I. INTRODUCTION TO EXPORTING

Exporting can be highly profitable, and can strengthen the basis of company's business.

Developing a growing export business will inevitably stretch financial commitments and put a severe strain on financial and marketing expertise of a company. There can be few exporters who do not regard their overseas operations as more demanding and riskier than trading in the home market.

So the decision to export should be subjected to cold, hard calculation as being a major long-term decision of critical importance to the survival of a company. It should not be taken unless there is willingness to give top priority to overseas business which will, from time to time, seem irritating, frustrating and unrewarding. In short it is prudent, before deciding to enter the extremely competitive and demanding field of exporting, to be satisfied that business in the home market has been fully exploited.

II. IS YOUR CLIENT (THE COMPANY YOU PROVIDE SERVICE TO) READY TO EXPORT

Before going any further you should study carefully what exporting means to your client in three major areas. All three probably disproportionately affect small companies when compared with large exporters:

- **Administration** How would your client acquire and keep staff capable of dealing with all the new regulations, restrictions, documentation and paper work? Could they cope with the languages, special skills and progress chasing involved?

- **Knowledge** Could your client get hold of all the available market opportunities information? Does he/she know the trading rules for each market, and the special requirements for measurements, colours, packaging, security controls, customs practice and general regulations? Could he/she find agents and keep in close touch with them?

- **Finance** Can your client obtain the necessary finance? Is he/she aware of the longer periods of credit for export customers, the cost of documentation, the need for a minimum level of order, the problems of collection and payments? Does he/she know the cost of finance, confirming, insurance, market research? Has he/she considered the risks of shipping surcharges, demurrage and inexact documentation? Does he/she have control of cash flow and assurances of bank support?

If your client's prices can be kept high enough, he/she can afford to have all these problems dealt with by professionals, such as bankers, insurance brokers, freight forwarders, promotion agencies etc., but remember: such services cost, so you must warn your client to build them into his/her projections.

Questions a firm should resolve before committing itself to exporting are:

- Do we intend to take exporting seriously and spend time, energy and money to make a success of it?
- Are we prepared to research fully one market at a time and penetrate it to some depth before spreading our efforts to other markets?
- Are we prepared to redesign and adapt products to suit the needs of individual markets?
- Do we have adequate production capacity?
- Are we prepared to promote our products in overseas markets?
- Can we produce literature in the language of a particular country; and quote in a foreign currency; where appropriate?

To be able to answer 'yes' to those questions, your client will have to resolve the points listed earlier under administration, knowledge and finance. Furthermore, your client will have to be sure of :

- production capacity: can he/she meet the likely increase in demand in the short term;
- has he/she got the finance and the space to increase production in the long term;
- is the company flexible enough to service different markets and to maintain delivery schedules in the face of problems such as strikes, transport difficulties, dock congestion etc.

III. WHICH MARKET TO START WITH

Small firms have the advantage of manoeuvrability and flexibility to adjust to changes in technique and output, and the ability to adapt to suit various markets to a far greater degree than have most large firms. But it is no use trying to tackle the whole world with a multitude of products. You need to find out where the particular product, service or commodity handled by your client is likely to have the greatest acceptance, and concentrate on this market first.

Desk research is an essential starting-point, and a visit to the nearest commercial embassy or Chamber of Commerce is a sensible first step.

It will be found useful, when trying to decide whether to enter one market rather than another, to make up a checklist for purposes of comparison. This can include such factors as:

- approximate size of market (production/imports/ exports)
- political/economic stability of market
- growth trends (production and apparent consumption)
- the products currently available (how they meet tastes, habits, etc.)
- leading competitors, market shares, promotion methods, services and facilities offered
- channels of distribution and cost of distribution
- the legal requirements, standards, etc.
- tariffs, quotas, import licences
- ease of transportation (speed/frequency/cost of services)
- the official technical regulations or standards.

Try to choose a market where:

- there is enough potential to justify your client's concentrated attention;
- the company products will stand out (e.g. on quality, performance, price);
- price is not all-important, and where the company profit margins will not easily be eroded;
- there is some indication of growth in the sector your client is interested in (you should look for at least a 5% increase in product sales for that sector);
- there are not likely to be problems in obtaining payment and transferring currency;

IV. MARKET RESEARCH

MARKET RESEARCH is a fundamental part of doing business abroad, It can save a great deal of wasted time and money further down the line and can be the difference between securing that all-important sales contract and coming home empty-handed.

