Search and Learning in Export Markets: Evidence from Interviews with Colombian Exporters

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Abstract

Why do most new exporters quickly abandon foreign markets after shipping very small amounts? And why do surviving exporters ramp their sales up gradually over a period of many years? A large literature uses models and customs records to address these questions. We complement these studies by conducting case study interviews with a small set of Colombian manufacturers. Inter alia, we find that establishing a lasting foreign market presence involves a costly search and learning process, with valuable knowledge coming from initial failures.

Keywords: Exporting, costs of exporting, strategies to start exporting, interviews.

JEL Classification Numbers: F19

1. Introduction

Among manufacturing firms, successful exporters are a distinct minority. They are also typically larger and more productive than their domestically-oriented counterparts.[1] These patterns, robust across industries and countries, have inspired many researchers to investigate their underlying causes. We contribute to this literature using a case study approach.

The simplest interpretation for selective export market participation is that there are large fixed and/or sunk costs associated with foreign market participation (e.g., Roberts and Tybout, 1997; Melitz, 2003; Das, et al., 2007; Eaton et al., 2011; Impullitti et al., 2012). This explanation accounts for the relative size and productivity of exporting firms. However, it seems inconsistent with the fact that most firms testing their luck in foreign markets end up exporting for short periods of time, generating very small amounts of revenue from their forays (e.g., Brooks, 2006; Eaton et al., 2008). Fixed and sunk costs also fail to explain why firms that *do* sustain exporting operations start with modest foreign sales and gradually ramp up their shipments (e.g., Ruhl and Willis, 2017; Gumpert et al., 2020). And regardless of these issues, simply asserting that fixed or sunk costs are important doesn't shed much light on the form they take.

For all these reasons, a more nuanced literature has emerged that identifies a variety of interpretations for exporters' behavior. Some strands emphasize the need to build a foreign customer base (e.g., Arkolakis, 2010; Ruhl and Willis, 2017; Fitzgerald et al., 2019; Rodrigue and Tan, 2019; Eaton, et al. 2021a and 2021b; and Pivetau, forthcoming). Others point to firms' limited knowledge of foreign markets (e.g., Albornoz et al., 2012; Schmeiser, 2012; Nguyen, 2012; Aeberhardt et al., 2014; Timoshenko, 2015; Cebreros, 2016; Araujo et al., 2016; Arkolakis, et al., 2018; Li, 2018; Berman et al., 2019; Eaton et al., 2021a). And still others highlight contractibility or financing issues (e.g., Rauch and

[1] Bernard et al. (2007, 2012) summarize much of the early evidence and provide references.

Watson, 2003; Araujo and Ornelas, 2007; Besedes, 2008; Manova, 2013; Manova and Yu, 2016; Blouin and Macchiavello, 2019).

This newer literature has provided considerable insight into firms' exporting decisions.[2] But it is largely reliant on inferences from customs records, so its conclusions regarding the motivations behind exporters' behavior are indirect, and in many cases they depend heavily upon modeling assumptions. Accordingly, to generate complementary evidence, we conduct detailed interviews with with the managers of exporting and would-be exporting firms in Colombia's plastic manufacturing sector.

Our interviews focus on two basic questions: What is involved in the process of setting up a relationship with a foreign buyer, and why are experiences so heterogeneous once that relationship has been established? In turn, these questions lead us to investigate the decision to start exporting, the process of effectively entering external markets, and the events firms experience upon starting to export.

While case studies are not common in mainstream ecoonomic research, they are useful to understand the detailed workings of specific processes and are widely used in other social sciences. Eisenhardt (1989) defines the case study approach as a "research strategy which focuses on understanding the dynamics present within single settings". Of course, the fact that attention is focused on a specific setting (or a few of them), implies conclusions from case studies cannot be directly generalized. Because of this limitation, we understand case studies in general, and those we conduct in this paper specifically, as providing valuable information to complement findings based on statistical evidence, to form solid basis for theories (e.g. Eisenhardt and Graebner, 2007). Our findings from this study, together with the statistical evidence we previously generated in Eaton et al (2008), motivate many of the features of the model of search, matching and learning in foreign markets in Eaton et al (2021a).

We conducted interviews with high-ranking officials in seven firms producing plastic manufactures, as well as a senior officials in the business association that represents

[2] Partial summaries can be found in Bernard et al. (2017), Bernard and Moxnes (2018), and Alessandria et al. (2020).

exporters (Analdex, the "Exporters' National Association") and the public agency in charge of exports promotion, called Proexport at the time. Given our interest in learning about costs of exporting and reasons for failed attempts to export, our criteria for selecting firms aimed at including producers of different sizes and with widely different exporting experiences.[3] We conducted semistructured interviews, asking interviewees about the reasons why they export or are trying to export, the costs they have to pay for the mere fact of exporting, how they got to know their foreign clients, how their relationships with these clients evolved over time, and the reasons some of these relationships have failed.

Responses to our interviews suggest that building a foreign client base is a costly search and learning process. Many factors seem to make this a difficult process: lack of experience, lack of knowledge about their products' appeal in foreign markets, difficulties in learning about potential customers in target markets, and scale constraints. Many of our respondents mentioned that their initial relationships broke apart. They learned from those experiences that certain areas of their organization constituted barriers to become established exporters. Most attempted to resume exporting after investing resources to overcome these weaknesses.

