AHFES

International Market Development

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Programme 4 – Module 3:

Developing An Internationalisation Plan – Workbook

1 INTRODUCTION

It is possible for companies to conduct business in almost any country around the world, thanks to the advances in international marketing. In simple words, international marketing is trading of goods and services among different countries. The procedure of planning and executing the rates, promotion and distribution of products and services is the same worldwide. In recent times, companies are not restricted to their national borders, but are open for international marketing.

2 WHY EXPORT

For many companies exporting is a natural part of the growth journey.

They may have outgrown the domestic market, or their products may be more suited to certain overseas markets. For others it may simply be a natural progression to look further afield for new opportunities. The reasons most cited for SMEs to consider exporting include:

Increased sales

The most obvious reason for most companies to think about exporting is to increase sales. The company may have exhausted opportunities in its domestic market and may have little choice but to look further afield for growth. It can also be the case that you discover an export opportunity which exists due to a particular unmet need in a market, and this spurs the decision, but the goal is the same, to increase sales of a particular product or product line.

Growing the company

If your ambition is to grow your company at a reasonably rapid rate, the revenues and cash flows required to support this may not be available from the domestic market alone. Export sales are therefore almost a necessity.

Increased profits

Increased sales do not always translate into increased profits. The higher costs of distribution, and other factors such as more intense competition associated with exporting, may make sales significantly less profitable than domestic sales. However, even with tighter margins overall profits can be improved by selling into much larger markets. Furthermore, certain unique premium food products may command even greater profit margins in some markets than they do at home.

Reduced dependence on a single market

SMEs are particularly vulnerable to economic downturns, however temporary and short term in nature. A small drop in consumer buying power can have a profound impact on a small food producer. Similarly, SMEs can find themselves in a position where they are overly reliant on a small number of customers. Expanding into export markets reduces this exposure, spreads customer and market risk and offers greater balance for future growth strategy.

Gaining new knowledge

Companies trading in just one market naturally develop the skills and knowledge required for success on that market. However, there may be other marketing techniques or product variations which can be successfully imported from other markets thereby boosting domestic sales. Exposure to new customers and competitors in export markets can bring the knowledge and skills necessary to do this.

Economies of scale While export sales may not be as profitable as those on the home market, the overall increase in production they generate can be used to drive economies of scale and realise productivity gains which results in an overall rise in profitability, competitiveness, and capability.

Becoming more innovative

Learning the skills and techniques required to succeed in other markets greatly improves a company's overall innovative capacity. For example, new product development capabilities can be greatly enhanced by adapting products and packaging to meet the needs of individual export markets

Is exporting the right decision for the business?

While the benefits of exporting are clear there are also risks, and only companies who are genuinely ready for exporting and are prepared to put in the time and resources will succeed. It is important to understand from the very outset the additional strain that exporting can put on every aspect of a company's management and operations including accounting, marketing and production. In addition, you must be sure you have sufficient funds available to finance the export initiative. It can take up to two years to secure a first order on some markets and you must be prepared for that.

When orders do start coming in you have to be prepared for other risks such as currency fluctuations, different payment terms, higher logistics costs, and so on.

Therefore, before even considering exporting, a company must be willing to invest in significant additional overheads, marketing expenses, product design and adaptation for new markets, higher inventory costs, increased customer service costs and longer credit lines

3 IDENTIFYING EXPORT OPPORTUNITIES

Extensive market research is an absolute prerequisite before even considering exporting to a particular country or market. Just because a product is successful in one market does not mean it will meet with the same reception in another, regardless of the apparent similarities between the two.

The first step in this process is the simplest – pick the market that interests you most. This will normally be the one which presents fewest apparent barriers to entry.

Before committing any resources to in-depth analysis, preliminary desk research should be carried out. This initial research can quickly identify if a market has potential or not and whether further exploration is warranted.

Research

Research is the second step and much of it can be initially carried out online using freely available sources of information. A useful starting point is relevant industry websites, and a little time spent on search engines like Google can prove very worthwhile as well.

