Export Planner

A comprehensive guide
for prospective exporters
in developing countries

CBI Export Planner

A comprehensive guide for prospective exporters in developing countries

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Preface

For many suppliers in developing economies international trade seems to be the most important challenge of their professional existence. Rightfully so, because export is indeed more difficult, more risky and - frequently - less profitable than operating on the domestic market. CBI is aware of that, having been active in the field of import promotion for more than 25 years.

That is why CBI, supporting the aspiring exporters with a multitude of practical advice and guidance, has published the CBI Export Planner, which is unique in the sense that it shows systematically how to set up export activities in commercial organizations. Basically designed to suit the needs of all exporters, this book includes information on finding trade partners for marketing into Europe and is, as such, complementary to other CBI publications.

This is already the fourth edition of the CBI Export Planner, of which many thousands of copies have helped exporters abroad. Changes in the markets, new insights and experiences, but above all, the gradual improvement of professionalism of the users of this Planner, have made this update necessary.

We hope that this new edition of the CBI Export Planner will contribute to new initiatives and further development of export ventures from industrializing countries which may benefit greatly from participating in world trade.

Hans Fortuin,
Managing Director of CBI

I

Management: goals, resources and tools

Your company is at least as good as its management: the men and women that have established it, operate it, inspire the people - and eventually provide it with the profit that ensures continuity, growth and employment. Read the new ISO 2000-version set of standards: they define the task of managers as: setting objectives, making the resources available, realising products or services, and assessing if they did these activities correctly. The criterion for success is whether the customer, the buyer, is satisfied.

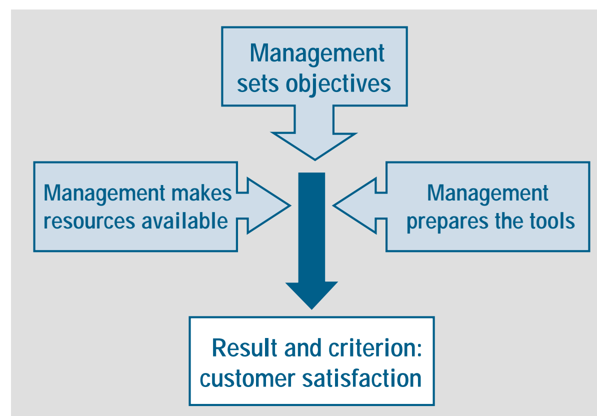
There is nothing mythical about running a company. It is all about making profit by adding value to your resources. That value should be realistic enough for your customer to decide to spend his money on your product - particularly on your product because it offers more added value than your competitors' product.

Running a company, doing business, may not be mythical, it certainly is not easy. Making the right product to sell, finding good raw material, providing for adequate production facilities and workers and finding your way through a maze of legalities, most of which look like barriers against business.

The management job is even more difficult when it comes to selling to customers abroad. In theory international business follows the same methods as used domestically, but in practice it differs - simply because the customers are different from what you are used to. Their needs are different, the methods to promote your products or services differ, the methods to get your goods to the customer differ. Since your success is measured by the customer's satisfaction, you will find yourself changing your company, the products, your workers - and in the end, yourself.

This fourth edition of the CBI Export Planner will try to guide you along the relevant checkpoints identifying those differences - and will enable you to decide on actions which may lead to success. Since the best guarantee for success is the way you, managers of your company, set course by setting objectives, this chapter will focus on goals, means and tools.

Figure 1.1
Management setting goals



1. Setting goals requires strategy

Thinking ahead, trying to look deep into the hazy future, setting the company's course, these are typically the manager's tasks. From his (or her) ability to 'helicopter-view' his own situation, to look at the company for what it is really worth, to predict how the company could become successful, the manager is best equipped to design the corporate strategy. As such, strategic design comprises the assessment of the company's activities and competitiveness in order to ensure that the right direction is chosen to ensure the company's profitability, far into the future.

1	**Define business activities**	In what way does the company add value to its resources?
2	**Analyse the target industry sector**	What competitive forces do we have to fight?
3	**Define the corporate objectives**	What should be the company's long-term goals?
4	**Formulate the corporate planning**	How do we get there?

Figure 1.2
Strategic Development
(acc. to Michael Porter)

Strategic design - planning into the deep future - always begins with analysis (the first two tasks) and ends with synthesis (the last two tasks). The analysis serves your notion of your corporate strengths and weaknesses: to know what the company can do, whatever adverse powers may stand between you and your goal. You must know your company inside out, not only now, but particularly how it may perform in the future. To achieve that several methods for assessment are at your disposal. Chapter II will show you how you can analyze your company, focusing on your plans to go abroad.

Building this understanding of your company and its performance greatly relies on your understanding of what your product means for the buyer. As long as that product - or service - appeals to your customer, your market presence will be justified. This topic will be explained later when discussing the Export marketing mix.