While close methodologically to the case study by Artopoulos at al (2013), our analysis here has a different aim. They focus on explaining strategies that lead to export surges in certain industries, and thus choose to interview different players involved in industries that experienced rapid export increases, with particular interest in consistent exporters and their business practices in international markets. Theirs is a focus on success. By contrast, we aim at understanding reasons behind heterogeneous exporting experiences. We thus build a sample of exporters with diverging exporting histories, including several with failed experiences, in a single industry. We want to understand reasons behind failure as much as we want to explain success. We have particular interest in the contrast between failed and continuers exporters, including the events and strategies that led to such different outcomes.

[3] That is, we "theoretically sample", choosing polar cases that may help us understand the dynamics of extreme failures or successes in exporting. See Eisenhardt (1989) for a discussion of optimal sampling in case studies.

We investigate what was involved in the decision to enter exporting, the process of exporting, and failures to continue exporting, for the firms whose heads we interviewed. Understanding barriers to sustained exporting is critical to the design of policies to promote exports. In Colombia and elsewhere, while most new exporters fail to survive in external markets, those that go on to export for a long period account for most of aggregate export growth over the medium run (Eaton et al. 2008, Albornoz et al. 2016). Clearly, understanding what made the difference between those who failed and those who thrived should lead to important policy lessons and inform future models of exporting. In Eaton et al. (2021a) we develop a model of export dynamics that incorporates some of those lessons. Exporters in that model face costs of searching for foreign buyers and learn through their early exporting relationships about the appeal of their products in foreign markets. Costs of making future matches are also affected by previous exporting experience.

The remainder of the paper is as follows. Section 2 explains methodological details. Sections 3 to 6 discuss our interviewees' responses to questions on different dimensions. Section 3 covers reasons to export; section 4 discusses how the firms in our analysis go about building a foreign client base; section 5 addresses describes the ongoing costs and hurdles involved in exporting. Concluding remarks are provided in section 7.

2. Methodology

This paper relies on semistructured interviews with high-ranking officials at seven different firms producing plastic products, the national exporters association (Analdex) and the public agency for the promotion of exports (Proexport). Questions were open ended and varied from interview to interview depending on the responses we obtained to our initial questions. Interviews were conducted at the production site, in Spanish, and lasted for approximately one hour. They were conducted over the span of two days. Some interviewees allowed a tour of the production facility, others kept the interview strictly confined to administrative offices.

One of the key aspects of this type of study is selecting cases displaying sufficiently interesting features to make them a relevant target. Polar cases (those with extreme features) are of particular interest (Eisenhardt, 1989). In our case, the overriding goal was to cover firms with a sufficiently diverse range of exporting experiences, large and small, old and new. Because of our interest in understanding the determinants of failure in getting established in external markets, we needed both producers with established exporting operations, as well as businesses that had shown an interest for exporting but had been unable to do so successfully in the past. Moreover, we wanted a sample that was diverse along the age and size dimensions, since both are well-known correlates of export performance.

These criteria determined the process we followed to select firms. Focusing on a single sector for comparability, we selected a sample composed of some that had been steadily exporting for a long time, others that were new to exporting, and others that exported for a brief period and then quit. We considered only firms located in the Bogota metropolitan area.[4]

Using publicly available customs records, we first identified Bogota-based firms that had exported at least once during the previous decade.[5] Within this group, we then looked for a sector that included firms with a wide variety of exporting experiences. Having determined that plastics producers satisfied this criterion, we identified a sample of firms in this industry that had shown diverging exporting dynamics over the previous years, and we collected additional information on them from their websites. This information allowed us to select a subsample of firms that, besides different exporting experiences, were also diverse in terms of size and age.

We tried to set up appointments with all of those firms, and in the end interviewed officials (managers, owners, CEOs) at seven of them. We also interviewed the deputy director of

[4] We focused on Bogota-based firms for several reasons. First, since Bogota is the largest industrial city in Colombia, we could visit the largest number of firms in a limited amount of time. Second, since most government resources are based in Bogota our interviewees would likely find greater support and advice for exporting than firms in other cities. Finally, since Bogota is located far from the coasts and high atop the Andean mountain range, our interviewees probably face higher exporting transport costs and logistical difficulties than firms in cities closer to the ports.

[5] Eaton et al. (2008) present a detailed description of these data.

Analdex, a large business association representing the interests of exporters. In the process of preparing the interviews, two of our team members also met with officials at Proexport, the government agency in charge of activities intended to foster exports. We took advantage of that opportunity to present some of the same questions firm officials responded to those government officials, to get their viewpoint.

Of the seven firms we interviewed, three produce plastic-based constructions materials, another three produce plastic packaging for different goods, and the remaining one produces household plastic goods. They are diverse in terms of size: two hover around the ten-employee mark, another is in the ten to fifty employees range, and the remaining three are above fifty employees. They have been operating for anywhere between 15 and 50 years. Interestingly, most began as, and some are still, family-owned businesses. Two are currently multinationals; both began as Colombian.

Interviews confirmed that, indeed, the exporting experiences of the firms in our study were quite varied. Two of them have been steadily exporting for decades, while the rest have had relatively short-lived exporting episodes. With one exception, for the short term exporters, exporting remains a goal. One of those firms has managed to return to exporting.

Even the two established exporters in our group have had failed experiences, and sell most of their production in the domestic market. The most frequent foreign markets for these firms are Venezuela, Ecuador, several countries in Central America and the Caribbean, and the United States.