The websites of your competitors and those of relevant retailers or foodservice operators will also provide valuable insights. For example, if you are planning on selling into retail, the websites of major retail chains or specialist shops will give you an indication of the range of products in your category, how they are packaged, pack sizes, flavours, and price points. It can also help you identify gaps on the shelves and where your products might fill that gap. Be sure to establish if any of your business contacts are already active in the market as they could offer useful onthe-ground advice. This quite straightforward early stage research can uncover a range of good quality information which can indicate the existence of an opportunity or not, or if such an opportunity is worth pursuing. For instance, can you meet the price expectations of the market while generating sufficient margin to make the enterprise worthwhile? Or is there an apparent gap in the market which could be filled through some minor alterations to products already in your range? The type of basic data which should be sought and will be readily available includes:

- Economic trends
- Competing products and prices
- Population and demographics
- Trade statistics
- Tariffs
- Non-tariff trade barriers
- Currency value trends

7 Step Check list for market research

TASK	Due Date	Progress Comment		Done
1. SET UP YOUR GOALS				
Before you start conducting competitive analysis you must set up your goals.				
The way you consider the mission deeply affects the way you do it.				
It is essential to have a clear-cut goal that will guide you and help you to structure the research.				
2. IDENTIFY YOUR COMPETITORS				
• Check the list of companies running in the same market.				
• Run a Google / online Search.				
• Speak to potential customers, - who else they considered.				
3. DEFINE A COMPETITIVE USABILITY INVESTIGATION				
You need to know what gaps or openings are currently available within the target market.				
4. COMPARE COMPETITOR VALUES PROPOSITION				
To develop a values proposition that makes your offer special and unique you must get to know how your competitors position themselves.				
5. RUN COMPETITIVE RESEARCH FOR DESIGN				
Analysing story, the competitors tell referring competitors pages, sites and paying attention to their reviews you will be able to create a better understanding of the competitive landscape.				
6. QUANTITATIVE INVESTIGATION				
Here you must obtain as much as possible accurate data about the market and the business of your competitors.				
7. FUNCTIONAL INVESTIGATION				
You must define how your competitors run their business, their strategy, different tactics. Route to market taken, channel partners.				

WHAT MAKES A GOOD COMPETITIVE ANALYSIS?

What makes a good competitive analysis The rather good competitive analysis is the one which:

• gives you a clear comprehension of how you can improve your tactics to gain a strong advantage for your business.

• enables you to predict the future of the market.

• gets to know better your potential customers.

• improves your brand value.

• decreases customer rejects.

• enhances your customer service.

• adds more benefits to your products.

• helps you to define the best distribution channels.

• accurately defines your position in the marketplace.

• assists you to formulate next steps to complete with your competitors effectively.

• lists your competitors` strengths, vulnerabilities.

• shows all the opportunities you have.

Thus, based on data obtained through well-organized and flawlessly conducted competitive analysis you may efficiently forecast the position of your brand in the market, get to know how customers perceive your product compared to the competitors and choose the best plan to succeed.

Additionally, you get a chance to develop a more competent and creative strategy for your business to boost

Market research

If research shows positive results, it is then time to look more closely at the market. This will inevitably require a market visit or visits and investment in quality in-market research.

Participation in organised trade missions and study tours is very valuable at this stage. These missions are organised by trade bodies and financial support is often available to early-stage exporters wishing to participate in them.

Marketing, legal and other experts will be required at this stage and their time will not come cheaply. It is essential to define in advance the type of market intelligence you are seeking and to set clear budgets for what you are willing to spend on the exercise. This will ensure that valuable time and resources are not wasted whilst also increasing the prospects of gathering data that will be valuable to subsequent exporting activity.

The type of data to be gathered can be broken down into several key areas: General market issues

These include issues such as cultural differences, language, currency, and attitudes to imported products. The political climate in a target market is another important consideration. Overall economic issues including consumer spending power and regional economic variations should also be analysed under this heading.

Routes to market

It is important to consider how easy or difficult it is to physically get products from your location to a customer in the chosen market, and to look at existing transport links between the two countries. With regard to distribution, channels vary from market to market as will the means of accessing potential customers in the retail and food service sectors. In addition, some markets will require the retention of a local agent or representative.

Market structure

Variations in market structure even between neighbouring countries can be quite pronounced. Some may have a retail segment dominated by a small number of key players while another may have a highly fragmented foodservice sector. Regional differences can also be quite marked, and approaches may have to be tailored for different areas.

Product specific issues

Product specifications can vary greatly from market to market. Pizzas may need to be spicier in one market than another; packaging colours may need to be more vivid or subtle depending on consumer preference; certain products may be viewed as premium in one market and commodities in another; ethnic origin may be very important or not at all; your product’s name may have a different and sometimes unfortunate meaning in another language.

Legal and regulatory issues

You may on the face of it have a product which should succeed in a particular market on price, quality, taste characteristics and other terms but that will face other difficulties down the line. These can include packaging regulations, legal issues regarding what the product can be called and how it can be described, high tariffs which may price it out of the market, licensing regimes which may require the establishment of a local joint venture entity, local product standards regimes, product support requirements, certification, and testing issues, and many more besides. These issues should not be insurmountable but where they arise may be best tackled by an experienced export consultant, specialist, or distributor.

