

Testimony of Raymond Arth President & CEO

Phoenix Products, Inc.

**On behalf of the Small Business Exporters Association and
National Small Business Association**

Committee on Small Business Subcommittee on Agriculture, Energy and Trade

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Good morning. I would like to thank Chairman Tipton, Ranking Member Murphy and the members of the Small Business Subcommittee on Agriculture, Energy and Trade for inviting me to testify today. I am Raymond Arth, co-founder and President of Phoenix Products, Inc. a manufacturer located in Avon Lake, near Cleveland, Ohio. Our company produces faucets and also imports finished faucets, hand showers and other accessories that are sold under our company brand names. Our products are sold throughout the U.S. and Canada, from the Rio Grande to the Arctic Circle. In addition we have very modest export sales to Australia, Costa Rica, Guam and Panama with ambitions for robust exports in the near future.

About Phoenix Products, Inc.

Phoenix is a small company; we have thirty-one employees, several of whom work part-time. As demand requires, we supplement our factory staff with up to 10 temporary employees. Like many small manufacturing companies our labor force is primarily comprised of workers skilled in a specific trade—meaning we have very limited in-house resources when it comes to pursuing new market opportunities such as exporting.

To the best of my knowledge, Phoenix is the last, stand-alone company that still manufactures low cost plastic faucets in the U.S. Since our founding in 1977 we have sold our products primarily to the Recreational Vehicle (RV) and Manufactured Housing (HUD Code) industries. For the first 25 years or so we were able to withstand foreign competition and stemmed the tide of low cost imports into our market segments. Unfortunately, we have been forced to supplement our product line with Chinese-produced faucets in order to remain competitive in an industry which has continually been undercut over the last 10 years by Chinese and Taiwanese product price points that are impossible to match here in the U.S.

I am pleased to report that today we still produce and sell more faucets in our factory than we import. But our customers are increasingly more interested in lower prices and the trend is toward the imported products. In 2008 sales of imported faucets represented only 15 percent of our total faucet sales. Today imports account for 30 percent of the faucet sales category with growth coming from both the low-cost and high-end designs.

Exporting Phoenix Products

The long-term survival of our factory depends on developing foreign markets for the products we produce in the U.S. Undoubtedly, we can adjust our business model in other ways, but at the end of the day, as the share of imports grows and our domestic production shrinks we lose our economies of scale and the savings associated with high volume purchases. Eventually we could lose the critical mass that makes it possible to sustain our manufacturing capability. Equally important, we are overdue for a design face-lift that I cannot justify given the uncertain long-term viability of our manufacturing function. I have made plans for Phoenix to survive as a distributor of branded imports. But I am a manufacturer from a family of manufacturers. The Arth family has been pouring metal and/or building faucets in Cleveland since 1894. It is what we know and I would hate to see it end.

Our original core market, the factory-built HUD Code home industry collapsed at the turn of the century and we made our first attempt to develop export sales to Mexico in partnership with another domestic supplier and a partner in Mexico. That effort failed and we shelved the project until after the Great Recession. For the last four years we have made a more concerted effort to sell our products to the social housing market in Mexico and as any exporter will tell you—starting out is nothing short of trial by fire.

I am proud to be here representing not only my company, but also the Small Business Exporters Association (SBEA)—the largest and oldest nonprofit association in the country dedicated exclusively to small and mid-size exporters, and is the international trade arm of the National Small Business Association (NSBA). I was familiar with SBEA and asked for their advice on initiating an export sales effort. They suggested that I first consult the U.S. Export Assistance Center (USEAC) for assistance.

In March 2009, I contacted the Cleveland USEAC office. It took two months before we managed to arrange a meeting with a Commercial Officer at our facility. We exchanged frequent emails and phone calls but did not accomplish much for over a year. In Sept. 2010 a new Commercial Officer named Jay Biggs was assigned to our case. I mention Mr. Biggs by name because he did a great job for us during his time in Cleveland and in my mind deserves commendation. He succeeded in getting useful information from the Commercial Specialist in the U.S. Embassy in Mexico City. He also suggested that I attend a trade conference sponsored by the Department of Commerce.

The *Trade Winds Forum on Mexico & the Americas* was held in Mexico City in April 2011. It was an excellent program that included a number of very informative workshops and seminars. The networking events provided contacts that may prove valuable in the future. As part of the program, I also had four Gold Key appointments, one-on-one meetings with prospective foreign customers that had been arranged by the embassy staff. The Commerce Department's Gold Key program accomplishes many of the factors that SBEA believes are important—it cuts transaction and opportunity costs, it helps minimize fear factors and it aids in assessing upside potential. The companies appeared to be solid prospects and I left the conference encouraged that we could finally begin to establish a market in Mexico. Unfortunately, after the conference it was difficult to get ongoing support from the Commercial Services staff in Mexico City and in June, a couple of months after the conference, Mr. Biggs was transferred to Guangzhou—leaving us without our primary stateside resource.

