EXPORT IMPORTANCE

Advice for Distillers Interested in Exporting Craft Spirits

Expanding into new markets beyond the U.S. may at first seem like a daunting endeavor to craft distillers. But with the right guidance and insurance, exporting craft spirits can help grow your business. To get a better sense of what aspiring exporters should consider, we recently checked in with Ursula Wegrzynowicz, broker account manager for the Export-Import Bank of the United States (EXIM), a U.S. federal government agency with the mission of supporting U.S.-based jobs by facilitating U.S. exports. EXIM helps companies of all sizes compete for global sales by offering financing solutions including export credit insurance to protect sellers from nonpayment by international buyers and working capital guarantees to help small businesses improve liquidity and cash flow. Sonat Birnecker Hart of Chicago-based KOVAL Distillery, which is a client of EXIM, also offered her advice.

In a nutshell, why should distilleries who are interested in exporting their products turn to EXIM?

Ursula Wegrzynowicz of EXIM: Distilleries should turn to EXIM when exporting so that they can offer competitive terms to foreign distributors, much like they would to domestic distributors. EXIM is here to take the worry about collecting payment from half-way around the world out of the equation. Distill-

eries need to consider that 95% of the world's consumers live outside the U.S. borders, so why limit sales to just the U.S.? EXIM can also assist distillers with accessing vital working capital, so that no international order needs to be turned downed or delayed in filling, because of a lack of access to working capital. There is a whole world out there ready to try your spirits!

How can a distillery know if it's ready to start exporting and what are the first steps to that process?
Wegrzynowicz: Distilleries should turn to their local U.S. Commercial Service (USCS) office, which is part of the Department of Commerce. The role of USCS is to assist U.S.-based companies find qualified international distributors. That involves researching which countries currently import the spirits sold by the U.S. distillery and then digging in and finding a distributor match. USCS can also prepare the U.S. distillery with knowledge about how to do business in any given foreign market.

What are the regulatory requirements for bringing the product into the country?
Sonat Birnecker Hart of KOVAL Distillery: It is always important to check to see what the label requirements are for every country, and even province. For example, in Canada there are different label requirements for different provinces. In Europe there are many different regulations to consider for liquor labels.

If your product is classified as organic in the U.S., how do you classify it as organic in another country? Will that classification provide you a competitive edge?
Birnecker Hart: Even if products are classified organic in the U.S., it does not mean that they will be classified organic abroad. Sometimes there are strange regulations that render organic products *un-organic*, such as if a country requires a completely unbroken chain of organic certified logistics as well as retail. In Germany, for example, a liquor store cannot sell organic products unless they have a certified organic storage in their store for organic products. If they buy and sell organic products without their own organic-certified storage, they will get fined and the products will not be considered organic. Since there are very few retail venues in Germany with such a certification, it does not benefit an American organic brand to claim organic status as there will be very few retail accounts through

Sonat Birnecker Hart

which to sell the brand. With this in mind, it is probably best to concentrate on other halo designations such as single barrel, bottled in bond, etc., [rather] than organic, depending on the market at hand.

How familiar should you be with the customs and culture of the country?
Birnecker Hart: It is always important to learn about the business environment, customs, and culture of a country in which one wants to build a brand. It will always help.

How do you properly label your spirits so there are no issues with customs clearance?
Birnecker Hart: It is important to do all of the research and not just rely on hearsay when it comes to regulations and requirements.
Wegrzynowicz: USCS can provide assistance on these topics and many more. In addition, most states also have resources to provide assistance—in some cases even financial—to support a distilleries' plunge into the international arena.