Before choosing, your customer compares your products with those of your competitors. Therefore, your assessment of present and future markets has to include those. You should be able to judge whether your product will be competitive, now, but also in the near future since it will take time to prepare foreign expansion into countries that you are unfamiliar with. Your second strategic task is to assess the 'five forces', as Michael Porter calls them, that shape the market.

In international business the distribution holds the key to your markets, which means that importers, wholesalers, retailers and other trade intermediates decide whether your products are allowed to reach your (end) customers. Particularly in Europe, the distributive intermediates dominate business. You must know who these intermediates are and how to approach them. To convince them to buy and resell your product requires superior talents of selling and of planning, in short: of marketing.

Marketing is the main managerial tool that you need for the synthesis, the stage of strategic planning in which you design - on the basis of your analysis of company and its environment - your masterplan for future activities. Probably, you will wish to expand, to increase sales and profit by extending your operation into markets abroad. That is why

you are reading this CBI Export Planner.
But before you do, ask yourself why. This is the moment to balance the blessings of operating on a market that you know well against venturing into a world unknown - and usually hard to enter.

Strategic reasons to expand abroad

One thing should be clear from the start: exporting is not easy. In fact, it is more complicated, more risky and more expensive than operating on the domestic market.

Most Small and Medium-sized Enterprises (SME), to which category 9 out of 10 companies belong, are dedicated to manufacturing rather than trading. As such, trading is of secondary importance and usually restricted to the familiar home market. Trading to foreign customers, as demanding as the competition makes it, could be beyond the company's abilities. That is why you should think twice before deciding on export- or whichever method you choose to sell your products and services abroad. You will take a moment to consider the options for internationalization, knowing it will require a lot of money, time, talents and dedication, which could stress the corporate resources to their limits. The responsibility for the use of - invariably scarce - resources lies with the top management of the company. Therefore, the decision to use secure resources should be well-balanced between possible yields and costs.

The final balance is not only an economical one, which calculates export feasibility (see Chapter VI). You are aware that your product can be sold, provided it matches good value with a low price. But you don't know whether you could make a profit selling it. You know that profit may be less than normal because you may have to sacrifice some profit when paying for the costs of shipping your goods to the target markets. But you do not know if you could ask a higher price in far-away, more affluent markets. So, other strategic motives must also be weighed in the decision.

Many exporters have preceded you in trying their luck in foreign markets. Some of them had good reasons. Their motives were, for instance:
- higher sales, higher turnover, more profits, or:
- co-operating with trade partners in industrialised countries might stimulate my development, will give me access to new technology and make my organisation become more effective.

Others have motives of a tactical nature, like:
- the local market is saturated, it does not allow for growth, or:
- avoiding the competition, or, on the contrary:
- following the competition in newly opened markets;

Others have opportunistic reasons to export:
- to sell overproduction,
- to exploit spare capacity,
- to spread the costs over production and/or the costs of product development over more units sold (which decreases cost prices and increases competitiveness).

All these motives are good.

However, there have been exporters who ventured into foreign markets for the wrong reasons. Their motives were personal ambition or corporate prestige. Or they were just

looking for possibilities to travel abroad. Such motives for export are not realistic and irresponsible and may lead to failure.

The first strategic task for a manager is to establish the reasons why his/her company should export. These motives should be good enough to justify the high investments in exporting. The pay-out period can be long (3 to 15 years!); the costs of exporting can be very high.

The right reasons for internationalization

1. You may have a unique product or service of which you know that it will not meet competition on foreign markets
2. your company sales and profits must keep growing as not to endanger the continuity of your company's operation
3. you believe foreign markets will yield higher profits than your domestic market
4. you are looking for more sales opportunities elsewhere to spread the costs of product development over more units sold. These costs you consider too high to have them carried by your domestic sales only
5. the local competition has become too strong to cope with. Maybe you could fight them better abroad, in new markets
6. your production capacity has become too large for your home market only. You are forced into finding new markets abroad
7. you need new technologies, designs and skills which you can only get from co-operating with partners from other, more industrialized economies.

Ask the key-people in your organization for their motives for internationalization. If they have not thought about it, you could ask them their personal opinion on the future of the organization and what should be done to improve it. Don't forget that their views can be valuable. They, too, have the company's interests at heart and are willing to commit themselves to the continuity of the organization. It is your job - as a manager - to see to that.

The question you could ask them, is: 'in what shape do you, in your personal opinion, think the company could be in five years from now?' You could use the brain-storm technique for that. Later, when you arrive at the planning stage of strategy-building, you will make use of the ideas that are alive in your company (see 'Planning').