Our interviews were all held between March 10th and March 12th, 2010. We asked questions regarding the extent to which exporting is a main goal for the firm and why; the firm's exporting experience; the strategy they have followed to start exporting, to reach a new market or new client; the costs they have paid to export, the hurdles they have faced, the strategies they have used to overcome them, and the factors that have determined success or failure in a given exporting episode.

A detailed list of questions (reproduced in the Appendix) was prepared and sent to the interviewees several days before the interview. However, the list was only a guide for the actual interview, in which we used these and other questions to elicit more general views, facts and opinions, and to identify issues that might have been overlooked in the initial questionnaire.

3. Why export? Benefits and costs of selling abroad

Most interviewees gave as a major reason for seeking to sell abroad to diversify the risk associated with domestic demand shocks. As one interviewee put it, "an exporter works even in recession times." But it is not only aggregate risk potential exporters worry about. Our selected firms provide materials or packages for other sectors, hence their sales depend on particular shocks in downstream sectors, which may be relatively uncorrelated between domestic and foreign markets. Particularly relevant for our interviewees is construction, an important source of demand for plastic products. Because government infrastructure is a major component of construction, the demand of our interviewees' products depends on the government spending cycle, which varies markedly across countries.[6]

Some of our interviewees, especially the larger ones, put the same point a bit differently, stating that exporting is a way to keep the plant running full-time. One of our interviewees, for example, stated that his plant was working at 60 percent capacity utilization at the time of the interview, while it used to work at full capacity during a short-lived exporting experience. Some firms export what is left of their production after supplying the local market. Although sometimes the products are sold at lower prices abroad (some firms charged prices even below costs), these sales help cover the fixed-costs of keeping the plant running.

For the smaller, more labor-intensive firms in our sample, keeping the plant running full-time also allows them to maintain more stable labor force. Long-term employment relationships may generate productivity gains, as workers acquire firm-specific expertise, both in terms of the production process and in terms of its organizational and commercial practices. The destruction of firm-worker matches may thus also be costly in terms of firm

[6] Several interviewees mentioned the "Ley de Garantías", which bans the government from signing new contracts around elections.

productivity. The relatively stable revenue flows associated with exporting are also likely to increase investment.

In addition to risk diversification and productivity gains, firms occasionally mentioned other reasons to export, which included productivity gains stemming from technology transfers between the seller and the buyer, higher margins abroad, and getting to know a market before establishing a local subsidiary. The latter is particularly interesting. One of the larger firms we interviewed attempted to export to a given market only when it was interested in eventually establishing a local branch of the company there. In those cases, it used exports to familiarize customers with its products and to learn about local conditions. When things went well, it opened a new plant in the target market after a few months.

Notably, despite regarding exports as a valuable market-diversification strategy, several of our interviewees also mentioned downsides of exporting. On the one hand, they were concerned with greater competition abroad. Most firms we interviewed felt that margins were lower in foreign markets, due to the larger number of competitors and to the higher quality of products. Most interviewees attempted to deal with increased competition by differentiating their products in terms of branding, quality, or price. On the other hand, they mentioned some barriers to exporting (discussed below in detail). There was heated debate within some of the companies we interviewed about the extent to which it is worth paying for the costs of dealing with those barriers. For instance, an interviewee at one of the two large firms in our study was solely in charge of exports. He insisted that there were tensions between his department and others about whether it was worth dedicating part of the company's installed capacity to production for the foreign market. Another of our interviewees (a manager) stated that he was not interested in exporting because of high transport costs for his company's products and difficulties in meeting international standards. However, he also revealed one of the owners was pushing enthusiastically to export.

3. Building a foreign client base

This section discusses how our interviewees started relationships with foreign buyers, and sought to maintain them. Section 3.1 describes the steps involved in starting a match; section 3.2 in turn describes the dynamics of those matches; section 3.3 discusses barriers to building a foreign client base; and section 3.4 describes the (generally costly) strategies firms adopt to overcome such barriers.

3.1. Starting a match

Producers in our sample clearly made large and costly efforts to build a foreign base of customers. Two different types of strategies were used: 1) Firms actively sought to identify potential foreign markets and potential customers in those markets with whom they then tried to make contact. 2) Firms put out information about their businesses, in order to increase the chances that a potential costumer would find and contact them.

On the first front, interviewees declared using a wide variety of mechanisms to find potentially profitable markets abroad. Many involved traveling to a particular foreign market to meet personally with potential customers. This effort was sometimes supported by public agencies and programs.

Exporting strategies also varied depending on the size of the firm. For smaller firms, attempts to meet foreign customers sometimes started with the firm participating in commercial "fairs" with other Colombian producers. These fairs were frequently organized by Proexport[7] or the Chambers of Commerce; some were economy-wide and others were sector-specific. Participating in a fair involved sending a firm official or team of officials to the targeted country, setting up a stand with firm information, and possibly distributing samples. Direct visits to potential customers were sometimes set up during the fair. Interviewees described these missions as very time- and energy-consuming, and not always successful. Typically, they ended up with either no new clients or, at most, one after 10 to 15 days of visits to potential buyers.

[7] Proexport is the Colombian Exports Promotion Agency, as explained above.

