

The Export Agenda

The only way nowadays for a business firm to reach lasting success, measured by constant growth and permanent profitability, is to enter the international marketplace and to export. This is the lesson I derive from my 34 years in various positions at Israel Aircraft Industries.

Exporting is an immense marketing challenge, which obliges all those working in its service to full dedication, to love their work and to be available 24 hours, 7 days a week. Those who will pass this test of dedication are the leaders of our future economy, who will bring our total industrial exports to \$40 billion within the next five years and open far wider dimensions for growth thereafter.

From my experience, one must take two extremely important steps in order to succeed: Firstly, there is no substitute for establishing direct relations with your client. I believe in Customer Intimacy, a process in which the first step is a general acquaintance, sometimes sporadic and marginal, but then in the next phases you get to know each other more intimately while building mutual credibility.

These steps will gradually increase your market share with the client. A good example is our relations with the ABX Company, which belongs today to DHL. We first started with a service contract for jet engines for \$50 million over 50 years. But the development of personal relations with its management brought about a variety of additional contracts for overhauling engines and instruments and - the "jewel in the crown" - conversion of planes for the needs of the company, one of the leaders in its field. All in all, the cultivation of "family ties" between their Director and me during the last decade enabled us to obtain contracts worth more than half a billion dollars.

The second element is creativity. In the late 1980's, when I was in charge of industrial business development at the IAI, I conducted negotiations with Yurgen Schrempp, who was then the manager of the buses division at Daimler-Benz-Mercedes. Our target in these intensive negotiations was to convince Mercedes to buy five business-jet aircrafts from IAI, and we, in conjunction with Israel's main bus company, "Egged", would buy chassis of buses from Mercedes to use for the transportation of our workers.

Thus we were able to forge a long-term business relationship in the triangle of IAI, Egged and Mercedes, while building personal ties with Mr. Schrempp, who later became chairman & CEO of Mercedes-Benz.

These examples emphasize the role of the individual manager in the promotion of exports. But, the vital need to increase exports is not only an individual task but also a national effort, and a critical one.

Since the establishment of the State of Israel, exports were the engine of growth of our economy. In each decade the rate

of growth of exports was higher than any other component of our GNP. In many instances it was the locomotive that pulled up all the rest. Economists estimate that an increase of \$1 billion in exports adds 15,000 new jobs and increases overall economic growth by 0.6%. Therefore the way to increase growth and employment is by increasing exports.

Of course, the growth of exports depends on the existing conditions in the international market place. But our economy is very small - only 0.27% of the international trade of goods (excluding diamonds). Therefore, our ability to increase exports is not necessarily limited by the global conditions, and we can increase our share of the international trade by more than the average global increase.

Several steps need to be taken by the government and the public sector in order to increase the growth of our exports in a meaningful way:

Financing support for international projects and tenders:

The market for international projects in the developing countries is estimated at \$150 billion annually. Israeli companies can surely increase their share of this market from \$450 million to more than several hundred million dollars. In order to reach our full potential, we need to create a fund to finance the interest gap on "soft loans for international projects. Holland created such a fund in order to give its exporters equal conditions to those of their competitors that receive direct assistance from their governments and are able to offer easier financing terms to their potential clients. In these instances the Dutch Economic Ministry subsidizes the rate of interest or the financing costs of the customer.

Establishing a fund for the financing of feasibility studies:

This fund will lower the risk for companies submitting proposals in international tenders. The funding will be returned if the

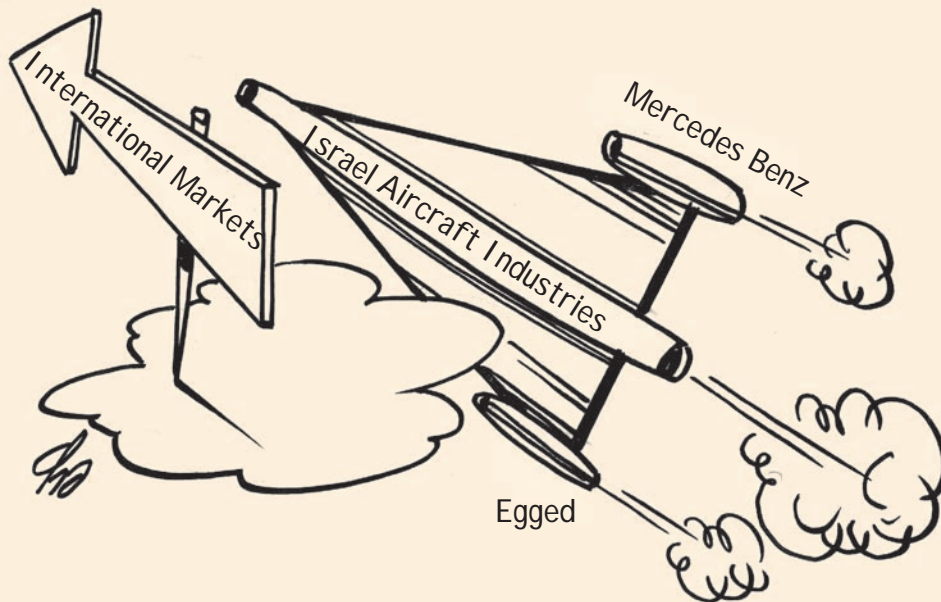


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company wins the tender.

- **Increasing activity of the Export Institute in providing information, training and contacts for international projects and tenders**
- **Providing credit lines for projects in high-risk countries**
- **Increasing assistance for small and medium size exporters**

In Israel, 98% of exporters export up to \$15 million annually and account for about 20% of total industrial exports. They need assistance to overcome difficulties and obstacles at international markets. Many governments assist small and medium size exporters in grants for marketing activities abroad, easy loan terms etc. in order to overcome lack of funding for increasing their international activities.



To overcome these problems, I am suggesting two proposals: Firstly, to create a special export incubator for beginners, that will direct them in all what is needed for penetrating foreign markets; and, secondly, a special fund for small and medium size exporters that will offer conditioned loans of up to 30% of the approved marketing plan. The exporter will pay the fund royalties from the increase of his exports.

A special marketing assistance for target markets

In the last years, several markets have developed rapidly and attracted big multi-national companies, hampering the chances of Israeli firms to enter and compete. Many of the top industrialized

countries help these big companies in different ways in marketing and promotion, much more than Israel helps its own exporters. We must create programs of assistance to help Israeli exporters to countries such as China, India, Russia, Korea and Mexico.

As an example, let us look at India. The number of official economic representatives from the US is 231; from the UK 76 and from Israel – only 3.

Assistance through the activities of the Export Institute:

During the last decade government participation in the Export Institute's budget was reduced considerably and is far below the budget support in many countries. Our activities are handicapped in comparison with other similar organizations. For example: The Flemish export institute shares 50% of the cost of many marketing activities, such as participation in business delegations, international exhibitions, exploratory trips to new markets, opening sales offices abroad, and participation at international trade seminars and in expenses connected with preparing proposals for tenders.

Advancing the export of services:

According to many forecasts, the export of services will reach 50% of the volume of international trade by the year 2020. Israel enjoys relative advantages in the field of services, due to its high-skilled work force and its multi-cultural and multi-lingual capabilities. Such fields

include medical services, engineering consulting, architecture, safety & security, communications, translating, economic and financial advice, design and research.

In 2004 the exports of these services reached \$700 million. We can double this sum in five years. I propose to make the export of services our top priority for 2006.

In summing up – the increase of Israel's exports must be a combined effort of a governmental policy of support, both on the macro and micro levels, that will encourage all those who are dedicated to promoting and increasing our sales in the international market place despite the ever increasing competition.