National Interest

A specific motive for exporting is the national interest. Although this motive is not company-driven but of a macro-economic nature, it could be important to you. It might mean that your government will provide support to make your efforts worthwhile. In that case you can add this motive to your list. However, if this turns out to be your only motive for exporting, don't do it. Your company cannot thrive on subsidies alone.

The continuity of your company is better served by profit than by subsidies.

Many developing economies try to increase their exports. Their motive is to strengthen the industrial structure of a country. Your exports will stimulate your national economy and thereby your countrymen's welfare. That justifies government support.

Exporters are usually paid in foreign currency, which in turn is necessary to buy goods and services that are not available at home: capital goods, advanced technology, specialized know-how. Moreover, if the foreign currency is ‘hard’, the value of these currencies remains stable for a longer period of time. Such currencies are the US dollar, the Euro, the Japanese Yen.
Export earnings not only finance essential imports but also service debt payments (interest). Participation in international trade has proven to enhance to economic growth. When combined with a welcoming tax climate, that growth will attract foreign investments in your country. This may lead to more jobs and a higher level of income.

These are the basic reasons for developing nations to promote exports. In this process their governments will support their exporters, making it easier for you to put your export plans in action. The support will come in the form of tax reductions, export subsidies or information and even experts’ support and practical advice. Trade (or Export) Promotion Organizations have been established for that purpose. They are the ones to channel government incentives to you. They also play a role in the distribution of the trade privileges offered by import (promoting) countries.

Often, other export associations (e.g. manufacturers’ associations and chambers of commerce and industry) prove quite effective too - particularly since they have knowledge of the industry sector.

Total company involvement

In this early stage of export preparation, you may feel you are initiating the plans all alone, because you think that work belongs to the top-manager’s task. However, it is wise to remember that eventually it will become the job of all members of your organization. Exporting is a complicated activity which affects everybody inside the company.

Modern management techniques stress that general involvement strongly. It is felt that for making a success of such a demanding job, the manager needs the input and the commitment of all his people.

Many examples are known of unsuccessful exporters whose employees failed to understand their own role in the team effort. Shipping clerks sending the goods to the wrong address, administrative people invoicing the wrong customers with the wrong prices. Secretaries putting the phone down, unable to understand the foreign language of the customer. Such things happen; they damage business.

If you want your people to become committed, you should inform them well. Good managers give their people adequate instructions. They try to involve them in the team effort of doing business abroad. Their commitment will certainly pay off. Your workers are just as good as you make them.

Talking about informing the people involved: you may also want to inform other parties about your plans. Inform your shareholders; you may need their consent in due time. Inform your Trade Promotion Organization; you may need their support. Discuss your plans with your main suppliers - if only to find out if they will be able to increase supply when sales are picking up.

Secrecy can not always be maintained, nor will it be your ally in this stage when you need to mobilise all your resources.

2. Resources: varied and scarce

When you are 'adding value', you are in the process of making more out of less. You are using your resources in such a way that at the end of the day, more money has come in than you have spent. That is the art of doing business: making a profit.

In this stage of strategy-building, you will draw up a list of all your resources, not only to see if they suffice when sales would be increasing, but also to establish your dependency on them. Although the actual analysis is done in Chapter II, now is the moment to understand the nature, the number and the variety of the resources required.

- A (profitable) product range; good turnover
- A good management system and style
- Information, knowledge, know-how
- Adequate production facilities
- Skilled workers
- Dedicated staff
- Good equipment, components
- Constant supply of raw / half materials
- Good planning systems
- Money (or access to capital)
- Time (for preparation)
- Space (to build, enlarge facilities)
- Adequate energy supply
- Clean water, air
- A quality assurance system

Figure 1.2.1
Possible corporate resources

You can probably add more (specific) resources to your list. Do so. It is wise to see on which corporate assets your present and your future performance will depend. In the end, you will notice that your needs are usually falling short of your requirements: there are never enough resources. Here, too, you have to prove how good an entrepreneur you are: by finding ways to get what you need. To make more out of less.

Therefore, you will have to rearrange your resources in order to recognize the ones which are essential and in which ones you are better than your competitors. Your future

- **Manufacturing** (processes, assembly)
- **Company infrastructure** (finance, planning, communication)
- **Marketing, sales**
- **Human Resource Management** (people, rewards)
- **Inbound logistics** (from buying to storage)
- **Technology** (design, testing, R&D)
- **Outbound logistics** (order processing, shipping)
- **Procurement** (raw materials, equipment)
- **Services to customers**

Figure 1.2.2
Strategic competences
(acc. to Michael Porter)