While larger producers also took advantage of Proexports' services, they tended to focus on different programs in which firms were given tailor-made advice. In this case, Proexport did research in the foreign market about the firm's products and organized missions for firm officials to visit specific potential clients in one or more foreign countries. Though this strategy was most commonly used by large firms, one of the smaller firms we visited had also taken advantage of it. Firms reported that this second strategy was more profitable than participating in open fairs, but it was also more costly for them. Costs involved paying for the consulting services provided by Proexport, and paying for the trips of sales representatives to meet with potential clients.

Both large and small producers also did their own research on foreign markets independently. For smaller firms this research frequently involved investigating local conditions in some foreign market, and then looking for and contacting potential customers in that market. The internet was a frequent tool. Traveling to the target market and meeting costumers face-to-face was seen as imperative, but highly costly, so officials at smaller firms picked carefully the international business trips they took. The larger players, meanwhile, learned about those markets through their foreign branches, if they had any, or through previously established relationships with importers in the foreign market. They also set up exporting divisions within their management structure, which partially took care of foreign market research. One of these firms outsourced its search for foreign buyers to a consulting agency specialized in international trade. The firm that exported only as a step towards establishing branches abroad researched a market to gauge its potential to become a local player there.

Some firms, particularly smaller ones, reported that the buyer sometimes initiated the relationship. Foreign buyers in need of a specific product look for potential providers, frequently on the internet. Smaller firms thus saw their websites as a tool of fundamental importance, and invested relatively large amounts of money in setting up their webpages, a task they frequently outsourced. One of our interviewees estimated that their website costs between 3 and 4 percent of total annual costs. Most of the continuing exporters also had English websites, and some are improving theirs to allow online orders.

Once buyer and seller meet, whether an actual transaction occurs depends on the buyer's perception of the price and quality offered by the seller. Producers in our sample established prices based on their costs; competitors' prices in both markets; and the potential long-run advantages of starting that specific relationship. The smaller firms we interviewed generally depended more on their cash-flow, and were less willing to take on risk. As a result, they were also less willing to reduce their prices beyond their domestic levels, even if that implied not being competitive in the foreign market. Some of them simply charged in the foreign market the same price they charged in the local market, plus transport costs. Larger producers, meanwhile, could afford to price competitively even if their costs were higher, while their product became established. They frequently sold at a loss until their products had established brand recognition and a reputation for quality, then they adjusted prices to make the business profitable.

As for testing quality, most buyers ordered a small sample of the products they were interested in. Frequently buyers asked for changes in the quality specifications, dimensions, and other characteristics of the product or packaging. When the buyer approved the product, they ordered a small shipment. In some cases the initial order placed by the buyer was too small for the transaction to be profitable from the supplier standpoint, given transport and other fixed costs of exporting. Exporters accepted these transactions if they felt that they would help to build trust between the parties and eventually lead to a profitable, stable relationship.

3.2. Getting past the first match

Consistent with statistical evidence suggesting that many new exporting relationships do not flourish (e.g. Eslava et al. 2008), most of our interviewees, especially the smaller ones, have lived through failed exporting episodes. All of the small firms we interviewed, and even a medium-sized one, had experienced a failed first shot at exporting. In most cases, the first episode did not go beyond one costumer with whom they established a short-lived profitable relationship. Reasons these first relationships failed ranged from macroconditions not directly related with the quality of the match[8] to match-specific events. Examples of the latter included the appearance of an alternative supplier that offered the buyer better conditions, capacity constraints that prevented the exporter from meeting increased demand, payment problems, and the seller's inability to meet requests for changes in product specifications.

For many of the firms we interviewed, the failure of the first (or first few) relationship was followed by a long period of non-exporting. In fact, most of these firms had not returned to exporting at the time of the interview, though they were taking steps in that direction. There seemed to be two sets of reasons why re-engaging in exporting was not immediate. First, finding a new costumer to replace the lost one was not easy. Second, and most important, the initial failure revealed weaknesses they need to overcome if they are to export successfully. These deficiencies included problems handling increasingly large orders or specification changes; problems processing international payments; and difficulties expanding their foreign client base.

Firms attempting to re-establish exporting activities generally proceeded by intensively re-engineering their productive and organizational structures, most frequently with the advice of Proexport or the Chamber of Commerce. Most of the exporters in our sample that went through failed episodes were, at the time of the interview, going through that process of re-organization. One had resumed exporting only recently, without failing for the time being, but its renewed exporting activity was too recent for its success to be judged. Some had even rejected orders from foreign costumers, waiting for the organizational and productive changes they were implementing to take place. All were wary of new failures.

By contrast, the successful exporters in our sample had been exporting for a while and had established a diversified foreign client base, both in terms of the destinations their products reach and in terms of numbers of costumers in those markets. Though these larger players had also gone through failed relationships, their relatively large and diverse foreign client

[8] Between 2005 and 2008 trade with Venezuela grew dramatically. The exporting activity of many Colombian firms, including some of our interviewees, relied solely on the Venezuelan market. Amidst growing political tension between the two countries, however, the Venezuelan government imposed barriers to imports from Colombia, most notably impeding payments. Trade between the two countries collapsed. Several of our interviewees were among the victims of such collapse.

base had allowed them to continue exporting. In order to consolidate their customer base, these successful exporters made great efforts to establish their products' reputation abroad. These efforts included pricing low, even below costs, for an initial period; and adapting products to the tastes of local consumers and to local quality standards.