I should also mention that during the *Trade Winds Forum*, I met with the Senior Commercial Officers (SCO) from Argentina, Chile, Columbia, Costa Rica, Dominican Republic and Panama. Several of the SCOs were enthusiastic about our market opportunities in their countries. Due to our limited resources, however, I chose to focus our attention on the Mexican market so that we can offer complete service and support when the time comes. Perhaps we would be further along with sales in Columbia or elsewhere had I elected to pursue multiple markets at once.

In order to pursue sales in Mexico, we asked Commercial Services for assistance in identifying a sales representative in that country, who we would pay for their services in selling our products on our behalf. In July 2012, over one year later, we did receive one referral but it was not a practical option, as the sales organization wanted significant up-front payments for investigation and development that we deemed impractical. So now we are working with U.S. industry contacts to identify prospective Mexican sales agents.

Determined not to give up, eventually the Cleveland USEAC and U.S. Small Business Administration (SBA) arranged a meeting with the Export-Import Bank of the United States (Ex-Im Bank) that provided critical insight and information about establishing our terms of sale and how to ensure we get paid. They also connected us to Global Target, an educational program offered by the Global Business Center at the Monte Ahuja College of Business at Cleveland State University. This program broadened our knowledge and helped us identify further resources to assist us.

The State of Ohio also provided assistance. The Ohio Department of Development has a robust

International Trade Division. We have received a great deal of support from the International Trade Advancement Center (ITAC) especially with respect to NAFTA compliance, county of origin training and so forth.

The bottom line is that—despite receiving some valuable assistance and training—two years after my initial trip to Mexico we are still trying to make that critical connection that will make the next steps possible.

Challenges of Exporting for Small Businesses

I have never been one to complain—I'm too busy running my business, but in looking to craft policy to bolster exporting from small- and mid-sized enterprises (SMEs), it is critical to understand the vast differences between large and small companies and the inherent competitive disadvantages small firms face when looking to go global.

Large companies in the U.S. are, for all practical purposes, fully globalized. They have a good sense of where their export markets are and what is needed to sell in those markets. They know where to go to finance their foreign sales and have the resources to handle common types of foreign trade barriers to U.S. exports. The situation among small and mid-sized companies in our country is dramatically different.

The economic difficulties over the past few years, coupled with ongoing outsourcing, have put small businesses at a distinct disadvantage in the global economy. NSBA and SBEA have been urging for years—decades, even—that more must be done to emphasize the needs of small business within the scope of U.S. trade in order to enhance exporting opportunities for small U.S. companies.

According to the SBEA's *2010 Small Business Exporting Survey*, among those small-business respondents not currently exporting, the largest barrier is information. Thirty-eight percent of non-exporters said they don't know enough about exporting and aren't sure where to start. Twenty-eight percent cited concerns over getting paid from a foreign customer. When asked whether they would be interested in exporting if some of these concerns were addressed, 43 percent said they would. Interestingly, those small businesses currently exporting named the same top two challenges, but in reverse order.

For a new product or a new market, the learning curve can be pretty steep especially when most smaller companies, such as Phoenix Products, have only a few key people working on export transactions. According to the SBEA's Exporting Survey, an overwhelming majority, 96 percent, of small exporters handle exporting operations within the company—only four percent use an export management company. The time that we devote to an export transaction is time that we won't be devoting to some other, equally important business operation. You have to wonder—especially in my case, after two years of no results, is it even worth it?

So while we have learned a great deal, I have yet to make our first sale in Mexico. Despite persisting steadily we remain frustrated by the lack of progress. I anticipate making the necessary connections this year, but I will be relying on contacts made through industry associates and not any of the governmental support organizations.

So Phoenix Products is the poster child for “Disappointed and Disillusioned Exporters.”

What insights or suggestions can be derived from our experience?

Improve Technical Assistance and Coordination

Let me begin with the obvious: developing foreign markets is a challenge, especially for a small firm with limited human and financial resources. There are cultural factors to learn, language barriers, legal snares and obstacles, and the complex array of logistical and governmental issues surrounding cross-border trade. We have had to learn a great deal about Mexican labor laws and their VAT, about NAFTA and international logistics. We are still trying to identify a sales representative or other partner in Mexico that will present and promote our products to our target customers.

We could not have made any progress without outside expertise and training. The Cleveland USEAC was very helpful in linking us to educational resources, the Ex-Im Bank and the Trade Winds Forum.