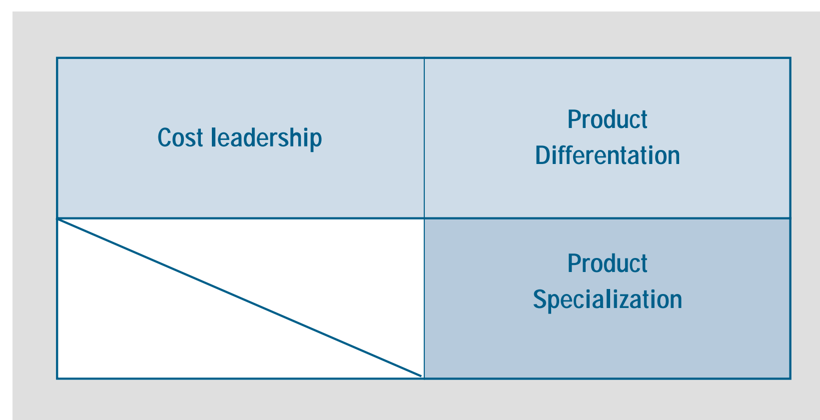
endeavours, like exporting, will be based upon the corporate talents in which you excel. Check on your corporate competence and abilities: would you rate them higher than your competitors'?

These competences may serve you well; they will enable you to outline the direction in which you may conquer foreign markets - or at least acquire a share of the market, however modest. They are your weapons in the battle with the competition.

When used intelligently, they will support your market approach: the way in which you decide to manoeuvre your product amongst your competitors' into a defensible position.

According to (again) Michael Porter, there are only three positions which have proven potentially strong and promising enough to defend.

Figure 1.2.2
Strategic options
(acc. to Michael Porter)



Cost leadership implies that you will be able to offer your products at the best price/quality value, because you have the lowest cost price (compared to your competitors). Product differentiation means that your assortment is wider and deeper than that of your competitor. Specialization speaks for itself; it indicates that you have succeeded in making products that are so special that no competitor finds opportunity nor reason to imitate it. Since such position can give you maximum protection, it is a favoured one for many suppliers, including your colleagues from developing economies.

3. Tools for management

Next to your resources you have tools available. Amongst the managerial tools are:

Figure 1.3.1
Managerial instruments

Since your planning methodology - and specifically your marketing planning - plays a vital role in the process of internationalization, the major part of the CBI Export Planner is dedicated to this subject (Chapters III-V).

But before we get there, some general aspects on international marketing and on planning need further elaboration.

3.1. Marketing

Concentrating your efforts on the customer

Marketing has developed into a universal system for commercialisation. As such it has become one of the most effective management tools. Other tools are: financial management, personnel management, production management and so on. Marketing differs from such tools because it can generate money, not costs.

For export management too, marketing will give you valuable support because it helps you to mobilise your resources systematically with less waste of efforts.

The effects of marketing on your management are two-fold:

A it inspires all corporate activities to be concentrated on the main goal: to satisfy the needs and wants of your customers. Your customer deserves all your attention since he (or she) is the source of your income. In this sense marketing describes an attitude of all people involved;

B the marketing concept also includes the techniques and methods required to 'bring the right product to the right consumer at the right time and place'. These techniques, traditionally indicated as 'the four P's' enable your marketing manager to optimalize his Product, the Pricing of that product, the distribution of that product to the consumer (= Place) and the Promotional activities needed to convince the consumer that your product will satisfy his wishes.

The best effect of those instruments is obtained when the instruments are working together, tuned to one goal: the customer's satisfaction. Integrated in this manner the 'marketing mix' promises the best return on marketing expenditure.

Occasionally, the conditions in your local market may not always require sophisticated marketing, particularly when the demand exceeds the available production output. This is rarely the case in Western markets, many of which tend to be saturated and stagnant. When a market consumes less than the suppliers can offer, those suppliers can only grow by 'stealing away' market-share from other suppliers. In a free-trade situation, this usually leads to competition. Most markets in industrialized countries experience fierce competition. In those countries marketing is no luxury anymore; it has proven to be a necessity.
For most managers like yourself marketing is nothing new; all good business schools offer extensive marketing trainings.

Yet, only few organisations (not excluding companies in industrialized countries) succeed in introducing marketing on all relevant company levels. Customer-orientation, the basic principle of marketing, is something all company employees should be concerned about, not just the top-management. The saying 'the customer is king' should be made the motto for everybody in the company, because at the end of the day the customer's purchase is your profit.