If the results of this research indicate that your product can not only succeed in the chosen market, but that the effort in achieving success is justified by the returns on the investment, it is time to move onto the next stage … Developing your Export Plan.

Useful initial information sources

- State export support agencies
- Embassies
- Chambers of commerce
- Existing international customers
- Banks
- Competitor websites
- Distributor websites
- Retail multiple websites
- Other food exporters

4 DEVELOPING YOUR EXPORT PLAN

Having decided that exporting is for you, and you have identified a suitable export market, the next step is to develop an export plan.

An export plan is similar to a business plan in that it will include an overall strategy and objectives, a background analysis, and sections covering marketing, budget, action steps, implementation schedule, targets, and of course market information.

The plan should set benchmarks and targets against which actual performance can be measured. The degree of complexity of the plan will depend on whether the company intends exporting directly into a market or indirectly using distributors or agents.

The best export plans are dynamic in nature and are compiled at least partly because of the research being carried out into the target market or markets. The plan should also be capable of adaptation and alteration during implementation as actual market conditions on the ground are considered.

It is therefore best to try to keep the plan as simple as possible in order to avoid unnecessary rigidity. It should be capable of changing in response to the company’s real experiences and learnings in the market.

For example, a pricing strategy which appeared realistic originally may have to be altered in the face of changed conditions in a market. Similarly, marketing plans may be subject to significant amendment considering actual customer responses.

The plan should therefore grow and become more complete as time goes on.

Most importantly, the plan should set benchmarks, time frames and targets against which actual performance can be measured. Without these milestones the success or otherwise of the exporting project will be impossible to judge.

The export plan will grow and become more comprehensive as time goes on.

KEY QUESTIONS

In formulating an export plan there are several key questions which should be asked and answered realistically.

Which market (or markets) is being targeted?

- What market research has been carried out and
- what were its findings?
- Which products are to be exported?
- Are product modifications required?
- Who are the target consumers for the products?
- What are the specific challenges and constraints to be met in each market?

• economic

• legal

• cultural

• import barriers

• language

• competitive landscape

• market structure

- How will each of these challenges be met and who within the company will be responsible for meeting them?
- What is the chosen route to market and how will it be accessed?
- How will the product price be set?
- What are the operational steps to be taken to enter the market?
- Who is responsible for these steps and when will they be taken?
- What budget is set aside for the export effort?
- What personnel resources will be devoted to it?
- Will it be necessary to increase production capacity and if so, by how much?
- What are the performance targets e.g., market visits, potential customer/distributor meetings, first order, sales value/volume for first year etc?
- How will performance against targets be monitored and evaluated?

The development of an export plan, based on the answers to these questions, will increase the overall chances of success but will not guarantee it. Crucially, what it can do is provide focus and an early warning system to alert when things are going wrong, or targets are being missed. This will allow changes to be made quickly in order to avoid making further costly mistakes

5 CHOOSING A ROUTE TO MARKET

Choosing the right route to market is essential for export success. The most important decision many exporters have to make at this stage is whether they will sell directly or indirectly into a new market. Generally, direct exporting involves selling direct from the exporter's location to the customer. Indirect means working through an agent or distributor.

AS WELL AS CHOOSING THE RIGHT ROUTE TO MARKET

CHOOSING THE RIGHT PARTNER IS CRUCIAL

It is essential to seek references from other exporters as well as taking legal advice before entering into any trade agreements. With the benefit of the correct advice, costly mistakes can be avoided.

The direct model

This requires the exporter to take full control of sales and all other aspects of the export activity. It has the advantage of offering a direct relationship between seller and buyer with no commission payable to agents or intermediaries.

The direct model is quite attractive on the surface as it usually replicates the way business is done at home.

However, geographic distance, language differences, market scale and many other factors may render this option impractical. Attempting to engage buyers and maintain relationships with them over a long distance can be an unrewarding exercise. Most first-time exporters find they need help from an in-market specialist to represent and sell their products.

Sometimes large companies prefer to deal directly with suppliers so it could be the case that at least part of your export business has to be done in this way. Indeed, at the outset some firms can find that they must employ several routes to market before finding the one that suits them best.

Direct exporting can, however, be a very costly way of doing business for a small company as it usually requires frequent market visits, and all logistics and other overheads have to be borne by the exporter

The indirect model

This is the most common choice for most first-time exporters and there are several different options open to them. These include using a distributor or using the services of an agent.

Before deciding on which option to choose you should familiarise yourself with all the different costs involved. Every link in the chain will have its own charges and costs and you must make sure you have some margin left for yourself at the end of the process.

