SITPRO

International Trade Guides

Exporting

Getting Started in International Trade

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This guide will help you to take the first steps in the export process and exploit the opportunities of international trading. In a simple checklist format, it provides important information about developing an export strategy, the business issues you need to consider and where to go for help.

You should read it if you are a company, especially an SME (small to medium sized enterprise) that is looking to expand your business or searching for new markets

Most enterprises go through a well defined and recognised business cycle that starts with building a presence in the marketplace, through developing products (or services) and a customer base to establishing a robust, sustainable domestic market. When you reach the final stage of business development you may be thinking about setting your horizons further afield. When this happens you could be ready for your first venture into the global marketplace.

Introduction

International trade is more complex than domestic trade for two reasons. Firstly, the number of parties involved is greater. These include Customs and other government authorities, banks and financial services, insurers, export services providers and international carriers as well as you and your customer. Secondly, the distances involved, differences in business practices, culture, language and currency complicate the process and require you to provide accurate and complete information at the right time to the right person. Getting both the information flows and export administration process right the first time has four benefits:

- speedy delivery of goods
- quicker payment
- reduced costs
- satisfied customers

Export Strategy

To ensure your first venture into exporting is a success you must have an effective export plan. When developing your strategy you should use all available tools and techniques to establish best international trading practice. Some of the components that build a convincing and dynamic export plan are:

- commitment from senior management
- market research, including the identification of national standards or import restrictions
- adopting a professional approach to international trading, including a training programme for your export staff (both sales and marketing, and physical distribution)
- an export price that includes the additional costs of exporting
- your terms of trade, including delivery term and payment method
- selling in the local currency and invoicing in the local language

Your strategy should aim to get your product or service to the marketplace without involving any additional activity from your customer. Transparency of supply will assure your customer that:

- your product is as easy to acquire as those produced locally - good
- your product is more easily available - better
- your product is more readily delivered - even better
- your product is lower in cost - best

Commitment

Successful exporters appreciate that winning new overseas customers can be a lengthy process. You will need a sustained effort to develop and maintain relationships, research markets and acquire the specialist skills necessary to trade internationally. Exporting must be viewed as a long-term commitment and not as a short-term "fix" for any domestic trading difficulties.

Planning is the key element of commitment. Once you have targeted a particular export market, the emphasis should be on acquiring a deep understanding of that market - how to conduct business, the requirements of potential customers, the competition and available channels of distribution. Using the resources of UK Trade & Investment (UKTI) (www.uktradeinvest.gov.uk) together with the trade promotion work of other government departments and specialist trade service providers will help you to build an effective export strategy. UKTI can help you gain the necessary skills, identify the best opportunities, make the right introductions, and then help you turn them into real business. UKTI has International Trade Teams based throughout England. To locate your nearest team, please enter your postcode into the Local Office Database on the homepage of their website or call 020 7215 8000. If you are in Scotland, Wales or Northern Ireland, you will be given contact details for the appropriate national government agency.

Documents & Procedures

Export success requires you to master the international trade process, especially documentation. Using internationally agreed trade documents and training your staff to prepare them correctly will give you a competitive edge in overseas markets and improve the management of your credit and payment processes.

The Market

Research

The first thing you will want to know when researching a new market is the potential for sales of your product. Today it is possible to conduct valuable research from the comfort of your office desk due to the large number of resources available over the Internet. UKTI, for example, provides vital information on their website to help you build up an accurate picture of your target market. Details of the services offered by UKTI can be found at http://www.uktradeinvest.gov.uk/ukti/market_sector_research.

In order to be a successful exporter you need to travel overseas and build lasting commercial relationships with your clients and partners. This will also allow you to assess the competition from locally produced products and other exporters already in the market. With this information you will be able to gauge whether your product will sell or will need to be adapted to suit local tastes, such as price and even style or colour! UKTI provide practical assistance before you go, and ongoing help, reassurance and introductions whilst you're there. Background on services offered by UKTI can be found at http://www.uktradeinvest.gov.uk/ukti/market_entry.

