate measure of profitability, it is recommended that ceramic tile manufacturers conduct independent cost analyses of their product. This can determine the basic unit cost of a product. Then appropriate expenses including modifications or marketing costs and mark up can be added to the total to yield an adequate profit margin.

This pricing information can then be compared to information obtained through trade publications, attendance at trade shows, or feedback from the distributor system to determine changes up or down. An affective pricing program should also carefully consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. You should consider setting an export volume goal and then studying to

see if your prices will help you reach it. Targets for a certain number of new export customers for next year should also be established. How can pricing help you get them? It is important to remember that prices should help bring in sales which are profitable over the long pull.

CONCLUSIONS

If your firm has been successful in the domestic market then there is every likelihood that you can sell your products successfully in export markets. Selling abroad takes the same advance planning, market research, attention to detail, and hard work that is required for the domestic market.

The size of a company does not exclude it from success in export markets. Internationally, small companies export a greater proportion of their products than larger firms, and exporting makes a major contribution to the profits of these small companies. Exporting provides a broader marketing base and results in greater company growth. Exporting can lead to the discovery of new market strategies, channels of distribution, and product ideas which the firm could apply domestically with great success. The key to success in exporting is to make the right product available at the right time in the right market at a price which the buyer can afford and which will return an acceptable profit.

The overall decision to export should not be made without sufficient inquiry and consideration; initiating an export program on a hunch that it will pay off only invites disillusionment as well as dissipation of time, energy and finances. However, with research and investigation, along with careful analysis and sound planning, it is possible to minimize the possibilities for error in launching an export venture.

CITRUS ESSENTIAL OILS
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

CITRUS ESSENTIAL OILS

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	11
MARKET COMPETITION	14
IMPORT REGULATIONS AND TARIFFS	15

CITRUS ESSENTIAL OILS

INTRODUCTION

The term essential oils is used to describe the part of the plant or fruit necessary for the flavor or other useful properties of the natural product. A citrus essential oil is the part of the fruit (primarily the peel) necessary for the characteristic flavor of that particular fruit. Citrus essential oil is a pale, yellowish, liquid of sweet and comparatively fresh odor. The essential oil from the peel still remains a basic flavor ingredient in most citrus products. The major cold-pressed citrus peel oils recovered commercially and listed in order of their increasing commercial value are orange, grapefruit, mandarin, lemon, and lime; cold-pressed lime oil is only slightly more valuable than lemon oil.

The essential oil industry is a small one and is often overlooked in the economy of a country. Its total yearly output may be only a few million dollars, but essential oils impact on consumer finished goods, which require small additions of essential oils, reaches into many billions per year.

Cold-pressed citrus oils are widely used to flavor both natural and synthetic citrus-flavored foods. Some of the oils are also used as bases for partly synthetic oils where certain chemicals are added to the natural oils to emphasize specific flavor notes. The recent

trend toward natural ingredients in foods has and should continue to increase the use of natural citrus oils and aqueous essences. They provide a wide range of flavors and solubility characteristics for use in foods, cosmetics, and cleansers and can be declared as natural ingredients on the label.

Essential oils can be concentrated, rectified, extracted, or chemically treated to further isolate vital components. Oils are purified to adjust properties and increase the concentration of significant flavor or fragrance components. Rectified oils are redistilled essential oils, processed to improve a particular property or characteristic. Concentrated or folded oils are processed by various physical methods to remove wholly or partly undesirable or nonflavor components, such as terpenes or sesquiterpenes, which have poor solubility, very low flavor value, and poor stability. Although this group comprises mostly citrus oils with high terpene content, other oils such as spearmint are included. The processing methods include fractional distillation, solvent extraction, countercurrent extraction, thin-film evaporation, and molecular distillation. In some cases, both distillation and solvent extraction are needed for complete removal of terpenes. Some oils, particularly citrus, are folded or concentrated to reduce terpene content to a designated level, that is, when half of the volatile constituents of the oil are removed, their removal is said to double the concentration and the oil is then called two-fold. Although termed concentration, this process is

not merely a concentration in the ordinary sense, since the flavor body of the concentrate is always weaker than that of the complete essential oil, demonstrating that valuable products are lost in the course of removing the terpenes.

It is not uncommon for an essential oil to contain over 200 components and often the trace substances are essential to the odor and flavor. The absence of even one component may change the aroma. The same species of a plant, grown in different parts of the world, usually has the same components, but the percentage may be different. Climatic and topographical conditions affect plants and can alter the essential oil both quantitatively and qualitatively.

In the U. S., citrus peel oils usually are extracted commercially by using either in-line extractor or peel shaver. In the in-line extractor a fine spray of water washes the oil from the mashed peel at the same time the juice is being extracted through a center tube that cores the fruit. In the peel shaver, peel halves expelled from the juice extractor are shaved to remove the flavedo. The flavedo is then mixed with water and put through a knurled roll to transfer the oil to the water in an emulsion. In either process, the volatile water-soluble components of the oil are partitioned between the oil and water. Use of excess water can significantly decrease the total aldehydes in the finished oil.

A recently commercialized fruit oil extraction system from Brown International Corporation is advantageous because of its use of recycled water. This system improves disposal of waste water by decreasing the volume generated during oil recovery. The oil extractor is a bed of needle-like projections that are mounted in a shallow tank. The fruit advances in a single layer across the rolls which are rotating in the same direction as the fruit movement. The rolls pierce the oil cells located in the outer portion of the peel to release the oil. An overhead paddle conveyor maintains uniform flow of fruit. Water enters at the fruit discharge end and flows countercurrent to the fruit flow, forming an emulsion with the released oil. The oil-water emulsion is screened in a paddle finisher and then centrifuged in two stages. The low solids content of the emulsion permits high efficiency in the first stage of the centrifugation and recycling of water from the centrifuge to the oil extractor without further purification.

Other distilled oils are produced during pasteurization of peel for pectrin recovery, in waste heat evaporators and in preparation of concentrated oils by distillation. Additional essential oils are produced during the commercial processing of citrus juices and are widely used in flavoring citrus products.

Washed orange oil, which is a commercial item of some value in industrial perfumery, is not entirely stripped of its oxygenated components and still has waxes and sesquiterpenes which give good fixative effect. Orange Glycol is produced by liquid-liquid extraction of sweet orange oil with propylene glycol which is

subsequently diluted with 15 to 25% of distilled water. This serves as a base for orange flavors for carbonated drinks and other aqueous products to be flavored with a mild, true-to-nature orange such as liqueurs, and pharmaceutical preparations. Much lower concentrations can be used with advantage where the orange flavor is a modifier such as in ginger ale. Some producers submit peels to steam distillation, thus obtaining a further small yield of a very poor oil known as bitter orange oil. This oil is often added to the cold pressed oil.

The bitter orange tree in South America and the Mediterranean, produces three different oils: the flower produces neroli oil, the leaves and twigs petigrain oil, and the fruit, a citrus oil called bitter orange.

The essential oil from the peel of the almost ripe fruit of the bitter orange tree, is produced almost exclusively by expression. Thus it is strictly not a true essential oil according to current definitions. The bitter orange exist in numerous varieties, and bitter orange oil varies considerably in odor and flavor according to its geographic origin.

Bitter orange oil is produced commercially in the West Indies, Italy, Brazil, and Spain. The chief constituent of the oil is d-limonen (used in production of hydrocarbon resins which are used in plastics and adhesives industry); however, the oxygenated portion of the oil imparts the characteristic odor flavor. The oil is used as a flavor in bakery goods, soft drinks, candies, and also in cosmetic waters and perfumes.

For perfumes, the bitter orange oil finds use among the other citrus oils in all types of colognes, chypres, fougères, fresh fragrances, topnotes, aldehydic citrus bases, etc., and it is one of the common ingredients in artificial bergamot oil. It blends excellently with lavandin and lavender, rosemary and sage clary, oakmoss, and labdanum, linalool and linalyl propionate, etc. and olibanum resinoid is an excellent fixative for the volatile bitter orange oil.

The quality of this oil varies significantly and for use in flavors the Guinea and Spanish oils are rated the highest. Some Italian and West Indian oils would rate second, and the Tanganyika oil is often very good. However, there are large lot of very poor oils in the market, and this fact may have ruined the reputation of the oil and killed many perfumers' and flavorists interest in bitter orange oil.

Flavor houses often make concentrates of bitter orange oil, and various concentrates are described in bitter orange particularly suited for use in liqueur flavoring and in flavors for carbonated beverages.

Bitter orange oil is frequently adulterated with citrus oil terpenes, distilled oils of bitter orange, sweet orange, grapefruit, or with d-limonene. Good oils are often sold out even before they are produced (contracted by larger flavor houses) and the oil can be almost unavailable at some times of the year.

The natural oil of bitter orange has some disadvantages because of its high content of monoterpenes. The monoterpenes produce unpleasant off-flavors and they are soluble in low-proof alcohol or water. Most larger consumers of bitter orange for flavors will produce their own concentrates according to their special needs. A so-called ten-fold bitter orange oil is quite common and offers a happy medium between the terpeneless-sesquiterpeneless oil on one side and the natural oil on the other side. Ten-fold bitter orange oils are commercially available. Complete deterpenation produces an almost water-white oil. Terpeneless, sesquiterpeneless bitter orange oil is an extremely powerful flavor material, and its good stability make it useful in all kinds of aqueous foods, candies, beverages, liqueurs, etc.. However, the concentrated partially deterpenated oils are much more popular and almost equally stable flavor materials.

Sweet orange oil concentrate is the expressed oil of the sweet orange peel and is also further processed to so-called concentrates. Concentration is achieved by simple vacuum distillation where mainly monoterpenes are removed. The distilled d-limonene is obtained in a similar way from other citrus oils and is used in perfumery similarly to the distilled sweet orange oil. It is also used as a starting material in the synthetic production of Carvone, an important spearmint and caraway flavor material.

Concentrated sweet orange oils are preferably made from the best flavor grades of expressed sweet orange oils of the Valencia type.

The concentrate is mainly used in flavors where a pronounced sweet orange flavor is called for, where alcohol-solubility is not a major problem, where good keep qualities are required and, in general, as an intensifier for the natural oil.

The production of distilled sweet orange oil has paralleled the rapidly growing orange juice industry, and has now reached the point where neither the flavor nor the perfume industry can absorb the hundreds of tons of by-product from the juice factories.

Distilled sweet orange oil is of very little flavor value, but does have some use in perfumes, such as industrial masking odors, and low-cost perfumes for household products, cleansers, detergents, etc. The oil is produced by 1) steam distillation of the peels after they have been expressed, 2) by steam distillation of the press cakes of peel, 3) by steam distillation of sweet orange peels which have not previously been used for expression of oil (not all factories have facilities for cold-expressing the oil) and 4) by distillation of the sweet orange juice, since during the evaporation in vacuum (production of concentrated orange juice), significant amounts of "oil" are collected in the receiver with the condensed juice-waters. The juice also inevitably contains some peel oil from the machine-processed fruit.

Method 1 is the main supplier of all distilled orange oils. Method 4 yields a different oil, containing the aromatic principles of the juice, including certain aldehydes, and since, these are flavor principles in the oil, this distilled oil may have a higher

aldehyde content than the expressed oil. Some manufacturers will reconstitute the concentrated juice by adding this oil to the juice concentrate before canning it. Distilled oils become rancid or oxidized more quickly than do the expressed oils and it is customary to add an antioxidant to such oils at place of production.

Distilled sweet orange oil is produced in the U. S. A. (Florida, Texas, California) and to a small extent also in Italy, Spain, and Israel.

In quantity produced the oil of the sweet orange ranks number one of all the citrus oils. The wide differences among sweet expressed orange oil from various origins is partly due to the differences in expression techniques. Machine techniques usually yields oils with high evaporation residue while the various hand-expression methods leads to oils with lower residue. The amount of residue in an orange oil has no direct relation to the quality of the oil. It may only effect tenacity, but not odor or flavor type. The particularly high content of oxygenated compounds (which are among the most important flavor and perfume materials) in the Guinea oils is probably due to the fact that these oils are expressed from not fully ripe fruits. There are two main types of Guinea sweet orange oil: perfumery oil and flavor oil. Perfumery oil is very volatile, light, fresh-smelling and flavor oil is heavy-rich, sweet and yet fresh and powerful in flavor.

A small percentage of the Spanish production is the so-called "primera oil"; this is the upper layer from the separators in which the crude oil is natured from the date of expression for a period of a couple of weeks. The primera oil is of extraordinarily high flavor value, and is much sought after by flavor houses for use in soft drink flavors. Primera oils are lighter in color than ordinary Spanish sweet orange oils. These are distinguished by their very intense, orange-yellow color which may be a drawback in perfumes.

Expressed sweet orange oil is used primarily in flavors, often in the shape of a concentrated oil, terpeneless or sesquiterpeneless oil. A certain amount of natural oil is a must to make an orange flavor true-to-nature. Too much of this oil may cause deterioration and rancidity, bleaching of flavor, or oil-ring formation in carbonated beverages.

Orange flavors of all types are among the most popular flavors all over the world, and they are often superior in masking effect as compared to other fruit flavors. Soft drinks, sherbet ice, candy, pharmaceutical preparations are only a few of the countless outlets for sweet orange flavor. In perfumes, the applications include: eau-de-colognes, fougères, chypres, aldehydic bases, and fruity bases.

Terpeneless, Sesquiterpeneless Sweet Orange Oil is often produced by the flavor house needing the oil since there are countless qualities on the market, and only few of the commercially available oils are worthwhile using in flavors.

MARKET

Essential oils are used as flavoring and fragrance agents in every possible application. Combination uses have raised greatly the total sales volume; eg., toothpaste, mouth wash, or lozenges. Combinations can be found in every fragranced product, such as room freshners, paper, printing ink, paint, candles, soaps, condiments, floor polish, etc.. Convenience foods and frozen foods are flavored best by essential oils or oleoresins. Flavor essential oils are encountered in baked goods, snack foods, soft drinks, liqueurs, tobacco, sauces, gravies, salad dressing, and other food products.

U. S. imports of orange oil in 1980 were 2,254,114 kilos valued at \$2,306,500 and U. S. exports for 1980 were 3,587,000 kilos with a value of \$5,711,600. In 1981 the U. S. imported 2,122,706 kilos valued at \$2,019,000 and exported 3,312,752 kilos with a value of \$6,111,100. Total consumption and use of citrus essential oil in the U. S. is difficult to determine. A large number of major corporations have their own citrus farms to produce the essential oil necessary for their products and this data is not publicly available.

Fluctuations in cost and availability of natural oils and the high cost of some oils have induced users to seek substitutes. There are many reasons for such difficulties which include labor, climatic conditions, the botanical itself and its oil yield, land use, pestilence, and crop disease. From year to year it has been difficult to predict the cost of any essential oil. When an oil has been incorporated into a competitive finished product the cost and availability of that oil

is vital to the success of the item. Also, and in spite of stable conditions, the supply of certain oils no longer has been adequate to satisfy demand. This has led to the increase in substitutes and synthetic products in the industry. This substitution is often limited because government regulations and labeling requirements have prevented products from being called an essential oil although it may be identified as a flavor or fragrance compound.

Perhaps the main reasons for the retreat from synthetic oils are that complete duplication in most cases are not technically, esthetically, or economically possible. The task of total synthesis, ie, detection, separation, and identification of all of the components of an oil has rarely been completed. Even when a large percentage of the compounds has been identified and all have been synthesized by the many processes required, the problem remains to compound these items to the compositional formula. Each constituent contains trace components from the synthetic processes used to produce it which add up to totally different mixtures of note and by-notes in no way comparable to the trace components found in the natural oil due to the metabolic development of components by the plant itself.

The analytical and synthetic challenge remains as one of the prime targets of rapidly developing technology in essential-oil chemistry. Analytical technology and chemical synthesis are still inadequate to produce synthetic substitutes for essential oils. Despite the perfection of analytical techniques and skilled odor evaluations, natural oils cannot be duplicated completely by synthetic means, which accounts partially for the high value of the natural product.

Most essential oils are considered generally recognized as safe by the Food and Drug Administration. They are classified as natural produce, ie, derived from acceptable natural plant materials by some physical method without chemical alteration. The GRAS (generally recognized as safe) list is being reviewed, however, for all food additives. Safety and toxicity testing and evaluations and regulations are different for food additives and fragrance oils and cosmetics. The Flavor Extract Manufacturers Association (FEMA), and the International Organization of the Flavor Industry (IOFI), and the Research Institute for Fragrance Materials (RIFM) (US), and the International Fragrance Association (IFRA) test and evaluate all commercial flavor and fragrance products. They cooperate with government recommendations and implement regulations, and work with consumer groups to guarantee the safety of the industry's products. In addition, the Fragrance Materials Association of the U.S. specifies and guarantees the authenticity and purity of flavor and fragrance oils. These groups have set up various committees, composed of experts, to establish codes of ethics and good operation procedures to ensure safe, high quality products. Toxicity, skin and eye irritation, and skin sensitization tests are performed on most products.

MARKET COMPETITION

The main producers of bitter orange oil are Spain, Guinea, the West Indies (Jamaica, Cuba, Haiti, Dominican Republic, Puerto Rico), Italy (Sicily), Brazil, etc., while the U.S.S.R., Mexico, China, Tanganyika, France, etc., are minor producers.

The main producers for world wide consumption of expressed sweet oil are the United States (California, Florida, Texas), Guinea, Cyprus, Italy, Spain, the Union of South Africa, Rhodesia, Brazil, Isarel, the West Indies, and Algeria, India, Indonesia, China, Japan, Argentina, Greece, and Pakistan produce minor quantities for local consumption.

The U. S. and Cyprus are the most important producers of modern mechanically expressed oil, while Guinea is the largest producer of hand-pressed oil, processed in a different way. The U. S., Guinea, Cyprus, Israel, and Brazil will account for 80% of the world production.

The 1980 General Imports for Consumption for TSUSA - 452440 - Orange Oil - list the following imports:

Haiti	10,431 pounds
Dominican Republic	31,926
Brazil	4,744,100
United Kingdom	709
France	11,227
Switz.	7,669
Israel	114,211
Other Countries	49,108

IMPORT REGULATIONS AND TARIFFS

All goods imported into the United States are subject to duty or duty-free entry in accordance with their classification under the applicable items in the Tariff Schedules of the United States.

When goods are dutiable, ad valorem, specific, or compound rates may be assessed. An ad valorem rate, which is the type of rate most often applied, is a percentage of the appraised value of the merchandise.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Duty-free status is also available under various conditional exemptions. One of the more frequently applied exemptions from duty occurs under the Generalized System of Preferences.

The Generalized System of Preferences is a program providing for free rates of duty for merchandise from beneficiary developing independent countries and dependent countries and territories to encourage their economic growth. This program was enacted by the United States in the Trade Act of 1974, became effective on January 1, 1976, and will expire January 4, 1985.

The GSP eligibility list contains a wide range of products, classifiable under approximately 5,000 different item numbers in the Tariff Schedules of the United States. These items are identified by either an "A" or "A*" in the GSP column of the tariff schedules.