Overall, our interviews suggest that the value of a first relationship in a given market goes beyond the profits generated by that specific relationship. A firm's initial exporting relationship allows it to learn about its products' appeal there; provides it with knowledge about local regulations and quality standards; teaches it about local competitors; and introduces its brand and products to the new market.

Both large and small producers see establishing and consolidating commercial relationships abroad as a costly trial and error process. Their impression is that at the start of a new relationship the buyer tests the supplier in terms of quality product and price; capacity to respond to orders on a timely basis; capacity to pack and send the goods in a way that they arrive timely and safely; capacity to adjust specifications to his own needs. On the other side, the supplier tests its own exporting ability, and the reliability of its costumers' payments. For several of our interviewees, uncertainty about payments led to failures to consolidate existing relationships, as well as failures to start potential relationships.

4. Barriers to building a foreign client base

The descriptions above suggest that building and consolidating a foreign client base is a difficult process, especially for smaller firms. The main barriers we identified are the following:

Lack of knowledge about the process of exporting itself: For inexperienced exporters, exporting itself involves costly learning. Not only must the producers learn about the procedures and regulations to send merchandise abroad, they also learn from exporting-related events they do not expect. Several telling examples emerged during our conversations with interviewees. One of our interviewees, who was selling to a foreign costumer in North America, sent the merchandise packed in bags that did not stand freezing temperatures in the North-American winter (no Colombian city experiences freezing temperatures at any time of the year). In another case, one of our interviewees sent his first shipment abroad in beautiful wooden boxes designed to impress his costumer, but that turned out to weigh more than the product itself, increasing transportation costs beyond reason. Another interesting example, mentioned by another interviewee, was that of a foreign costumer who asserted that the product he received did not comply with the agreed standards. The producer suspected the assertion was not true, but paying for the merchandise to be returned was too costly. He ended up sending a second shipment and taking a full loss for the first one. In general, being a successful exporter requires stricter policies in terms of quality control and operational risk management than those adopted to sell in the local market.

Lack of knowledge about a new market: Exporters also face difficulties learning about how businesses are conducted in a given market. On the one hand, they need to learn about general regulations for imports and international payments in the destination market, and about quality standards, patents, and other regulations regarding their own products. On the other, they lack knowledge about their own prospects in that market. Producers need to learn what kinds of commercial practices their customers are used to, and what they seek in the products they buy. They also need to learn about their own products' appeal in the targeted country. Culture, fashion, and design all play a role. Neighboring countries are natural target markets, not only because transportation costs are smaller, but also because of close cultural similarities that make costumers' preferences alike between the domestic market and the closest neighbors. U.S. buyers were perceived, in general, as more demanding, but also more trustworthy, than clients in other Latin American countries.

Lack of knowledge about their potential foreign costumers: Another set of difficulties has to do with identifying potential buyers, approaching them, and determining whether they are trust-worthy. As mentioned above, identifying costumers abroad involves participating in commercial fairs and business missions, or advertising the firm in a different way and hoping to be contacted by those costumers. These activities demand investing resources that all of our interviewees, especially the smaller ones, see as relatively large. They thus pick carefully the missions they do get involved in. Travel and research costs are high in terms of time and money, and could be a major constraint to create new business relationships. Language itself is sometimes a barrier: smaller exporters tend to start exporting to Latin American countries to overcome this obstacle. Some invest in English classes for their managers. Given the greater difficulties of settling disputes abroad, trust between the parties is also fundamental, again especially for the smaller producers. Resources are spent in researching the buyer, and many potential relationships are let go if the client is not deemed sufficiently trustworthy.

Scale and product standards: Two features of the production process were frequently mentioned during our interviews as sources of difficulties in consolidating exporting relationships. The first is capacity constraints. Being unable to respond to increased orders from foreign costumers seems a frequent cause of break-ups in existing relationships, and a frequent concern of potential buyers abroad. Larger producers are better able to cope with these problems, not only because their plants are large to begin with, but also because they tend to own several plants. Officials at the largest firm we examined stated that they were planning to use three of their plants simultaneously to serve new foreign markets.

The second production-related difficulty for consolidating a foreign client base relates to product standards. The production process is frequently tailored to produce given standards, which may not coincide across markets. So, adjusting product standards to be able to sell in a given foreign market may be costly. One of the larger firms we interviewed, for instance, had to calibrate its machines differently to produce its construction materials with the size specifications required in some external markets. Given the cost of stopping production to make the adjustment, it refrains from exporting to those markets unless orders are sufficiently large to justify paying for those costs. Officials at this company asserted that standardizing processes to different standards may take up to six months.

Credit constraints: These scale constraints frequently lead to attempts to increase installed capacity in order to export successfully, and some may also require technological modifications for foreign markets. Both types of adjustments were more frequently mentioned by officials at smaller firms. The costs of expanding capacity and making adjustments are perhaps the reason why these interviewees also mentioned credit constraints as a barrier to successful exporting.

Uncertainty about payments: Being paid for exports was a major concern for all exporters we interviewed, especially those that were dealing with new clients. As a result, failures to start or sustain business relationships frequently were due to uncertainty about payments. A series of difficulties are attached to collecting payments from abroad. First, countries differ in terms of exchange regulations. Venezuela was a case of special concern for our interviewees, because it is a natural market for Colombian products, because international payments are fully regulated, and because of the Venezuelan government recently decided to stop payments to Colombia. Second, payments are also difficult in logistical terms: transferring money across countries involves greater costs than getting local payments. Third, it is relatively difficult to learn about the trustworthiness of foreign customers. And, finally, if disagreement about a payment reaches the courts, getting a legal dispute settled (even getting it going) is much more difficult and costly if an international transaction is involved.