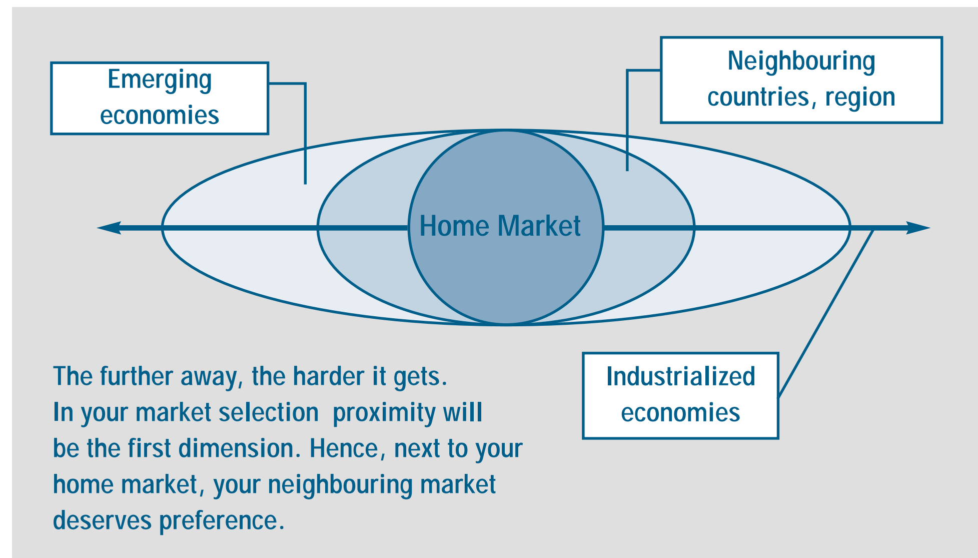
Your task is to make sure your employees acquire such a marketing mentality. Even when you spend the better part of your time and dedication to your product ('product-driven

management') you should always keep in mind who will pay for those costs at the end of the day: your customer, the market.

Markets differ

Markets abroad can be entirely different from what you are used to at home. A rule-of-thumb claims: the further away a country, the greater the differences.

Figure 1.3.2
Distance = differences

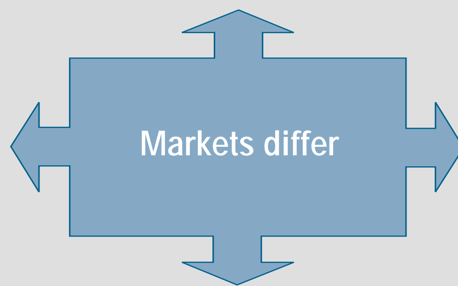


These differences can be of a social, a religious or a cultural nature. Or they can be economical, political or technological (see next Chapter). Of all 210-plus countries in the world, at least 150 will look unfamiliar to you, to what you have seen or learnt. The people are different; their environment differs. Their language, their way of addressing others, of living, of communicating, of consuming and buying will pose problems of understanding.
That explains why doing business abroad is far more difficult than domestic selling. Even though marketing is a universal management tool, similar for entrepreneurs around the world, the moment that you put that instrument to work, you must take the different areas of application into account. The environment of the target market influences the manner in which you should use the marketing instruments.

Your market researchers can help you by explaining some of the differences, so that you can decide on the right method to overcome them.

First of all it is your own responsibility as a manager to have an open mind for these different facts if you want to exploit them successfully. Moreover, you should appreciate these differences as such and not judge them according to your own feelings and norms. You should have a 'global vision', which is a typical asset for exporters.

Secondly, the very fact that you can not physically interfere when problems arise because of the large distances between you and the receiving markets, puts a strain on management and makes export a risky business. As such, you could look upon exporting as 'long-distance marketing', which weakens your managerial control over selling and operations.



Markets are "(groups of) people willing and able to buy" (Philip Kotler). People think, feel and act according to their own cultural background. Culture is learnt (not inbred). Culture distinguishes one group of people from the other. By definition you will find a different culture in markets far-away. The greatest challenge in international trade is to understand different cultures. Then the understanding of different markets will follow.

Figure 1.3.3
Markets and culture

Thirdly, you should understand that in Western markets competition can be fiercer than you ever experienced in your home market. That barrier can be overcome by the differences in the (low) costs of your labour; however, that is a short-lived advantage when struggling against automation and robotization.

Target groups for export

B2B, B2C, P2P? Business-to-business, Business-to-consumer, Person-to-person? You will often read such acronyms, typical marketing jargon, when marketeers try to explain their relation with their customers. The essential question is: to which target group do you relate?

By definition, your main target group is, of course, the end-consumer, because at the end of the production-consumption cycle, that is where your money will come from. Whatever manufacturers make, eventually the products - or the products which are manufactured through those products - will be used or absorbed by the end-consumer. Persons like you and me.

Yet, in the process from production to distribution, from exporter to the end-consumer there will be other buyers as well. All these intermediate buyers can be target groups of your commercial ventures too. Some examples:

A the trading house that buys goods from you to distribute them abroad;
B your importer or agent in foreign markets, who either buys from you or finds buyers for you;
C the purchasing officer in retail chains that have centralized their procurement;
D the manufacturer to whom you supply parts of his export product;
E the manufacturer for whom you manufacture export products as a sub-contractor ;
F the supplier of raw-, half-material and components for your own production.