Ursula Wegrzynowicz

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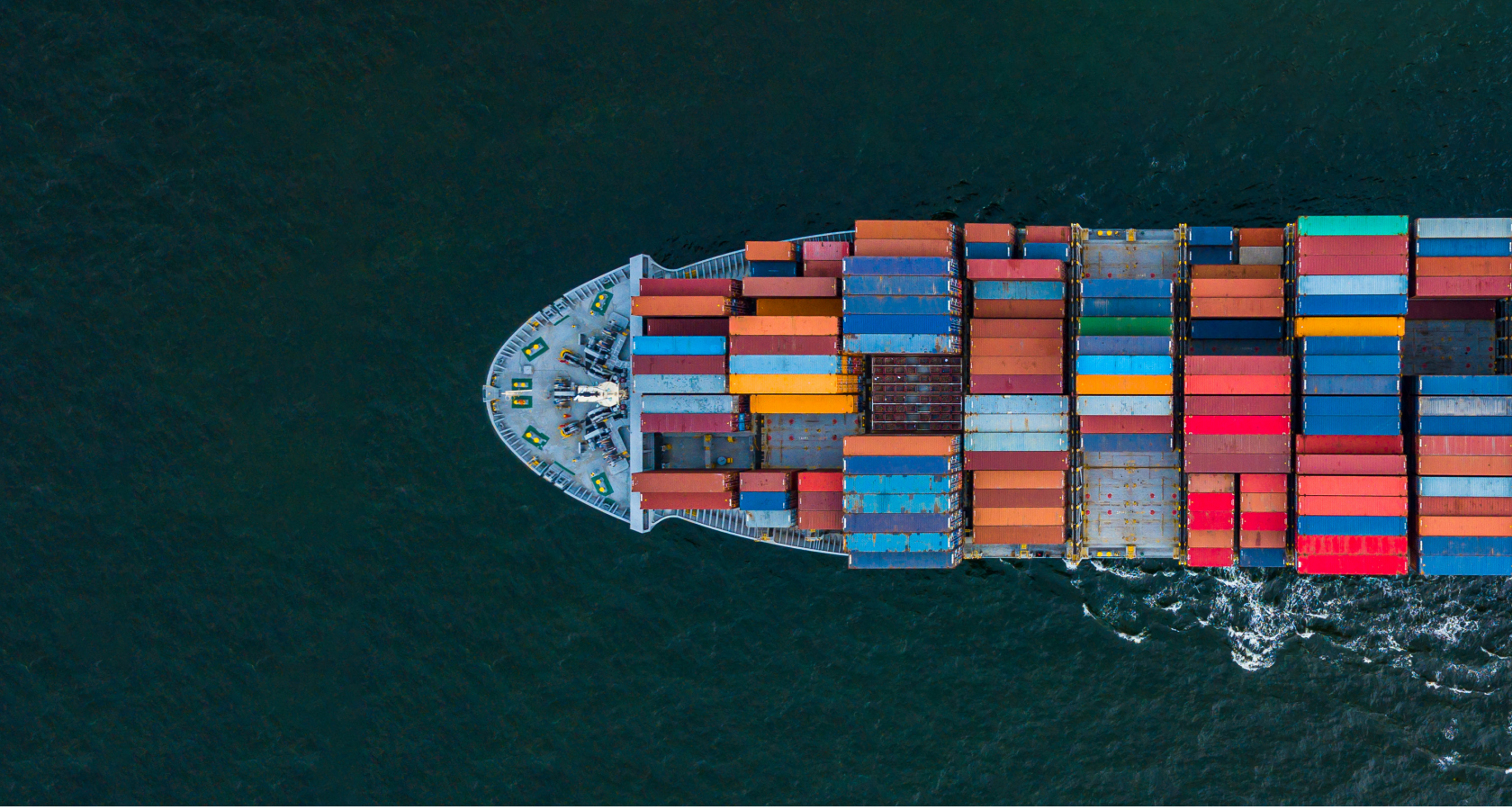
—Ursula Wegrzynowicz of EXIM

Any advice on which particular markets might be best to try at first?
Wegrzynowicz: To be successful in any market, takes research and planning. U.S. distilleries should rely on the local, state and federal agencies like the USCS to understand where the best opportunities are for their specific product. Then the distillery can implement a successful, strategic export business development plan versus reacting to orders that may be coming in through a website. Of course, those e-commerce leads are great indications of market interest, but it's important to do your homework and understand the costs of doing business in any market, so sales are profitable.
Birnecker Hart: Other factors to consider when deciding on markets abroad also include whether one has a particular language ability or cultural/business understanding that could give one an advantage.