Merchandise classifiable under an item number designated in this manner may qualify for duty-free entry if imported into the United States directly from any of the designated countries and territories. Merchandise from one or more of these countries, however, may be excluded from the exemption of these is an "A*" in the GSP column. The list of countries and exclusions, as well as the list of GSP-eligible articles, will change from time to time over the life of the program. Therefore, the latest edition of the Tariff Schedules of the United States Annotated will contain the most up-to-date information.

For commercial shipments valued at \$250 where a formal entry is required, a claim for duty-free status is made under GSP by showing on the entry summary that the country of origin is a designated beneficiary developing country and by showing an "A" or "A*" with the appropriate GSP-eligible item number. Eligible merchandise will be entitled to duty-free treatment provided the following conditions are met:

1. The merchandise must be destined to the U. S. without contingency for diversion at the time of exportation from the beneficiary developing country.
2. The UNCTAD (United Nations Conference on Trade and Development) Certificate of Origin Form A must be properly prepared, signed by the exporter, and certified by the Designated governmental authority of the beneficiary developing country, and be either filed with the entry or furnished before liquidation or other final action on the entry.

3. The merchandise must be produced in the beneficiary developing country from which it is direct shipped. These requirements may be satisfied when (a) the goods are wholly produced of materials which are the growth or product of the beneficiary developing country, or (b) the value of materials produced in the beneficiary developing country and/or direct costs of processing performed there represent at least 35 percent of the appraised value of the goods.

The cost or value of materials imported into the beneficiary developing country may be included in calculating the 35 percent value-added requirement for an eligible article if the materials are first substantially transformed into new and different articles and are then used as constituent materials in the production of eligible article. The phrase "direct costs of processing" includes costs directly incurred or reasonably allocated to the processing of the article, such as the cost of all actual labor, dies, molds, tooling, depreciation, research and development, and inspection and testing. Business overhead administrative expenses, salaries, and profit are not considered as direct costs of processing.

Normally, the Customs Service will accept an entry at the free rate if Form A is presented at the time of entry. If Form A is not available, the importer may give an appropriate bond (security) for subsequent production of the form within 60 days (subject to an extension), and may be required to deposit estimated duties.

The UNCTAD Certificate of Origin Form A is not available for sale in the United States. The beneficiary developing countries and territories participating in the program are responsible for printing and supplying this form. Exporter may get this form from the designated governmental certifying authority in their respective countries.

The Customs Service makes its decision as to the dutiable status of merchandise when the entry is liquidated after the entry documents have been filed.

Barbados, Dominican Republic, and Jamaica, are all designated beneficiary countries for the purposes of the Generalized System of Preferences provided for in Title V of the Trade Act of 1974 and essential oil would enter the U. S. duty free with a properly executed Certificate of Origin Form A.

GIRL'S DRESSES
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

GIRL'S DRESSES

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	2
MARKET DEMAND	5
MARKET COMPETITION	8
MARKET CONTACTS	11
IMPORT REGULATIONS AND TARIFFS	12
EXPORT RECOMMENDATIONS FOR THE MANUFACTURER	13
INTRODUCTION	13
PRODUCT	14
PROMOTION	15
DISTRIBUTION	18
PRICING	24
CONCLUSIONS	25

GIRL'S DRESSES

INTRODUCTION

Children's wear presents a unique situation in consumer apparel purchases. For younger children - parents - usually mothers - play the key role in selection and purchase. Clothing selected must meet her criteria for appropriateness and also must be consistent with her perception of what the child desires. As children grow older, however, this second element - what the child desires - plays an increasingly important role, and children seem to be taking on this role at an increasingly early age.

A serious conflict of interest often develops between what the child desires and what the mother considers appropriate - especially between mothers and young girls. It is this basic purchase dynamics situation which literally controls the character of the children's wear market. Criteria of appropriateness (from either the mother's or the children's point of view) determines to a large extent the place of purchase, the amount spent, and the selection.

One of the major factors for the revitalization of this apparel sector is the increasing birthrate the U. S. has been experiencing since 1976. This, coupled with the increase in the population of women in the childbearing ages, has led to a corresponding jump in the number of children.

During 1980 there were an estimated 3,598,000 live births in the U. S., nearly 4% more than in 1979. The birthrate was 16.2 live births per 1,000 population, and the fertility rate was 69.2%

live births per 1,000 women aged 15-44 years. The birthrate was 3% higher and the fertility rate was 2% higher in 1980 than in 1979.

The increase in the number of births and the birthrate in 1980 is the result of the continued growth in the number of women in the childbearing ages as well as the increase in the rate of childbearing. The number of women in childbearing ages increased 2% between 1979 and 1980, and, according to projections prepared by the U. S. Bureau of Census, the number of these women will increase slightly more than 1% annually between 1980 and 1985.

MARKET

Dollar volume for girl's dresses has increased since 1975. The total retail dollar volume is up approximately 43%. Some of this can be attributed to gains in the sales of infants' wear and some to an acceptance of better priced merchandise, but a large part of the increase is due to inflation. The cost of goods, of labor, of simply keeping the door open for business has gone up. The average price increase has been in the range of 5% to 6% per year. For better quality merchandise the average is anywhere between 10% and 15% per year.

This increase at any other time would be sufficient to cause a consumer revolt or to push lower priced imports into a position of market dominance. But compared to inflationary increases in other basic areas - food, housing, transportation, and even men's and women's apparel - the rate of inflation in children's wear seems mild, though still not acceptable. Overall the apparel industry,

both on the manufacturing and retailing fronts, has been in double jeopardy, faced with staggering inflation and a dwindling market. While imports are up - from 11.3% of total children's retail sales to 12.8% - they have not overwhelmed domestic goods.

Girl's dress shipments in 1979 were valued at \$388.3 million and represented 18.4% of all childrens and girls wear.

	(Million \$)	
	1979	1978
Girl's, Children's Toddlers' & Infants' TOTAL	\$2,108.4	\$2,065.0
Dresses, total	388.3	355.5
Girls', subteen & teenage	164.8	152.9
Children's	150.4	148.1
Infants' & toddlers'	73.1	54.5
Blouses	142.4	137.7
Knit outerwear sport shirts, excluding sweat shirts	290.8	276.6
Girl's, children's & infants' sweaters, including sweater vests.	49.9	48.0
Coats, excluding cost & legging sets	55.5	52.0
Coat & legging set, raincoats and rain-caps, jackets, vests, suits	113.2	113.1
Skirts, slacks, jeans, shorts	353.6	344.4
Playgarments	274.3	295.0
Nightgowns, Pajamas, Robes	237.6	264.4
Panties, slips, vest, undershirts	156.5	137.9
Swimsuits	46.3	40.3

SOURCE; U. S. Bureau of Census Current Industrial Reports

The number of manufacturing establishments in the children's wear field has grown smaller, particularly in infants, children's and girl's wear production. In 1958 there were 2,260 establishments producing children's and girl's wear, in 1977 there were barely half that number - 1,137.

The losses have come across the board, but most noticeably from the smaller size manufacturer. In 1958, only 56.2% of the 2,260 girls' wear producers employed 20 or more people. By 1967, 64% of the remaining 1,574 manufacturers had 20 or more; and by 1977, the percentage had risen to 68.2%.

The value of goods produced in each establishment has been on the upswing consistently through a 20 year period. In 1958, the average girls' wear plant produced \$450,664 worth of goods each year. By 1967, that figure had increased 92.8% to \$868,869. Ten years later, both inflation and the trend to bigger, but fewer establishments had driven the annual production up 108.8% more to \$1,813,808.

In 1958, the infants' and children's wear segment of the industry employed 100,600 people. By 1967, the number was down 2.1% to 98,500; and by 1977 the number of employees was off another 12.2% to 86,500. In 1958, 88.1% of the employees were production workers; in 1967, 89.0% were production workers; and in 1977, the percentage was down to 86.2%.

In the Infants' and childrens' area, payroll was \$285 million in 1958, with 77.3% of that going toward production wages. In that year, the average hourly wage was \$1.44. By 1967, this sector of the industry was paying out \$374.4 million per year, with 78.2% of that going toward production wages at an average of \$1.91 per hour. By 1977, girls' wear manufacturers were posting a \$550.7 million payroll with 75.7%, or \$416.8 million, going toward production worker wages. During that year, the average hourly wage was \$3.23.

MARKET DEMAND

Production of 4-6X dresses dropped from 3,337,000 dozen in 1972 to 2,349,000 in 1977, or 32.6%. In 1979, 4-6X production was up 2.3% to 2,404,000 dozen units. Dollar volume between 1972 and 1979 rose from \$11.47 to \$136.7 million, or 19.2%

In girl's 7-14 and preteen sizes, unit volume fell from 2,841,000 dozen units in 1972 to 2,202,000 dozen in 1979, a decrease of 22.5%. Over the same time span, dollar volume increased 12.6% from \$140.2 to \$157.8 million.

Girl's dresses accounted for \$744 million or 19.6% of the almost \$4 billion total girls' wear volume which was sold in the U. S. \$37.2 million in girl's dresses was from imports.

The large general merchandise store chains are continuing to capture an increasing share of the children's wear market. Discount stores have been increasing their share of this highly profitable market by building on their image of budget clothing for children. However, traditional department stores are stepping-up their efforts to capture the upscale children's wear business.

Today, it would seem that some chains have reached a saturation point. Discounters and specialty stores are expanding their market shares at an increasing rate, and the department stores are now losing out to better priced business.

Chain stores lead the girl's dress business with 31% - more than \$230 million, on a unit volume share of 33%. Specialty stores are second with 24% of dollar volume, just under \$179 million on a unit share of 19%. Department stores account for nearly \$149 million in dress sales, or a 20% share of the dollar volume based on 17% of the units. Discount stores came in fourth with a dollar volume share of 18%, or nearly \$134 million. They are second, however, in unit volume with 23% share of the market.

The growing importance of the specialty store's role in children's wear retailing demands special attention. According to 1977 Census figures, 5,225 infants' and children's specialty stores sold \$735,134,000 worth of children's wear for an average of \$140,695 volume per store.

Alabama has a total of 71 specialty stores and serves an average of 727 square miles per store. The estimate of children served per store is 13,050 with \$7.45 average dollars spent per child. Florida has 210 specialty stores serving an average of 279 square miles. The average dollars spent per child is \$10.46 with 8,955 children per store.

Georgia has 110 specialty stores with a market average of 535 square miles per store and 11,980 children per store. The average dollars spent per child is \$11.44. North Carolina has 115 specialty servings 11,885 children per store and an average of 457 square miles. The average dollar spent per child is \$10.45.

South Carolina has 67 specialty stores serving 464 square miles per store with 11,285 children per store. The average dollar per child spent is \$10.10. In Tennessee there is 106 specialty stores serving 9,610 children per store in 399 average square miles. Dollar value spent per child is \$12.77.

The average dollars spent per child in specialty stores in an individual state should be looked at more in relation to other states than as an absolute figure. The dollars would actually be much higher since population figures include all youngsters age 14 and under, while the specialty store figures are only for infants and children's stores.

Between 1970 and 1980, the actual number of youngsters, ages 14 and under, declined by 14%, from a total of 57,953,600 at the beginning of the decade to 49,865,500 today.

MARKET COMPETITION

The South continues to grow as an apparel manufacturing force. During the past 5 years it has strengthened its importance both in its share of firms and as the country's prime apparel employer.

Thirty-one percent of the children's and boy's wear manufacturing firms are now located within the Southern region. This compares with 27.8% share in 1972. In actual number of establishments it has grown from 478 to 519, an increase of 6.7%.

Manufacturers in the South currently employ 86,530 people. This compares with 91,550 in 1972 for a loss in absolute numbers of 5.5%. However, the South has improved its share, employing 56.9% of the boy's and children's wear employees today, compared with 55.2% in 1972.

Like the rest of the U. S. apparel industry, U. S. manufacturers of children's and boy's wear are faced with increasingly high-quality imports from the Far East and most recently Europe. The exact extent of overseas penetration into the domestic children's wear market is difficult to determine since figures are included with men's and women's import data. American producers, however, still have the advantage of their ability not only to create but to respond quickly to fashion trends.

Imports for TSUS - 3820059 - Infants dresses not knit, cotton,
lace, net or ornamented for 1980 are as follows:

Barbados	14,990 Dozen
Guyana	15,098
Phil R.	32,897
Other Countries	3,872

Imports for TSUS - 3820061 - Girl's dresses not knit, cotton,
lace, net, or ornamented are as follows:

Barbados	3,431 Dozen
Guyana	2,201
India	2,509
Other Countries	3,869

Girl's Dresses Contacts

Mr. Ed Goins, Jr.
308 Plantation Circle
Riverdale, Ga. 30296

Ms. Nancy Packard
5654 Chamblee-Dunwoody Rd.
Atlanta, Ga. 30338

Mr. E. W. Price
3311 Blueberry Lane
Birmingham, Al. 35216

IMPORT REGULATIONS AND DUTY

All articles imported into the customs territory of the United States are subject to duty. In the usual case, liability for the payment of duty becomes fixed at the time an entry for consumption or for warehouse and is filed with Customs. The obligation for payment is upon the person or firm in whose name the entry is filed. When goods have been entered for warehouse, the liability for the payment of duties may be transferred to any person who purchases the goods and desires to withdraw them in their own name.

Although most products from Barbados are eligible under the provisions of the Generalized Systems of Preferences, Girl's Dresses, TSUS 3830810 and 3830815, are excluded and they are subject to a 32% import duty.

EXPORT RECOMMENDATIONS FOR THE MANUFACTURER

INTRODUCTION

Beyond the profits to be derived from increased sales opportunities, exports can provide companies with diversification of markets, more flexibility in production scheduling, extended product life, and favorable taxation incentives.

Basically, the same principles apply to selling abroad as to successful selling at home. A business starts by analyzing the foreign markets. That task has already been accomplished for this project with the preparation of the market profiles. After determining whether or not it is profitable to enter the market. The factors to be considered in making this decision are:

1. Present capital-on-hand.
2. General financial status.
3. Market potential for the specific product.
4. Competition abroad.
5. Product prices including shipping to foreign market compared with those of the competition.
6. Government regulations.
7. Available management personnel to supervise the export operation.
8. Available marketing personnel to handle distribution, sales and promotional work.
9. Raw materials necessary to produce the product.
10. Banking facilities for loans.
11. Channels of distribution available to sell the product.
12. Development of transportation and communication in the export country.

PRODUCT

For Girl's Dresses an essential part of product strategy is market information. Both consumer and competitive information can be of immense value since it can alert the manufacturer to changes in the general market or design changes at competitors. The following trade publications should be obtained directly or as an industry group through the export promotion organization.

Apparel Industry Magazine
Shore Publishing Company
6255 Barfield Rd.
Atlanta, Ga. 30328

Apparel South
Communications Channels Inc.
6285 Barfield Rd.
Atlanta, Ga. 30328

Earnshaw's Infant's & Children's Review
Earnshaw Publishing Company
393 Seventh Ave.
New York, N.Y. 10001

Tot 'N' Teen Fashions
Seymour Mittlemark Organization
60 East 42nd St.
New York, N.Y. 10017

An exporter should allocate a reasonable amount of time using these periodicals to investigate the products, processes, and actions of other manufacturers in the industry. With a small investment in subscription fees handsome dividends can be paid in the form of improved marketing decisions.

Another consideration is the size of a company's export product line. To enter the export market it is generally recommended that the manufacturer simplify their product line so that volume saving in materials and labor can be obtained. Also confusion in distribution can be reduced. The evaluation of competition will assist with product line decisions, along with careful cost analysis to determine break-even.

PROMOTION

The attention given to the promotional effort by an apparel exporter will have a great deal of influence on the success of the export program. Product brochures and catalogs should be carefully designed to give high visual impact. Promotional materials should have simplicity, good balance, proportion, and sequence. They should be professionally printed with the upmost attention given to quality details. In addition to product material, general background photographs of the plant and production facilities can be included in catalogs. It is essential that the product literature get the attention of the customer, hold their interest, arouse a desire, and obtain an action.

Sometimes it is difficult to sell a product, depending on its nature if the potential buyer is unable to physically examine it. Sales letters and brochures are beneficial but it is impossible to judge the quality or sturdiness of an item unless it can be examined. Trade shows are shopwindows in which thousands of firms display their products and shows serve as marketplaces in which buyer and seller meet. For thousand of years, merchants, manufacturers, and artisans have gathered together to exchange their goods. Today, in spite of new ways to communicate, business people are still getting together to display their products at trade shows. As an additional promotional method it is recommended that apparel exporters should attend and, where financially feasible, display at apparel trade shows. The following apparel show has major representation from the Southeast United States and is appropriate for participation.

Ms. Jackie Harden
The Bobbin Show
P. O. Box 1986
Columbia, S.C. 29202
World Congress Center
Atlanta, Ga.
Show Date: September 1983

Start by writing show management for the literature it has prepared for prospective exhibitors. This is a selling document, designed to present the show in its strongest light, but it should give a better idea of the nature of the audience the show attracts. Most shows issue detailed breakdowns of attendance which can be valuable in the decision process. Another important source of information about a show is the list of exhibitors.

The effectiveness of a booth depends to a great degree on the effectiveness of the people working in it. It is a different and sometimes bewildering place for most sales representatives, who are more used to visiting prospects one at a time in their offices, not having prospects come up and ask for information.

Booth personnel must be friendly, must be able to tell good prospects from curiosity seekers, and must be able to move quickly towards advancing the sale. It is important to let booth workers know what your objectives are, so that they can work towards reaching your goals, whether it is setting up appointments, getting literature into the right hands, giving a demonstration, or making a sale. When your people are on duty, they should be fully on duty. That means: being up front, ready to welcome visitors, not talking in a corner with others on the staff and not sitting down except when a visitor

prefers to sit and talk. Trades shows have a number of strengths and advantages including:

- ° An opportunity for the seller and the buyer to meet face-to-face, where the products being shown can be demonstrated and handled and sales made;
- ° A pre-selected audience, with specified interests, and at the show for the purpose of learning about products;
- ° An opportunity to reach people who are ordinarily not accessible to sales representatives, and to uncover unknown buying interest.
- ° A place where buyers can do comparative shopping, can discuss their problems with many technical people, and thus a place where the buying process can be shortened.
- ° An opportunity to maintain an image and continuing contact with customers;
- ° The chance to create an image, initiate contact with potential customers, and qualify buyers or introduce a new product;
- ° It builds morale of the sales force;
- ° The opportunity to conduct market research and evaluate the competition; and
- ° It provides an opportunity to recruit personnel or attract new dealers.

Participation in trade shows not only exposes products to the markets but it often leads to off floor sales. Thus, trade shows can be a very cost effective means to test a market, size up the competition, or establish market contacts.

It is important to always have an objective before entering a show. Whenever possible, this objective should be stated numerically - so many appointments, so many new names for your mailing list, so many orders, so many new wholesalers. After the show, look at the results, Was your exhibit adequate? Did you have too much space?