In some cases the target groups do not have a buying function, but act as intermediaries or facilitators, providing services that are necessary for your export operation. They could be: government offices (providing licenses), commercial banks, or local, regional or supranational development agencies, etc. As soon as you know what you want from them - and what they expect of you, you can organise your activities to obtain just that.

Always keep in mind what their motives are for co-operating with you. That is marketing, too.

As for exporting, there are at least two target groups. The first - and foremost - is the end-consumer or -user of your product. The second one is usually your importer.

When you manufacture 'consumer goods' (like food items, household goods or garments) you will utilize 'consumer marketing', which is based on satisfying the needs of groups of (anonymous) people who share certain consumption habits.

When you are a manufacturer of 'industrial goods', you aim all your activities at satisfying the more explicit needs of one or more customers whom you know by name, through their company, or even by specific requirements. This requires industrial marketing, whereby you supply products that in turn are to be used for the products of your (industrial) customer. Actually, most SMEs are industrial suppliers; selling their products and services to other industries, that in turn use them for their production.

Figure 1.3.4
Industrial and consumer marketing

Most suppliers use industrial marketing ("B2B") for selling to their target group (whom they know by name and needs). Only the suppliers of finished goods apply consumer marketing.

Each party in the production cycle is actually adding value. Most companies, yours included, make use of other suppliers' input. Actually, the proportion of goods bought for own production tends to rise, already exceeding the average of 60%. So more than half of the value that companies sell, has been purchased from third parties 'upstream' in the production cycle. In fact, more than two-thirds of Small and Medium-sized Enterprises supply to other companies.

You will find that that development is strong in industrialized countries. It has to do with the tendency to concentrate on one's 'core competence', enabling the manufacturers to focus on what they do best. They invest only in their core business, outsourcing what they cannot produce better than others can. They limit their activities to adding value to other producers' products, maximizing the profit potential of their own special abilities. You see that happening around you as manufacturers from industrialized countries - profiting from low labour costs - buy components in developing countries or even relocate industries to those regions.
In that sense, the manufacturer adds value to the goods of the raw/half materials supplier, the shipper adds value to your product (by bringing it closer to its destination) and the shopkeeper adds the value of making the product available to the end-consumer.

The model of value-addition, designed by Michael Porter, helps suppliers to identify potential activities which not only could make them cost- or product-competitive (if the activities are unique), but also yield higher profits.

The other kind of marketing, 'industrial marketing', is exactly what you need for approaching and selling to your importer. To identify his needs is simple, since you know

who he is and what he wants. Therefore, a large part of your actual work will be directed to convincing that very importer to buy your products. If you know the needs of your customer's customers, convincing will be easier.

All your efforts come down to gaining knowledge about your immediate customer or your end-consumer. That know-how you will use for product development, but also for convincing your counterpart that you are a knowledgeable exporter and an attractive partner to work with. As such he reacts just like any industrial customer.

So in your exporting you will use two types of marketing: consumer marketing to your end-consumers (mainly persons, seldom organizations), and industrial marketing to your intermediate buyers and trade partners.

This is because you have two target groups: your markets, and your trade partner. You have a relationship with both of them. If we interlink the relationships, we draw a triangle. For the purpose of memorisation, let's call it the "Export Marketing Triangle" (see diagram).