A free business opportunities service is also available from UKTI. This service can help you research the sales opportunities for your product. More information can be found at http://www.uktradeinvest.gov.uk/ukti/opportunities and you can register at http://www.tradeuk.com/lead_search/plsql/ned_amend.search.

Risks

Financial Risk

When you have established whether your product will sell overseas and have identified the most effective route to potential customers, it is worth spending some time examining the financial risk in your chosen market. While it is probably obvious to undertake a credit check on your customers, it is easy to overlook other factors that could have an important bearing on first winning the business and then getting paid.

Foreign Exchange Risk

When dealing in your customer's currency it is possible for the exchange rate to move between the quotation date and the date of settlement. In a seller's market, you may eliminate Foreign Exchange Risk by quoting in sterling. In a buyer's market, however, your competitors may be prepared to invoice in the customer's currency as an inducement to buy and you may be forced to follow suit.

If you are dealing in convertible currencies you can enter into forward exchange contracts with your banks to fix the amount of sterling you will receive when payment is made in foreign currency.

See SITPRO's guide on **Managing the Risks of International Trade** for further information.

Country and Customer Risk

There are risks associated with both the country to which you are exporting and your customers within that country. These can be summarised as:

Customer Risks

- The identity of your customer - is he solvent, does he have a trading history, does he own the premises from which he is trading?
- The Credit Rating of your customer - even in a low-risk country, customers may be a high risk to you. It is worth doing extra checks for peace of mind.
- Non-payment - make sure you take out Export Credit Insurance for added protection, even in low-risk countries.

Target Country Risks

- Foreign Exchange controls which prevent the release and transfer of funds.
- Import restrictions imposed after the contract has been signed which prevent the execution of the contract.
- Political events or economic measures that prevent or delay the transfer of payment.
- Instability of the banking system - collapses of banking systems in third world countries are not uncommon.
- War or civil unrest.
- Natural disasters.

Quotation

In essence, quoting for business in overseas markets is no different from quoting for business in the domestic market. Typically, the costs to include in quotation are:

- Costs of raw materials - include all components, labelling and packing costs.
- Manufacturing costs - include all production costs, particularly labour costs.
- Overheads - running costs, depreciation, rent, utilities and transport costs.
- Profit margin - this may vary depending on whether you are trading in a buyer's or seller's market. This may also be affected by the flexibility of demand for your product (the more flexible the demand, the greater the possibility of increasing sales - but at the right price).

Delivering the Goods

Incoterms

An important consideration at quotation stage is the use of a delivery term (Incoterm). A common Incoterm is EXW (ex-works) where the obligation for collection of goods and responsibility for export and import procedures is solely with your customer. At the opposite end of the spectrum would be DDP (delivery duty paid). Here the onus is on you as the supplier to provide carriage to a named place of destination and to be responsible for all export and import clearances, including the payment of local duties and taxes. For example, if you have quoted £10,000 EXW but the signed contract stipulates £10,000 DDP Hong Kong, you will find yourself liable for freight costs, responsible for all export and import paperwork and the payment of appropriate import duties. If you have not accounted for this you will soon see a decrease in your profit margin or could even suffer a loss!

See SITPRO's guides on **Incoterms** and **Checklist** for further information.

Payment

Methods

Any exporter will wish to minimise the credit risk, so any method of payment you agree should be appropriate to the risks you run. The main factors affecting payment terms you would wish to consider are:

- Your own cash-flow situation - this will decide the terms you are willing to offer your customer.
- The payment terms acceptable in your customer's country, e.g. a Letter of Credit for Nigeria, open account trading for Northern Europe.
- The bank charges involved, particularly where small quantities of a product are involved. Profit margins can quickly be eroded.
- The shelf-life of your product - you will want to avoid offering a credit period which is longer than the life of your product.
- What are your competitors offering? If they are trading on an open account basis you are likely to have to do likewise in order to break into the market.