From desk-based studies via the Internet or telephone and visits to the local commercial institutions, to face-to-face meetings in target markets, there are numerous ways of carrying out research.

Most research activities can start close to home. With such a wide range of information available via the internet a great deal of preparation can be done without even leaving the office. Libraries, trade associations and Chambers of Commerce also provide useful market intelligence. One of the most extensive dedicated export libraries is UK Trade & Investments Information Centre in London which has key data on over 200 countries and export sectors, much of it supplied by key contacts in British embassies, high commissions and consulates-general abroad. The centre holds a vast collection of publications, including trade statistics and business directories.

V. HOW WILL A COMPANY EXPORT

Once your client has decided on the product and which country your client's export effort will be initially directed to, your client will have to face a choice of how to introduce the company product. Your market research should already have indicated how your company type of product is being sold in the market and it will probably be advisable to adopt a similar practice, at least to begin with.

This choice will normally lie between exporting indirectly by using the services of an export merchant house; and directly, either by appointing an importer / distributor, or an agent to act as your client 's representative in the country to which your client's goods will be exported, or by dealing direct with your client's customer.

Indirect exporting

One of the greatest advantages of dealing through export merchants, particularly if they specialise in your type of product or in the market in which you are interested, is that they relieve you of the difficulties you may encounter in complex documentation.

From a payment point of view they may be regarded as a domestic customer with bills being met in the same way. However, you should make your client remember that as the company responsibility for the goods is limited generally to activity on your client's part locally, with risks inherent in dispatch, clearance through customs overseas, and final payment for the goods being carried by the merchants, your client's control over the marketing of company goods is virtually nil. Your client have to decide whether prompt settlement of company's invoices is really worth this sacrifice of control.

Direct Exporting

On the other hand, should your client prefer to deal direct with the market of his/her choice, you need to make your client decide whether he/she requires an agent or wish to deal direct with his/her customer. Your client's decision will depend very largely on the product.

If your client decides that an agent would be appropriate, then he/she needs to know what type of agent to appoint. Does your client want him to be an exclusive agent? If so, you will both need to agree on what he/she means by 'exclusive', as this word often has a less precise meaning. Does your client want his/her agent merely to be an 'order taker', earning commission only on sales? Or does he/she want him to undertake total sales promotion responsibility involving advertising, exhibitions and comprehensive after-sales service, in which case a commission basis of payment is unlikely to be satisfactory to him? Is your client prepared to support his efforts in the field by regular visits to the market? And, probably more important, before appointing him as an agent would your client visit him to satisfy himself/herself that he is really capable of handling his/her company products?

It is important to realise that the rights and responsibilities of agents and principals vary considerably according to the local legal system.

Dealing direct with customer imposes a greater burden of responsibility upon your client to maintain close contact with the market to ensure that his/her company product is not overlooked. Please remind your client that he/she is a long way away and there is no reason why a customer should remember the product of someone who never visits the market, if a customer receives regular visits from Japanese, French, German and other rivals, with whom he may well be able to build up a personal relationship. If your client is not prepared to do this, then please advise your client not to pursue this type of distribution as he/she will certainly lose out in the long run.

VI. INITIAL PRICING METHODS

Many companies under-price their products, and new exporters should remember that it is much more difficult to raise prices from an unduly low level than to reduce prices from a comfortable margin to meet competition or to expand. Irrespective of costs, prices should be governed by what the market will bear.

Make your client resist the temptation to launch his/her product into a new market on the basis of 'give away' prices or hefty discounts. This will be seen, and rightly so, by the competitors as an attempt to knock them off the fence. They will react accordingly and a newcomer such as your client will always suffer in the face of concerted resistance by a well established opposition, unless your client's product is revolutionary in concept. As with the selection of an export channel, your client should follow the market custom until he/she is well enough established to adopt more aggressive policies.

Please remind your client if he/she cannot obtain a clear indication of major competitors' prices, then he/she will have to work on known costs plus an acceptable margin. He/she should make some deduction from normal home-made price in respect of the normal costs taken by his/her representatives and of other sales and promotion costs in the target country.

There are various costs which you will have to make your client consider, and probably the most important is the provision you will have to make to cover the promotion of the product. Your client will need special advertising material, and the costs of after-sales service must not be overlooked. If your client has an agent he/she will have to allow for his commission, and if your client operates direct with his/her customer you must remind your client that overseas visits are costly and some attempt should be made to recover these through prices.