In our dealings with the Department of Commerce we have seen very uneven levels of responsiveness and support. The Cleveland USEAC was initially ineffectual, then actively promoting our efforts and now responsive to us when asked but unable to help us make that critical connection with a Mexican entity to promote our products.

The *Trade Winds Forum on Mexico & the Americas* was a great success. It was under-priced; actually it turned out to be free. The fee was only \$1,650 for the conference and four Gold Key meetings complete with a driver and translator. At that price it was a steal. But then, First Energy, our local electric utility, subsidized the full amount.

My advice is do not give away valuable support services; charge a fair price at the front end so you can afford to provide sufficient support to move us along if there is an opportunity. I think it is a mistake at any time, but especially now, to charge too little as was the case with this conference. I wonder if part of my problem getting follow-up on support was an overload created by a program that was under-priced. Developing export markets is expensive and the Department of Commerce might be able to offer better support if they set the bar higher at the front end and had fewer, but more committed clients.

There are many resources available at the federal, state and local level but it is extremely hard to figure them all out. We have dealt with:

- The U.S. Commerce Department: USEAC and Foreign Commercial Services
- SBA with respect to the Ex-Im Bank
- Ohio Department of Development – International Trade Division
- The Northeast Ohio Trade & Economic Consortium (NEOTEC) and its affiliate International Trade Assistance Center (ITAC)
- Global Target Business Center at Cleveland State University

The good news is that these organizations seem to work together well. USEAC brought in the SBA and Ex-IM Bank on my behalf. They directed me to *Trade Winds Forum on Mexico & the Americas*. In the Global Target program all the named organizations were participants and collaborators. Equally important is that these public entities included and embraced private sector providers and advisors.

Theoretically, most of the local organizations are overlapping with the Department of Commerce. But as a practical matter they have proven better able to provide more in depth service and support. Although I have not felt that I had too many choices for the same service, it is more a case of having various providers for different services. Knowing who to call for what is the trick.

It is important to realize that most small exporting companies will not be interacting with agency officials in Washington; they will be dealing with lower-level government officials in federal offices across the country. Those officials must be fully invested partners in the President's National Export Initiative: well-recruited, well-trained, and well-incentivized to think broadly about exporting and helping local exporters succeed. Accountability for successes and failures must reach down to the local level.

With more than twenty federal departments and agencies playing some role in international trade, it is important that SME's have a place to turn. Many of these agencies overlap and offer duplicative services. I would recommend a One-Stop Shop—ideally the Department of Commerce and more specifically the International Trade Administration (ITA)—create a centralized staff dedicated to field small business "how to" calls on exporting and to assist small businesses in transferring their exporting thoughts and ideas into reality. It would be beneficial to develop a "beginning-to-end" focus on each company—staying with a company from initial inquiry through the completion of the transaction and any necessary follow-up.

Increased coordination between agencies will help more small businesses access the tools they need to export—enhanced export training and technical assistance are key. Especially for small companies that are new to exporting and those with specialty products for exotic markets, there are undeniable fear factors, knowing exactly where to go and who to call could alleviate some of this anxiety. Cross-agency outreach guides and learning materials on the intended foreign markets with virtual marketplace and virtual trade missions would make it easier and less expensive for small businesses to reach foreign partners.

Interpreting and comprehending government regulations has proven to be another challenge that exhausts a small firm's human resources and even drains our wallets when we have to turn to outside professionals. It should come as no surprise that the results from the SBEA Exporting Survey shows that fifty-four percent of SME's export to less than 5 countries. Foreign laws and regulations can change daily, making it increasingly difficult for a small business to stay up-to-date on when and how to comply with these regulations, and it acts as a deterrent to explore new markets. Currently, I am having problems identifying the applicable plumbing standard and accrediting bodies in Mexico for a product as simple as a kitchen faucet.

SBEA and I encourage you, Mr. Chairman, to reintroduce your legislation from the 112th Congress, *H.R. 5513, the Transparent Rules Allow Direct Exporting (TRADE) for Small Businesses and Jobs Act*. As you know, the measure would direct the pertinent agencies to monitor and collect up-to-date information on tariff and non-tariff laws, regulations, and practices. It will then be presented in a clear and easy-to-read format, and will serve as a resource for businesses looking to enter a new market. I would recommend that this information is then published on one centralized website.

Promote Free Trade Agreements

Free trade agreements are extremely important as they lower foreign barriers to our exports and produce a more level playing field. It is critical the president has the authority to negotiate trade agreements through Trade Promotion Authority (TPA). TPA, which expired in 2007, is critical to the passage of trade deals through Congress because it allows the agreements to advance under "fast track" rules with no amendments. New and expanded market access through trade agreements has been an important catalyst for increased small business exports.

At Phoenix we consider selling into Canada to be a routine matter, the paperwork is simple and the logistics network is just an extension of our normal domestic carriers. Canada is not a huge market for our products, but we have national distribution through Canadian and U.S. wholesalers.