Local partner

A business will need to form a relationship with a local partner who knows the territory and can help it navigate its way around some of the trickier areas. That representative should also be able to provide introductions to buyers and distributors, provide or arrange translation or simply provide advice on local business culture.

It is strongly recommended to invest time and research into picking the right partner as this will avoid problems at a later stage. A good working relationship is a critical key to success and needs to be worked on continuously.

Distributors

For a first-time exporter this can be the most attractive and apparently trouble-free option. A distributor buys your products and then takes charge of sales, marketing, promotion, logistics, and so on within a market.

On the face of it at least, this would appear to be an ideal solution for would be exporters. Distributors offer ready market access and take a lot of the risk out of export trade. They also tend to enjoy considerable power and reach in their own markets and can use this to put new products on shelves or on restaurant tables.

There are some downsides of course. Not least are the very high margins - regularly 30% - and long credit terms they demand. These are usually justified if they achieve their sales promises but there can be difficulties if they do not.

Distribution agreements often involve long exclusivity terms with few performance penalties. It has not been unknown for a distributor to make agreements with exporters in order to control competition in a market and this must be guarded against.

It is therefore essential to seek references from other exporters as well as take legal advice before entering into any distribution agreement. However, with the benefit of the correct advice, distribution agreements can be mutually beneficial and profitable over long periods.

In-market presence

Establishing your own operation in an export market can be a very profitable in the long run. There are no agents' commissions or distributors' discounts, you have full control of the sales and marketing and branding of your products, and you can build long term relationships directly with your customers.

But it is also costly. Setting up a business in your home market is expensive and difficult enough but is even more so in a different jurisdiction. Company law, employment regulations, tax rules and so on will differ markedly. Indeed, the overheads involved place it out of the reach of all but very few SMEs and this should be the long-term aspiration of first-time or early-stage exporters rather than the first option.

Agents

Using an agent is a form of halfway house between a distributor and having your own in-market presence. The agent acts on behalf of the exporter, finding customers and selling product to them. Once a sale is made the order is then passed over to the exporter who dispatches it and invoices for it. The agent receives an agreed commission for their services.

Care must be taken when appointing an agent to ensure that they have the right contacts with the customer base you are looking to sell into. For example, retail contacts alone are not enough if they are not with the food and beverage buyers or category managers. The advantages and disadvantages of using an agent versus a distributor must be assessed very carefully. While an agent's commission at between 5% and 15% may be significantly lower than a distributor's margin, the fact that you are responsible for all logistics and other inmarket cost of sales, as well as being exposed to payment risk from multiple customers, can outweigh this.

Just as in the case of a distributor, legal and other advice should be taken before reaching an agreement with an agent and their credentials should be checked very carefully.

Naturally, there are distinct advantages to using an agent. These include the fact that they remove the necessity of employing and maintaining your own staff in the target market. They can also offer invaluable local knowledge and experience which would be very difficult to replicate. On the other hand, they tend not to offer an after-sales service as standard and the exporter should make appropriate arrangements to cater for this.

USEFUL TIPS WHEN PICKING AN AGENT OR DISTRIBUTOR

- Look for recommendations from other exporters and export advisers first
- Consider hiring a sales consultant in the market to advise you on your options
- Do the legwork – find out who the key distributors are for the customers you wish to sell into and open discussions with them
- Look at the distributor's website to check prices and the product ranges they offer
- Consider working together on a trial basis for a fixed period
- Talk to your lawyer before signing any agreements and make sure your lawyer
- has access to expertise in the relevant jurisdiction
- Always try to minimise the agent or distributor's period of exclusivity.

6 GETTING YOUR PRODUCTS TO THE CUSTOMER

Making that first sale or reaching an agreement with a distributor is just one step in the export process. You then must fulfil the order and get the goods to the customer or distributor. This can involve several other parties along the chain and close attention to detail is required to ensure that everything goes smoothly.

In the first instance the export documentation must be right.

The paperwork involved in exporting, particularly to countries outside the EU, can be quite daunting for a firsttime exporter, but it is essential as getting it right helps ensure that the goods arrive safely and on time and protects you from a variety of risks

Freight forwarders

Many SMEs do not have the resources to devote to becoming an expert in the finer points of export documentation. For this reason, the services of a freight forwarder are frequently used and prove invaluable to many first-time exporters.

A freight forwarder should be considered as a key partner in the process. They act as your agent in getting your goods from your door to your customer's location. They are experts in all aspects of moving cargo from one destination to another and can advise on the best mode of transport, the rules governing exports to markets around the world, specific regulations covering exports from your home country to other countries, freight costs, port charges, documentation, insurance, packaging, and so on.