Were your people functioning adequately? It is only by looking at these factors that a record can be improved. You will learn from experience only if you study your experience systematically. Those who use shows correctly have found that it is a productive, economical medium.

DISTRIBUTION

Basically, a company has a choice between three types of distribution methods. The first alternative is a "joint venture." The joint venture is an enterprise in which two or more parties share the financial risks and the decision making through joint equity and management participation in a common enterprise. For joint ventures it is essential that the exporter carefully examine the foreign company's management approach. An understanding must be reached by executives of both firms on such factors as potential market position, growth, financial policy, and product development. Only then should a written agreement between the two firms be concluded. Normally strong incentives must exist for both parties in order for a joint venture to be created. Since access to Southeastern United States markets is the primary motive of this project, it is recommended that market maturity should be developed using either indirect or direct distribution of apparel products prior to seeking a joint venture partner.

The second approach a company can employ is known as the "indirect method" and delegates export sales responsibility to a firm such as an export management company, overseas importer, a trading company or a producer of related products. Usually, the sales intermediary which is selected will assume responsibility for shipping the product overseas; or a company will use the "direct method" and sell abroad through a sales agent, distributor, retail store, or directly to customers. Under this type of arrangement, the manufacturer will normally retain responsibility for shipping products to export markets.

The indirect or direct distribution methods are not mutually exclusive. It is often possible to use both simultaneously. A CASE IN POINT is a firm might appoint representatives in one or two states and also sell to a buyer for export with the understanding that the product they handle will be marketed elsewhere. This would allow the exporter to concentrate its effort on a limited number of markets and at the same time take advantage of the broad coverage the buyer for export gives. However, this approach sometimes creates undue competition which can discourage product representatives.

Many manufacturers maintain that direct exporting better advances and protects a firm's interests, provides stronger controls over marketing strategy, and increases net profitability. Direct exporters can stay in close touch with their overseas markets, remain current with market demands, and meet the needs of the sales organizations as they occur.

Some firms successfully sell their products directly to overseas retailers or actual end-user customers, particularly high quality items, but the majority of direct export companies sell their products through sales representatives or distributors already established in local markets. This direct method can help an exporter to develop considerable expertise of its own in the markets of its product overseas. Should the exporter want to change representatives or establish its own overseas marketing operation, it is in a good position to do so.

In evaluating how a manufacturer should market directly overseas, these options should be considered:

Sales Representative - Many small firms employ one or more full-time sales representatives who work under contract and by commission. Product literature and samples are used to present the product to potential buyers. If this approach is to be a success, these people must be properly selected. The sales representative should be familiar with the market area where you intent to market; be familiar with market practices; be familiar with your product line, and agree to travel extensively. It is most important to carefully investigate the person's work experiences and their business and financial references.

Frequent checks should be made of the quality of the representative's work through sales activity reports as well as sales quota performance. To protect the company, carefully define the sale representative's authority with respect to agreements with customers, pricing, and promises for product delivery times. Be sure that your agreement with the representative accurately reflects your best interests.

Distributor - The distributor is a merchant who purchases merchandise from a manufacturer at the greatest possible discount and resells it for his profits. This would be the preferred arrangement if the product being sold requires periodic servicing. The prospective distributor should be willing to carry a sufficient inventory. The important thing is that these companies want to be treated as "clients" or "Customers" rather than "Representatives."

Retailer - This generally includes retail stores or specialty shops and relies mainly on the mailing of catalogs, brochures, or other literature. Even though this approach eliminates sales commissions and traveling expenses, the manufacturer who uses the direct approach may suffer because his proposal may not receive proper consideration.

No matter which marketing approach is selected the following practices should be standardized in dealing with all contacts:

1. All overseas requests should be answered promptly.
2. Credit information should not be requested in the first letter.
3. The company and its product should be properly introduced so that quality and delivery are positively established.
4. It is important to be courteous and friendly but without undue familiarity.
5. Personally sign all letters. Form letter do not impress.
6. Check the postage, send all correspondence airmail.

After initial contacts with potential market associations, it is necessary to learn if they are reliable. Use Dun and Bradstreet, U. S. Bank References, or their overseas branches for checks.

If travel budget permits, exporters definitely should not commit themselves to a representative without making a visit to the prospective associate's home ground. An executive on the spot can obtain firsthand knowledge of a candidate's reputation through local trade and banking sources. While you are determining the effectiveness of the sales organization through its proven track record, the marketing company will be doing an evaluation of its own. Top sales firms are in great demand and need assurance that the imported product will sell and that the offshore company can deliver the product with consistent quality and on time.

Initially, the exporter and the foreign associate will mutually agree upon a trial sales plan for a period of one year or longer. Terms of the working relationship may be spelled out broadly in a written contract, drafted with the assistance of attorneys well-versed in export complexities. Thereafter, to maintain an effective liaison, the producer will have to provide adequate guidance, offer cooperation and support, promptly answer queries and correspondence, remain responsive to the needs of overseas sales people, and make periodic visits abroad. Eventually, a comfortable and long-term producer/associate relationship will be forged, profitable to each side.

After successfully making this contact with a prospective representative and investigating his integrity, financial responsibility, community standing, share of the market, and other product lines which he represents for conflict of interest, the next step is to consider the foreign sales agreement itself.

An agreement of this type can be either relatively simple or detailed. The following basic items normally are included in a typical foreign sales agreement:

- ° Names and addresses of both parties.
- ° Date when the agreement goes into effect.
- ° Duration of the agreement.
- ° Provisions for extending or terminating the agreement.
- ° Description of product lines included.
- ° Definition of sales territory.
- ° Establishment of discount and/or commission schedules and determination of when and how paid.
- ° Provisions for revising the commission or discount schedules.
- ° Establishment of a policy governing resale prices.
- ° Maintenance of appropriate service facilities.
- ° Restrictions to prohibit the manufacture and sale of similar and competitive products.
- ° Designation of responsibility for patent and trademark negotiations and/or policing.
- ° The assignability or non-assignability of the agreement and limiting factors.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firms or reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.

PRICING

Most exporters consider pricing strategy the critical part of their marketing program since prices are what determines the amount of revenue the firm is going to receive. The other strategy elements are supportive in that they make it possible for a particular good to be sold at a price that is profitable to the firm. Many new exporters arrive at export prices by using the product's domestic price as starting point and tacking on any export costs like packing, shipping and insurance. However, the domestic price may not provide a reasonable base since it normally reflects domestic marketing costs; prices of export goods determined by this method might not be competitive.

In order to establish an effective export price and obtain an accurate measure of profitability, it is recommended that apparel manufacturers conduct independent cost analyses of their product. This can determine the basic unit cost of a product. Then appropriate expenses including modifications or marketing costs and mark up can be added to the total to yield an adequate profit margin.

This pricing information can then be compared to information obtained through trade publications, attendance at trade shows, or feedback from the distributor system to determine changes up or down. An affective pricing program should also carefully consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. You should consider setting an export volume goal and then studying to

see if your prices will help you reach it. Targets for a certain number of new export customers for next year should also be established. How can pricing help you get them? It is important to remember that prices should help bring in sales which are profitable over the long pull.

CONCLUSIONS

If your firm has been successful in the domestic market then there is every likelihood that you can sell your products successfully in export markets. Selling abroad takes the same advance planning, market research, attention to detail, and hard work that is required for the domestic market.

The size of a company does not exclude it from success in export markets. Internationally, small companies export a greater proportion of their products than larger firms, and exporting makes a major contribution to the profits of these small companies. Exporting provides a broader marketing base and results in greater company growth. Exporting can lead to the discovery of new market strategies, channels of distribution, and product ideas which the firm could apply domestically with great success. The key to success in exporting is to make the right product available at the right time in the right market at a price which the buyer can afford and which will return an acceptable profit.

The overall decision to export should not be made without sufficient inquiry and consideration; initiating an export program on a hunch that it will pay off only invites disillusionment as well as dissipation of time, energy and finances. However, with research and investigation, along with careful analysis and sound planning, it is possible to minimize the possibilities for error in launching an export venture.

RATTAN
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

RATTAN

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	2
MARKET COMPETITION	5
CHANNELS OF DISTRIBUTION	7
U.S. RATTAN MARKET COMPANIES	8
MARKET CONTACTS	11
MARKET REPRESENTATIVES	11
IMPORT REGULATIONS AND TARIFFS	14
EXPORT RECOMMENDATIONS FOR THE MANUFACTURER	18
INTRODUCTION	18
PRODUCT	19
PROMOTION	20
DISTRIBUTION	24
PRICING	29
CONCLUSIONS	30

RATTAN

INTRODUCTION

Rattan for use as furniture is the stem of several varieties of climbing palms, principally from the genus Manua and Calamus. It is often confused with bamboo, but there is an important difference: except at the nodes, or growth marks, bamboo is hollow whereas rattan is a solid, woody product.

A rattan palm normally grows to 600 feet in length, stretching out over the jungle floor and attaching to trees with thorns that grow on the leaves. For harvesting the palm stems are cut and, if undisturbed, in an average of seven years the plant will again reach maturity.

Harvesters generally divide rattan into 12 foot to 30 foot lengths, and dry them in the sun. After several days, the bark and thorns have shriveled. A notch is cut into a tree, and the poles are pulled across it, stripping off much of the heavy outer bark.

When rattan reaches the manufacturer, it is grouped according to diameter. Then the poles are cut to size and machine sanded. Pieces to be rounded or otherwise formed are steamed, then locked in jigs for drying. Rattan can be shaped to any form and once dried will retain that shape. Because of its pliability rattan can be used in designs for which normal woods would not be appropriate.

Rattan furniture is normally built by hand. Each worker assembles by choosing or rejecting pieces as they go. Acceptable rattan has nodes 12 inches to 18 inches apart, is not discolored, and has no flat areas or a square look.

Pieces are normally joined with countersunk woodscrews - preferably the longest the fitting can accomodate. Where pieces cross each other, they're gouged. Exposed joints are carefully wrapped with binding tape, which has become just as much a hallmark of rattan furniture as it is a camouflage of its construction.

MARKET

Since 1975 there has been an ever increasing shift in the manner in which consumers have purchased rattan. Major market gains have occurred, especially in the growing sunbelt areas, where year round warm weather is conducive to stylings appropriate for rattan.

Improved consumer awareness and acceptance of rattan as more than porch or outdoor furniture accounts for the growth in sales as well as the desire of many consumers for natural materials. Many of the rattan furniture lines being marketed today are exceptionally comfortable and have the design characteristics suitable for use throughout the house. Rattan is being treated as ordinary furniture and mixed in with other styles to blend beautifully in almost all settings.

There is also a preferences among many customers for a casual look to match more casual life-styles and small living spaces. Manufacturers universally agree that scale is an important part of rattan's current popularity. As rooms get smaller, rattan, having a light scale, doesn't demand attention the same way upholstered or wood furniture does.

Traditional product categories for rattan include seating, game sets, wall units, occasional tables and chairs, living room groups, dining room sets, and some bedroom suites. Market sources indicate that most sales of rattan are in seating and dining. The offerings vary from "pure" treatments heavily laden with rattan primarily from specialists, to pieces with as little rattan as an arm. Both retailers and manufacturers say the future of rattan belongs to a full rattan frame.

In place of specific styles, merchandisers have turned to finishes and fabrics to express different flavors of rattan. By varying the finish or fabrics, rattan can be adapted from very casual and contemporary to formal. Pecan or fruitwood stains have emerged for many manufacturers as the most popular finish because it blends so well with wood furniture. There is also a significant demand for painted finishes on rattan.

The factors contributing to the acceptance of rattan are the upward mobility of the 25-44 year old age group and the number of apartment, townhouse, and condominium units where contemporary and traditional belong together. Rattan very much belongs with the life-style of the younger upward-moving men and women who are married, or who

are single with intense interest in their surroundings, particularly when it comes to furniture and furnishings. The 25-44 age group are more affluent than the younger market and have greater disposable income for furniture purchases.

The six southeastern states of Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee have 14.2% of the U. S. total of households in the 25-44 year old group. Florida leads the states with a total of 1,339,474 households in the 25-44 year old group, followed by North Carolina with 889,325 households; Georgia with 843,035 households, Tennessee with 665, 927 households; 540,449 households in the 25-44 age group in Alabama; and South Carolina with 451,664 households.

Precise statistics for rattan are not available due to the relatively small market (Household furnishing sale, +\$15 billion), However, the size and trend of the market can be estimated. According to government statistics and industry sources, the 1981 dollar value of this segment was about \$120 to \$130 million. A survey conducted by a leading furniture magazine reports the 1981 value to be about \$150 million, based on industry opinions with contract business accounting for about one-third of this.

Retailers and manufacturers are confident that rattan is still on a growth curve and the category will continue to grow at an accelerated pace as more and more people become exposed to the exciting innovations that marketing oriented companies are developing. Rattan's popularity is easy to understand and many industry observers feel that the market has the possibility of doubling in the next five years.

Market Competition

Three countries, Philippines, Indonesia, and Malaysia are the major suppliers of raw materials for rattan furniture. In addition, much of the manufacturing of rattan furniture and components is also done outside the United States, especially in countries like the Philippines where trade restrictions penalize exports of raw materials. This creates many problems for U. S. rattan manufacturers and distributors, especially shipping delays.

Importing the raw rattan materials takes a lot of time and expertise. Manufacturers express concern for the reliability and quality of rattan supplies. To be successful in rattan, manufacturers have to keep a large inventory in the U. S. and keep good relations with dealers overseas.

Retailers have found that supply can be a problem when dealing with manufacturers inexperienced in rattan. Retailers should be very selective and ask a lot of questions, especially about supplies and deliveries.

A handful of manufacturers, assemblers, and importers specialize in rattan and a few other companies do a substantial amount of their business in this area. In addition to that business, a great number of case goods and upholstery manufacturers have limited rattan. These are usually represented by one or two styles or collections. There are approximately 20 companies manufacturing rattan furniture exclusively and perhaps another 20 or so offering items of it.

Traditional rattan companies have been joined by a whole range of case, upholstered furniture, dinette, and other manufacturers who are rushing to cash in on one of the few fashion looks that has strong prospects for growth.

U. S. Imports for Consumption prepared by the U. S. Department of Commerce lists the following imports for TSUSA 7271100 - Furniture, and parts there of rattan. The value represents the value of imports at the first port of entry in the United States and is based on the purchase price and includes all freight, insurance, and other charges incurred in bringing the merchandise from the country of exportation and generally placing it along side the carrier at the first port of entry in the United States. The 1980 figures have decreased somewhat from the 1979 information.

	<u>1979</u>	<u>1980</u>
Philippines	\$24.6 Million	\$20.3 Million
Hong Kong	20.2	16.8
Taiwan	4.3	3.8
China	1.0	2.4
Thailand	1.4	1.4
Italy	3.1	1.4
Spain	2.9	0.5
Haiti	0.6	0.3
Others	5.3	1.8

The Philippines ships the largest quantity of rattan/wicker furniture to the U. S. and accounts for about 41% of this category's total imports. Mastercraft of Manila is in the forefront of this business with control of rattan forests, manufacturing and substantial warehousing and exporting facilities. Hong Kong is second with 23% and Taiwan is third with close to 15%. These three countries combined, account for 80% of the U. S. imports of rattan/wicker.

CHANNELS OF DISTRIBUTION

The most significant news for rattan manufacturers has been the enthusiasm with which furniture and department stores have embraced rattan. The full-line furniture stores are taking over from patio and speciality shops with rattan as the fastest growing portion of their business.

In the past retailers have often resisted rattan because it is different. However, today dealers that were reluctant to include rattan in their showrooms a few years ago are now putting it on their floors. It has been found that when a store does put in the merchandising effort for rattan, the reward can be excellent.

Leading U. S. Rattan Market Companies

Ayers/Chairmakers Inc.
1001 North Third St.
Fort Smith, Ark. 72901

- Estimated annual sales of rattan and/or wicker - \$20,000,000
- Offerings in rattan, wicker, and woven. Assemble import parts - Entered segment in 1976 with sofa/occasional group. Produce exclusively for residential. Plans are to expand dining.
- Product categories and retail price ranges
Seating, \$599-\$1,000 (sofa and sleeper)
Game Sets, \$799-\$1,299
Wall Units, \$199-\$499
Occasional, \$199-\$399 (table)

Bradston-Hurricane
P. O. Box 476
National City, CAL. 92050
714-474-6656

- Estimated annual sales of rattan and/or wicker - \$12,000,000
- Manufacture and assemble rattan and wicker. Founded about 1940. Began with rattan dining, now bigger in upholstery. Serves retail and contract.
- Product categories and retail price ranges
Living room, \$599-\$799 (sofa)
Casual dining, \$799-\$1,499 (5-piece)
Bedroom, \$899-\$1,299
Occasional chairs, \$149-299
Occasional tables, \$129-349

Ficks Reed Designs
4900 Charlemar Drive
Cincinnati, Ohio 45227
513-561-2100

- Estimated annual sales of rattan and/or wicker - 12,000,000
- Manufacture rattan, wicker and some case goods. Founded 1885. Serves specialty, furniture and designer trade.
- Product categories and retail price ranges.
Dining Room, \$1,100-\$5,000 (5,7-piece)
Bedroom, \$4,000, \$5,000
Family room/living room, \$900-\$2,000 (sofa)
Occasional, \$200-\$400 (chair)

O-Asian Designs
P. O. Box 5245
North Charleston,
South Carolina 29406

- Estimated annual sales of rattan and/or wicker - \$12,000,000
- Import woven, assemble rattan, Founded 1969 with wicker accessories. Now about half wicker and woven, half rattan products. Business primarily to furniture and department stores.
- Product categories and retail price ranges.
 - Living Room, \$599-\$999 (sofa)
 - Casual Dining, \$699-\$1,499 (5-piece)
 - Bedroom, \$399-\$599 (3-drawer chest)
 - Occasional chairs, \$199-\$599
 - Occasional tables, \$199-\$499

Brown-Jordan Rattan
Subsidiary of Scott
Paper Co.
9860 Gidley Street
El Monte, Cal. 91734
213-443-8971

- Estimated annual sales of rattan and/or wicker - \$8 - \$10,000,000
- Import own exclusive designs in rattan. Founded 1920. Much designer and contract business.
- Product categories and retail price ranges.
 - Living room, \$1,000 + (sofa)
 - Casual dining and game sets, \$800+
 - Dining room, upper end
 - Occasional tables, \$199-\$350
 - Occasional chairs, \$400-\$700

Lewittes Furniture
Enterprises Inc.
171 Madison Ave.
New York, N.Y. 10016
212-685-2255

- Estimated annual sales of rattan and/or wicker - \$8,000,000
- Import rattan and wicker products.
- Product categories and retail price ranges.
 - Occasional chairs, \$150-\$400

Vogue Rattan Mfg. Co. Inc.
454 Fairman Rd.
Lexington, KY 40577
606-255-3346

- Estimated annual sales of rattan and/or wicker - \$5,000,000+
- Manufacturing and assemble. Founded 1955 with dining.
- Product categories and retail price ranges.
 - Living Room, \$619-\$1,500 (sofa)
 - Dining Room, \$799-\$3,400 (5, 7-piece)
 - Occasional chairs, \$350