At what point should a distillery that is interested in exporting reach out to EXIM?
Wegrzynowicz: Anytime a U.S. distillery has an inquiry from a foreign distributor, they should be reaching out to EXIM to talk about how we can assist. We always prefer to speak with a company early on in the sales process. First we can quickly advise whether the country the U.S. distillery is considering selling to is one that is viable for us to support (see Country Limitation Schedule at exim.gov/tools-for-exporters/country-limitation-schedule). If EXIM is not open for business in that country, probably best for the U.S. distillery to get payment up front—assuming there are no sanctions against selling to that country. If we are open for business, then we can quickly help the U.S. distillery determine if this is a creditworthy prospective customer. If so, we can take the next steps to get coverage in place. The U.S. distillery will know the costs up front, which helps as many of our customers build in the cost of EXIM insurance into the product cost (on average from 0.5%-1%).

It seems like an export credit insurance policy from EXIM would be helpful to distilleries looking to export—especially when foreign distributors prefer credit over cash in advance. What are the benefits?
Wegrzynowicz: Most businesses prefer to pay on credit terms; we do we as consumers, and the EXIM export credit insurance policy gives U.S. distilleries the ability to offer those credit terms and sleep at night knowing that if the foreign distributor does not pay, then EXIM will pay the invoice—at 95%! We have a policy tailored to small business exporters that will cover 95% of the invoice, no other hidden costs. So, if the U.S. distillery has a $20,000 order insured by EXIM, the cost of the insurance is $110 and if the foreign distributor does not pay, EXIM will pay $19,000 (95%). Additionally, many U.S. distilleries pass on the cost of insurance, so it is the foreign distributor who is paying for the cover.



And how exactly does it work?
Wegrzynowicz: Once the distillery is quoting or has an order from a foreign distributor, the exporter would consult with one of our specialists (request a consultation at https://grow.exim.gov/consultationrequest) and start the application process, which is all paperless. EXIM would help the exporter determine if the foreign buyer is credit worthy and then once that is complete, the distillery ships the product and pays the premium on the shipment. If there was a non-payment by the foreign buyer, usually due to cash flow problems although we cover other commercial and political risks, at 90 days after the original due date a claim may be filed. All EXIM requires is standard documentation—a copy of the purchase order, final invoice and shipping document. Once that information is provided, EXIM pays the claim no more than 60 days later. Many U.S. distilleries pass on the cost of insurance, so it is the foreign distributor who is paying for the cover.

Is this insurance expensive and/or are there any resources that can help cover the costs?
Wegrzynowicz: EXIM insurance is very cost competitive ranging from 0.50%-1%, and in some case below or slightly above, depending on where in the world the foreign buyer is located and what credit terms are being offered. However, many distilleries—especially the ones that contact us early on—are able to pass on the cost of the insurance to the foreign distributor.

How can a distillery know if an overseas distribution partner is reliable?
Wegrzynowicz: EXIM can assist a distillery in determining if an overseas distributor is reliable by doing a credit check. EXIM makes its credit standards public in the interest of transparency and that is something all distillers can access. Additionally, the USCS provides due diligence services through the U.S. embassies and consulates overseas.

Are there some other tools or products that would be beneficial to distilleries looking to export?
Wegrzynowicz: Distilleries that are looking to export should partner with advisors that have experience in the international arena. For example, does the distiller's freight forwarder have experience in the particular area of the world where the distiller is quoting? Does the distiller's accountant have experience with foreign sales and can inform the distiller when it makes sense to set up an IC-DISC (interest charge domestic international sales corporation)? Has the distiller's attorney previously set up foreign distributor agreements? These outside advisors can also assist the distiller in setting up some best practices specific to export so the distiller can earn profits and sleep at night.
Birnecker Hart: It is also important to consider the benefits of working with a general, foreign importer willing to carry multiple markets or directly with different distributors abroad.

What are some other considerations that prospective exporters should be thinking about?
Wegrzynowicz: U.S. distillers that are getting into the international marketplace, much like other businesses, need to ensure their service providers—their attorneys, accountants, freight forwarders—have international experience. All of these outside advisors are staying updated on developments in their particular specialties and it is so important for U.S. distillers, who are undoubtedly stretched, to rely on those advisors to stay a step ahead and problem solve when those challenges arise.
Birnecker Hart: Yet there is no substitute for doing one's own homework and making sure that one understands the different ways of doing business in a particular country as there is never only one way. ■

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