COMMUNICATING **B2B** SERIES

B2b INSIGHT

ISSUE 4

Exporting - why, when and how?

The benefits of exporting
Is your business fit to export?
Considerations and implications
Key organisations and information sources

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Exporting - why, when and how?

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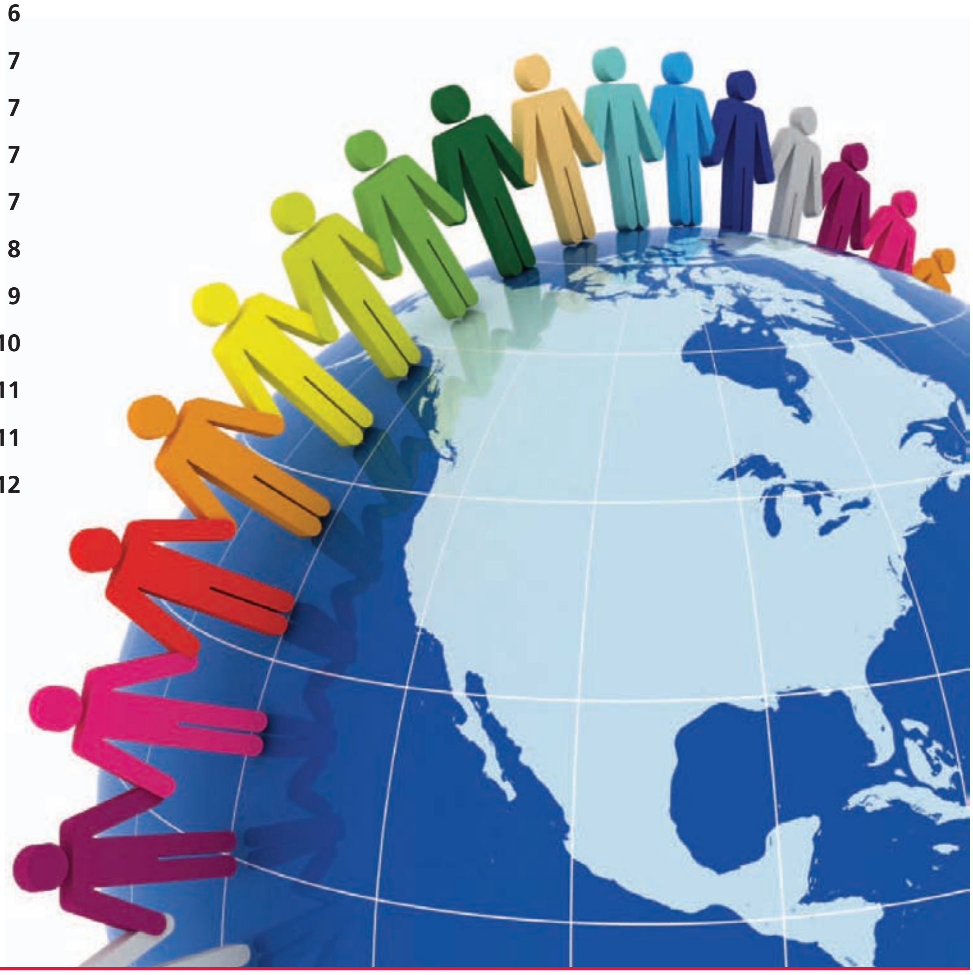


Why?

Introduction

This paper is designed to help you and your company decide whether to export, benefit from the opportunities exporting can offer and how to navigate the first key steps.

Exporting can be very rewarding and can help a business to grow, increase profit margins and sales volume, reduce unit costs and potentially iron out seasonal fluctuations in local markets. Trading internationally represents an enormous chance to expand and spread commercial risk.

Setting up overseas business can involve expense in time, as well as resources and capital; so it's essential to understand the many factors that affect an exporting company such as local culture, politics and language. Challenges can be overcome if identified and planned for in advance.