In fact, before ever securing your first order it is probably best to find a freight forwarder to work with. They will be able to help with the preparatory work necessary to make sure that first order goes through smoothly from start to finish.

The freight forwarder will charge a fee, and this must be factored into your overall export costs when setting a price for your product.

Shipping goods overseas

There are three basic methods of shipping goods overseas. The first is to use a logistics company which will pick up your goods, either from your premises or a depot, and deliver them to the customer or distributor in the destination market. This is the simplest and most popular method for the majority of early-stage SME exporters.

The other two methods are sea freight and air freight. Both of these require you to make all the arrangements for the delivery and collection of goods from ports and airports and can be unnecessarily complex, particularly when documentation requirements are considered.

Of course, there can be times when sea and air freight prove best. For example, if you are selling very high-quality fresh products into a high-end restaurant in Paris the air freight option, although expensive, may be best. At the other end of the scale, if you are selling bulk commodity products to a far distant market, sea freight may prove best.

Insurance

You need to ensure that all export shipments are fully covered by transit insurance from the moment they leave your premises to the point at which they arrive at their destination. This will protect you from loss or damage costs during transportation.

Get advice

The complexities of export documentation and the costs involved in shipping goods from one location to another mean that advice is an absolute must before any decisions are taken. While a freight forwarder can shoulder much of the burden, you must be in a position to pick the right one for your needs and to be comfortable that they are looking after your affairs properly. This means getting advice from export support agencies and associations and, if possible, learning from other exporters or experts who have been through the process already

7 MARKETING AND SELLING YOUR PRODUCTS OVERSEAS

INTRODUCING A NEW BRAND OR PRODUCT TO A MARKET IS NOT EASY

Building awareness with trade customers can be done in several ways. Advertising in relevant publications and attendance at exhibitions can be effective.

Ensure your target customer base knows that your products have arrived.

Before deciding on any marketing strategy, you should review the activities of competitors and similar companies to your own to establish how they market their products. There is nothing wrong with learning from your competitors – it can help avoid costly mistakes and give you a head start in a new market. You should also discuss your plans or ideas with your distributor or potential distributors if you have not already chosen one. Distributors will often market products on behalf of exporters and contribute to the costs. They are experts in their own market and can be a very valuable source of advice and assistance, as well as a marketing resource.

Advertising

When considering advertising the first thing to do is research the target market thoroughly to assess how best it can be addressed. Very often the wisest approach is to only commit expenditure when certain that it is the right thing to do. Areas to consider include:

The online channel – register a new domain name for your company in the target market; translate and localise your website for the market; use social media where possible to address your target customer base. Review market specific websites for advertising potential.

Trade media – review relevant trade media to establish the best vehicles to advertise your product.

Consumer advertising – this should only be considered when your product is actually on sale in a market or being launched. In many cases local distributors and agents will bear a share of advertising costs and indeed manage the advertising effort and that should be borne in mind when reaching agreement with them

Exhibitions and trade fairs

Trade shows are often the best way to meet buyers and research new markets. A presence at a trade fair can also be a very cost-effective means of selling and promoting your business to key customers. However, the better the show the more expensive it is likely to be. This means that the utmost care must be taken to maximise the return on your spend. This can be achieved in a number of ways, for example:

relevant

• Speak to other exporters and trade associations about who is likely to visit the fair to ensure it is the right one for your product

• Explore stand sharing options with other exporters from your home country to spread the cost

• Find out if there are grants or other supports available from Government agencies to help with the cost of exhibiting

• Make sure you have someone on the stand at all times who can speak the local language – English may be widely spoken but many people expect to be able to communicate in their own language

• Set realistic goals for what you want to achieve from your presence at the exhibition and only go ahead if it appears likely that they can be reached

Other Marketing options

Direct mail, either electronic or physical, can be a very useful marketing tool in a new territory as can listings in trade and other directories. Their effectiveness can vary from market to market, but expert advice should be sought before committing funds to either.

8 GETTING PAID

This is quite possibly the single most important part of the whole process for the vast majority of exporters. Sometimes it can be relatively straightforward; you might be selling a product into a highly reputable major supermarket multiple, or restaurant chain and the payment arrangements are similar to those you will have with customers in your own country. But there is always an element of risk involved in exporting and payment arrangements can be quite complex as a result.

Risk minimisation

The best way to minimise payment risk is to know who you are doing business with. Check out the reputation of any potential customer or partner before doing business with them. Even a simple Google search for media references to them can be useful in this regard. Similarly, if it is a new customer who you have not heard of before easy steps like verifying that their address actually exists using Google Maps can be a valuable check.