Wilshire Furniture Co. Inc.
P. O. Box 519
Conyers, Ga. 30207

- Estimated annual sales of rattan and/or wicker - \$5,000,000+
- Assemble rattan. Entered rattan in 1975 with a family room group. Make some case goods used in collections.
- Product categories and retail price ranges.
 - Living room, \$499-\$699 (sofa)
 - Game Sets, \$499-\$699
 - Occasional, \$149-\$199 (chair)

Rattan Market Contacts

Designer Trade

Mr. Will Franklin
Franklin Enterprises
220 North Orlando Ave.
Winter Oark, FL 32789

Mr. Hal Ainsworth
Ainsworth - Noah & Associates Inc.
#115 Atlanta Decorative Art Center
351 Peachtree Hill Ave., N.E.
Atlanta, Ga. 30305

Mr. Bruce Robertson
Bruce Robertson & Associates
#207 Atlanta Decorative Art Center
351 Peachtree Hills Ave., N.E.
Atlanta, Georgia 30305

Independent Market Representatives

Mr. James R. Arthur
1621 Westcastle Rd
Richmond, VA 23233
Permanent Showroom - High Point, N.C.
States Covered: Virginia, North Carolina, West Virginia

Mr. C. Bayless
C. Layless & Associates
Box 52164
Atlanta, Ga. 30305
States Covered: Complete Southeast Area

Mr. Wm E. Brown
Brown - Seymour & Co.
639 South Scott
New Orleans, LA 70119
States Covered: Louisiana, Mississippi, Tennessee, Mobile, Alabama,
Florida Panhandle

Mr. Terry G. Tucker
Carolinas Casual Furniture Sales
301 Olde Springs Road
Columbia, S.C. 29204
States Covered: North and South Carolina

Independent Market Representatives continued

Mr. David H. Cohn
2290 Keystone Blvd.
North Miami, FL. 33181

Mr. Robert L. Craig, Jr.
P. O. Box 5634
Lighthouse Point, FL 33064
States Covered: Florida and Puerto Rico

Ms. Anita Pasco
Great Outdoor Furniture Factory, Inc.
Box 699
Hallandale, FL 33009
States Covered: Southeastern US

Mr. Jim Morse
Jim Morse, Inc.
4151 N.W. 107th Ave.
Coral Springs, Fla. 33065
Permanent Showrooms: High Point, N.C.
Atlanta, Ga. - Merchandise Mart

Mr. Paul E. Price
P. O. Box 1126
Decatur, Ga. 30031-1126
Permanent Showroom: 15-C-10- Atlanta Merchandise Mart
States Covered: Alabama, Georgia, Tennessee

Mr. Patrick Russell
335 Jane St.
Winston-Salem, N.C. 27104
Permanent Showrooms: Highpoint, N.C.
Atlanta Merchandise Mart

Mr. George Saleeby
Saleeby Associates
Box 428
Salisbury, N.C. 28144
Permanent Showrooms: Hickory Furnishings Mart

Mr. Mike Shelley
Mike - Al Shelley Assoc.
4700 N. 31 Ct.
Hollywood, FL 33021
Permanent Showrooms: 40th St., Miami, FL
States Covered: Florida

Independent Market Representatives continued

Mr. Frank J. Muller

Southeast Sales Associated Inc.

2630 Dobbs Circle N.W.

Atlanta, Ga. 30327

States Covered: Georgia, Alabama, Tennessee, North Carolina,
& South Carolina, Florida

Mr. Dave Chance

Southern Furniture Sales

1545 Chaparral Place

Atlanta, Ga. 30338

IMPORT REGULATIONS AND TARIFFS

All goods imported into the United States are subject to duty or duty-free entry in accordance with their classification under the applicable items in the Tariff Schedules of the United States.

When goods are dutiable, ad valorem, specific, or compound rates may be assessed. An ad valorem rate, which is the type of rate most often applied, is a percentage of the appraised value of the merchandise.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Duty-free status is also available under various conditional exemptions. One of the more frequently applied exemptions from duty occurs under the Generalized System of Preferences.

The Generalized System of Preferences is a program providing for free rates of duty for merchandise from beneficiary developing independent countries and dependent countries and territories to encourage their economic growth. This program was enacted by the United States in the Trade Act of 1974, became effective on January 1, 1976, and will expire January 4, 1985.

The GSP eligibility list contains a wide range of products, classifiable under approximately 5,000 different item numbers in the Tariff Schedules of the United States. These items are identified by either an "A" or "A*" in the GSP column of the tariff schedules.

Merchandise classifiable under an item number designated in this manner may qualify for duty-free entry if imported into the United States directly from any of the designated countries and territories. Merchandise from one or more of these countries, however, may be excluded from the exemption of these is an "A*" in the GSP column. The list of countries and exclusions, as well as the list of GSP-eligible articles, will change from time to time over the life of the program. Therefore, the latest edition of the Tariff Schedules of the United States Annotated will contain the most up-to-date information.

For commercial shipments valued at \$250 where a formal entry is required, a claim for duty-free status is made under GSP by showing on the entry summary that the country of origin is a designated beneficiary developing country and by showing an "A" or "A*" with the appropriate GSP-eligible item number. Eligible merchandise will be entitled to duty-free treatment provided the following conditions are met:

1. The merchandise must be destined to the U. S. without contingency for diversion at the time of exportation from the beneficiary developing country.
2. The UNCTAD (United Nations Conference on Trade and Development) Certificate of Origin Form A must be properly prepared, signed by the exporter, and certified by the Designated governmental authority of the beneficiary developing country, and be either filed with the entry or furnished before liquidation or other final action on the entry.

3. The merchandise must be produced in the beneficiary developing country from which it is direct shipped. These requirements may be satisfied when (a) the goods are wholly produced of materials which are the growth or product of the beneficiary developing country, or (b) the value of materials produced in the beneficiary developing country and/or direct costs of processing performed there represent at least 35 percent of the appraised value of the goods.

The cost or value of materials imported into the beneficiary developing country may be included in calculating the 35 percent value-added requirement for an eligible article if the materials are first substantially transformed into new and different articles and are then used as constituent materials in the production of eligible article. The phrase "direct costs of processing" includes costs directly incurred or reasonably allocated to the processing of the article, such as the cost of all actual labor, dies, molds, tooling, depreciation, research and development, and inspection and testing. Business overhead administrative expenses, salaries, and profit are not considered as direct costs of processing.

Normally, the Customs Service will accept an entry at the free rate if Form A is presented at the time of entry. If Form A is not available, the importer may give an appropriate bond (security) for subsequent production of the form within 60 days (subject to an extension), and may be required to deposit estimated duties.

The UNCTAD Certificate of Origin Form A is not available for sale in the United States. The beneficiary developing countries and territories participating in the program are responsible for printing and supplying this form. Exporter may get this form from the designated governmental certifying authority in their respective countries.

The Customs Service makes its decision as to the dutiable status of merchandise when the entry is liquidated after the entry documents have been filed.

Barbados, Dominican Republic, and Jamaica, are all designated beneficiary countries for the purposes of the Generalized System of Preferences provided for in Title V of the Trade Act of 1974 and rattan would enter the U. S. duty free with a properly executed Certificate of Origin Form A.

EXPORT RECOMMENDATIONS FOR THE MANUFACTURER

INTRODUCTION

Beyond the profits to be derived from increased sales opportunities, exports can provide companies with diversification of markets, more flexibility in production scheduling, extended product life, and favorable taxation incentives.

Basically, the same principles apply to selling abroad as to successful selling at home. A business starts by analyzing the foreign markets. That task has already been accomplished for this project with the preparation of the market profiles. After determining whether or not it is profitable to enter the market. The factors to be considered in making this decision are:

1. Present capital-on-hand.
2. General financial status.
3. Market potential for the specific product.
4. Competition abroad.
5. Product prices including shipping to foreign market compared with those of the competition.
6. Government regulations.
7. Available management personnel to supervise the export operation.
8. Available marketing personnel to handle distribution, sales and promotional work.
9. Raw materials necessary to produce the product.
10. Banking facilities for loans.
11. Channels of distribution available to sell the product.
12. Development of transportation and communication in the export country.

PRODUCT

For Rattan Furniture an essential part of product strategy is market information. Both consumer and competitive information can be of immense value since it can alert the manufacturer to changes in the general market or design changes at competitors. The following trade publications should be obtained directly or as an industry group through the export promotion organization.

Furniture Design and Manufacturing
Graphic Arts Publishing Company
7373 Lincoln Ave.
Chicago, Ill. 60646

Furniture Production
804 Church St.
Nashville, Tenn. 37203

Furniture/Today
Box 2754
High Point, N.C. 27261

Furniture South
341 S. Wrenn St.
High Point, N.C. 27261

Furniture World & Furniture Buyer and Decorator
Furniture World - Furniture South
127 East 31st St.
New York, N.Y. 10016

Home Fashions Daily
Inside Furniture
Fairchild Publications
Seven East 12th St.
New York, N.Y. 10003

An exporter should allocate a reasonable amount of time using these periodicals to investigate the products, processes, and actions of other manufacturers in the industry. With a small investment in subscription fees handsome dividends can be paid in the form of improved marketing decisions.

Another consideration is the size of a company's export product line. To enter the export market it is generally recommended that the manufacturer simplify their product line so that volume saving in materials and labor can be obtained. Also confusion in distribution can be reduced.

The evaluation of competition will assist with product line decisions, along with careful cost analysis to determine break-even.

PROMOTION

The attention given to the promotional effort by a rattan exporter will have a great deal of influence on the success of the export program. Because furniture samples cannot be easily shown it is recommended that careful attention be given to the preparation of sales literature. Product brochures and catalogs should be carefully designed to give high visual impact. Promotional materials should have simplicity, good balance, proportion, and sequence. They should be professionally printed with the upmost attention given to quality details. In addition to product material, general background photographs of the plant and production facilities can be included in catalogs. It is essential that the product literature get the attention of the customer, hold their interest, arouse a desire, and obtain an action.

Sometimes it is difficult to sell a product, depending on its nature if the potential buyer is unable to physically examine it. Sales letters and brochures are beneficial but it is impossible to judge the quality or sturdiness of an item unless it can be examined. Trade shows are shopwindows in which thousands of firms display their products and shows serve as marketplaces in which buyer and seller meet. For thousand of years, merchants, manufacturers, and artisans have gathered together to exchange their goods. Today, in spite of new ways to communicate, business people are still getting together to display their products at trade shows. As an additional

promotional method it is recommended that rattan exporters should attend and, where financially feasible, display at furniture trade shows. The following shows have major representation from the Southeast United States and are appropriate for participation.

Mr. Jay Portman - Temporary Space
Mr. Tom Mitchell - Permanent Space
Atlanta Merchandise Mart
240 Peachtree St., N.W.
Atlanta, Ga. 30303
Show Dates - January 23-27, 1983
July 17-21, 1983

Mr. Bill Depollo
Southern Furniture Market Center
P. O. Box 2463
High Point, N.C. 27261
Show Date - April 14-22, 1983

Ms. Susie Pueschel
Southwest Home Furnishings Assoc.
P. O. Box 64545
Dallas, Tex. 75206
Show Dates - January 16-21, 1983
July 10-15, 1983

Mr. John Schenk
Hickory Furniture Mart
P. O. Box 1669
Hickory, N.C. 28603
Show Dates - April 12-22, 1983
October 20-28, 1983

Mr. Larry Carel
Miami Beach Furniture Market
Miami Beach Convention Center
P. O. Box 39-1217
Miami Beach, FL 33119-1217
Show Date: August 20, 21, and 22.

Start by writing show management for the literature it has prepared for prospective exhibitors. This is a selling document, designed to present the show in its strongest light, but it should give a better idea of the nature of the audience the show attracts. Most shows issue detailed breakdowns of attendance which can be valuable in the decision process. Another important source of information about a show is the list of exhibitors.

The effectiveness of a booth depends to a great degree on the effectiveness of the people working in it. It is a different and sometimes bewildering place for most sales representatives, who are more used to visiting prospects one at a time in their offices, not having prospects come up and ask for information.

Booth personnel must be friendly, must be able to tell good prospects from curiosity seekers, and must be able to move quickly towards advancing the sale. It is important to let booth workers know what your objectives are, so that they can work towards reaching your goals, whether it is setting up appointments, getting literature into the right hands, giving a demonstration, or making a sale. When your people are on duty, they should be fully on duty. That means: being up front, ready to welcome visitors, not talking in a corner with others on the staff and not sitting down except when a visitor prefers to sit and talk. Trades shows have a number of strengths and advantages including:

- ° An opportunity for the seller and the buyer to meet face-to-face, where the products being shown can be demonstrated and handled and sales made;
- ° A pre-selected audience, with specified interests, and at the show for the purpose of learning about products;

- ° An opportunity to reach people who are ordinarily not accessible to sales representatives, and to uncover unknown buying interest.
- ° A place where buyers can do comparative shopping, can discuss their problems with many technical people, and thus a place where the buying process can be shortened.
- ° An opportunity to maintain an image and continuing contact with customers;
- ° The chance to create an image, initiate contact with potential customers, and qualify buyers or introduce a new product;
- ° It builds morale of the sales force;
- ° The opportunity to conduct market research and evaluate the competition; and
- ° It provides an opportunity to recruit personnel or attract new dealers.

Participation in trade shows not only exposes products to the markets but it often leads to off floor sales. Thus, trade shows can be a very cost effective means to test a market, size up the competition, or establish market contacts.

It is important to always have an objective before entering a show. Whenever possible, this objective should be stated numerically - so many appointments, so many new names for your mailing list, so many orders, so many new wholesalers. After the show, look at the results, Was your exhibit adequate? Did you have too much space? Were your people functioning adequately? It is only by looking at these factors that a record can be improved. You will learn from experience only if you study your experience systematically. Those who use shows correctly have found that it is a productive, economical medium.

DISTRIBUTION

Basically, a company has a choice between three types of distribution methods. The first alternative is a "joint venture." The joint venture is an enterprise in which two or more parties share the financial risks and the decision making through joint equity and management participation in a common enterprise. For joint ventures it is essential that the exporter carefully examine the foreign company's management approach. An understanding must be reached by executives of both firms on such factors as potential market position, growth, financial policy, and product development. Only then should a written agreement between the two firms be concluded. Normally strong incentives must exist for both parties in order for a joint venture to be created. Since access to Southeastern United States markets is the primary motive of this project, it is recommended that market maturity should be developed using either indirect or direct distribution of rattan products prior to seeking a joint venture partner.

The second approach a company can employ is known as the "indirect method" and delegates export sales responsibility to a firm such as an export management company, overseas importer, a trading company or a producer of related products. Usually, the sales intermediary which is selected will assume responsibility for shipping the product overseas; or a company will use the "direct method" and sell abroad through a sales agent, distributor, retail store, or directly to customers. Under this type of arrangement, the manufacturer will normally retain responsibility for shipping products to export markets.

The indirect or direct distribution methods are not mutually exclusive. It is often possible to use both simultaneously. A CASE IN POINT is a firm might appoint representatives in one or two states and also sell to a buyer for export with the understanding that the product they handle will be marketed elsewhere. This would allow the exporter to concentrate its effort on a limited number of markets and at the same time take advantage of the broad coverage the buyer for export gives. However, this approach sometimes creates undue competition which can discourage product representatives.

Many manufacturers maintain that direct exporting better advances and protects a firm's interests, provides stronger controls over marketing strategy, and increases net profitability. Direct exporters can stay in close touch with their overseas markets, remain current with market demands, and meet the needs of the sales organizations as they occur.

Some firms successfully sell their products directly to overseas retailers or actual end-user customers, particularly high quality items, but the majority of direct export companies sell their products through sales representatives or distributors already established in local markets. This direct method can help an exporter to develop considerable expertise of its own in the markets of its product overseas. Should the exporter want to change representatives or establish its own overseas marketing operation, it is in a good position to do so.

In evaluating how a manufacturer should market directly overseas, these options should be considered:

Sales Representative - Many small firms employ one or more full-time sales representatives who work under contract and by commission. Product literature and samples are used to present the product to potential buyers. If this approach is to be a success, these people must be properly selected. The sales representative should be familiar with the market area where you intend to market; be familiar with market practices; be familiar with your product line, and agree to travel extensively. It is most important to carefully investigate the person's work experiences and their business and financial references.

Frequent checks should be made of the quality of the representative's work through sales activity reports as well as sales quota performance. To protect the company, carefully define the sales representative's authority with respect to agreements with customers, pricing, and promises for product delivery times. Be sure that your agreement with the representative accurately reflects your best interests.

Distributor - The distributor is a merchant who purchases merchandise from a manufacturer at the greatest possible discount and resells it for his profits. This would be the preferred arrangement if the product being sold requires periodic servicing. The prospective distributor should be willing to carry a sufficient inventory. The important thing is that these companies want to be treated as "clients" or "Customers" rather than "Representatives."

Retailer - This generally includes retail stores or specialty shops and relies mainly on the mailing of catalogs, brochures, or other literature. Even though this approach eliminates sales commissions and traveling expenses, the manufacturer who uses the direct approach may suffer because his proposal may not receive proper consideration.

No matter which marketing approach is selected the following practices should be standardized in dealing with all contacts:

1. All overseas request should be answered promptly.
2. Credit information should not be requested in the first letter.
3. The company and its product should be properly introduced so that quality and delivery are positively established.
4. It is important to be courteous and friendly but without undue familiarity.
5. Personally sign all letters. Form letters do not impress.
6. Check the postage, send all correspondence airmail.

After initial contacts with potential market associations, it is necessary to learn if they are reliable. Use Dun and Bradstreet, U. S. Bank References, or their overseas branches for checks.

If travel budget permits, exporters definitely should not commit themselves to a representative without making a visit to the prospective associate's home ground. An executive on the spot can obtain firsthand knowledge of a candidate's reputation through local trade and banking sources. While you are determining the effectiveness of the sales organization through its proven track record, the marketing

company will be doing an evaluation of its own. Top sales firms are in great demand and need assurance that the imported product will sell and that the offshore company can deliver the product with consistent quality and on time.

Initially, the exporter and the foreign associate will mutually agree upon a trial sales plan for a period of one year or longer. Terms of the working relationship may be spelled out broadly in a written contract, drafted with the assistance of attorneys well-versed in export complexities. Thereafter, to maintain an effective liaison, the producer will have to provide adequate guidance, offer cooperation and support, promptly answer queries and correspondence, remain responsive to the needs of overseas sales people, and make periodic visits abroad. Eventually, a comfortable and long-term producer/associate relationship will be forged, profitable to each side.

After successfully making this contact with a prospective representative and investigating his integrity, financial responsibility, community standing, share of the market, and other product lines which he represents for conflict of interest, the next step is to consider the foreign sales agreement itself.

An agreement of this type can be either relatively simply or detailed. The following basic items normally are included in a typical foreign sales agreement:

- ° Names and addresses of both parties.
- ° Date when the agreement goes into effect.
- ° Duration of the agreement.
- ° Provisions for extending or terminating the agreement.
- ° Description of product lines included.