Reasons for exporting

There are lots of reasons to consider exporting:

> Reduced demand locally
> Less competitive overseas markets
> Balancing dependency on a single market
> Disposal of discontinued lines
> Harnessing of excess capacity

And it has many benefits:

> Higher profit margins
> Increased sales volume and therefore reduction in unit costs
> Extended commercial lifecycle of product or service
> Reduction in any seasonal sales fluctuations
> Changing the company's image into a global company - important in an environment where global trade is increasing as country boundaries decrease

Exporting versus overseas production

Exporting offers many benefits that overseas production does not.

> Economies of scale
> Consistency in product quality
> The minimisation of operating costs, administrative overheads and personnel requirements

The rewards can be compelling but substantial investment is required to achieve them. There are issues to be considered too for example; using agents or distributors may result in losing influence over profit levels and products, and adaptations to the market, thereby decreasing the economies of scale.

When?

Is your business fit to export?

The key to successful exporting is preparation, but just how prepared is your company? Can your company sustain the additional effort required from capital and resources? Try the following ‘fitness check’ to find out if now is a good time for your company to be exporting.

Organisational issues

> What is driving your company’s need to export?

> Do you have the production, distribution, sales and administration capacity to meet the new market needs?

> Does your company have the financial resources needed available? And will your accounting systems support international business?

> Do you have the skills resources required?

Market issues

> Have you researched your intended market and the competition within it?

> What is the political situation in your chosen market country?

> Does you organisation understand the cultural and language implications of the new market?

Product issues

> What is the potential for sales of your product or service abroad?

> Do your products need to be modified?

> Are there quality standards to consider?

Distribution issues

> How will you transport your exports? How much it will cost?

> Which channels of distribution you will use?

> Are you familiar with export documentation and procedures?

Marketing and sales issues

> How will you promote your product / service?

> Is your existing material appropriate to your new target market?

> How about after-sales service?

> Can your website be found by international browsers? In several languages?

> Will your new market have the same pricing strategy for your product / service?

If you are new to exporting this may all seem rather daunting but, support is readily available, a section at the end of this paper details where this can be found.

Market research

Does your prospective foreign customer need what you are selling? Will they buy it at a price that yields a profit? And will you be able to deliver it on time in a satisfactory condition? Market research is important when planning international expansion in order to ensure that opportunities, threats and trends are identified.

1. **What is the demand for your product abroad** and what market share can you hope to achieve?
2. **Which markets?** Foreign markets should be ranked according to size, competition, investment and risk.
3. **How should your company enter the selected markets?** What trade barriers exist, what transport systems are available, what is the local competition like, what are the government regulations?
4. **What marketing is best suited to your selected market?** You'll need knowledge of buying behaviours, competitive practices, distribution channels, promotional methods and media.

To start this process you need to carry out a 'self-examination' of your current UK operations areas to cover include:

> **Products** - Are any modifications necessary e.g. Electricity voltage and sockets or packaging? Are there any legal patents that exclude your product?

> **Price** - What would the overseas customers be willing to pay and are there additional costs to cover. How will you manage payments?

> **Distribution** - How will you transport and deliver to your new customers and what will the lead time be?

> **Your current promotions** - Will you have to adapt your usual message and media materials for the market or language? Are there social/cultural issues to consider?

Desk research can cover a lot of what you'll need to find out. The Internet, local libraries, trade associations and directories, newspaper supplements and trade journals are all valuable sources of information.

Field research can then be undertaken by an external agency or by visits to the prospective market gaining first-hand experience of the market. Alternatively market research carried out by an overseas organisation can be bought in. Visiting trade fairs is an inexpensive way of carrying out market research.

Prior knowledge and first-hand experience will ensure you feel confident about investing your company's time and money.

Visiting the market

When considering exporting there is no substitute for visiting the market and gaining first-hand experience of local business practices.