Your bank

Your bank can be a source of very good advice in terms of minimising risk. They can talk you through the various payment options as well as advise on export credit insurance options.

INCOTERMS

All exporters have to quickly become familiar with International Contract Terms (INCOTERMS). These are published by the International Chamber of Commerce, and they govern various aspects of the contract between the exporter and the buyer. Crucially, they set out the point when ownership of the goods changes from one party to another. This is vitally important in cases where payment disputes arise

Payment methods

There are four main payment methods employed in export transactions:

Open account

This is the system which most closely resembles that used for doing business on your home market. Goods are shipped to the customer and payment is made later according to agreed terms, usually 60 or 90 days.

This places all of the risk with the exporter. The customer gets the goods and has probably sold them already by the time payment is due. If payment is late the cost of chasing it can be high and enforcement can be difficult in an overseas market.

Most exporters would naturally prefer an arrangement which shares risk more equitably but this is often not possible either due to the scale and buying power of the customer or the competitiveness of the particular export market.

That said, many exporters have established long and successful relationships with overseas customers using open account payment arrangements.

Documentary collection

This is the equivalent of cash on delivery (COD) for exporters, but with some important differences. It works on a documentary system and uses the exporters and buyer's banks. The exporter completes certain documents which are required for the buyer to be able to take possession of the shipment. The exporter's bank takes these documents and forwards them to the buyer's bank with instructions that they can only be released when payment has been made on the invoice. The buyer's bank transmits the payment to the exporter's bank at the same time as releasing the documents to the buyer who can then take possession of the shipment.

This may sound convoluted, but it almost completely eliminates payment risk. Should the buyer not pay, the exporter still has the goods. The risk is limited to the losses associated with shipping and other costs.

There are bank charges associated with these arrangements and these can be quite high.

Letters of credit

This arrangement eliminates almost all risk from the exporter's side. A letter of credit is a guarantee from a bank that the exporter will be paid as long as they fulfil their part of the contract. The letter of credit sets out these requirements and the exporter must provide the documentary proof that these have been met. This usually involves evidence that the shipment has been made in accordance with the terms agreed with the buyer.

The advantages of this are clear. The exporter gets paid once the shipment has been made regardless of the ability of the buyer to pay. However, the expense involved usually means it is very difficult to get buyers to agree to it.

Advance payment

This form of payment arrangement is usually associated with only the most high-risk contracts. It involves a buyer paying a certain proportion of the invoice upfront, even before receiving the goods. The exporter agrees to return that payment in the event that they do not complete the contract.

Export credit insurance

One way of dealing with the risk of non-payment is export credit insurance. This is an insurance policy taken out by the exporter to protect against non-payment as a result of the liquidation of the buyer company or changes in political and economic circumstances. Cover is available from a number of different companies and banks and insurance brokers can advise on which are best suited to your needs.

Safety first

Ultimately, the best way to reduce the risk of non-payment is to be absolutely sure who you are doing business with. This might narrow your potential customer base somewhat but having a customer who doesn't pay is far worse than not having a customer. An international supermarket chain which already has a presence in your home market may take a while to pay you but at least you can factor that into your cash flow projections. On the other hand, an independent retailer or small wholesaler in some overseas market may simply be unable to pay you due to trading difficulties, and that loss can be very damaging to an SME

9 MANAGING THE FINANCIAL STRAIN

Setting out on the export journey involves significant costs for a business and these need to be factored in from the very beginning. Furthermore, many businesses often do not take into account the additional costs associated with export success and this can put severe financial pressure on a business.

Two sets of costs should therefore be considered

Initial costs

These include the market research, visits to the market, staff training, specialist advice, product development and early-stage marketing costs.

Ongoing costs These include the costs associated with longer production runs which might involve investment in new plant or hiring additional staff, new packaging development, marketing and localisation costs, shipping and other logistics costs, reduced margins on export product, agents' fees, other consultancy fees, in-market representation, bank and finance costs, currency fluctuations, legal fees and working capital requirements.

This last item is easy to overlook but is often the most important. The lower margins usually associated with exports put pressure on a firm's resources in any event, but when these are coupled with the long credit terms often demanded by overseas customers, the financial strain can be almost too great to bear for many firms. Indeed, it can happen that a firm simply cannot afford to take on additional export business due to the additional working capital requirements.

Two sets of costs should therefore be taken into account:

There are a number of means of finance which can be utilised to meet these needs.

These include:

Bank finance

This can range from basic overdraft facilities to straightforward term loans and invoice discounting. It is best to discuss your export plan and financing needs with your bank well in advance. The bank may be able to offer an additional overdraft facility to help deal with any short-term cash flow difficulties or indeed arrange a loan to cover specific costs such as new production plant.