The studies of markets should have revealed the pricing habits of rivals, and you should make your client consider whether some form of discounting structure is needed. Remember that what may be a custom of the trade in your client's own country may not be acceptable overseas, and the customer will probably be irritated by what he might regard as old-fashioned discount practices. However, depending upon the custom of the market and the nature of the product, your client should certainly try to make provision for some price manoeuvring when he/she is negotiating with the customer. You might relate this to quantities ordered, or period of repayment of invoices, or it might be a straight price-cut to facilitate the placing of his first order.

Often the customer might be concerned with securing a discount as a face-saver, and even a minor reduction can achieve this. Frequently this is the case in countries with a planned economy where the negotiator feels it necessary to demonstrate to his or her superiors a negotiating skill. It may not seem much but it can make all the difference between getting into a market and being excluded from it. On the question of pricing, bear in mind that in many cases prices will need to be quoted in local currency.

VII. THE ROLE OF YOUR CLIENT'S BANK

The biggest problem for exporters is often the question of finance and the granting of the appropriate length of credit that may be required for particular markets. Even with the relatively fast 'cash against documents' arrangements, your client may find himself/herself having to finance his/her production and other outlays for two or three months. Depending on the time taken to clear the goods at the docks, then for the vessel to sail from port to port, waiting its turn in queues, with the possible addition of a port congestion surcharge.

The exporter therefore requires finance to cover:

- the manufacture and packing of the goods,
- the cost of their movement and
- any period of credit which he allows to the buyer of the goods

VIII. INSURANCE

In drawing up the export contract your client will have to agree with his/her customer whether the duty of insuring the goods during shipment should rest with the seller or the buyer and on the extent of the cover. It is essential to have complete cover against any loss or damage which may occur from the time the goods leave the factory until the buyer can take possession of them, so the contract should specify who is responsible for the various periods which need to be covered.

These include:

- transportation to the docks or airport
- awaiting shipment or loading
- off-loading on arrival and storage
- transportation to the buyer
- periods of delay

The insurance value will have to be agreed with the insurers and will normally exceed the invoice amount by a margin sufficient to meet all charges and profit.

Your client need to be protected against inflation by insisting on a sales price sufficiently high to take care of any likely increase in costs during the period of manufacture and shipment, or by writing into the contract a cost escalation clause, which will enable him/her to make an agreed adjustment when invoicing the goods for shipment.

If the buyer agrees to pay for the goods in an international ‘hard’ currency (such as US Dollars, Euro or Sterling) then there is little exchange risk. But for competitive and other reasons such as instability of currencies, your client may have to, and may often prefer to, quote prices in other currencies. If payment in foreign currencies is accepted this shifts the exchange risks to your client, but provided your client conclude his/her contracts in terms of currencies which are freely dealt in on the international foreign exchange markets, these risks can be eliminated by arranging a forward contract with your client's bank.

IX. COMPARING CONTRACTS

We live in the global village - an age of instant communications, blurring national boundaries and rapid transport. Exporting, and the contract terms required to support it, have developed in line with changes in lifestyle. A variety of understandings between businessmen now exist to regulate commercial relationships, each with their own peculiarities. The International Chamber of Commerce publishes the better-known versions and you should be familiar with Incoterms 2000 (see Annex 1). Here, we compare the major elements of cost, insurance and freight (CIF) and free on board (FOB) contracts.

CIF contract

This is an agreement to sell goods at an inclusive price covering the cost of the goods, insurance and freight. The seller fulfils his part of the bargain by shipping, or where appropriate buying afloat, goods in accordance with the contract and tendering the correct shipping documents to the buyer. Consequently the seller is not in breach if the goods are lost, even if they are lost before he tenders the documents. The buyer still has to pay the price agreed and may then seek to pursue the carrier or underwriter.

FOB contract

This contract is flexible. Classically, the buyer would nominate a ship, with the seller procuring a bill of lading and putting the goods on board. More often in recent times the seller is asked to arrange carriage, or deal with the buyer's forwarding agent at the port of despatch.

How the seller's obligations differ

In a CIF contract the seller is required to:

• ship the goods

• ensure the goods conform with the contract as to title, description and quantity, quality, fitness for purpose, conformity with sample and date of shipment

• procure and hand over documents: an invoice, a bill of lading and a policy (not certificate) of insurance.