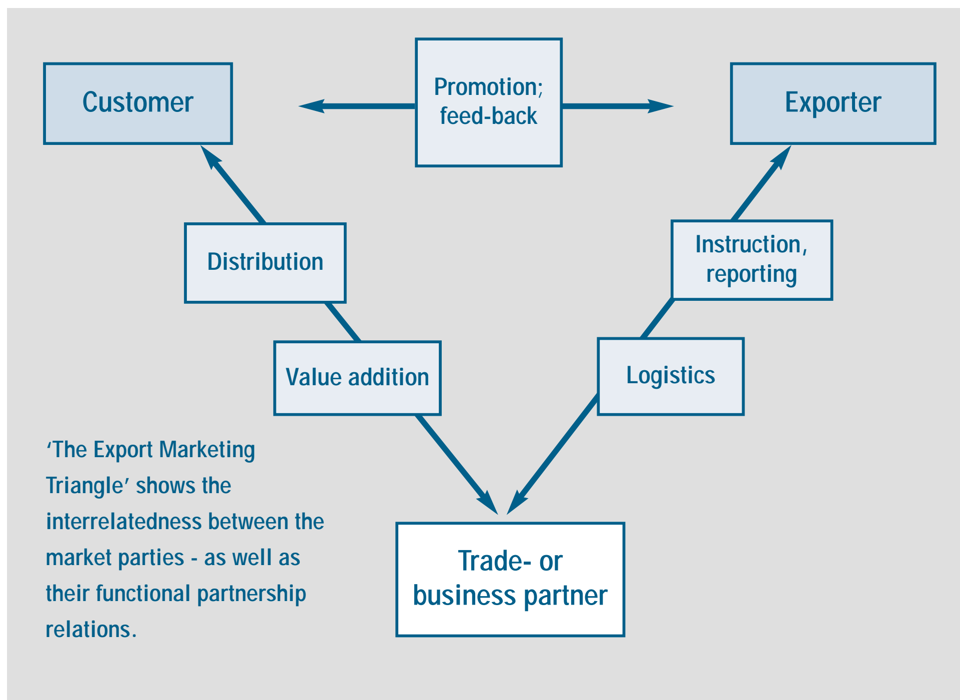


Figure 1.3.5
Export Marketing Triangle

3.2. Planning

Planning is a must

Managers are supposed to spend a substantial part of their time looking ahead, planning for the future. That is their prime responsibility. In the development of management science, planning has received major attention.

Unfortunately, in practice most SME managers are usually too busy with the daily routine to spare the time for good planning. That is a global phenomenon.

Moreover, the ever-accelerating changes in the Western market environment makes it almost impossible for a manager to look ahead and predict his company's future. Product

preferences change rapidly, new technology takes over before the existing one is really outdated, new marketing channels develop, new trading blocks are being created. In Europe, for instance, these changes are more drastic than ever foreseen: stimulated by the European Union the ‘Single Market’ is taking shape, lowering trade barriers to eventually some 400 million people in 20 countries. From there commercial inroads into Central and Eastern Europe are being opened, offering new and unprecedented challenges. In North America, the Free Trade Agreement (‘NAFTA’) between the USA, Canada and Mexico is creating yet another huge marketing potential.

In that environment, planning has become a risky basis for building business. Companies respond by adhering flexibility to adapt more quickly to those changes. That can go a long way - even to the point where they decide to invest in ‘software’ only (people, know-how, skills) and hire the hardware (buildings, machines, vehicles) for limited periods, ready to discard them when the market requires different products. Such a strategic restructuring of corporate policy, of organization, of management attitude is also based on planning.

No export operation can lead to success without careful planning. The complexity, the high degree of risk, the large investments - all these elements of export increase the necessity of planning and organising them well. Of course you, as a manager, know that whenever corporate resources are smaller than its objectives, systematic planning can assure their best use. Yet, you will be surprised to hear that lack of adequate planning is the prime cause of commercial failure.

In many cultures, however, planning is not a generally accepted aspect of professionalism. In some cultures people plan ahead for the next two or three generations. In other cultures people don’t think further ahead than just a couple of months.

Planning is a must for exporting. As for the planning system required in your company, you will be the best judge. The same goes for the planning periods; you will know what planning schedules will work best in your organisation.

Planning systems

Any planning system will do - as long as it allows you to analyse your company and its environment and to design the strategic goals and the masterplan for implementation. It could look like this:

Planning framework (for consumer marketing)

1 **Own orientation:**
as part of your corporate strategy the company establishes its export potential. First decision: to export or not to export.

2 **Analysis of target markets and their environment:**
establish the best potential export- markets, describe them and compare their marketing opportunities. Decision: which export markets?

3 **Distribution analysis:**
identify the best marketing channels and intermediaries to distribute your products to the customers. Decision: which channel?

4 **Analysis of consumers and public:**
focus on the final consumer and on the potential buyers of the products. Establish best potential. Decision: Which specific customers?

5 **Designing and implementing the (export) marketing strategy**
assess which media would be fit to convey the message of your proposition, calculate how much that would cost at what profit, and set your organization in motion.

This systematical planning, step by step, of all activities for exporting gradually "zoom-in" on the final consumers and on your marketing activities to reach them.

You will put your planning - or more precise: the objectives of it - on paper, for all interested parties to be informed and instructed. Ideally such a planning follows a certain hierarchy: every next step goes into more specific details than the previous one. Time-wise, such a system looks like a funnel.

At the left side of the funnel the planning documents are shown, at the right side their validity duration.