Barriers specific to the US market: The US is one of the two major destinations for Colombian exports. Most of our interviewees had it in mind as a potential target market. However, they all raised concerns about difficulties of exporting to the US, by contrast with Latin American countries (the most frequent targets of our interviewees). First, our interviewees asserted that US costumers, once they have an established relationship with a provider, make much larger orders than others. This implies capacity constraints are relatively likely to become a problem. Second, for smaller firms, language is an important barrier to interacting with their customers. Third, US costumers were seen as more demanding in logistical terms: timing of delivery, return policy, etc. Fourth: competition was considered fiercer, so that product differentiation was considered more important for that market than others. Interviewees mentioned that Chinese producers typically undercut Colombian exporters of standardized products in the U.S. market. It is not sufficient to have a product that is different from others. The differences must also be effectively advertised. Finally, because of the sheer size of the US market and the possibility that an order will be followed by others, the larger producers felt that they needed to establish warehouses and more sophisticated distribution networks before entering that market. Even the largest among our interviewees saw the US market as not yet quite within their reach.

5. Strategies to overcome barriers to building a foreign client base

Learning about the process of exporting itself: Those interviewees who had gone through failed exporting experiences reported trying to identify and overcome weaknesses that may have affected their prior export performance. Most frequently, they took advantage of the services of public agencies for these purposes. Several types of related services are offered to Colombian exporters. First, Proexport, and the Chambers of Commerce offer training on business practices for successfully exporting. Proexport also provides targeted assistance, consisting of a study of the strengths and weaknesses of the firm as a potential exporter. These services are paid for by the company. The smaller firms among our interviewees find these services costly, but most also find the investment worth.

Learning about new markets and foreign buyers: There are three basic sets of strategies for learning about potential markets and buyers. First, firms can send their owners to research markets through the internet and or traveling to those markets themselves. This strategy was pursued by the smaller companies in our sample. Second, firms can hire consultants (or dedicate employees) to help them identify potential markets. This strategy was pursued mainly by the medium-sized and large firms we interviewed. Finally, firms can take advantage of the services offered by public agencies. This opportunity was exploited by firms of all sizes.

Services offered by Proexport were the most familiar to the firms we interviewed: all of interviewees have used some sort of service from this agency. The simplest and broadest service offered by Proexport is its information center (called *Zeiky*) and website, where exporters can register, and get general information. Proexport and the Chamber of Commerce also organize sector-specific trade fairs ("*macroruedas")* and other events aimed to match exporters with potential buyers. As mentioned, these trade fairs were commonly attended by our interviewees to make their products known in potential target markets. These agencies also design tailor-made business missions for specific firms. In contrast with an open fair, where several producers participate and a variety of potential costumers show up, specialized business missions plan agendas with visits to potential costumers identified, beforehand, as a good fit to the company. Costs are involved in using these services, so companies carefully chose the events they participated in.

There was consensus about the important role played by Proexport, the Chamber of Commerce and Analdex[9] in building successful relationships with foreign buyers. To quote the commercial director at one of the firms we interviewed: "our foreign clients have come from events organized either by Proexport or the Chamber of Commerce." Being endorsed by one of these institutions sends the buyer a message that the seller is trustworthy, and has been somehow screened to ensure it has a potential for exporting.

Adjusting scale: Insufficient scale to respond to growing foreign orders was a general concern among the potential exporters we interviewed. The ways in which our interviewees dealt with this concern depended on a variety of dimensions, including the firm's size and the reason it sought to export. While simply expanding the company to be able to cope with growing demands seems an obvious answer, this strategy may also be at odds with the use of exporting as a way to optimize the use of idle installed capacity. It also bumps against credit constraints. So, investing in capacity expansion was not a general answer to the problem of small scale in the face of increased demand from foreign costumers (though it was still seen as a plausible possibility by many of our interviewees).

For the case of smaller firms, Analdex and Proexport have instead proposed forming coalitions of small producers of the same good. This strategy is expected to have benefits to the extent that their joint installed capacity is much larger. Proponents also expect there will be gains in terms of flows of information about the external market among firms in the coalition. There are, however, important caveats that make the future of this initiative uncertain. First, these coalitions seem prone to governance problems: Which member gets to fill an order first? Who takes responsibility for quality and timely delivery? How can they commit to given product standards? Will a member effectively share the information it has acquired? Is that information useful for any other member, given expected

[9] The "National Association of Exporters".

heterogeneity? However plausible these questions seem, the only interviewee participating in this incipient program was optimistic about its success prospects. His comments suggested a clear willingness to share information and join efforts, at least in the coalition his company was part of.

Another strategy mentioned during our interviews was selling to wholesaler, who in turn exports. In fact, promoting this type of activity seems a policy objective. Analdex officials enthusiastically discussed this alternative during our interview, while the law provides tax benefits to firms that buy goods domestically from different suppliers and sell them abroad. Several of our interviewees in fact sold to wholesalers who later exported these products. The advantage of an international wholesaler is that it buys products from different providers, and eventually consolidates them into a single shipment, possibly to fill a single, or a few, orders. Larger firms are considering the possibility of establishing their own warehouses in large potential markets (most notably the US) in order to improve their capacity to respond to increasing orders on a timely basis.