In a FOB contract, the seller is required to:

• bear expenses to the point of shipment

• put the goods on the buyer's nominated ship (and not deliver in any other manner)

• obtain the shipping documents required by the contract (bill of lading or mate's receipt)

• ship the goods within the contract shipment period, giving the buyer the opportunity to insure the goods.

How the buyer's obligations differ

In a CIF contract, the buyer is required to:

• pay for the goods without seeing them and in many cases even if they are lost

• perform its other contractual duties such as specifying destination.

In a FOB contract the buyer is required to:

• give shipping instructions (name the ship) in good time, although the buyer does not have to reserve shipping space in advance

• bear expenses after shipment

• pay the price - usually on tender of the documents specified in the contract

What about insurance?

In a CIF contract the seller insures the goods during shipment and provides the buyer with an insurance policy (a certificate or cover note may not be sufficient). The policy must be 'usual' for the goods in question and cover them from the time of shipment until delivery.

In a FOB contract the seller does not normally insure for the buyer's benefit after the goods have passed the ship's rail. Instead the seller gives the buyer adequate notice and information to enable him to insure the goods himself. Failure to do so leaves the goods at risk. Be cautious in cases where a seller may retain an insurable interest for longer than normal, for instance where the seller retains a right to stop the goods in transit.

When things go wrong

Complex rules govern the parties' rights to pursue remedies. Before deciding on the way forward, the facts require careful scrutiny.
A seller may be able to terminate the contract following the buyer's breach, sue the buyer for the contract price or sue for damages. A buyer may be able to reject the documents, reject the goods, sue for damages or sue for specific performance, depending on the seller's default.

In appropriate circumstances, both contracts allow actions against the carrier and the underwriter.

ANNEX 1

INCOTERMS 2000 - Rules at the core of world trade

Incoterms make international trade easier and help traders in different countries to understand one another. These standard trade definitions that are most commonly used in international contracts are protected by **ICC** (International Chamber of Commerce) **copyright**.

To assist traders to understand the areas that the 13 Incoterms cover and how each one works, the official ICC website now publishes the **Preambles** to each term in read-only format, together with basic information and background. The Preambles do not spell out the obligations of buyer and seller, which are essential to correct use of Incoterms. This information may be obtained by consulting the full published texts of the 13 Incoterms, **available from ICC Publishing** and **ICC national committees** throughout the world.

Understanding Incoterms

Incoterms are standard trade definitions most commonly used in international sales contracts. Devised and published by the ICC, they are at the heart of world trade.

Among the best known Incoterms are EXW (Ex works), FOB (Free on Board), CIF (Cost, Insurance and Freight), DDU (Delivered Duty Unpaid), and CPT (Carriage Paid To).

ICC introduced the first version of Incoterms - short for "International Commercial Terms" - in 1936. Since then, ICC expert lawyers and trade practitioners have updated them six times to keep pace with the development of international trade.

The English text is the original and official version of Incoterms 2000, which have been endorsed by the United Nations Commission on International Trade Law (UNCITRAL). Authorised **translations into 31 languages** are available from ICC national committees.

Correct use of Incoterms goes a long way to providing the legal certainty upon which mutual confidence between business partners must be based. To be sure of using them correctly, trade practitioners need to consult the full ICC texts, and to beware of the many unauthorised summaries and approximate versions that abound on the web.

ICC now publishes a brief introduction to Incoterms on a new special section of its website. The section does not provide all the answers but will help understanding of what Incoterms are for and how they are organised.

Preambles to Incoterms 2000

Incoterms 2000 provides Preambles explaining the function of each Incoterm. These are reproduced in full for visitors to the web site. For example, the Preamble to FAS FREE ALONGSIDE SHIP states that under FAS the seller delivers when the goods are placed alongside the vessel at the named port of shipment. "The buyer has to bear all costs and risks of loss of or damage to the goods from that moment."

ICC recommends that "Incoterms 2000" be referred to specifically whenever the terms are used, together with a location. For example, the term "Delivered at Frontier" (DAF) should always be accompanied by a reference to an exact place and the frontier to which delivery is to be made. Here are three examples of correct use of Incoterms:

FCA Kuala Lumpur Incoterms 2000
FOB Liverpool Incoterms 2000
DDU Frankfurt Schmidt GmbH Warehouse 4 Incoterms 2000

Why Incoterms? - Incoterms are international rules that are accepted by governments, legal authorities and practitioners worldwide for the interpretation of the most commonly used terms in international trade. They either reduce or remove altogether uncertainties arising from differing interpretations of such terms in different countries.