The methods of payment available, starting with the most secure, are:

LOW RISK

- **Advance Payment** - ensures that payment is cleared before the goods are shipped. A bank transfer is the quickest method of clearing funds.
- **Letters of Credit** these can be unconfirmed, but are much safer if confirmed by a UK bank and should be irrevocable to carry real safety. To ensure payment you must comply strictly with the documentary requirements of the credit. See SITPRO's separate briefing on **Letters of Credit - An Introduction**.
- **Documentary Collection** - this is raised by the exporter and made out to the customer's bank. It is then sent to the customer for acceptance and can be avalised (guaranteed) by the bank for additional safety.
- **Open Account** - credit terms can be 30, 60 days or more. This method of payment is recommended only when none of the above methods are suitable. Payments should be by bank transfer rather than cheque that could take months to clear.

HIGH RISK

Money Transfers

- SWIFT Inter-Bank transfer - now firmly established as standard practice in the major trading nations. Your customer will instruct his bank to make payment to any bank account specified by you. It is good practice, therefore, to include account details on your invoice.
- Buyer's Cheque - an unsatisfactory method of settlement. It carries the risk of dishonour upon presentation as well as the added inconvenience of being slow to clear. You should only use this method if you have an established trading history with your customer or where you have increased your profit margin to offset cash-flow problems caused by delays in receiving

payment.

- Banker's Draft - arranged by your customer who instructs his bank to raise a draft on its corresponding UK bank. It provides additional security to a Buyer's Cheque but can be costly to arrange and runs the risk of loss in transit.
- International Money Orders - these are similar to postal orders and are pre-printed. They are therefore cheaper to obtain than a Banker's Draft but, again, run the risk of loss in transit.

Insurance

Export Credit Insurance

It is good practice to insure your export orders against non-payment, even if your customer is a well-known or reputable company in a low-risk country. Your chosen insurance company will cover the payment risks involved in international trade and provide you with an important safety net. See SITPRO's guide on **Managing the Risks of International Trade** for further information.

Cargo Insurance

Cargo Insurance covers loss or physical damage to goods whilst in transit. The Incoterm specified in your contract of sale will determine who is responsible for arranging this cover. Only under CIF and CIP will you be obliged to arrange cover, in which case you should build this cost into the selling price.

One of the main benefits of arranging insurance for your customer is the control you have over the process should a claim arise. If you are not responsible for Cargo Insurance you have the option of Cargo Insurance Contingency Cover for cases where cargo arrives damaged and the importer refuses to accept it. Insurance companies generally provide Cargo Insurance through the freight forwarder, or other trade intermediaries.

See SITPRO's guide on **Cargo Insurance** for further information.

Customer Care

Relationship with your Customers

A good working relationship with your customers is very important to minimise the risks in delivering your goods and getting paid. Negotiation will invariably lead to agreement on the crucial issues of trade terms and choice of currency for payment. It can often be the key to obtaining delivery and payment terms that are most advantageous to you. For instance, if you begin trading using a Confirmed Irrevocable Letter of Credit you may agree to switch, after a given period, to a cheaper and more manageable payment method such as Documentary Collection or Open Account. You should involve your bank at this stage as they can provide expert advice on financial issues and the potential risks involved in international trade.

Customer Service

Remember that international trade does not stop at the delivery of goods and receipt of payment. To be a successful exporter and to open up new markets you must have a strong commitment to customer service. A good after sales service will help and support your customers, anticipate their needs and offer advice and ideas on how best to use or market your product. Keeping your customers happy makes good business sense as happy customers mean repeat orders.

Where Can I Get Further Information?

UK Trade & Investment

Tel: 020 7215 8000

Incoterms

Contact the ICC UK:
Tel: 020 7838 9363

Payment terms/Methods of Payment

International branch of your local bank.

Overseas country requirements

Contact the appropriate Embassy, High Commission or Consulate in the UK.

Official export procedures

Contact the HM Revenue & Customs National Advice Service:
Tel: 0845 010 9000

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SITPRO
Simplifying International Trade

7th Floor
Kingsgate House
66-74 Victoria Street
London
SW1E 6SW

Telephone: +44 (0)20 7215 8150
Fax: +44 (0)20 7215 4242
Email: info@sitpro.org.uk
Website: www.sitpro.org.uk

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