- ° Definition of sales territory.
- ° Establishment of discount and/or commission schedules and determination of when and how paid.
- ° Provisions for revising the commission or discount schedules.
- ° Establishment of a policy governing resale prices.
- ° Maintenance of appropriate service facilities.
- ° Restrictions to prohibit the manufacture and sale of similar and competitive products.
- ° Designation of responsibility for patent and trademark negotiations and/or policing.
- ° The assignability or non-assignability of the agreement and limiting factors.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firm or reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.

PRICING

Most exporters consider pricing strategy the critical part of their marketing program since prices are what determines the amount of revenue the firm is going to receive. The other strategy elements are supportive in that they make it possible for a particular good to be sold at a price that is profitable to the firm. Many new exporters arrive at export prices by using the product's domestic price as starting point and tacking on any export costs like packing, shipping and insurance. However, the domestic price may not provide a reasonable base since it normally reflects domestic marketing costs; prices of export goods determined by this method might not be competitive.

In order to establish an effective export price and obtain an accurate measure of profitability, it is recommended that rattan manufacturers conduct independent cost analyses of their product. This can determine the basic unit cost of a product. Then appropriate expenses including modifications or marketing costs and mark up can be added to the total to yield an adequate profit margin.

This pricing information can then be compared to information obtained through trade publications, attendance at trade shows, or feedback from the distributor system to determine changes up or down. An effective pricing program should also carefully consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. You should consider setting an export volume goal and then studying to see if your prices will help you reach it. Targets for a certain number of new export customers for next year should also be established. How can pricing help you get them? It is important to remember that prices should help bring in sales which are profitable over the long pull.

CONCLUSIONS

If your firm has been successful in the domestic market then there is every likelihood that you can sell your products successfully in export markets. Selling abroad takes the same advance planning, market research, attention to detail, and hard work that is required for the domestic market.

The size of a company does not exclude it from success in export markets. Internationally, small companies export a greater proportion of their products than larger firms, and exporting makes a major contribution to the profits of these small companies. Exporting provides a broader marketing base and results in greater company growth. Exporting can lead to the discovery of new market strategies, channels of distribution, and product ideas which the firm could apply domestically with great success. The key to success in exporting is to make the right product available at the right time in the right market at a price which the buyer can afford and which will return an acceptable profit.

The overall decision to export should not be made without sufficient inquiry and consideration; initiating an export program on a hunch that it will pay off only invites disillusionment as well as dissipation of time, energy and finances. However, with research and investigation, along with careful analysis and sound planning, it is possible to minimize the possibilities for error in launching an export venture.

WOOD FURNITURE
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

WOOD FURNITURE

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	2
MARKET COMPETITION	9
CHANNELS OF DISTRIBUTION	10
MARKET CONTACTS	13
IMPORT REGULATIONS AND TARIFFS	14
EXPORT RECOMMENDATIONS FOR THE MANUFACTURER	18
INTRODUCTION	18
PRODUCT	19
PROMOTION	20
DISTRIBUTION	24
PRICING	29
CONCLUSIONS	30

WOOD FURNITURE

INTRODUCTION

Entry into the furniture industry is not difficult. Capital requirements are not large, the special technical skills required to make furniture are fairly easy to learn, and unlike many other industries, a newcomer to the furniture business does not have to try to capture a large share of the market from an existing handful of giant firms selling highly advertised brand merchandise. Since few economies of scale manifest themselves in the industry, even firms of very modest size find it possible to operate at the point of lowest average unit cost.

The household furniture industry is closely related to new residential construction, sales of existing homes, size of homes, new household formation, and real disposable income. During 1980 and 1981, furniture orders and shipments reflected the slowdown in new home building, slow sales of existing homes, and the high cost of borrowed money for manufacturers and consumers.

The U. S. furniture industry is characterized by a large number of small establishments with a high degree of product specialization. About 1/3 of the 4,900 establishments engaged in the manufacture of wood, upholstered, and metal household furniture, in 1977 employed 50 or less persons. Compared with other manufacturing industries, furniture production, especially wood and upholstered furniture, is labor intensive. Most production is planned in response to new orders because of the wide range of different models, rapid style changes, and the bulky nature of furniture.

Composite board or particle board and medium-density fiberboard have been used increasingly in furniture manufacturing as substitutes for higher priced furniture hardwood. There has been considerable penetration of solid wood furniture markets with the growing use of man-made materials to produce low-cost wall systems, tables, desks, and similar items at a low price.

MARKET

Manufacturers produce furniture for varied consumer markets, which represent consumer groups with different income levels, lifestyles, and furniture preferences. These include the growing number of young adults, elderly single households, and two income families, as well as apartment dwellers and home owners.

High quality traditional and contemporary furniture pieces account for the major share of furniture shipment dollars. In recent years, demand for these products has been changing as consumers have chosen to purchase individual, nonmatching furniture items instead of established groupings.

Traditional and contemporary style categories showed gains in popularity while the long-time style leader, Early American/Colonial decreased slightly. The traditional category showed the largest growth in popularity, more than doubling its market share of best sellers. In 1980, traditional groups accounted for only 5% of the best selling bedroom and dining room sales volume, while in 1981

traditional bedroom and dining room groups accounted for 12.3%. Traditional bedrooms accounted for only 2.2% of the best selling in 1980 but in 1981 traditional made up 12% of the best selling bedroom shipments.

In dining rooms, the movement in traditional styles was from 8.1% of the best selling dining room shipments in 1980 to 12.9% in 1981.

Contemporary was the second largest growth category, increasing from 10.1% of the best seller volume in 1980 to 16.5% in 1981. Once again the most dramatic growth was in bedroom groups, where Contemporary styling represented 9.2% of the best selling bedroom shipments in 1980 and about 17.4% in 1981.

Although Early American and Colonial decreased their overall market share, they continue to dominate the high-end for bedroom and dining room furniture. The top five best selling high-end master bedrooms of \$1,700 and above are: Pennsylvania House, Cherry Collection Traditional style; Ethan Allen, Georgian Court 18th Century; Burlington's Vintage Casual style; and Ethan Allen's Antique Pine and Heirloom.

The best selling high-end dining room of \$2,800 and above was Pennsylvania House with traditional style Cherry Collection, followed by three styles of Ethan Allen in Heirloom Early American/Colonial, Georgian Court 18th Century, and Antique Pine Early American/Colonial. Pennsylvania House also placed fifth with their Oak Collection in Traditional style.

Kincaid's Plantation Pine group in Early American/Colonial style placed first in the best selling middle price master bedroom \$800-\$1699. This is followed by American Drew's Cherry Grove 18th Century collection, Burlington's Courthouse Square Early American/Colonial style, Kincaid's Plantation Maple Early American/Colonial style, and Singer's Roanoke Early American/Colonial.

The best selling medium priced dining room in the \$1500-\$2700 price range was American Drew in the Cherry Grove group and 18th Century style. Tell City's Young Republic Early American/Colonial was second. Virginia House and the Country Colonial Early American/Colonial style was third, and Richardson Brothers' Country Oak, Early American/Colonial style was fourth. Pulaski was fifth in the top twenty-five with their Keepsakes group in Nostalgic style.

In the best selling low-end master bedroom groups in price range of \$799 and under were Harris of Pendelton, Laurelcraft Maple in Early American/Colonial style; Forest's Wheatfield, Early American/Colonial style; Florida Furniture with Budget Master, Early American/Colonial; Singer's Tambour Contemporary style and Carolina Furniture Works group of Common Sense Early American/Colonial style.

U. S. Furniture was first in the best selling low-end dining room in the price range of \$1499 and below with the Chatham County Colonial, Early American/Colonial style. Second is SK Products Early American in Early American/Colonial style. U. S. furniture is third with Chatham County Lifestyle in Contemporary style followed by Kincaid's Plantation Maple Early American/Colonial style. In fifth position is Cochrane's Wilderness Oak, Early American/Colonial.

The correlate/wrap category is the most active and fastest changing of any of the categories. The top five include Bassett's Virginia Colony, Early American/Colonial; Kemp's Cottage Corners Early American/Colonial; Ethan Allen's Custom Room Plan Pine and Maple, Early American/Colonial Style; Forest's Mr. Pine/Mr. Oak Early American/Colonial; and Bassett's Stoneybrook Early American/Colonial style.

Manufacturers are producing more functional and durable furniture that will fit into smaller living spaces in response to the needs of consumers with limited furniture budgets. More knock-down or self-assembly furniture is being sold for wall systems and entertainment centers. Also, moderately priced unfinished furniture has become increasingly popular. Unfinished furniture is no longer made exclusively of pine but has become available in more expensive hardwoods such as oak and mahogany.

Today's very large 25-to 44- year old group seems to prefer room space and often they buy only a few furniture pieces - to become the focal point of a room. In the past year, retailers were purchasing more higher-end summer/casual furniture made of wrought iron, wicker or rattan. Items that can be used indoors, as well as outside.

The six southeastern states of Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee have 14.2% of the U. S. total of households in the 25-44 year old group. Florida leads the states with a total of 1,339,474 households in the 25-44 year old group,

followed by North Carolina with 889,325 households; Georgia with 843,035 households; Tennessee with 665,927 households; 540,449 households in the 25-44 age group in Alabama; and South Carolina with 451,664 households.

The southeastern states showed an increase in the retail sales of furniture and home furnishings from the 1977 total of \$2,989,391,000 to the 1980 total of \$3,944,365,000. Florida lead the six states in the highest percentage of increase in retail sales of furniture from the 1977 figure of \$975,482,000 to \$1,413,810,000 for 1980. South Carolina furniture retail sales increased 30% to \$335,733,000 in 1980 from \$258,309,000 in 1977. Alabama's 1980 retail sales in furniture increased 29% to \$421,048,000 from \$326,655,000 in 1977. North Carolina's 1977 total of \$561,646,000 increased 27% to \$712,738,000 in 1980. Tennessee's increase was 25% from \$398,399,000 in 1977 to \$496,064,000 in 1980. Georgia's 1977 total was \$468,960,000 and increased only 20% to \$564,972,000 in 1980 for retail sales of furniture.

An upturn in residential construction together with moderating interest rates and higher personal income, are expected to stimulate demand for furniture by the last quarter of 1982 or early 1983. Because of the usual 12-month lag between a housing upturn and rising consumer furniture purchases, the value of furniture product shipments, adjusted for inflation, is expected to be about the same in 1982 as in 1981, reflecting sluggish activity during the first 9 months of the year. A strong pickup in furniture production and shipments is expected in 1983.

Continued increases in the formation of households and families among the Nation's fast-growing young adult population together with increased availability of affordable homes, will provide expanding markets for furniture in the years ahead. The number of Americans that will reach the prime home buying age of 30 during this decade will rise to 42 million, up from 30 million in the 1970's and 22 million in the 1960's. In addition, the long-term upward trend in real average personal income is expected to resume in the next several years as today's young adult population moves into more affluent earning brackets and the number of two-income families continues to rise.

As smaller size homes are built in 1980's, manufacturers will probably produce more modular wall systems and dual or multi-purpose furniture such as table desks. During the 5-years ending in 1986, the value of shipments of household furniture, adjusted for inflation, is expected to increase at a 3.5% compound annual rate.

New orders and shipments by household furniture manufacturers improved slightly in 1981 compared with the very low level of activity a year earlier. Household furniture product shipments totaled an estimated \$12.4 billion in 1981 (in current dollars), about 8 percent more than a year earlier, but adjusted for price changes, the increase was less than 1 percent. New orders increased an estimated 9 percent in 1981 over year earlier levels. Modest gains in retail furniture sales in 1981 mostly reflected replacement purchases as consumer incomes increased in the last quarter of the year.

Historically, furniture output declines during recessions. Output fell 3.9 percent in 1970, 5.9 percent in 1974, and 12.8 percent in 1975, as measured by the Federal Reserve Board's Industrial Production Index. Paralleling the 10.9 percent decline in household furniture production in 1980, manufacturers median after-tax profits on sales were 2.3 percent in 1980, down from 2.6 percent in 1979 and 2.9 percent in 1978, according to an annual survey conducted by the National Association of Furniture Manufacturers. The median return on net profit before taxes was about 6.8 percent to 7 percent, down from 8 percent in 1979 and 9.7 percent in 1978.

Forty case goods groups accounted for \$362,518,258 in sales by manufacturers in 1981.

The results show the top 10 bedroom suites retailing under \$1,750 with \$91,221,909 in shipments in 1981. Best selling bedrooms which retail over \$1,750 accounted for shipments totalling \$51,982,053. In dining rooms, with the \$2,000 retail price as the dividing point, shipments of the best selling dining rooms below \$2,000 totalled \$156,169,132; above \$2,000 price point shipments for the top 10 dining rooms totalled \$63,144,264.

Two other categories counted in the survey are correlate/wrap bedroom and waterbeds. Best selling correlated totalled \$94,405,895 in shipments. The top 10 waterbed suites had shipments totalling \$32,271,634. With waterbeds and correlates included, the value of total shipments for the top groups in the survey is \$513,195,787.

Longevity and traditional stylings are characteristics of case goods in collections and the collections themselves, at the higher price points. Manufacturers predict that their current best selling case goods in collections at higher price points will continue to be best sellers in 1982.

Furniture sales in 1982 are expected to increase to \$20.1 billion. A number of positive factors will come together to produce favorable furniture sales, including lower interest rates leading to increased home building activity and improved home sales. An anticipated increase in disposable income should also have favorable effect.

The size of the home of the future will also effect furniture retailers. Housing specialists envision smaller houses - 1,000 to 1,500 square feet vs. the current 2,000 square feet - and constructed on smaller lots. The houses would contain fewer rooms, made to appear larger through the use of higher ceilings, two story foyers, and suspended staircases. The fact that consumers are buying better quality merchandise and furnishings may reflect a change in lifestyle that involves less travel and more entertaining at home.

MARKET COMPETITION

U. S. Imports of all categories of furniture has more than quadrupled since 1972 and totaled an estimated \$945 million in 1981. Major foreign suppliers include Taiwan, United Kingdom, Denmark, and Canada. Some U. S. manufacturers are importing increased quantities of knock-down furniture and parts from Taiwan and Yugoslavia for assembly into finished products in their U. S. plants.

TSUSA - 7273540 - Furniture of Wood, for 1980 lists the following major imports:

Canada	\$48,663,000
Denmark	50,550,000
United Kingdom	30,662,000
Taiwan	37,531,000

The total imports under classification 7273540 was \$345,828,000 for 1980.

CHANNELS OF DISTRIBUTION

Single unit furniture stores accounted for the major share of the retail furniture sales, although in recent years companies that own several establishments have increased their share of the market.

The strong growth experienced in furniture chains is due to their purchasing power, promotional and advertising activities, specially trained personnel, and effective credit programs.

Established furniture manufacturers depend mostly on furniture shows to promote their products to retailers, interior decorators, and institutional customers. The Southern Furniture Market Center sponsors the major U. S. furniture Show in High Point, North Carolina twice a year. The Dallas Market Center in Dallas, Texas also hosts trade shows twice yearly for manufacturers. Many of the sales are made before production but this is based on designs, models, and prices displayed at the exhibits. The marketing of furniture is extremely price competitive. Price rivalry among competition at furniture trade shows frequently promotes the use of sales leaders and extra price discounting.

Page intentionally left blank

The larger manufacturers will advertise in trade magazines such as Furniture Today, Inside Furniture, Furniture South, Wood and Wood Products, and Furniture Design and Manufacturing.

Sales representatives from furniture manufacturers call on retail stores and most of the orders placed for wholesale furniture are placed when the sales representative calls on the stores. These representatives perform the sales function for the furniture manufacturer. Representatives only sell the furniture, they do not buy the furniture, do not provide storage or transportation.

Importers also provide assistance between the foreign manufacturers and the furniture retailers and institutional customers. The importer takes title to the furniture from the manufacturer, arranges shipping and import documentation, and markets the furniture to retailers, interior decorators, and institutional buyers.

MARKET CONTACTS FURNITURE CASEGOODS

Designer Trade

Mr. Alan Brown
Abraham & Brown
#315 Atlanta Decorative Art Center
351 Peachtree Hills Ave., N.E.
Atlanta, Ga. 30305

Mr. Bruce McLean
Brice Ltd.
#220 Atlanta Decorative Art Center
351 Peachtree Hills Ave., N.E.
Atlanta, Ga. 30305

IMPORT REGULATIONS AND TARIFFS

All goods imported into the United States are subject to duty or duty-free entry in accordance with their classification under the applicable items in the Tariff Schedules of the United States.

When goods are dutiable, ad valorem, specific, or compound rates may be assessed. An ad valorem rate, which is the type of rate most often applied, is a percentage of the appraised value of the merchandise.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Duty-free status is also available under various conditional exemptions. One of the more frequently applied exemptions from duty occurs under the Generalized System of Preferences.

The Generalized System of Preferences is a program providing for free rates of duty for merchandise from beneficiary developing independent countries and dependent countries and territories to encourage their economic growth. This program was enacted by the United States in the Trade Act of 1974, became effective on January 1, 1976, and will expire January 4, 1985.

The GSP eligibility list contains a wide range of products, classifiable under approximately 5,000 different item numbers in the Tariff Schedules of the United States. These items are identified by either an "A" or "A*" in the GSP column of the tariff schedules.

Merchandise classifiable under an item number designated in this manner may qualify for duty-free entry if imported into the United States directly from any of the designated countries and territories. Merchandise from one or more of these countries, however, may be excluded from the exemption of these is an "A*" in the GSP column. The list of countries and exclusions, as well as the list of GSP-eligible articles, will change from time to time over the life of the program. Therefore, the latest edition of the Tariff Schedules of the United States Annotated will contain the most up-to-date information.

For commercial shipments valued at \$250 where a formal entry is required, a claim for duty-free status is made under GSP by showing on the entry summary that the country of origin is a designated beneficiary developing country and by showing an "A" or "A*" with the appropriate GSP-eligible item number. Eligible merchandise will be entitled to duty-free treatment provided the following conditions are met:

1. The merchandise must be destined to the U. S. without contingency for diversion at the time of exportation from the beneficiary developing country.
2. The UNCTAD (United Nations Conference on Trade and Development) Certificate of Origin Form A must be properly prepared, signed by the exporter, and certified by the Designated governmental authority of the beneficiary developing country, and be either filed with the entry or furnished before liquidation or other final action on the entry.

3. The merchandise must be produced in the beneficiary developing country from which it is direct shipped. These requirements may be satisfied when (a) the goods are wholly produced of materials which are the growth or product of the beneficiary developing country, or (b) the value of materials produced in the beneficiary developing country and/or direct costs of processing performed there represent at least 35 percent of the appraised value of the goods.

The cost or value of materials imported into the beneficiary developing country may be included in calculating the 35 percent value-added requirement for an eligible article if the materials are first substantially transformed into new and different articles and are then used as constituent materials in the production of eligible article. The phrase "direct costs of processing" includes costs directly incurred or reasonably allocated to the processing of the article, such as the cost of all actual labor, dies, molds, tooling, depreciation, research and development, and inspection and testing. Business overhead administrative expenses, salaries, and profit are not considered as direct costs of processing.