Large firms that own several plants also have the possibility of joining the efforts of their different establishments to increase installed capacity. An added advantage is that quality standards are frequently homogeneous across plants of a single firm. The strategy of using several plants to serve a large international order was in fact mentioned by the officer we interviewed at a large company. In their case they are even planning to bring together efforts by plants located in different countries, to enter a new promising market. Finally, as mentioned, we also interviewed officials at a firm that exports with the objective of becoming a local player in destination markets. For this firm, capacity constraints are not a barrier to exporting, to the extent that it plans to build plants in those markets in the medium run.

Adjusting product standards: The two most successful exporters among our interviewees adjusted standards to accommodate a foreign market in general (e.g., standards in a particular country) or for a specific costumer in that country. Bear in mind that the firms we interviewed belong to a sector that generally produces intermediate goods, in many cases packaging. In that sense, adjusting product specifications to the costumers' demands is not rare, though it is made more difficult by exporting, given the greater distances involved and lack of knowledge about usual practices and preferences in the destination market.

A small firm in our sample—the one that has been able to go back to exporting recently—got its ISO certification as part of its preparation to reestablish itself in foreign markets. Obtaining international quality certifications is a substantial sunk cost for a small firm like this one. It spent around USD 5,500 to obtain an ISO 9001 rating which must be renewed every three years. Patents are even more costly. The same firm is actively innovating to become more competitive. Its commercial director estimated that the process of getting a patent in Colombia costs them around USD 290, and the patent itself costs around USD 2,000. She estimated the corresponding (total) cost to be around USD 1,700, per country, in Central America; and between USD 10,000 and USD 15,000 in the U.S.

For specific products, basic product standards are necessarily quite homogeneous within a market. For instance construction materials such as pipes, screws, faucets, etc, must all have the same dimensions and other characteristics to be generally usable. Moreover, producing different sets is frequently not feasible with a given technology. Firms within our sample that produce these kind of goods end up focusing their exporting efforts on potential markets that share quality standards with Colombia.

Adjusting packaging also seems to be important for success in foreign markets. On the one hand, costs and harsh conditions imposed by transportation to distant markets, and eventually even by different weather, require packaging that is stronger but lighter. Also, labels in the packages must conform to regulations in the foreign market. Finally, packaging must also adjust to the preferences of costumers in those markets.

Dealing with international payments: As in many other dimensions discussed in this document, the strategies used to deal with international payments differ across large and small producers. A feature that is common to large and small ones, however, is the use of advanced payment in the case of new foreign customers. For established costumers, bigger players accept letters of credit, or extend trade credit backed by Segurexpo, an insurance policy the exporter pays for. Smaller producers rely more on trust, as their customers are reluctant to provide trade credit. Sometimes they agree on fractioned payment, part in advance, part upon delivery.

While all of our interviewees were concerned about exchange rate risk, none used derivatives or other hedging instruments. They saw those instruments as complicated and costly. Smaller players felt risk hedging instruments were meant only for bigger firms. However, only one of the large firms in our sample had ever used one of these instruments. In that specific case, exchange rate dynamics were such that the company would have had a better outcome without hedging against the risk. They saw this outcome as evidence that the instruments were not worth the cost.

6. Costs incurred when exporting

The interviews we performed also offer a window to understand the paperwork and complementary activities involved in the process of exporting. We next review these additional barriers to exporting and the associated costs.

To become an exporter: To be allowed beyond borders, shipments must be declared to the customs agency, DIAN, which is also the country's tax authority. The first piece of information DIAN collects about a shipment is the tax ID of the exporting firm. So, de-facto, the first step in becoming an exporter is to register for tax purposes. DIAN does not charge a fee for the paperwork involved in getting registered, and obtaining the registration is fairly straightforward and quick. However, firms must either already be tax payers, or be willing to become visible to tax authorities.

To take advantage of international treaties that exempt Colombian products from paying import tariffs in the destination country, firms must also obtain certificates of origin for their exported products. These certificates are issued by the Ministry of Commerce, Industry and Tourism. They state that the product is made in Colombia. Origin requirements vary across treaties, so that different certification may be needed for different destinations, adding to complexity and cost.

Exports procedures: An export shipment must be declared to DIAN, frequently at the border. Standard customs inspections and narcotics-related inspections may also be done. According to the World Bank's doing business report, the cost of border procedures amounted to $1,770 in 2010, for a one-container shipment (and has gone up since then to around $2,250 by 2013).

By law, except for large exporters and for shipments below $1,000, the exporter does not undertake these procedures directly. Instead, the exporter must hire the services of a customs intermediary, called SIA (Sociedad de Intermediación Aduanera). These intermediaries are companies that fill out the required paperwork, provide advice regarding logistical issues, and accompany the authorities during inspections. They only do intermediation, and are forbidden by law from providing transportation or storage themselves. They take responsibility for the accuracy of the information reported to DIAN, for the codification of the exported products into categories of the customs classifications, and for compliance with international treaties. They charge a fee that is frequently a percentage of the value of the shipment varying, according to Proexport, between 0.2 and 0.5 percent of the value of the shipment.