Types of market visits:

Inward Trade Missions - The Inward Trade Mission Scheme enables overseas buyers, companies and purchasers to visit the UK and see for themselves the goods and services available. The objective is to strengthen UK activities overseas.

Inward missions are organised by UK based sponsors such as the UKTI (www.ukti.go.uk/export), host companies/organisations and trade bodies who provide an intermediary service. These sponsors are usually organisations such as trade associations, Chambers of Commerce or other non-profit making bodies.

Outward Missions - Companies interested in exporting can visit their preferred country via an Outward Mission.

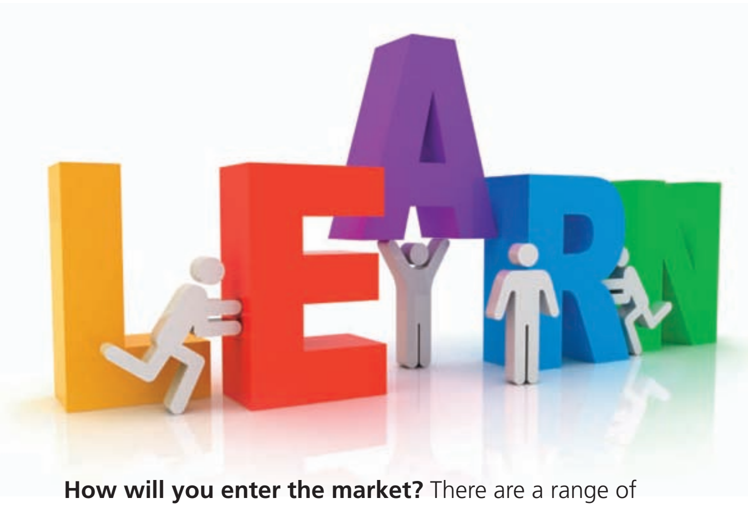
UK Trade and Investment (UKTI) fund national and regional outward trade missions which give companies the opportunity to visit overseas markets as part of a UK delegation. Sector and regional teams based in the UK work with the global network of overseas posts (covering 96 markets) and private sector specialists to deliver missions and events that best showcase UK capability and match UK strengths with identified opportunities and trade partners overseas. In 2010-11, 246 such missions took place, helping around 3,000 UK participants. A number of grants towards the associated travel costs are also available for eligible SMEs through the market visit support facility. In addition to trade missions, UKTI also runs the Tradeshow Access Programme, which provides "new to export" SMEs with grant support towards the cost of exhibiting at overseas exhibitions. In 2010-11, over 4,100 grants of between £1,000 and £1,800 have been awarded through the scheme.

Trade fairs and seminars - The advantage of visiting a trade fair or seminar is that in a short time you will be able to see what the competition is offering and to gain a feel for the market. You should prepare clear goals before your visit.

Sources of information are listed at the end of this paper

How?

Methods of market entry



How will you enter the market? There are a range of approaches and to be a successful exporter within different markets, various market entry methods may need to be implemented. The best method of market entry for one market may not work in another market. Legal advice should always be sought prior to entering into any contract or agreement with representatives.

Direct exporting: here your company performs the task of exporting. Sales are made directly to the customer overseas; who can be a wholesaler, retailer or final end user. This approach requires a considerable investment in terms of preparation and time, you may therefore wish to employ someone to take charge of part of the process, or act as a representative in the chosen market.

Indirect exporting: here your products and services are sold abroad by other organisations. This can eliminate the need to travel abroad and the need to deal with complicated export processes and may be a useful route to test the product's viability in the new market.

Export Options:

Agents - commission agents seek orders on behalf of a client, in return for an agreed commission. Agents generally seek sole agency rights for a country or region. They do not deal with shipping or payment, and will accept no credit risk on stock.

Distributors - hold stocks of products from which they fulfil local orders. They will take legal title to goods, buying from a business and selling for their own benefit at prices which they fix themselves. Distributors therefore earn profits, not commission.