Normally, the Customs Service will accept an entry at the free rate if Form A is presented at the time of entry. If Form A is not available, the importer may give an appropriate bond (security) for subsequent production of the form within 60 days (subject to an extension), and may be required to deposit estimated duties.

The UNCTAD Certificate of Origin Form A is not available for sale in the United States. The beneficiary developing countries and territories participating in the program are responsible for printing and supplying this form. Exporter may get this form from the designated governmental certifying authority in their respective countries.

The Customs Service makes its decision as to the dutiable status of merchandise when the entry is liquidated after the entry documents have been filed.

Barbados, Dominican Republic, and Jamaica, are all designated beneficiary countries for the purposes of the Generalized System of Preferences provided for in Title V of the Trade Act of 1974 and wood furniture would enter the U. S. duty free with a properly executed Certificate of Origin Form A.

EXPORT RECOMMENDATIONS FOR THE MANUFACTURER

INTRODUCTION

Beyond the profits to be derived from increased sales opportunities, exports can provide companies with diversification of markets, more flexibility in production scheduling, extended product life, and favorable taxation incentives.

Basically, the same principles apply to selling abroad as to successful selling at home. A business starts by analyzing the foreign markets. That task has already been accomplished for this project with the preparation of the market profiles. After determining whether or not it is profitable to enter the market. The factors to be considered in making this decision are:

1. Present capital-on-hand.
2. General financial status.
3. Market potential for the specific product.
4. Competition abroad.
5. Product prices including shipping to foreign market compared with those of the competition.
6. Government regulations.
7. Available management personnel to supervise the export operation.
8. Available marketing personnel to handle distribution, sales and promotional work.
9. Raw materials necessary to produce the product.
10. Banking facilities for loans.
11. Channels of distribution available to sell the product.
12. Development of transportation and communication in the export country.

PRODUCT

For Wood Furniture an essential part of product strategy is market information. Both consumer and competitive information can be of immense value since it can alert the manufacturer to changes in the general market or design changes at competitors. The following trade publications should be obtained directly or as an industry group through the export promotion organization.

Furniture Design and Manufacturing
Graphic Arts Publishing Company
7373 Lincoln Ave.
Chicago, Ill. 60646

Furniture Production
804 Church St.
Nashville, Tenn. 37203

Furniture/Today
Box 2754
High Point, N.C. 27261

Furniture South
341 S. Wrenn St.
High Point, N.C. 27261

Furniture World & Furniture Buyer and Decorator
Furniture World - Furniture South
127 East 31st St.
New York, N.Y. 10016

Home Fashions Daily
Inside Furniture
Fairchild Publications
Seven East 12th St.
New York, N.Y. 10003

An exporter should allocate a reasonable amount of time using these periodicals to investigate the products, processes, and actions of other manufacturers in the industry. With a small investment in subscription fees handsome dividends can be paid in the form of improved marketing decisions.

Another consideration is the size of a company's export product line. To enter the export market it is generally recommended that the manufacturer simplify their product line so that volume saving in materials and labor can be obtained. Also confusion in distribution can be reduced.

The evaluation of competition will assist with product line decisions, along with careful cost analysis to determine break-even.

PROMOTION

The attention given to the promotional effort by a furniture exporter will have a great deal of influence on the success of the export program. Because furniture samples cannot be easily shown it is recommended that careful attention be given to the preparation of sales literature. Product brochures and catalogs should be carefully designed to give high visual impact. Promotional materials should have simplicity, good balance, proportion, and sequence. They should be professionally printed with the upmost attention given to quality details. In addition to product material, general background photographs of the plant and production facilities can be included in catalogs. It is essential that the product literature get the attention of the customer, hold their interest, arouse a desire, and obtain an action.

Sometimes it is difficult to sell a product, depending on its nature if the potential buyer is unable to physically examine it. Sales letters and brochures are beneficial but it is impossible to judge the quality or sturdiness of an item unless it can be examined. Trade shows are shopwindows in which thousands of firms display their products and shows serve as marketplaces in which buyer and seller meet. For thousand of years, merchants, manufacturers, and artisans have gathered together to exchange their goods. Today, in spite of new ways to communicate, business people are still getting together to display their products at trade shows. As an additional promotional

method it is recommended that furniture exporters should attend and, where financially feasible, display at furniture trade shows. The following shows have major representation from the Southeast United States and are appropriate for participation.

Mr. Jay Portman - Temporary Space
Mr. Tom Mitchell - Permanent Space
Atlanta Merchandise Mart
240 Peachtree St., N.W.
Atlanta, Ga. 30303
Show Dates - January 23-27, 1983
 July 17-21, 1983

Mr. Bill Depollo
Southern Furniture Market Center
P. O. Box 2463
High Point, N.C. 27261
Show Date - April 14-22, 1983

Ms. Susie Pueschel
Southwest Home Furnishings Assoc.
P. O. Box 64545
Dallas, Tex. 75206
Show Dates - January 16-21, 1983
 July 10-15, 1983

Mr. John Schenk
Hickory Furniture Mart
P. O. Box 1669
Hickory, N.C. 28603
Show Dates - April 12-22, 1983
 October 20-28, 1983

Mr. Larry Carel
Miami Beach Furniture Market
Miami Beach Convention Center
P. O. Box 39-1217
Miami Beach, FL 33119-1217
Show Date: August 20, 21, and 22.

Start by writing show management for the literature it has prepared for prospective exhibitors. This is a selling document, designed to present the show in its strongest light, but it should give a better idea of the nature of the audience the show attracts. Most shows issue detailed breakdowns of attendance which can be valuable in the decision process. Another important source of information about a show is the list of exhibitors.

The effectiveness of a booth depends to a great degree on the effectiveness of the people working in it. It is a different and sometimes bewildering place for most sales representatives, who are more used to visiting prospects one at a time in their offices, not having prospects come up and ask for information.

Booth personnel must be friendly, must be able to tell good prospects from curiosity seekers, and must be able to move quickly towards advancing the sale. It is important to let booth workers know what your objectives are, so that they can work towards reaching your goals, whether it is setting up appointments, getting literature into the right hands, giving a demonstration, or making a sale. When your people are on duty, they should be fully on duty. That means: being up front, ready to welcome visitors, not talking in a corner with others on the staff and not sitting down except when a visitor prefers to sit and talk. Trades shows have a number of strengths and advantages including:

- ° An opportunity for the seller and the buyer to meet face-to-face, where the products being shown can be demonstrated and handled and sales made;
- ° A pre-selected audience, with specified interests, and at the show for the purpose of learning about products;

- ° An opportunity to reach people who are ordinarily not accessible to sales representatives, and to uncover unknown buying interest.
- ° A place where buyers can do comparative shopping, can discuss their problems with many technical people, and thus a place where the buying process can be shortened.
- ° An opportunity to maintain an image and continuing contact with customers;
- ° The chance to create an image, initiate contact with potential customers, and qualify buyers or introduce a new product;
- ° It builds morale of the sales force;
- ° The opportunity to conduct market research and evaluate the competition; and
- ° It provides an opportunity to recruit personnel or attract new dealers.

Participation in trade shows not only exposes products to the markets but it often leads to off floor sales. Thus, trade shows can be a very cost effective means to test a market, size up the competition, or establish market contacts.

It is important to always have an objective before entering a show. Whenever possible, this objective should be stated numerically - so many appointments, so many new names for your mailing list, so many orders, so many new wholesalers. After the show, look at the results, Was your exhibit adequate? Did you have too much space? Were your people functioning adequately? It is only by looking at these factors that a record can be improved. You will learn from experience only if you study your experience systematically. Those who use shows correctly have found that it is a productive, economical medium.

DISTRIBUTION

Basically, a company has a choice between three types of distribution methods. The first alternative is a "joint venture." The joint venture is an enterprise in which two or more parties share the financial risks and the decision making through joint equity and management participation in a common enterprise. For joint ventures it is essential that the exporter carefully examine the foreign company's management approach. An understanding must be reached by executives of both firms on such factors as potential market position, growth, financial policy, and product development. Only then should a written agreement between the two firms be concluded. Normally strong incentives must exist for both parties in order for a joint venture to be created. Since access to Southeastern United States markets is the primary motive of this project, it is recommended that market maturity should be developed using either indirect or direct distribution of furniture products prior to seeking a joint venture partner.

The second approach a company can employ is known as the "indirect method" and delegates export sales responsibility to a firm such as an export management company, overseas importer, a trading company or a producer of related products. Usually, the sales intermediary which is selected will assume responsibility for shipping the product overseas; or a company will use the "direct method" and sell abroad through a sales agent, distributor, retail store, or directly to customers. Under this type of arrangement, the manufacturer will normally retain responsibility for shipping products to export markets.

The indirect or direct distribution methods are not mutually exclusive. It is often possible to use both simultaneously. A CASE IN POINT is a firm might appoint representatives in one or two states and also sell to a buyer for export with the understanding that the product they handle will be marketed elsewhere. This would allow the exporter to concentrate its effort on a limited number of markets and at the same time take advantage of the broad coverage the buyer for export gives. However, this approach sometimes creates undue competition which can discourage product representatives.

Many manufacturers maintain that direct exporting better advances and protects a firm's interests, provides stronger controls over marketing strategy, and increases net profitability. Direct exporters can stay in close touch with their overseas markets, remain current with market demands, and meet the needs of the sales organizations as they occur.

Some firms successfully sell their products directly to overseas retailers or actual end-user customers, particularly high quality items, but the majority of direct export companies sell their products through sales representatives or distributors already established in local markets. This direct method can help an exporter to develop considerable expertise of its own in the markets of its product overseas. Should the exporter want to change representatives or establish its own overseas marketing operation, it is in a good position to do so.

In evaluating how a manufacturer should market directly overseas, these options should be considered:

Sales Representative - Many small firms employ one or more full-time sales representatives who work under contract and by commission. Product literature and samples are used to present the product to potential buyers. If this approach is to be a success, these people must be properly selected. The sales representative should be familiar with the market area where you intend to market; be familiar with market practices; be familiar with your product line, and agree to travel extensively. It is most important to carefully investigate the person's work experiences and their business and financial references.

Frequent checks should be made of the quality of the representative's work through sales activity reports as well as sales quota performance. To protect the company, carefully define the sales representative's authority with respect to agreements with customers, pricing, and promises for product delivery times. Be sure that your agreement with the representative accurately reflects your best interests.

Distributor - The distributor is a merchant who purchases merchandise from a manufacturer at the greatest possible discount and resells it for his profits. This would be the preferred arrangement if the product being sold requires periodic servicing. The prospective distributor should be willing to carry a sufficient inventory. The important thing is that these companies want to be treated as "clients" or "Customers" rather than "Representatives."

Retailer - This generally includes retail stores or specialty shops and relies mainly on the mailing of catalogs, brochures, or other literature. Even though this approach eliminates sales commissions and traveling expenses, the manufacturer who uses the direct approach may suffer because his proposal may not receive proper consideration.

No matter which marketing approach is selected the following practices should be standardized in dealing with all contacts:

1. All overseas request should be answered promptly.
2. Credit information should not be requested in the first letter.
3. The company and its product should be properly introduced so that quality and delivery are positively established.
4. It is important to be courteous and friendly but without undue familiarity.
5. Personally sign all letters. Form letters do not impress.
6. Check the postage, send all correspondence airmail.

After initial contacts with potential market associations, it is necessary to learn if they are reliable. Use Dun and Bradstreet, U. S. Bank References, or their overseas branches for checks.

If travel budget permits, exporters definitely should not commit themselves to a representative without making a visit to the prospective associate's home ground. An executive on the spot can obtain firsthand knowledge of a candidate's reputation through local trade and banking sources. While you are determining the effectiveness of the sales organization through its proven track record, the marketing

company will be doing an evaluation of its own. Top sales firms are in great demand and need assurance that the imported product will sell and that the offshore company can deliver the product with consistent quality and on time.

Initially, the exporter and the foreign associate will mutually agree upon a trial sales plan for a period of one year or longer. Terms of the working relationship may be spelled out broadly in a written contract, drafted with the assistance of attorneys well-versed in export complexities. Thereafter, to maintain an effective liaison, the producer will have to provide adequate guidance, offer cooperation and support, promptly answer queries and correspondence, remain responsive to the needs of overseas sales people, and make periodic visits abroad. Eventually, a comfortable and long-term producer/associate relationship will be forged, profitable to each side.

After successfully making this contact with a prospective representative and investigating his integrity, financial responsibility, community standing, share of the market, and other product lines which he represents for conflict of interest, the next step is to consider the foreign sales agreement itself.

An agreement of this type can be either relatively simply or detailed. The following basic items normally are included in a typical foreign sales agreement:

- ° Names and addresses of both parties.
- ° Date when the agreement goes into effect.
- ° Duration of the agreement.
- ° Provisions for extending or terminating the agreement.
- ° Description of product lines included.

- ° Definition of sales territory.
- ° Establishment of discount and/or commission schedules and determination of when and how paid.
- ° Provisions for revising the commission or discount schedules.
- ° Establishment of a policy governing resale prices.
- ° Maintenance of appropriate service facilities.
- ° Restrictions to prohibit the manufacture and sale of similar and competitive products.
- ° Designation of responsibility for patent and trademark negotiations and/or policing.
- ° The assignability or non-assignability of the agreement and limiting factors.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firm or reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.

PRICING

Most exporters consider pricing strategy the critical part of their marketing program since prices are what determines the amount of revenue the firm is going to receive. The other strategy elements are supportive in that they make it possible for a particular good to be sold at a price that is profitable to the firm. Many new exporters arrive at export prices by using the product's domestic price as starting point and tacking on any export costs like packing, shipping and insurance. However, the domestic price may not provide a reasonable base since it normally reflects domestic marketing costs; prices of export goods determined by this method might not be competitive.

In order to establish an effective export price and obtain an accurate measure of profitability, it is recommended that wood furniture manufacturers conduct independent cost analyses of their product. This can determine the basic unit cost of a product. Then appropriate expenses including modifications or marketing costs and mark up can be added to the total to yield an adequate profit margin.

This pricing information can then be compared to information obtained through trade publications, attendance at trade shows, or feedback from the distributor system to determine changes up or down. An effective pricing program should also carefully consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. You should consider setting an export volume goal and then studying to see if your prices will help you reach it. Targets for a certain number of new export customers for next year should also be established. How can pricing help you get them? It is important to remember that prices should help bring in sales which are profitable over the long pull.

CONCLUSIONS

If your firm has been successful in the domestic market then there is every likelihood that you can sell your products successfully in export markets. Selling abroad takes the same advance planning, market research, attention to detail, and hard work that is required for the domestic market.

The size of a company does not exclude it from success in export markets. Internationally, small companies export a greater proportion of their products than larger firms, and exporting makes a major contribution to the profits of these small companies. Exporting provides a broader marketing base and results in greater company growth. Exporting can lead to the discovery of new market strategies, channels of distribution, and product ideas which the firm could apply domestically with great success. The key to success in exporting is to make the right product available at the right time in the right market at a price which the buyer can afford and which will return an acceptable profit.

The overall decision to export should not be made without sufficient inquiry and consideration; initiating an export program on a hunch that it will pay off only invites disillusionment as well as dissipation of time, energy and finances. However, with research and investigation, along with careful analysis and sound planning, it is possible to minimize the possibilities for error in launching an export venture.

WOOD PARQUET FLOORING
MARKET PROFILE

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

WOOD PARQUET FLOORING

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
MARKET	8
MARKET COMPETITION	10
MARKET CONTACTS	14
IMPORT REGULATIONS AND TARIFFS	15
EXPORT RECOMMENDATIONS FOR THE MANUFACTURER	19
INTRODUCTION	19
PRODUCT	20
PROMOTION	21
DISTRIBUTION	24
PRICING	32
CONCLUSIONS	33

WOOD PARQUET FLOORING

INTRODUCTION

Hardwood flooring is a mark of quality construction in homes and has gained a new dimension in recent years. As part of the trend to natural materials, hardwood floors, are today being appreciated for their beauty and warmth, as well as durability. The greatest opportunity for market growth lies in consumer awareness of wood as an affordable alternative to carpeting in remodeling or new construction. Initial installation cost, annual maintenance cost, and total long-term cost are important in the purchase of parquet flooring products. Even in cases where the initial outlay cost for wood is higher, people understand that maintenance and long wear make it a competitive investment for the home.

The types of wood flooring generally available are strip, plank, and block parquet flooring. Strip flooring is constructed from uniformed tongue and grooved pieces and is used in both commercial and residential installations. Plank flooring is available in either random or uniform widths to create a more rustic appearance. Decorative plugs provide a color and design accent to the flat grains of the planks.

The styles and types of block and parquet vary somewhat among the different manufacturers. Parquet flooring is available in square

panels which are usually 5/16" thick but can also be 9/16", 11/16", or 3/4" thick. The face dimensions are 6" x 6", 6½" x 6½", 12" x 12", or 19" x 19". Other sizes are available from certain manufacturers. Parquet individual strips are 5/16" thick and the face dimensions are 2" x 12" and can be cut or mitered to obtain pieces required for special patterns.

To effect a diagonal pattern, installation usually is begun at the center of a room along a line drawn diagonally across the room. The installation is built up by laying succeeding blocks in pyramid order. The room area on one side of the chalk line is completed before the other is begun.

In achieving a square pattern, workmen generally begin at a center point equidistant from the sidewalls, on a chalk line snapped across the width of the room near one end. Succeeding blocks are placed in pyramid order until the large area beyond the chalk line has been completed. The smaller area, which meanwhile has served as a working space and storage for materials, then is completed in the same manner.

Either the blocks or the individual pieces of parquetry may be nailed or laid in mosaic to a wood sub-floor. Nailing is done through the tongues, as in strip flooring application. The mastic method is preferred by many. In this procedure a thin coat of mastic generally is applied over the base, which must be smooth, level and dry. On top of this is placed a layer of 30 lb. asphalt saturated

felt. Then asphaltic mastic is troweled on to an average thickness of 3/32-inch. Into this the flooring is embedded. The mastic is applied hot or cold, depending on the manufacturer's recommendations.

When the base is concrete, the mastic must be used, generally with damp proofing on top of the slab. It also is employed in remodeling installations where an old floor of terrazzo or other hard material is to be covered.

Block flooring is available in two major types, unit blocks and laminated blocks. In unit-blocks, each of which is composed of several short lengths of flooring, the two tongue edges are at right angles to each other. In laminated blocks, made of three plies of hardwood bonded securely with moisture resistant glue, the tongues are on opposed sides.

Both types can be laid either in square or diagonal pattern. The diagonal design is recommended in corridors and in rooms where the length is more than $1\frac{1}{2}$ times the width. In such areas diagonal placement minimizes expansion under high humidity conditions.

