

MAJOR TERMS FOR THE EFFECTIVE FUNCTIONING OF THE EXPORT SUPPORT STRATEGIES

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Abstract: *The field of the proposed article has been the author's major point of interest for the last 16 years. The paper reviews specific topics of the formulation and management of the Export Support Strategies. The author reviews the role of the export alliances, export management companies and trading companies in the functioning of the efficient export support strategies.*

Keywords: *export support strategy, export alliances, export management company (EMC), export trading companies.*

ITHEA Keywords: *A.1 Introductory and Survey*

Introduction

Globalization of the world economy has made competition very tough. Companies couldn't feel safe and secure even on their domestic markets. Thus, from the second half of the 20th century different export support activities were launched, which could be divided into three main blocks: financial, informational and specific. Financial support activities included special tax exemptions, low interest rate credits, export insurance schemes etc. These activities have been qualified as discrimination practice and the World Trade Organization member states take obligation not to use them. Information services included general information as well as specific market research activities provided by respective Governments or with their support. Under the informational activities could be considered special training programmes provided for the export oriented companies' staff, while charges were claimed to the Government Agencies. Specific activities include support for companies in participation in different Trade Fairs and Shows and organization of Promo actions.

Nowadays different mechanisms and their combinations are used; special attention is paid to staying in line with WTO Rules and Procedures. At the same time one question always asked is: how efficient are these support activities? How can we prove by outcomes that Government funds have been utilized in the best possible way?

When considering these questions, majority of authors put emphasis on an identical problem of all the export support strategies, this is the fact, that the same approach is used with all exporting companies.

Using the same approach had its one positive aspect; by using a standard approach we are providing standard activities, preventing different treatment for different exporters and thus preventing lobbying of interests. At the same time identical approach didn't allow considering specificity of different industries. In practice even two companies interested in the same export market needed different treatment. In Georgian reality besides the above mentioned problems, additional specific factors should be considered. First of all, because of the low number of exported products in some industries Georgia has only one exporter. Thus, supporting export of such products actually would mean support of a single company. All these problems of the export oriented companies transformed into a major decision: which model the companies are going to use: standardization of international support programs or their adaptation. Adapted programs are better focused on specific market needs, but their costs are high. Standardized programs are cheap but do not take into account market differences. Attention to this topic is quite high both from theoretical and practical points of view. Some researches showed positive relations between adaption and performance [1]; some researches showed no relations between the two, [2]; and some researches showed negative relations [3]. To review this topic in detailed manner it would be better to range exporters in order to see a bigger picture and thus make adequate decisions.

Ranging exporters by some major characteristics

Exporters could be ranged by different factors. "Drawing from contingency and the organizational learning perspective, the authors develop and test a model of the effects of different forms of international experience - duration, scope and intensity – on the performance outcomes of promotion adaptation" [4].

The above mentioned factors should be defined as follows: duration factor means, when company entered the export operations, volume defines the number of the export markets, intensity defines dependence on exports. These factors create practical experience of the exporting company and heavily influence identification of the best support forms for their export activities. For efficient functioning of the export support strategies crucial factor is - who provides the support activities. Low efficiency of the export support strategies could be explained by the fact that usually providers are governmental structures. More recently specialized structures have been more frequently used. World practice revealed efficiency by using specialized trading companies. It is very important to use the most appropriate trading intermediary. Just review them in general.

To begin with, we should make a distinction between trading companies and export management companies, as they are providing different functions. Trading companies buy and sell goods, while export management companies based on their market intelligence and practice assist exporters in defining the best buyers. Thus, trading companies perform all the functions of the seller – packaging, marking, forming selling party of the product etc. Trading companies are very depended on financial

resources, which are vital for reducing costs and taking adequate profit. Export management companies didn't undertake these functions and mainly assist exporters in meeting importers' needs. For sure, they give recommendations for exporters, but the major field of their activities is creation of a good selling environment based on the market conditions. We also should review creation of export alliances. Broadly speaking, there are different types of export alliances. The simplest one is, when the same product exports create an alliance in order to better utilize opportunities of the new export market.