Trade fairs and exhibitions - held internationally attract customers and suppliers from various trades. If you are considering exhibiting it is advisable to contact the relevant trade association who should be able to provide you with support and advice.

Franchising - involves selling a business as a ready-made package to local operators in return for fees and/or other income enabling rapid expansion whilst limiting management responsibility.

License agreements - here a company grants a business the right to use their product names, technical specifications, processes or patents by drawing up a license agreement. A fee is charge for the licensed rights.

Joint ventures - a company may collaborate with a UK firm or an overseas business - the opportunity to pool resources and expertise can be of great value.

Export houses are firms who facilitate exporting on behalf of a producer; they have detailed knowledge of international sales. There are three types of export house:

1. Export consultancies - generally small, specialising in specific markets and services.
2. Export merchants - buy products outright from the manufacturer and sell them abroad.
3. Confirming houses - who order from manufacturers on behalf of overseas organisations

Crown agents - purchase on behalf of the public sector

Buying houses of overseas companies are often located in the UK and can often have vast purchasing budgets. You will still have to deal with the physical process of exporting, but large sales can be achieved.

Final considerations

Before finalising your business strategy it is important to research each market entry option and consider all elements in relation to how your existing customers prefer to do business as well as your product or service; the nature of your product or service will preclude some entry methods. You should also consider the resources you have available; what language skills, staff resource, sales and marketing resources financial resources do you have?

Company-wide Considerations

Organisational considerations

Production - Is there sufficient spare capacity to meet export orders, both you and your suppliers? That capacity needs to be flexible enough to allow for any modifications and to increase output to meet deadlines.

Management - Management time is expensive and usually scarce; you need to be sure the right quality of management time is available and make sure to use appropriate external advisors for strategic guidance, research and problem solving.

Staff - Are the administrative resources sufficient to manage increased workload such as quotations, telesales, invoicing and customer service? Are computer systems and office machinery appropriate? What changes to the accounting systems will be necessary?

Sales and marketing - Each export market will require a mix of promotional activities. Decisions need to be made regarding advertising, sales literature, sales personnel, exhibitions and other activities. Generating literature and display material in different languages is time-consuming. Is there sufficient resource within the company?

Language skills - Do your sales staff have the language and cultural skills necessary to communicate successfully in the export market?

Transport considerations

Cost effective and efficient physical distribution is an essential element:

Many first time exporters use the services of a freight forwarder who will undertake all the responsibilities associated with international transport. Forwarders may be able to group together a number of consignments to maximise load efficiency and take advantage of bulk discounts. The British International Freight Association (BIFA) can provide more information.

The mode of transport may be determined by the terms of sale you negotiate. The standard terms used in exporting are known as Incoterms (International Commercial Terms) which are defined and published by the International Chamber of Commerce. They define the division of cost, risk and delivery between the buyer and exporter. The terms are recognised in virtually every trading country.

Other considerations in deciding the method of transport:

> The time available for shipment
> The cost of financing the goods while en route
> The packing costs for each method
> Penalty clauses for late delivery
> The nature of the goods (are they perishable, heat sensitive or fragile?)

Each transport option has advantages and disadvantages.

> **Air:** the quickest option and the most expensive. Most airfreight is organised by freight forwarding companies.
> **Road:** the principal method between the UK and Europe. Includes the sea crossing. Flexible method but goods are exposed to extremes of temperature and weather and bumpy roads.
> **Rail:** usually confined to large and regular consignments bound for Europe. Expensive and rather inflexible.
> **Sea:** the best option for transporting bulk items over long distances. Smaller consignments can be combined with other part loads to keep costs down. Usually the slowest method.

Product considerations

Testing demand - Few products or services sell in exactly the same form all over the world. It may be that the product will only sell after product modifications or if presented in a manner acceptable to the local market.