The mill procedures in manufacturing wood flooring start with cutting the green tree and transporting to the sawmill in the form of logs. Lumber is sawn from the logs and stacked in a drying yard to air-dry for several months. After sufficient air-drying the lumber is placed in a dry kiln for a period of 72 hours or more to reduce the moisture content of the wood to an acceptable level which permits the flooring to remain stable after installation and

and usage under normal conditions. Parquet flooring is then manufactured from the kiln dried lumber. Due to the reduced moisture content, no finished wood floor should be subjected to excessive moisture which will cause the wood flooring to expand and sometimes buckle up. All dry wood swells when moisture is induced. The average moisture content of parquet should be between 5 and 12 percent at the time of shipment from the manufacturer's plant, no more than 5 percent of the parquet in any one shipment shall be outside this range.

Parquet flooring is graded at each mill under standard grading rules governing both unfinished and prefinished parquet flooring. The grading requirements for unfinished parquet are premium grade, select and better grade, and rustic grade.

Premium grade is where the face of each slat shall be clear and shall be of all heartwood, except maple, which shall include sapwood. This grade is selected for clear stock but it is not selected for tone or color.

In select and better grade the face of each slat may contain sapwood, slight stain and discoloration. It may also contain occasional pin-worm holes; burls; tight, smooth pencil knots; small mineral streaks and slight imperfections, which will be eliminated in finish process at point of installation, will be permitted. This grade is not selected for tone or color and is a combination of select and premium grades.

For the rustic grade the face of each slat may contain slight splits and checks; closed knots ($\frac{1}{2}$ -inch and smaller); contrasting colors; worm holes, and slight imperfections which will fill and finish satisfactorily. This grade is not selected for tone or color.

The grade requirements for prefinished flooring are choice, natural and better, and cabin grades.

In choice grade the face of each slat should be clear except that it may contain an occasional small, firm pin-knot; bright sapwood; filled worm holes less than $1/16$ -inch in diameter which are not ringed by discoloration; and two light thin streaks less than 2 inches long or two spots less than $\frac{1}{4}$ inch in diameter. This grade will not admit wind shake, seasoning checks, defects in workmanship, or more than moderate color variation in the finish surface. Tinted finish must produce units of uniform color.

Natural and better grade may contain heavy streaks or spots and color variation of the wood; slight variations in tinted colors in the finish; and occasional unfilled pin-worm holes not over $1/16$ -inch in diameter; occasional filled worm holes or knots less than $1/8$ -inch in diameter; two small checks or shakes, one small crack between two slats not over $1/32$ -inch wide; and one very minor workman ship defect, such as a pressure mark, slight planer tear, chipped corner or saw mark. This grade is a combination of choice and natural grades.

Cabin grade is primarily intended as a trimming grade, but it must be of such quality that a sound floor is obtainable from at least 90 percent of the flooring units in the shipment or order. The face of each slat may contain minor workmanship defects; checks and shakes which do not affect the soundness of the floor; open worm holes and broken knots not over 1/8-inch in diameter; small sander digs, moderate planer bite or tear; an occasional slat not fastened to the backing materials or mechanical attachment, and variations in tinted colors in finishes. This grade will not admit unsound defects, such as broken edges, units extremely out of square, or extreme workmanship defects affecting serviceability. A tolerance or difference of 5% below grade by the manufacturer is allowed as no defect.

There is substantial trade association activity in the parquet flooring industry. The United States has several associations solely dedicated to the promotion and growth of the hardwood flooring industry. They continually promote wood flooring by news releases and articles on the flexibility of wood flooring through newspapers and magazines.

One association participates from time-to-time with the American Wood Council in their "Idea Homes" program to promote uses of wood and wood floor systems in homes. The American Wood Council has homes available for tours which display parquet.

Considerable importance is placed on the proper installation of wood parquet tile. Three associations join together to sponsor a hardwood flooring installation school and workshops that are available to contractors, installers, distributors, and their employees. These seminars provide up-to-date information on new concepts and development in the hardwood flooring industry. Each organization offers literature on the care, installation, finishing, grades and characteristics of wood flooring.

The American National Standard Association provides brochures on the importance of dimensional and quality requirements of commercially available hardwood block flooring and floor tile. Requirements are provided to producers, distributors, and users on grading, moisture content, dimensions, construction and finish. The Oak Flooring Institute consists of a group of companies whose purpose is to inspect flooring produced in the U.S. and to make sure it meets industry standards for quality.

The natural beauty of hardwood flooring is enhanced by modern finishes which reduce the maintenance and protect against damage, and by new design techniques which make it possible to add color and pattern to hardwood floors in any home or apartment.

The flexibility of hardwood flooring is unparalleled. It can be left exposed or partially covered with area rugs, finished in natural tones or accented with brilliant colors that show the distinctive wood markings. It can also be arranged in attractive patterns so that a room can be made to seem larger or smaller, so that spaces can be united or divided. It can be refinished many times to match changes in interior decor.

Wood flooring was mainly confined, until recently, to entryway areas of the home but now parquet and hardwood planks are no longer being restricted to traffic lanes. Wood parquet and wood plankings are fast becoming favorite surfaces for every area in the home. Hardwood parquet is also being used to create handsome, economical paneling for walls and ceilings. No other flooring material offers so much. Buyers are increasingly willing to pay more for wood to obtain a more prestigious look. Parquet offers the consumer a flooring product which is new and stylish yet warm and durable.

The types of wood generally available for parquet flooring are oak, maple, cherry, ash, pecan, birch, and a wide range of domestic and imported hardwoods. Oak is prominent in the U. S. market because it is an all-purpose wood suitable for a wide range of applications. The milling process of oak determines its grain pattern. Maple is often specified for gyms and similar facilities due to its tight grain structure and wearability. Cherry, ash, pecan, birch, and other hardwoods are generally utilized in either parquetry or custom work.

MARKET

The wood flooring business has been a reasonably stable market during the past decade. However, it remains a very specialized business for customers in better homes of the \$75,000 and up category and mainly accessible to buyers in the upper income range. Hardwood flooring conveys an impression of high quality and grace to a home.

Older homes being renovated, restored, refurbished, or remodeled are taking advantage of the opportunity to install wood flooring or to refurbish old wood floors to enhance the features in older homes and to display a sense of history in their life styles. Hardwood flooring is a mark of quality.

When it comes time to build a new home, the majority of people living on hardwood floors will remain loyal to hardwood flooring. In fact, 65 percent of the people living on hardwood floors now prefer them and have indicated they would put them in their next home.

The biggest obstacle that wood flooring distributors foresee is the lack of qualified installers. The key to the skill of proper installation is dedication to the job and knowledge of the materials. It takes approximately three years to train a good installer for the custom job-finish work, but a prefinished wood flooring installer can be trained much quicker. An installer must understand the need to pretest climate conditions and undersurface preparation at the installation site to prevent hazardous installation.

Total annual floor coverings market is estimated at \$6.2 billion, however, hardwood flooring represents less than \$200,000,000 or about 3% of the total. Hardwood dimension and flooring exports for 1980 was \$6.6 million. Hardwood dimension and flooring imports to the U. S. for 1980 was \$76.1 million. Total shipments of hardwood flooring for 1980 is not available. But the figures for 1979 (\$276.6 million) shows approximately 23% increase over 1978 with \$226.3 million in shipments. Total shipments for the first five months

of 1982 in millions of feet was 29,703,000 which is 7,954,000 feet less than the first five months of 1981 with a total of 37,657,000.

The twelve month record from June 1981 is as follows:

June 1981	7,268,000 million feet
July 1981	6,509,000
Aug. 1981	7,137,000
Sept. 1981	6,553,000
Oct. 1981	7,030,000
Nov. 1981	5,738,000
Dec. 1981	5,187,000
Jan. 1982	5,413,000
Feb. 1982	5,367,000
March 1982	6,947,000
April 1982	6,001,000
May 1982	5,975,000

International trade will continue to be a small factor in the U. S. parquet flooring industry. On balance, net imports will account for less than 2% of domestic demand and the U. S. parquet flooring market is expected to be supplied by domestic manufacturers.

MARKET COMPETITION

The U. S. Department of Commerce, Bureau of Census lists the following imports for consumption:

TSUSA - 2025600 - Hardwood flooring, Oak in Strips & Planks.

Canada	139,000 board feet
Japan	342,000
Other Countries	20,000

TSUSA - 2025820 - Hardwood flooring, Maple, Birch, or Beech
in Strips and Planks

Canada	2,695,000 board feet
Denmark	188,000
Japan	48,000
Other Countries	10,000

TSUSA - 2025840 - Hardwood flooring, strips, and planks, except
maple, beech, birch, oak

Thailand	136,000 board feet
Malaysia	2,789,000
Singapore	667,000
Phil R.	834,000
Other Countries	186,000

TSUSA - 2026020 - Softwood flooring, except in strips and planks

Other Countries	68,000 board feet
-----------------	-------------------

TSUSA - 2026040 - Hardwood flooring, except in strips and planks

Canada	1,439,000 board feet
Mexico	49,000
Mexico	126,000
Brazil	95,000
Sweden	80,000
India	84,000
Thailand	1,501,000
Malaysia	101,000
Singapore	1,713,000
Other Countries	353,000

Bruce Hardwood Floors Division is the nation's largest manufacturer of hardwood flooring and the undisputed industry leader. Bruce is the only hardwood flooring manufacturer offering a complete line of both solid and laminated products in strip, plank, and parquet styles - each in a variety of colors. The company is also developing new products and new sales aids and is working on ways to help distributors to boost sales and make their product more profitable to handle. Over 25,000 point-of-sale product displays are in

dealer showrooms and more than 2,000 displays/merchandisers in retail home centers are the principal vehical for conveying Bruce's message to the consumer.

Berger Langmoen in Norway will double production of laminated parquet flooring. They are expecting an increasing demand for parquet flooring from Europe. Laminated parquet already has a dominating position in the Scandinavian market. Some 50% of the company's production is exported and 33% of Norway's consumption of parquet flooring comes from Berger Langmoen.

The Rubber Research Institute of Malaysia has found that rubber wood can be made into parquet flooring. Rubber wood is less likely to shrink during air drying than other types of wood, and it has good bending properties.

Finland parquet consists of 3 layers with the surface consisting of birch slivers which have been glued together for a 2mm. thick uniform surface plate.

Persson Invest Group, one of Sweden's largest particle board manufacturers produces a ready varnished floor sheet made of large chip flakes, an alternative to parquet flooring. Comparative tests have shown that the new product, Plankelit, fully compares with parquet or redwood flooring.

1

Tarkett in Sweden manufactures a new quality of wood flooring. The wood flooring is different in appearance from conventional qualities. The wood's natural structure and its shades of color are emphasized and enhanced. Tarkett, a member of Swedish Match Group, holds over 50% of the Swedish market for wood flooring, and the Hanaskog plant may be the world's largest manufacturing facility for laminated parquest flooring.

WOOD TILE CONTACTS

Mr. Allen Ross
Acme Flooring Co.
Birmingham, Ala. 35222

Mr. Dale Lawrence
United Lumber Co. -
Flooring Div.
25 22nd. Ave., West
Birmingham, Ala. 35204

Mr. Joe Dupree
Custom Wholesale Floors Inc.
2020 N.W. 23rd. St.
Miami, Fla. 33142

Mr. Curt Link
Crest Flooring Distributor
5110 Knox St.
Tampa, Fla. 33614

Mr. Leon Sherrod
Sherrod Floor Coverings
1249 North Orange Ave.
Orlando, Fla. 32804

Mr. Michale Kronberg
Deigned Flooring Distributors
3019 N. W. 60th St.
Ft. Lauderdale, Fla. 33309

Mr. Andy Deaton
Johnson Wholesale Floors Inc.
P. O. Box 93472
1874 Defoor Ave., N.E.
Atlanta, Ga. 30318

Mr. David Bridges
George Bridges Co.
4732 Stone Drive
Tucker, Ga. 30084

Mr. Ed Whatley
Flooring Distributors Inc.
P. O. Box 1285
Decatur, Ga. 30031

Mr. Ed Wilson
R. L. Dresser Inc.
P. O. Box 17083
Raleigh, N.C. 27619

Ms. Patsy Sykes
Cherokee Flooring Corp.
P. O. Box 1926
Burlington, N.C. 27215

Mr. Bob Carr
Educational Lumber Co.
21 Meadow Rd.
Asheville, N.C. 28803

Mr. Bob Holthouser
Allison-Erwin Company Inc.
P. O. Box 2388
2920 N. Tryon St.
Charlotte, N.C. 28234

Mr. Carl McCarver
Shuler Distributing Co.
3040 Democrat Rd.
Memphis, Tenn. 38118

Mr. Bill Killebrew
William C. Killebrew & Co.
P. O. Box 40067, Melrose Sta.
Nashville, Tenn. 37204

Mr. Bob Williams
Installers Supply Company
900 Stuart St.
Chattanooga, Tenn. 37406

IMPORT REGULATIONS AND TARIFFS

All goods imported into the United States are subject to duty or duty-free entry in accordance with their classification under the applicable items in the Tariff Schedules of the United States.

When goods are dutiable, ad valorem, specific, or compound rates may be assessed. An ad valorem rate, which is the type of rate most often applied, is a percentage of the appraised value of the merchandise.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Duty-free status is also available under various conditional exemptions. One of the more frequently applied exemptions from duty occurs under the Generalized System of Preferences.

The Generalized System of Preferences is a program providing for free rates of duty for merchandise from beneficiary developing independent countries and dependent countries and territories to encourage their economic growth. This program was enacted by the United States in the Trade Act of 1974, became effective on January 1, 1976, and will expire January 4, 1985.

The GSP eligibility list contains a wide range of products, classifiable under approximately 5,000 different item numbers in the Tariff Schedules of the United States. These items are identified by either an "A" or "A*" in the GSP column of the tariff schedules.

Merchandise classifiable under an item number designated in this manner may qualify for duty-free entry if imported into the United States directly from any of the designated countries and territories. Merchandise from one or more of these countries, however, may be excluded from the exemption of these is an "A*" in the GSP column. The list of countries and exclusions, as well as the list of GSP-eligible articles, will change from time to time over the life of the program. Therefore, the latest edition of the Tariff Schedules of the United States Annotated will contain the most up-to-date information.

For commercial shipments valued at \$250 where a formal entry is required, a claim for duty-free status is made under GSP by showing on the entry summary that the country of origin is a designated beneficiary developing country and by showing an "A" or "A*" with the appropriate GSP-eligible item number. Eligible merchandise will be entitled to duty-free treatment provided the following conditions are met:

1. The merchandise must be destined to the U. S. without contingency for diversion at the time of exportation from the beneficiary developing country.
2. The UNCTAD (United Nations Conference on Trade and Development) Certificate of Origin Form A must be properly prepared, signed by the exporter, and certified by the Designated governmental authority of the beneficiary developing country, and be either filed with the entry or furnished before liquidation or other final action on the entry.

3. The merchandise must be produced in the beneficiary developing country from which it is direct shipped. These requirements may be satisfied when (a) the goods are wholly produced of materials which are the growth or product of the beneficiary developing country, or (b) the value of materials produced in the beneficiary developing country and/or direct costs of processing performed there represent at least 35 percent of the appraised value of the goods.

The cost or value of materials imported into the beneficiary developing country may be included in calculating the 35 percent value-added requirement for an eligible article if the materials are first substantially transformed into new and different articles and are then used as constituent materials in the production of eligible article. The phrase "direct costs of processing" includes costs directly incurred or reasonably allocated to the processing of the article, such as the cost of all actual labor, dies, molds, tooling, depreciation, research and development, and inspection and testing. Business overhead administrative expenses, salaries, and profit are not considered as direct costs of processing.

Normally, the Customs Service will accept an entry at the free rate if Form A is presented at the time of entry. If Form A is not available, the importer may give an appropriate bond (security) for subsequent production of the form within 60 days (subject to an extension), and may be required to deposit estimated duties.

The UNCTAD Certificate of Origin Form A is not available for sale in the United States. The beneficiary developing countries and territories participating in the program are responsible for printing and supplying this form. Exporter may get this form from the designated governmental certifying authority in their respective countries.

The Customs Service makes its decision as to the dutiable status of merchandise when the entry is liquidated after the entry documents have been filed.

Barbados, Dominican Republic, and Jamaica, are all designated beneficiary countries for the purposes of the Generalized System of Preferences provided for in Title V of the Trade Act of 1974 and wood tiles would enter the U. S. duty free with a properly executed Certificate of Origin Form A.

EXPORT RECOMMENDATIONS FOR THE MANUFACTURER

INTRODUCTION

Beyond the profits to be derived from increased sales opportunities, exports can provide companies with diversification of markets, more flexibility in production scheduling, extended product life, and favorable taxation incentives.

Basically, the same principles apply to selling abroad as to successful selling at home. A business starts by analyzing the foreign markets. That task has already been accomplished for this project with the preparation of the market profiles. After determining whether or not it is profitable to enter the market. The factors to be considered in making this decision are:

1. Present capital-on-hand.
2. General financial status.
3. Market potential for the specific product.
4. Competition abroad.
5. Product prices including shipping to foreign market compared with those of the competition.
6. Government regulations.
7. Available management personnel to supervise the export operation.
8. Available marketing personnel to handle distribution, sales and promotional work.
9. Raw materials necessary to produce the product.
10. Banking facilities for loans.
11. Channels of distribution available to sell the product.
12. Development of transportation and communication in the export country.

PRODUCT

For Wood Parquet flooring an essential part of product strategy is market information. Both consumer and competitive information can be of immense value since it can alert the manufacturer to changes in the general market or design changes at competitors. The following trade publications should be obtained directly or as an industry group through the export promotion organization.

Floor and Wall Coverings News
O'Brien Communications Ltd.
45 Crosby Street
New York, N.Y. 10012

Floor Covering Weekly
Bart Publications, Inc.
919 Third Ave.
New York, N.Y. 10022

Flooring: The Magazine of Interior Surfaces
Harcourt Brace Jovanovich Inc.
757 Third Ave.
New York, N.Y. 10017

An exporter should allocate a reasonable amount of time using these periodicals to investigate the products, processes, and actions of other manufacturers in the industry. With a small investment in subscription fees handsome dividends can be paid in the form of improved marketing decisions.

Another consideration is the size of a company's export product line. To enter the export market it is generally recommended that the manufacturer simplify their product line so that volume saving in materials and labor can be obtained. Also confusion in distribution can be reduced. The evaluation of competition will assist with product line decisions, along with careful cost analysis to determine break-even.

PROMOTION

The attention given to the promotional effort by a wood parquet flooring exporter will have a great deal of influence on the success of the export program. Product brochures and catalogs should be carefully designed to give high visual impact. Promotional materials should have simplicity, good balance, proportion, and sequence. They should be professionally printed with the upmost attention given to quality details. In addition to product material, general background photographs of the plant and production facilities can be included in catalogs. It is essential that the product literature get the attention of the customer, hold their interest, arouse a desire, and obtain an action.