The banks can also advise on other useful forms of working capital such as invoice finance. This can help bridge the gap between making a sale and getting paid by providing working capital facilities linked to the value of a company's debtor book. It can be a much better way of accessing funding for your company than through conventional banking products.

Financing options

A firm should be capable of meeting the initial costs from its own resources. But this must be factored into the

Export Plan.

A cash reserve should be built up to fund the once-off costs associated with initial exporting and the company's own cash generating ability should be sufficient to cover the other costs

The actual costs of exporting are another matter. While the long-term aim is for exporting to add profitable sales to a company it can take some time for a company to adjust to a higher cost base, reduced margins, and longer overall credit terms. The increased payment risk associated with exporting must also be catered for

Factoring

This is a more expensive product than bank invoice finance, but it can prove very valuable to exporters. In essence, it involves the exporter "selling" its outstanding invoices to a factoring company which takes on all of the payment risks but takes a substantial discount in return. This type of finance can make sense if it does not totally eat up the margin on the export sale.

Existing suppliers

Existing suppliers of raw materials and other services stand to gain from your export success. It therefore stands to reason that they might provide some assistance in the form of increased credit terms. Lengthening credit terms by 30 days, even temporarily, could ease many of the early-stage cash flow headaches associated with exporting. It is therefore worthwhile at least discussing your export plans with your suppliers.

Credit control

Companies should not forget their own credit control and management systems. Tightening up on this area can improve cash flows and help provide the additional resources required for the export effort.

Currency fluctuations

There is little that an individual SME can do to counter or offset currency fluctuations. Buyers will usually insist on paying for goods in their own currency and the risk of a fall in value of that currency must always be considered when pricing your products.

Larger companies have a number of instruments at their disposal to hedge against this risk. Smaller companies may consider opening bank accounts in the currency, such as sterling or the US dollar, to which they have exposure. This would allow them meet in-market costs in that currency saving on foreign exchange costs and dampening the effect of fluctuations.

Grants

There are certain grants available from government agencies and other bodies to assist early stage exporters and these should be investigated. However, care should be taken to ensure that actions are not predicated on the availability of a grant to support them. If an action is worth taking it should make sense without a grant

10 LEGAL & REGULATORY CONSIDERATIONS

Every company involved in the food and drink industry will be acutely aware of the necessity to comply with a variety of legal and regulatory measures relating to their products. In many ways, the stringent requirements in this sector make them more prepared for exporting than companies in other sectors.

Product certification

Many countries have their own specific certification and approval requirements for food products and these can often catch a would-be exporter unawares. For example, the need for US FDA approval for food products might be widely known, but not so generally appreciated is the need for the manufacturing facility also to have approval – even for sending samples into the market.

Some European countries also have product standards which are actually more stringent than their EU equivalent and this needs to be researched in advance.

Food safety standards In Britain and Ireland, food businesses are legally responsible for the safety of the food they produce and sell. Hazard Analysis and Critical Control Points (HACCP) is the basis of European and international legislation for the food industry and plays a key role in the export of food products. Food and beverage companies need to ensure that they are fully HACCP compliant before even considering exporting.

Food safety standards can vary considerably in non-EU countries. In some cases there may be a requirement to provide a sample to a testing authority before permission to export is granted. Export Health Certificates from relevant agencies in Britain or Ireland may also be required by non-EU countries.

Selling into overseas markets brings a whole new set of complexities. These begin with the documentary requirements involved in the transport of the goods, right through to the contractual arrangements with customers and agents, and also encompass the various customs, regulatory and legal requirements of different countries.

Tariffs

Most non-EU countries have a range of tariffs and other trade barriers which are aimed at protecting native industry as well as raising revenue for the governments involved. Tariffs reduce the eventual return from the export sale and need to be taken into consideration before attempting to enter any market. In addition, some countries impose quotas on certain categories of imports while others may require specific licences for trade in food or alcohol products.

Local legal systems

Care needs to be taken when entering a new market as local legal systems may differ markedly from those in the UK and Ireland. It may be difficult, if not impossible, to secure judgements against local companies for non-payment of import bills. Even where it is possible the costs involved may be prohibitive. Fortunately, such circumstances are the exception rather than the norm in the vast majority of markets targeted by British and Irish food and drink exporters.

Business conduct

Exporters also need to be cautious in terms of their business conduct. Firms can inadvertently find themselves in breach of local laws or even the laws of other countries as a result of the way they carry out their business. For example, any requests for payments outside of the strict terms of contracts should be resisted and referred to lawyers.