Before testing demand for the product, two critical areas need to be examined:

> **Legal issues:** There may be regulations affecting your product in the local market e.g. technical standards with which you have to comply.
> **Cultural issues:** Brand names, colours, logos, packaging and general design of the product must cause no offence to local cultural or religious sensibilities. You may have to modify your product to meet local preferences. (E.g. - in Western cultures white suggests purity. In eastern cultures white means death.)

Market research should establish if there is demand in a particular country for your product but you should aim to test the market to. In some countries import duties are not payable on goods imported for customer trials or demonstration at trade exhibitions.

Cost and prices - Costing a product for export is easy to miscalculate. A Simple 'production cost + transport cost' calculation is not enough. The main areas of costing are:

> **Production:** UK factory costs, including any modifications for the overseas market; packaging including any multi-lingual labelling on export packaging

> **Freight:** Premiums for cargo insurance and any credit insurance. Shipment costs including preparation of documentation, harbour and port dues; weighing and measuring, loading, freight forwarder's services (which may include all these shipment costs)

> **Finance:** Commissions for agents and discounts for distributors. Customs duties and taxes, including VAT in the delivery country (normally these are paid by the buyer but clearly they will impact the price the buyer will be prepared to pay).

> **Administration:** Investment of time by management and staff and any training. Any other direct office costs, including salesperson's commission.

The price the potential market will bear is critical to determining how profitable the return is. Research into prices for similar or competing products will identify the price the buyer will pay.

It is also worthwhile considering whether additional sales through export would bring down cost per item in production.

Packing - Export packaging is likely to cost more than packing for the home market but if done well it will ensure your goods arrive undamaged despite the rigours of their journey.

Factors to consider

> How fragile are the goods?

> Temperature restrictions

> Some countries have strict rules for packing e.g. recycled materials use

> Shipped goods require sturdy wooden packaging or palleting

> Goods sent by air need less packaging

> How long will the goods spend in the distribution chain?

> Packing should take account of the sizes of standard containers

> Could the goods be categorised as dangerous?

The packing, labelling and marking of potentially hazardous goods are set out in a range of regulations and codes. Advice should always be sought if you are unsure about a particular cargo.

Remember, freight forwarders can also help with packing.

Sales and marketing considerations

For all export sales and promotion the basic principles of effective marketing still applies. In addition, to ensure the promotional effort is not prohibitively costly, it is essential to target potential customers carefully. For example, sources such as Kompass who supply highly targeted lists on over 3 million international companies.

Selection of the appropriate media requires thorough research. Once you have an idea as to what media is successful it is important to consider how best your company can exploit it. To get a feel of what will work in your chosen market you should monitor competitors as they provide you with an idea of what promotional method is most commonly used, read the local trade press and visit relevant trade exhibitions or seminars.

> How is business actually done in your company's sector? E.g. if sales are usually completed at trade fairs it is important that your company and sales managers are represented.

> Cultural and geographical factors which might influence the media. For example, your company may currently use direct mail to market your products, but this may be inappropriate if the postal service is limited.

> Legislation; for example, data protection is enforced in different ways in different countries.

Planning your promotional message

Due to potentially different cultural and language factors it is important to plan promotional materials.

Cultural differences may affect the way that the local population view your product. It is important to establish exactly what motivates people to buy your product or service. Issues such as the product's name, colour and packaging should also be carefully considered. For example, when a product's name is translated into the native language it may have more than one meaning

Language, the importance of accurate translation and ensuring your message is received correctly cannot be over emphasised.

Sales leads

An important feature of a successful export strategy is access to a comprehensive database of sales leads. These sales leads will ensure your product is promoted to businesses or consumers with a potential keen interest. A comprehensive source of sales leads is available from Kompass; as well as providing information on 3 million companies in over 60 countries, Kompass also effectively promotes exporters to a worldwide market.

Cultural difference

If your company understands and adheres to local business practices, customers will feel confident when conducting business with you. For example, punctuality for appointments is essential in most countries of Northern Europe and the Far East but a more relaxed approach to time-keeping is taken in southern Europe. Open-necked shirts and short sleeved blouses may be acceptable in some countries but might convey a sloppy approach to business in others.