Sometimes it is difficult to sell a product, depending on its nature if the potential buyer is unable to physically examine it. Sales letters and brochures are beneficial but it is impossible to judge the quality or sturdiness of an item unless it can be examined. Trade shows are shopwindows in which thousands of firms display their products and shows serve as marketplaces in which buyer and seller meet. For thousand of years, merchants, manufacturers, and artisans have gathered together to exchange their goods. Today, in spite of new ways to communicate, business people are still getting together to display their products at trade shows. As an additional promotional method it is recommended that wood parquet exporters should attend and, where financially feasible, display at home builders trade shows. The following home builder show has major representation from the Southeast United States and is appropriate for participation.

Ms. Eloise Fisher
National Association of Home Builders
15th & M Street, N.W.
Washington, D.C. 20005
Show Date: January 22-25, 1983
Houston, Texas

Start by writing show management for the literature it has prepared for prospective exhibitors. This is a selling document, designed to present the show in its strongest light, but it should give a better idea of the nature of the audience the show attracts. Most shows issue detailed breakdowns of attendance which can be valuable in the decision process. Another important source of information about a show is the list of exhibitors.

The effectiveness of a booth depends to a great degree on the effectiveness of the people working in it. It is a different and sometimes bewildering place for most sales representatives, who are more used to visiting prospects one at a time in their offices, not having prospects come up and ask for information.

Booth personnel must be friendly, must be able to tell good prospects from curiosity seekers, and must be able to move quickly towards advancing the sale. It is important to let booth workers know what your objectives are, so that they can work towards reaching your goals, whether it is setting up appointments, getting literature into the right hands, giving a demonstration, or making a sale. When your people are on duty, they should be fully on duty. That means: being up front, ready to welcome visitors, not talking in a corner with others on the staff and not sitting down except when a visitor

prefers to sit and talk. Trades shows have a number of strengths and advantages including:

- ° An opportunity for the seller and the buyer to meet face-to-face, where the products being shown can be demonstrated and handled and sales made;
- ° A pre-selected audience, with specified interests, and at the show for the purpose of learning about products;
- ° An opportunity to reach people who are ordinarily not accessible to sales representatives, and to uncover unknown buying interest.
- ° A place where buyers can do comparative shopping, can discuss their problems with many technical people, and thus a place where the buying process can be shortened.
- ° An opportunity to maintain an image and continuing contact with customers;
- ° The chance to create an image, initiate contact with potential customers, and qualify buyers or introduce a new product;
- ° It builds morale of the sales force;
- ° The opportunity to conduct market research and evaluate the competition; and
- ° It provides an opportunity to recruit personnel or attract new dealers.

Participation in trade shows not only exposes products to the markets but it often leads to off floor sales. Thus, trade shows can be a very cost effective means to test a market, size up the competition, or establish market contacts.

It is important to always have an objective before entering a show. Whenever possible, this objective should be stated numerically - so many appointments, so many new names for your mailing list, so many orders, so many new wholesalers. After the show, look at the results, Was your exhibit adequate? Did you have too much space?

Were your people functioning adequately? It is only by looking at these factors that a record can be improved. You will learn from experience only if you study your experience systematically. Those who use shows correctly have found that it is a productive, economical medium.

DISTRIBUTION

Basically, a company has a choice between three types of distribution methods. The first alternative is a "joint venture." The joint venture is an enterprise in which two or more parties share the financial risks and the decision making through joint equity and management participation in a common enterprise. For joint ventures it is essential that the exporter carefully examine the foreign company's management approach. An understanding must be reached by executives of both firms on such factors as potential market position, growth, financial policy, and product development. Only then should a written agreement between the two firms be concluded. Normally strong incentives must exist for both parties in order for a joint venture to be created. Since access to Southeastern United States markets is the primary motive of this project, it is recommended that market maturity should be developed using either indirect or direct distribution of wood parquet flooring products prior to seeking a joint venture partner.

The second approach a company can employ is known as the "indirect method" and delegates export sales responsibility to a firm such as an export management company, overseas importer, a trading company or a producer of related products. Usually, the sales intermediary which is selected will assume responsibility for shipping the product overseas; or a company will use the "direct method" and sell abroad through a sales agent, distributor, retail store, or directly to customers. Under this type of arrangement, the manufacturer will normally retain responsibility for shipping products to export markets.

The indirect or direct distribution methods are not mutually exclusive. It is often possible to use both simultaneously. A CASE IN POINT is a firm might appoint representatives in one or two states and also sell to a buyer for export with the understanding that the product they handle will be marketed elsewhere. This would allow the exporter to concentrate its effort on a limited number of markets and at the same time take advantage of the broad coverage the buyer for export gives. However, this approach sometimes creates undue competition which can discourage product representatives.

Many manufacturers maintain that direct exporting better advances and protects a firm's interests, provides stronger controls over marketing strategy, and increases net profitability. Direct exporters can stay in close touch with their overseas markets, remain current with market demands, and meet the needs of the sales organizations as they occur.

Some firms successfully sell their products directly to overseas retailers or actual end-user customers, particularly high quality items, but the majority of direct export companies sell their products through sales representatives or distributors already established in local markets. This direct method can help an exporter to develop considerable expertise of its own in the markets of its product overseas. Should the exporter want to change representatives or establish its own overseas marketing operation, it is in a good position to do so.

In evaluating how a manufacturer should market directly overseas, these options should be considered:

Sales Representative - Many small firms employ one or more full-time sales representatives who work under contract and by commission. Product literature and samples are used to present the product to potential buyers. If this approach is to be a success, these people must be properly selected. The sales representative should be familiar with the market area where you intent to market; be familiar with market practices; be familiar with your product line, and agree to travel extensively. It is most important to carefully investigate the person's work experiences and their business and financial references.

Frequent checks should be made of the quality of the representative's work through sales activity reports as well as sales quota performance. To protect the company, carefully define the sale representative's authority with respect to agreements with customers, pricing, and promises for product delivery times. Be sure that your agreement with the representative accurately reflects your best interests.

Distributor - The distributor is a merchant who purchases merchandise from a manufacturer at the greatest possible discount and resells it for his profits. This would be the preferred arrangement if the product being sold requires periodic servicing. The prospective distributor should be willing to carry a sufficient inventory. The important thing is that these companies want to be treated as "clients" or "Customers" rather than "Representatives."

Retailer - This generally includes retail stores or specialty shops and relies mainly on the mailing of catalogs, brochures, or other literature. Even though this approach eliminates sales commissions and traveling expenses, the manufacturer who uses the direct approach may suffer because his proposal may not receive proper consideration.

No matter which marketing approach is selected the following practices should be standardized in dealing with all contacts:

1. All overseas requests should be answered promptly.
2. Credit information should not be requested in the first letter.
3. The company and its product should be properly introduced so that quality and delivery are positively established.
4. It is important to be courteous and friendly but without undue familiarity.
5. Personally sign all letters. Form letter do not impress.
6. Check the postage, send all correspondence airmail.

After initial contacts with potential market associations, it is necessary to learn if they are reliable. Use Dun and Bradstreet, U. S. Bank References, or their overseas branches for checks.

If travel budget permits, exporters definitely should not commit themselves to a representative without making a visit to the prospective associate's home ground. An executive on the spot can obtain firsthand knowledge of a candidate's reputation through local trade and banking sources. While you are determining the effectiveness of the sales organization through its proven track record, the marketing company will be doing an evaluation of its own. Top sales firms are in great demand and need assurance that the imported product will sell and that the offshore company can deliver the product with consistent quality and on time.

Initially, the exporter and the foreign associate will mutually agree upon a trial sales plan for a period of one year or longer. Terms of the working relationship may be spelled out broadly in a written contract, drafted with the assistance of attorneys well-versed in export complexities. Thereafter, to maintain an effective liaison, the producer will have to provide adequate guidance, offer cooperation and support, promptly answer queries and correspondence, remain responsive to the needs of overseas sales people, and make periodic visits abroad. Eventually, a comfortable and long-term producer/associate relationship will be forged, profitable to each side.

After successfully making this contact with a prospective representative and investigating his integrity, financial responsibility, community standing, share of the market, and other product lines which he represents for conflict of interest, the next step is to consider the foreign sales agreement itself.

An agreement of this type can be either relatively simple or detailed. The following basic items normally are included in a typical foreign sales agreement:

- ° Names and addresses of both parties.
- ° Date when the agreement goes into effect.
- ° Duration of the agreement.
- ° Provisions for extending or terminating the agreement.
- ° Description of product lines included.
- ° Definition of sales territory.
- ° Establishment of discount and/or commission schedules and determination of when and how paid.
- ° Provisions for revising the commission or discount schedules.
- ° Establishment of a policy governing resale prices.
- ° Maintenance of appropriate service facilities.
- ° Restrictions to prohibit the manufacture and sale of similar and competitive products.
- ° Designation of responsibility for patent and trademark negotiations and/or policing.
- ° The assignability or non-assignability of the agreement and limiting factors.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firm or reveal any confidential information in a way that would prove injurious, detrimental, or competitive to the firm.

PRICING

Most exporters consider pricing strategy the critical part of their marketing program since prices are what determines the amount of revenue the firm is going to receive. The other strategy elements are supportive in that they make it possible for a particular good to be sold at a price that is profitable to the firm. Many new exporters arrive at export prices by using the product's domestic price as starting point and tacking on any export costs like packing, shipping and insurance. However, the domestic price may not provide a reasonable base since it normally reflects domestic marketing costs; prices of export goods determined by this method might not be competitive.

In order to establish an effective export price and obtain an accurate measure of profitability, it is recommended that wood parquet manufacturers conduct independent cost analyses of their product. This can determine the basic unit cost of a product. Then appropriate expenses including modifications or marketing costs and mark up can be added to the total to yield an adequate profit margin.

This pricing information can then be compared to information obtained through trade publications, attendance at trade shows, or feedback from the distributor system to determine changes up or down. An affective pricing program should also carefully consider sales volume. For example, high prices might limit your sales volume while low prices might result in a large, but unprofitable volume. You should consider setting an export volume goal and then studying to

see if your prices will help you reach it. Targets for a certain number of new export customers for next year should also be established. How can pricing help you get them? It is important to remember that prices should help bring in sales which are profitable over the long pull.

CONCLUSIONS

If your firm has been successful in the domestic market then there is every likelihood that you can sell your products successfully in export markets. Selling abroad takes the same advance planning, market research, attention to detail, and hard work that is required for the domestic market.

The size of a company does not exclude it from success in export markets. Internationally, small companies export a greater proportion of their products than larger firms, and exporting makes a major contribution to the profits of these small companies. Exporting provides a broader marketing base and results in greater company growth. Exporting can lead to the discovery of new market strategies, channels of distribution, and product ideas which the firm could apply domestically with great success. The key to success in exporting is to make the right product available at the right time in the right market at a price which the buyer can afford and which will return an acceptable profit.

The overall decision to export should not be made without sufficient inquiry and consideration; initiating an export program on a hunch that it will pay off only invites disillusionment as well as dissipation of time, energy and finances. However, with research and investigation, along with careful analysis and sound planning, it is possible to minimize the possibilities for error in launching an export venture.

RECOMMENDATIONS FOR THE
EXPORT PROMOTION ORGANIZATION

FOR
ORGANIZATION OF AMERICAN STATES

ENGINEERING EXPERIMENT STATION
GEORGIA INSTITUTE OF TECHNOLOGY
Atlanta, Georgia

RECOMMENDATIONS FOR THE EXPORT PROMOTION ORGANIZATION

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
JOINT VENTURE SERVICES	1
EXPORT ASSISTANCE	3
TECHNICAL SERVICES	4
PROMOTIONAL SERVICES	5
FINANCIAL SERVICES	6
TRAINING SERVICES	7
CONCLUSION	8

RECOMMENDATIONS FOR THE EXPORT PROMOTION ORGANIZATION

INTRODUCTION

Expansion of sales to foreign markets raises problems especially for the small and medium size firm. The establishment of an export market normally requires an investment not needed for domestic markets. Also, if a firm is to compete, it is often necessary for exporters to research markets, adapt products, and promote their product in the export market. Such skills and expenses may be beyond the means of small-scale producers eager to export their products. As an outgrowth of these needs, export promotion organizations have been created to meet the special requirements of industries desiring greater export sales. An Export Promotion Organization can play an important role in solving the specific problems of export marketing for manufacturers including a lack of information and communication, limited resources and small-scale operations, the problems of risk, and disadvantages in transportation.

JOINT VENTURE SERVICES

There are three major motivations for a "Joint Venture": the attainment of technology; attainment of management skills; and development of export markets. All of these objectives are compatible with the function of an export promotion organization and several roles are recommended in this area.

- ° Assisting firms to analyze their strengths and weaknesses related to management skills, product quality, production capabilities, market know-how, and financial controls. This examination is essential in determining the attributes which a firm can bring to a joint venture relationship.
- ° Systematically working to identify potential partners based on the abilities and needs of interested companies. Participation in professional trade association meetings, information from industry directories such as Thomas Registers, and Dun and Bradstreet Reference Book of Manufacturers, trade show attendance, and contact with commercial attachés/international banks are worthy of investigation.
- ° Organizations of official trade delegations, missions, or product shows for the development of joint venture partners.
- ° Serving as a facilitator in the preparation of joint venture agreements. Normally joint ventures are the results of lengthy negotiations between a small number of senior executive from the participating companies. The export promotion organization can act on behalf of the local company to insure that the agreement includes a precise definition of the joint venture mission, specific language concerning initial and future contributions of each partner: technology and patents, manufacturing-plant equipment, capital and personnel; equity positions and clauses for changes over time; performance clauses for each partner; composition and policy decisions of the board of directors of the partnerships committee; and distribution of profits or absorption of losses.

- ° Providing guidance in understanding the cultural and business attitude of the joint venture partner.

To bring together a joint venture requires a great deal of time, a significant amount of money developing leads and ultimately in legal cost, and a great deal of patience to assure success. Because of these requirements the export promotion organization should assume an active role assisting companies in their joint venture effort.

EXPORT ASSISTANCE

Export promotion organizations can also be expected to provide direct service to exporters with the intent of assisting them to become more competitive in export markets. Irrespective of the organizational set-up of the export promotion organization, these services can logically be divided into four categories:

- (a) technical services designed to improve export techniques;
- (b) promotional services to assist local exporters to promote their products in foreign markets;
- (c) financial services, for example, to assist capital-short exporters and to improve the credit terms they offer foreign customers: and
- (d) training services with a view to familiarizing local exporters with modern export methods.

TECHNICAL SERVICES

The technical services that export promotion organizations should provide include:

- (a) Assisting exporters to carry out export-marketing research on specific products in foreign markets, employing to this end the organization's personnel or using outside consultants;
- (b) Informing the producer regularly, in writing, as to the conditions of marketing abroad.
- (c) Assisting exporters to improve their export products and to adapt them to the requirements of foreign markets through product research and development, quality control, design development, packaging and labelling, etc.;
- (d) Assisting exporters to develop efficient distribution abroad.
- (e) Supplying information on transport charges, and basic legal and financial advice.
- (f) Maintaining a trade publication service for key industry groups.

The technical services offered by export promotion organizations will tend to increase progressively the competitiveness of local products in export markets. They will also gradually help to diversify the national export sector by encouraging exporters to specialize in items offering the greatest export promise, and to create new export lines in accordance with foreign demand. As these services are intended to meet the needs of small and medium-sized exporters, they would reinforce this small enterprise sector, which often comprises a high percentage of local industry in the country.

PROMOTIONAL SERVICES

Promotional services to exporters include the following:

- (a) Assisting exporters by organizing sales missions abroad with a view to establishing direct, personal contact with promising foreign clients;
- (b) Assisting exporters to advertise and promote their products abroad by providing advice on advertising methods and brochure design, or co-ordinating the advertising campaigns of exporters with government publicity efforts;
- (c) Counselling exporters on other sales-promotion media, such as the publication of export catalogues; and on the mounting of foreign exhibits; and arranging for their participation in foreign trade shows.

The importance of promotional services for the development of a country's export sector as a complement to the technical services referred to above is obvious. Export promotion abroad requires an intimate knowledge of conditions in foreign markets, which the individual exporter may often lack. It is therefore a natural task for the export promotion organization to provide exporters with this type of assistance, counsel, instruction, and cost sharing where possible. Often, the export promotion organization can share the expense of display space at trade shows. This normally consists of renting a large area where the various firms arrange separate displays of their products. Expenses are reduced greatly by collectively using display personnel, transport, etc..

The trade fair can also provide a means of maintaining communications with and obtaining information about foreign markets. Export promotion organizations should routinely organize trips to trade shows for groups of companies in an industry sector. This effort will reduce the risks

associated with export commitments by directing the activities to the more promising markets, thus shortening the process of information-gathering and evaluation. As a result, more firms are likely to join the ranks of those who seek to export, and, once having decided to investigate export possibilities, they tend to investigate more markets and products.

FINANCIAL SERVICES

Export financing lies at the heart of export promotion. A basic task for the export promotion organization is to develop - in cooperation with competent national authorities - such export incentive schemes, primarily of a financial nature but not excluding fiscal or monetary measures, as are required to encourage specific types of activities that will enable a domestic producer to sell his goods in foreign markets. Such incentives may include the financing of marketing research, product literature, the participation in trade shows abroad, etc..

The export promotion organization can also cooperate with the national financial authorities with a view to providing adequate credit facilities for the export sector, including ways of providing competitive terms to foreign clients.

An imaginative program of financial assistance to exporters can go a long way toward improving their ability to compete in export markets. Exporting is costly, especially during the initial phase of breaking

into the markets. Exporters incur substantial expenditures in producing for export and promoting in foreign markets. This situation cannot be dealt with adequately unless financing institutions make an effort to provide systematic financial assistance to the local exporter. It is up to the export promotion organizations to take constructive initiatives in this direction. The organization should also provide leadership in the financial area of export insurance and its cost. Despite the most careful sales negotiations, thorough investigations of a buyer's credit worthiness, and use of confirmed methods of payment, some unforeseen and unpredictable event may cause losses from a foreign sale. It is obvious that the small exporter is much less likely to be able to bear losses than the large exporter, but many countries still lack adequate insurance schemes, which alone would give some exporters the courage and financial confidence to begin exporting to new markets. Many manufacturers point correctly to the disproportionate risks involved in selling to the export markets versus domestic sales.

TRAINING SERVICES

In addition to the training services that export promotion organizations are called upon to administer for government officials engaged in export activities, they must also provide training for local exporters. This training can be in the form of general or specialized courses of a longer or shorter duration depending on the background and level of the personnel to be trained.

Normally the training of local exporters is a rather difficult task because of skills level and diversity of interest. Nevertheless, the experience of many export promotion organizations is that a program of this kind is an essential part of any effort to develop the national export sector. Subjects can range from tariff regulations to consumer trends in an industry sector.

CONCLUSION

Potential exporters are generally subject to a variety of structural disabilities, which prevent them from entering foreign markets, even where external obstacles to trade are not important. These weaknesses are largely a result of their inexperience, their small operational size, and their predominantly domestic-oriented approach. There is no doubt that export promotion organizations have a high potential as an instrument for overcoming these problems and providing an expansion and diversification of exports.