Quite often these alliances are called horizontal alliances, as the members of the alliance are on the same stage of the value chain. In this alliance exporters are pursuing the same objectives: information on the export country, co-financing of the promo actions and joint market research. This form of the export alliance plays less and less significant role. Vertical variant of the export alliance is the alliance where members are on different stages of the value chain, such as suppliers, producers, trading companies, international marketing intermediaries and financial-banking structures. Participation of the banks becomes crucial, as it supports solution of a tough financial problem, associated with high expenses of financial resources for exporting operations. High economic and political risks are putting banks in the position, when they are asking for higher interest rates for financial resources needed for export operations. The same is true about participation of the insurance companies in the export alliances. In this case, members of the export alliances perform their general functions and thus assist each other in reaching the major goal - increase export sales or enter new export markets. When using export alliances, you face different theoretical and practical problems, for example: how profits would be distributed, who would sell on the export market etc. As the practice proves there is not a single model, which could solve all problems. You should consider industry and export markets specifics and take into consideration existing selling practices. Generally speaking, export management companies would better support exporters in obtaining relevant information, in other cases it would be better to use trading companies or export alliances. As for Georgian realities, problems with the legislation should be solved in the first place. This is absolutely necessary in the case of the export alliances, where we don't have legislation of any type. With re-trading companies we could use the status of the special trading companies, but the sphere of the use should be widened. Majority of trading companies are profitable while working in both directions such as exports and imports. Also we should consider the fact, that in some products (fruits, vegetables) seasonal fluctuations are high. Also we should bear in mind that in Georgian exports participation of the imported products is very high. Thus the effective use of the Special Trading Company status needs quite a lot specific decisions and changes in legislation, first of all in the Tax Code.

Also we should base any type of the export support strategy on the practical needs of the exporters, thus they should define the nature and scope of the support strategies. So the recommendations from the exporters should serve as the basis for creation of the export support strategies.

Exporters Survey Results

In order to find out views and ideas of exporters in 2016 the exporters' interviews were organized. The research was undertaken under Tbilisi State University Scientific Grant Project "The Ways to Improve Trade Balance of Georgia". Electronic survey was sent to exporters, whose export was more than 1 mln. \$ per year. For the sake of clarity re-exporters have been excluded. The exclusion of re-exporters was done in order to have clear picture of the needs of the exporting community. In the organization of the research, Georgian Chamber of Commerce and Industry was actively involved.

The First survey was sent to 433 exporters on May 30, 2016. A second time surveys were sent on June 14, 2016, to 424 companies. 9 companies have been excluded due to the irrelevant contact details. The response was obtained from 44 companies, which represent 10% of the interviewed companies. According to the Georgian business practice this response rate could be considered as normal and thus the obtained information is valid.

The analysis of the survey results leads to some interesting judgments. First of all, the total majority of the exporters indicates trade missions on the target markets as the major priority for the export support strategies, also they admit financial support, as for the geographic direction far east was identified as the major priority, at the same time mentioning CIS and EU as the major destinations for Georgian exports. Trade missions organized with the Government support could be considered as combination of the information and financial support. As the best international practice, Government supports exporters in participating in the Trade fairs or organizes trade mission on the target market. It should be mentioned that in the frame of the Tax reform in Georgia costs of the participation in trade missions could be considered as special type of investments and excluded from the profit tax. This would be a serious step for stimulating exporters. Participation of the export management companies in this process would be crucial. Market information and knowledge of the export management companies should serve as the basis for planning these activities. In addition, we should review financial assistance topics. Setting up and development of the export trading companies could be nominated as number one priority. Trading companies will buy and then sell products on their own. This model could quite efficiently work with non-brand products, as for the brand products this model wouldn't be effective. Also export alliances could solve financial problems, mainly when banks and insurance companies are participating in the alliances. It should be underlined that these models are increasing sales on the existing markets or utilizing potential of the new export markets. Unfortunately none of these models are contributing to the creation of new export products. The low number of exported products could be identified as the major obstacle for development of Georgian exports. Detailed analysis of this problems revealed that the creation of the new export products could be achieved only when all directions of the export supporting strategies work together. These directions could be identified as investment, detailed

analysis of the market needs and creation of the unique market offer. Taking into consideration Georgian economic realities, majority of these problems could be solved through specific export alliances, where international companies would also participate. In this case it would be preferable to introduce export alliances international EMC-s, active participation of the banks should be welcomed, as they would serve as major investors for the creation of the new export products. Preparing export offer should be considered a high portion of the services, where Georgia has objective competitive advantages.

We should also review export support strategies for the services. It would be preferable to create export alliances; this should be done everywhere where putting product and service together would be possible. In the services export, where costs of the materials do not play important role stress should be put on the certification activities, this would increase competitiveness of Georgian service exporting companies. For a short time period some service exports should be free from profit tax.

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Major Fields of Scientific Research: *The field of the proposed article has been the author's major point of interest for the last 16 years. The paper reviews specific topics of the formulation and management of the Export Support Strategies. The author reviews the role of the export alliances, export management companies and trading companies in the functioning of the efficient export support strategies.*