Research:

> Social propriety
> Religious beliefs
> Business etiquette
> Conventions with regard to dressing, greeting people or attending meetings
> General country information

After-sales service and customer care

Once a sale is made your promotional effort does not stop. Customers who are distant from your base may feel a greater need for reassurance that they have made the right choice of supplier. Prior to exporting, it is important to be clear about the level of practical and technical after-sales support your business and agent can provide; it is also essential to understand the level of service required by the customer.

Once customers have been established it is critical to keep in touch to verify that they are satisfied with the level of service.

Finance

Export should be seen as an investment, covering the initial costs of research, developing contacts, and the losses incurred before sales. It may be necessary to explore separate financial arrangements in order to support any exporting ventures.

Banks, the specialist press and the UKTI (www.ukti.gov.uk) provide information about the general economic conditions in most countries, indicating where overseas debt is building up, where payment delays are occurring and where political change may bring restrictions.

You need to specify the currency with your overseas customer when finalising a sale. If that currency is not Sterling you are at risk from exchange rate fluctuations and these can alter the expected price of the goods. Keep up to date through the financial press - the timing of foreign exchange transactions can make the difference between a profit and loss. Protect your exchange rate by entering into a forward exchange contract with your bank. This is an agreement to buy or sell a certain amount of currency at an agreed rate on or before a certain date always bearing in mind that you will not benefit from any favourable movements in rates that occur during the period of the contract.

For regular trade in a specific currency you may be able to open a foreign currency account (e.g. a Euro account). This eliminates the need to convert currency for every transaction and can reduce bank charges. It also protects you from short-term volatility because you can convert at a time that suits you.

Getting Paid

The nature of the sales contract, the country and the goods or services involved will affect the method of payment. There are four main methods:

Cash in advance: always the preferred option for the exporter but risky for the buyer. Deposit on order may be easier to negotiate.

Open account: buyer takes delivery of goods and pays for them within an agreed period. Credit references are vital if the customer is an unknown quantity. Credit insurance can also protect against buyer default.

Collect on delivery: documents of ownership are released to the customer by their bankers (or as agreed) on payment of invoice which can provide some security with new customer.

Documentary credit (DC): security for the buyer and seller and a popular method of settling international trade transactions because they are honoured through the banking system. Terms carry from immediate payment on presentation of conforming documents or at the end of a specified date. Banks may also be prepared to use DC's as security against a short-term loan.

Financing export sales

Tying up money in export deals can impact cash flow. Banks offer a number of facilities to help exporters. Apart from the more obvious overdraft, some of the popular options include Documentary Credits, Credit Insurance and factoring and forfeiting. These latter mechanisms allow exporters to receive cash within a few days of invoicing.

Factoring: the exporter 'sells' the debt for an agreed percentage to the factoring company. The balance of the debt, less fees, is paid to the exporter when the invoice is settled

Forfeiting: again, the exporter 'sells' the debt for an agreed percentage but no balance is paid until later. This method is suitable for debts involving long-term credit arrangements.