NAFTA is the critical factor that makes it possible for us to seriously pursue business in Mexico. We will face competition from Asian suppliers in Mexico but their products are subject to significant import duties. The fact that our products are duty free under NAFTA makes our products cost competitive and improves our prospect for success.

Expand and Improve Export Finance

The Ex-Im Bank is also an important part of our export strategy. To be competitive we need to offer credit terms to prospective customers. Until I met with the Ex-Im Bank I didn't know how we could prudently extend credit. With their support, I am confident we can offer competitive terms to qualified buyers and be assured of collection in the long-term.

Phoenix Products has adequate financial resources to support our expected growth through export sales. But should we achieve success beyond our wildest dreams, the working capital loans available through the Ex-Im Bank could also prove to be an essential contributor to our success.

The Ex-Im Bank is self-supporting and actually has generated excess revenues of nearly \$2 billion dollars over the last 5 years. I cannot understand why the reauthorization of its lending authority has been so controversial. It is crucial the Bank maintain its congressionally approved lending authority allowing the Bank to operate without restrictions, so companies, such as Phoenix Products, have the certainty and predictability we need to level the playing field and compete in the international marketplace.

Additionally, more focus needs to be on Ex-Im meeting and maintaining the 20 percent mandate of financing dollars going *directly* for small business. Congress should not allow the percentage to drop below 20 percent or re-definitions of Ex-Im “financing” that are indirect (i.e. via suppliers). New formulas that turn the 20 percent into a goal rather than a mandate, or allow Ex-Im to avoid the mandate—as it has in the last couple of years—should not be an option.

Stepping back a little, we need to realize that Ex-Im is the "bank of last resort" or even "bank of only resort" because relatively few U.S. commercial banks finance exports and most of those that do prefer to deal with larger companies.

On a more broad scale, we need to get more community banks into export finance and educate them on available government lending programs so they can better advise their small business customers who are considering exporting. This can be achieved by streamlining paperwork, externalizing some of the banks' administrative costs for smaller export finance deals, providing export finance training, enhancing outreach to banks on the benefits of trade finance and improving bank recruitment practices.

The U.S. financial sector is far less engaged in world trade than the financial sectors in Europe, Asia and other parts of the world, where banks themselves encourage business customers with promising products to export. To truly step up American exports, our banks must do more.

Conclusion

While there is no doubt that some of America's biggest companies can continue to increase their exports, the largest untapped resource for American exports is small and medium-size companies. SME's struggle with real and perceived challenges to exporting. Just over one percent, or 287,000, of the approximately 27.9 million small businesses in the U.S. currently export. Although the number of small exporters has been steadily growing their share of overall U.S. exports—34 percent in 2010, up from 27 percent in 2002—exporting is still not as much a part of the business culture in the U.S. as it is worldwide.

Many SME's think exporting is too burdensome or too risky, or they just do not know where to start. As highlighted throughout my testimony, some of the top barriers for small exporters are: (1) problems identifying foreign business opportunities and federal export assistance resources, (2) limited information on how to analyze foreign regulations and contact potential foreign customers, and (3) the need for external financing in order to undertake an export transaction. Federal and state agencies play an important role in helping to reduce these types of exporting barriers for small businesses. Lowering more of these barriers will help small exporters tap into new markets and grow.

Given the specter of a jobless economic recovery and lagging consumer spending, exporting holds many opportunities for small businesses during the domestic economic malaise, and supports long-term domestic growth and job development. Though small business exports represent less than five percent of the GDP, with aggressive support from the U.S. Government this contribution would be significantly increased.

Let me conclude with several key points:

- Developing viable export markets for our products improves our long-term ability to manufacture products in Ohio.
- Free trade agreements, especially NAFTA and others with Latin American countries, promote exports and jobs here in the U.S. by increasing emerging economies' ability to purchase U.S. goods and services.
- The Ex-Im Bank is a self-supporting entity that promotes foreign trade through its credit and loan guarantees and working capital support. It is crucial the Bank maintain its congressionally approved lending authority allowing the Bank to operate without restrictions.
- Charge a fair price for the services provided so there can be adequate resources to support your customers.
- The USEAC has provided advice and connected us to education and training. So far the Department of Commerce has not been able to provide the level of support we needed to establish a presence in Mexico. They have taken us most of the way, we still need that final connection to a Mexican based sales representative or distributor to get it started.
- Increased coordination between agencies—including a One-Stop Shop—will help more small businesses access the tools they need to export. Enhanced export training and technical assistance are key.

Again, I would like to thank Chairman Tipton and the members of the Subcommittee for the opportunity to speak today. I would be happy to answer any questions you may have.