Insurance

Some countries may have product and public liability insurance requirements which differ from the norm and others may be excluded from the terms of the usual policies. The US is one example of a country which is often excluded from product liability policies. It is absolutely vital to have all necessary insurances is place before commencing trade in a new market.

Intellectual property

It is essential to protect your brand and your intellectual property rights for any innovative aspects of your product in every market in which you are operating. This might involve applying for patents and registering trademarks and designs in the destination market. This will protect you against competitors copying your product.

Legal advice

Initial advice on all these areas is available from chambers of commerce, government agencies and trade associations. Professional advice from lawyers with specific expertise in exporting, the jurisdictions involved, and intellectual property is a necessity once you decide to proceed with your export plan.

Incoterms are Issued by the

International Chamber of Commerce

The Incoterms® rules are the world's essential terms of trade for the sale of goods.

Whether you are filing a purchase order, packaging, and labelling a shipment for freight transport, or preparing a certificate of origin at a port, the Incoterms® rules are there to guide you.

The Incoterms® rules provide specific guidance to individuals participating in the import and export of global trade on a daily basis.

What does "Incoterms®" stand for?

"Incoterms®" is an acronym standing for international commercial terms. "Incoterms®" is a trademark of the International Chamber of Commerce, registered in several countries.

WHAT THEY 'DO'

They explain the set of eleven three letter trade terms, e.g., CIF, DAP etc. reflecting business to business practice in contracts for the sale and purchase of goods.

The rules describe: YOUR OBLIGATIONS

Who does what e.g., who organises carriage or insurance of the goods or who obtains shipping documents and export or import licences?

RISK - Where and when the Seller 'delivers' the goods, in other words where risk transfers from Seller to Buyer

COSTS - Which party is responsible for the costs, for example transport, packaging, loading or unloading costs, and checking or security-related costs

INCOTERMS® 2020 CATEGORIES

INCOTERMS® 2020 still has 11 terms with 2 distinct categories:

• Any Mode of Transport (7 rules) EXW, FCA, CPT, CIP, DAP, DPU, DDP

• Sea and Inland Waterway (4 rules) FOB, FAS, CFR, CIF

INCOTERMS® 2020

	Incoterm®	Explanation	Delivery or Destination	Freight
ANY MODE	EXW	Ex Works	Named Place of Delivery	Freight Collect
	FCA	Free Carrier	Named Place of Delivery	Freight Collect
	CPT	Carriage Paid To	Named Place of Destination	Freight Prepaid
	CIP	Carriage & Insurance Paid To	Named Place of Destination	Freight Prepaid
	DAP	Delivered at Place	Named Place of Destination	Freight Prepaid
	DPU	Delivered at Place Unloaded	Named Place of Destination	Freight Prepaid
	DDP	Delivered Duty Paid	Named Place of Destination	Freight Prepaid
SEA & INLAND WATER WAY	FAS	Free Alongside Ship	Named Port of Shipment	Freight Collect
	FOB	Free on Board	Named Port of Shipment	Freight Collect
	CFR	Cost & Freight	Named Port of Destination	Freight Prepaid
	CIF	Cost, Insurance & Freight	Named Port of Destination	Freight Prepaid

THE TERMS – You need to be PRECISE!

Use the terms as follows:

XXX - named point / place / port INCOTERMS® 2020

EXAMPLE: DAP No123, ABC Street, Shanghai INCOTERMS® 2020

• Make sure the year is specified as any arbitration will need to understand the version being used

• Be geographically specific in naming the point / place / port

• In a contract the use of the trademark symbol is not necessary

• Incoterms® details should appear on the following documentation:

✓ Quotations

✓ Purchase Orders

✓ Order Acknowledgements

✓ Commercial Invoices

ANY MODE OF TRANSPORT

• EXW – Domestic Only Ex Works – Named Place of Delivery

• FCA Free Carrier (FCA) – Named Place of Delivery

• CPT Carriage Paid To (CPT) – Named Place of Destination

• CIP Carriage and Insurance Paid To (CIP) – Named Place of Destination

• DAP Delivered at Place (DAP) – Named Place at Destination

• DPU Delivered at Place Unloaded (DPU) – Named Place at Destination

• DDP Delivered Duty Paid (DDP) – Named Place at Destination

SEA & INLAND WATERWAY

• FAS - Ship Free Alongside Ship (FAS) – Named Port of Shipment

• FOB - Free on Board (FOB) – Named Port of Shipment • CFR - Cost and Freight (CFR) – Named Port of Destination • CIF - Cost Insurance and Freight (CIF) – Named Port of Destination

For more information visit this link

https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-2020/