Establish A Link To Foreign Funds *(IW Growing Companies, June 1999 issue, page 22)*

Is your firm considering exports as part of its growth strategy? In addition to new sales, there also may be some excellent sources of international growth capital tied to widening your company's export activity.

When a small manufacturing firm moves beyond domestic distribution alone and sells products in another country, those exports then qualify the operation as an "international" company. This is entirely different from a multinational enterprise, which has facilities in several countries, employs local labor and management, and works exclusively in foreign currency. But even at this initial stage of global trade, international business dealings can open doors to a new genre of potential growth capital that's looking to invest in firms (like yours) here in the U.S.

Foreign companies and investors have various legal restrictions placed on their ownership of American firms. However, foreign manufacturers and distributors are always looking for growth-investment opportunities aside from simply buying common stock in publicly traded U.S. firms. Your company may be able to find much needed growth capital by engaging in various forms of strategic alliances with one or more such foreign firms. Obviously there will be specific legal and tax issues that must be addressed, so you'll want to obtain competent counsel on any proposed funding deal.

One of the most common structures of foreign funding is called a referral swap on short-term working capital. It normally works something like this: You join a trade mission to a foreign market, and there you secure a foreign company to import your products or materials using two special incentives—you sell at a significantly "discounted" price, and you write the invoices denominated in the foreign company's home currency (you accept the currency risk when they pay).

In return, this foreign firm agrees to refer your company to a group of new buyers through the local chamber of commerce or business and trade association in that market or proximate markets. Typically, this turns out to be a dozen or more firms that will likely import your products within the next few months.

These new foreign buyers will form a consortium, managed by the lead company with whom you originally struck the deal. Together, they will buy in bulk from you at a volume discount off nor-mal pricing, but make payments in U.S. dollars (you now will avoid the currency risk). Additionally, the consortium will provide a 40% to 50% down payment on these new invoices. Your delivery times probably will be deferred several months out, and you will receive per-haps half your money from the consortium upfront. If you have solid production margins, you essentially will be getting your gross profit as front-end working capital to use as growth capital to support expanded sales strategies in that foreign market and at home in your domestic market.

The sequence of events and cash-flow timing happen this way. You make your foreign trip with a reputable trade mission and agree in principle with your lead importer. Two to three months later you return to finalize your sales terms with this foreign company and meet the group of referral firms (10 to 15) that will comprise the consortium. You also establish a relationship with a foreign bank that can wire-transfer funds directly to your local domestic bank. The consortium places its first orders and makes an aggregate down payment. Product shipments are slated in three to four stages over the next six to nine months. A few days after you get back, funds are wired to your bank and, depending on your production cycles, you may have anywhere from 60 to 150 days' use of funds in advance of your shipping dates and payments due on your labor and materials. A dozen importers at $100,000 each would front your firm approximately $500,000 in gross profit margin that could support further growth. The deal hinges on the quality of the trade mission and the reputation of the lead foreign importer in that local market. However, a liberal discount and local currency-denominated invoices are great incentives (in the long run), and a wise investment that can prime the pump to create increased demand for your products in a new market.