Transport costs: According to our interviewees, transport costs are the single largest variable cost associated with a shipment. However, the share of costs represented by transport costs varied importantly across the firms we interviewed. Much of that variation was explained by the physical characteristics of their products. For one of our interviewees transport costs were particularly important (though they did not provide a specific figure), due to the large volume of their products. Another interviewee, whose firm supplied smaller products, flew her shipments abroad. She estimated that the associated transport costs represented an increase of 10 to 12 percent in costs compared to domestic sales. These costs may be comparatively more important for smaller producers. Not only do they have less bargaining power, but they may end up paying the full price of containers that they only partly fill.

7. Concluding remarks

Why export? Is exporting more difficult for inexperienced exporters than for established ones? What are the costs of starting to export? What about the costs for continuing to export? How do potential exporters go about reaching buyers in external markets? Our interviews with a handful of Colombian producers of plastic products, with varying export experiences, shed some light on these and other questions.

Their stories point at a desire to diversify risk and to smooth demand shocks as a main reason behind wanting to export. Though our interviewees in general saw exporting as valuable for their firms, they faced rather large hurdles to become established in external markets. All of the firms we interviewed had experienced failed attempts to export and broken relationships with international buyers. The reasons for these failures included lack of knowledge about the appeal of the firm's products in the foreign market, difficulties adjusting product specifications to either foreign standards or the specific needs of the buyer, capacity constraints, difficulties monitoring foreign buyers, and great difficulties finding new foreign clients.

Successfully starting to export seems to involve a costly learning process. New exporters need to learn foreign buyers' tastes, foreign product and packaging standards, and efficient modes of distribution across unfamiliar routes. They may also find that they need to expand their production capacity or change their technology if they want to respond to foreign demand. Finally, exporters must learn deal with international payments and to enforce contracts across borders. It is not unusual to learn these things the hard way: through a broken relationship with a foreign buyer.

Finding buyers abroad is also costly. Firms need to advertise their products in a way that is accessible to foreign customers. Possibilities range from creating a website in English to setting up appointments with potential buyers and traveling to meet them to show their portfolio of products. All of these undertakings are costly, though obviously some more than others. The more expensive ones are also the most successful, but are feasible only for larger producers. And all exporters face greater uncertainty about how much their counterparts can be trusted when initiating a relationship with a buyer abroad than with domestic relationships.

For all of these reasons, previous exporting experience helps in establishing successful new relationships with buyers abroad. Public export promotion programs have also greatly helped these firms through the process of identifying buyers abroad and establishing relationships with them, and have made firms better attuned to their exporting capabilities. Of course, the question of whether government intervention is justified and necessary in this context arises. Arguments in favor of it include the potential positive externalities of learning about the appeal of Colombian products, and of advertising Colombian products, in specific markets and with specific buyers.

There are also costs of exporting itself that both experienced and new exporters equally face. While the fact that exporting involves fixed costs is no surprise, our interviews shed some light on the specific nature of these costs. In the cases we document these costs include becoming registered (i.e. formal), obtaining certificates of origin for the different exported products, paying for customs processing (either directly or through a SIA), and covering the costs of both customs and narcotics inspections. These costs are non-negligible. The per-shipment part of them has been estimated at over $2,000 in the last few years by the World Bank's Doing Business report (for a one-container shipment).

Learning about actual costs businesses face when trying to start exporting, or those incurred in searching for new clients should help the future development of theories on the dynamics of exporting. We see the documentation of cases in this paper as a step towards that goal.

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Appendix

The following is the list of questions that guided our interviews. These questions were sent to the interviewees before the actual face-to-face meetings, and were used as a guide for the conversations held during those meetings.

1. What factors do firms in your industry consider when deciding whether to search for new buyers in a foreign market?

- What role, if any, do current production costs and capacity utilization play in this decision?
- Does a successful experience in finding one buyer encourage firms to search more intensively for others?
- To what extent do firms' decisions depend upon their previous experiences in the Colombian market and/or other foreign markets?
- To what extent do firms' decisions depend upon the experiences of other firms that have searched for buyers in the same foreign market?

2. Do foreign buyers approach Colombian firms, or are Colombian firms more likely to initiate contact?

3. To the extent that firms in your industry try to meet foreign buyers, what are the main search and marketing expenses they incur?

- Which of these costs is general to maintaining presence in the foreign market, and which is incurred each time a new buyer is sought?
- When firms in your industry intensify their search efforts, do they spend more on the same activities or shift toward different methods of attracting buyers?

4. Do firms in your industry tend to export to the foreign market indirectly through intermediaries?

5. When dealing with foreign buyers, do firms in your industry found it necessary to:

- Re-engineer their products?
- Develop new packaging?
- Establish distribution channels?

6. Once a new buyer has been found,

- Do firms in your industry typically begin by shipping very small quantities? If so, why?
- Do firms in your industry tend to ship to wholesalers, retailers, manufacturers, or others?
- Do foreign buyers tend to be long run (above three years) or short run customers?
- When relationships with buyer are short-lived, what are the typical causes?
- What features of a new business relationship make it likely to succeed?
- How do firms in your industry finance their exports: letter of credit, self-finance, buyer finance?
- Are financing constraints an issue? If so, please explain.

7. Does export expansion generally mean finding more buyers?

8. When dealing with a potential buyer, how many potential suppliers do Colombian firms in your industry typically compete with? Are competitors usually Colombian, local, or exporters from other countries?