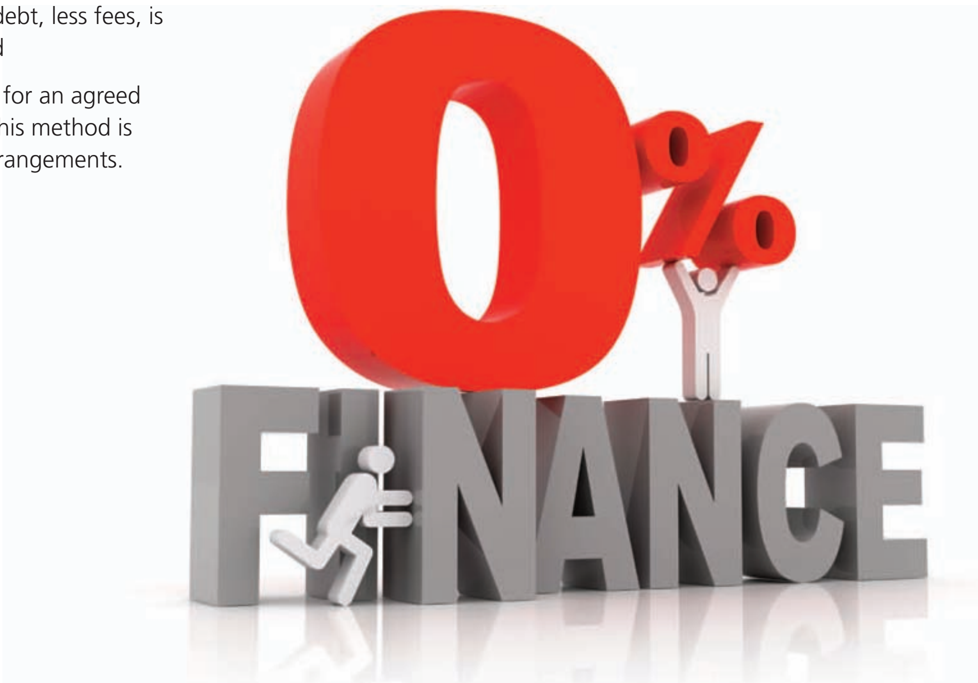
Insurance

The risks of non-payment fall into two groups: customer risks (the same as exist for your UK customers) and country risks. These risks can be insured against with export credit insurance policies

Short-term credit insurance: usually available for up to six months and mainly provided for sales of consumer goods, raw materials and other similar goods. Your insurance broker or your bank will provide advice. Guidance is also available from the British Insurance Investment Brokers Association (BIIBA).

Medium or long-term credit: usually on capital / infrastructure goods, projects or services and involving large sums of money. Payment terms will usually exceed two years. Credit insurance is primarily provided but the Export Credits Guarantee Department (ECGD), a government agency.

Goods in transit insurance: The point at which the exporter's responsibility for the goods ends and that of the customer begins is determined by the contract terms. You need to be fully aware of responsibilities regarding insurance and contractual obligations. Insurance is a key element in managing risk during goods carriage. Policies are based on an internationally recognised system of Institute Cargo Clauses A, B and C. These cover goods in a descending order of scope with a Clause A providing All Risks cover. Good are insured for a stated value and the cover needs to be in place throughout the transit period. Claims usually have to be made within set time limits.



Legislation

There is no single piece of legislation covering the export of goods. All goods manufactured in the UK, whether destined for the home market or overseas, have to comply with the same laws governing health and safety, decency, employment rights, qualifications of personnel, environmental protection etc. There are also legal requirements to complete certain export and shipping documents and to keep records.

Any item exported from the UK that is subject to export control needs a license. The Export Control Organisation (ECO) is responsible for assessing and issuing (or refusing) export licenses for a wide range of controlled so called "strategic" goods. This includes military and dual-use items.

The ECO is responsible for legislating, assessing and issuing export, trade transhipment and trade control licences for specific categories of "controlled" goods. This encompasses a wide range of items including so-called dual-use goods, torture goods, radioactive sources, as well as military items. Whether a licence is required depends on various factors such as whether the items are listed on the UK Strategic Export Control Lists, subject to End-Use Controls or to sanctions.

If items exported from the United Kingdom are controlled, then a licence is needed to legally export. Exporters are responsible for complying with the law, understanding the regulations and keeping informed.

All licence applications are risk assessed on a case by case basis, with regard to the Consolidated EU and National Arms Export Licensing Criteria. Licences are issued by the the Secretary of State for Business, Innovation and Skills (BIS).

Bribery and corruption: recent legislation (within the Anti-terrorism, Crime and Security Act 2001) has been introduced to deter UK companies and nationals from committing acts of bribery overseas. UK companies and individuals can now be prosecuted in the UK for an act of bribery committed wholly overseas.

In addition to complying with UK laws, the exporter has to comply with legislation in the export market and observe various regulations, standards, certification requirements and codes in that country. Some of these will be mandatory. Some may not be imposed on a national level but will apply at a state or regional level.

Information about legislation and regulations can be found at www.bis.gov.uk/exportcontrol

Barriers and tariffs

Barriers and tariffs operate throughout most of the world to a greater or lesser degree. Customers' duties for example, can make your goods less competitive than locally produced goods while foreign currency restrictions can reduce the amount an importer has available. In addition, many countries impose specific regulations on imported goods and even more have a range of mandatory (or recommended) standards, codes and certification requirements.

You shouldn't assume legal requirements, standards, specifications or codes will be the same overseas as in the UK.

Standards, specifications, codes - Many countries adopt UK standards and specifications for some of their requirements but others have their own standards. In fact, most industrialised countries now have standards but not all are produced by a national standards centre such as the British Standards Institute but instead by industry bodies, public sector companies, insurance companies and trade unions etc.

Certification - Independent third-party certification (such as the Kitemark in the UK) has almost become the norm, while self certification has become less widespread. Just as in the UK, certification procedures abroad may require detailed information to be made available and can be time consuming and expensive. Some countries may accept existing test reports to be used towards their local certification scheme.

Certification is not always a legal requirement but will often be a commercial necessity.

Other technical requirements - Exporters must also establish if their target market has any other technical requirements. These might include goods having to be sold in specified quantities and units, the qualifications of personnel involved in the manufacturing process, warranty procedures or product liability issues.

For further information - The Technical Help to Exporters (THE) section of the British Standards Institute advises on technical requirements in individual markets. The also provide English translations of foreign standards and specifications, relevant legislation and codes of practice.

Tel: 020 8996 7111
Email: the@bsi-global.com
Website: www.bsi-global.com

Sources of information

UKTI - Export - a government export agency which provides useful information either via your local Business Link or from their website **www.ukti.gov.uk**

> Local Business Link **www.businesslink.org** (valid as at April 2011 - due to be reviewed Nov 2011)

> Chambers of Commerce **www.britishchambers.org.uk**

> Customs and Excise **www.hmrc.gov.uk**

> Associations and Institutions, such as the Institute of Export. **www.export.org.uk**, British Exporters Association. **www.bexa.co.uk**

> Company and product details: Kompass **www.kompass.co.uk**

> Embassies (British & Foreign) **www.embassyworld.com**

> Bilateral and Overseas Chambers **www.worldchambers.com**

> International Organisations: **www.un.org**, **www.wto.org**

> Cultural Aspects / Country Profiles: **www.cbi.org.uk**, **www.countrybriefings.com**

> Industry Sector Reports: **www.corporateinformation.com**, **www.businessmonitor.com**

> Reed Exhibitions Ltd: **www.reedexpo.com**

> Published Market Research: **www.marketsearch-dir.com**, **www.euromonitor.com**, **www.mintel.co.uk**

> The British International Freight Association (BIFA) can provide more information on Freight forwarding.

> British Insurance Investment Brokers Association (BIIBA), Tel: **0870 9501790** Web: **www.biba.org.uk**

> Export Credits Guarantee Department (ECGD), a government agency. Tel: **020 7512 7000**, Web: **www.ecgd.gov.uk**

> The British Standards Institute advises on technical requirements in individual markets. Web **www.bsi-global.com**

The Enterprise Europe Network helps small business to make the most of the European marketplace. Working through local business organisations, they assist with developing businesses in new markets, sourcing or licensing new technologies and with accessing EU finance and EU funding. They have almost 600 member organisations across the EU and can include chambers of commerce and industry, technology centres, universities and development agencies.