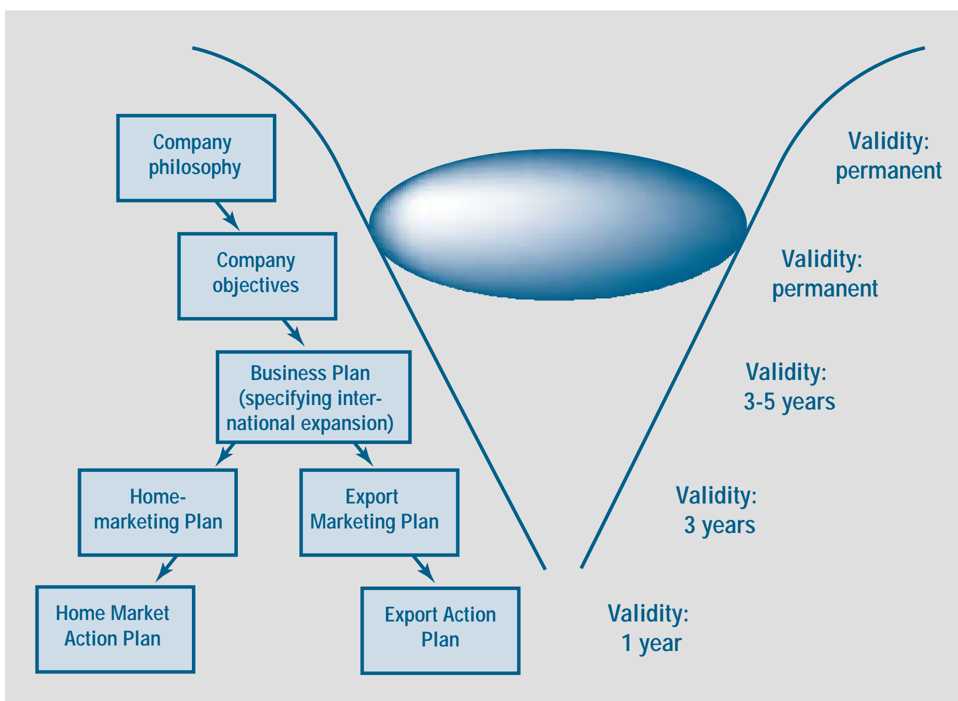


Figure 1.3.6
Planning Funnel

II The exporting company

Preparations for export begin with assessing whether your company is strong enough to succeed - or simply to survive in the battle with the competition abroad. After all, your company holds all the resources that you have analysed in the previous chapter.
In Chapter II the CBI Export Planner guides you on your inspection tour through your own company, highlighting the assets which are valuable for international trade, warning for the liabilities which would stand in your way.

Two methods for analysis are shown, a general one and one which covers exporting requirements specifically.

Staying inside your company, the chapter then focuses on your marketing 'toolkit', the marketing mix. Since your intentions to do business abroad will affect the mix itself as well as the way how you will use it, this is covered extensively.

1. Total Quality Management for all businesses

Your first and foremost question as the company's manager will always be: how good should we be in order to participate in international business?
The answer is, without much exaggeration: your company should be the best in the business. Since international trade has been expanding spectacularly, spurred by the technological possibilities of the ICT New Economy, many commercial barriers tend to fade away. Competition becomes international too. Multinationals expand strongly, new concerns of limitless power are being created, barely contained by legislation (as the Microsoft-case showed). Only the best companies have a chance to survive in the continuous battle for market share and profits.

'The best' company is not just an indication. It is a well-defined concept, measurable by its assets. The definition comes from the notion that any manufacturer, who does his utmost to produce goods and services to make his customers happy, is capable to adhere to Total Quality Management. TQM has thereby become the criterion that any organisation can be benchmarked by.

Conditions for TQM (acc. to Munro-Fauré):

a. Know your customer
b. Know your competitors
c. Know the costs of non-conformance
d. Measure your performance against customer-driven parameters
e. Make sure every employee understands TQM and is committed to quality philosophy and goals
f. Management should be committed to continuous improvement of quality within the business
g. Define the purpose of each department and each activity
h. Enable employees to fulfil their commitment to quality
i. Replace inspection techniques for quality control by preventive action
j. Never accept non-conforming output
k. Plan effectively before acting.

These conditions may sound simple, but you know they are hard to live by. Most companies adopting TQM, usually through introducing ISO, found themselves confronted with more changes than expected. Some even had to transform their organisations entirely, starting with the very managerial concepts.

14 Points to understand corporate transformation to TQM
(acc. to E. Deming; from K.P.W. de Boer 1999)

1 Create consistency of purpose to improve product & service
2 Accept responsibility to survive in the new economic age
3 Stop depending upon inspection to achieve quality
4 Stop awarding business on price alone
5 Improve the system of production, productivity, cost decrease
6 Train on the job
7 Institute leadership
8 Eradicate fear as a stimulus to work
9 Break down the barriers between departments
10 Eliminate slogans, exhortations and numerical targets for the workforce
11 Eliminate quotas, work standards and management by objectives (MbO)
12 Remove barriers that rob the people of their right to be proud of their workmanship
13 Institute a rigorous education and self-improvement programme
14 Put everybody in the company to work to accomplish the transformation.

Apparently, the transformation to TQM requires a new set of rules, almost a new culture for management, implying greater emphasis on human resources, which should result in a better product and a more satisfied customer. The actual implementation of TQM requires even more: new techniques to run your operation. Unfortunately, this is where management is left out in the dark; there is no manual explaining which concrete steps to take.

The only help you will find comes out of the ISO Quality Management directives, which explain to you how to look at - and improve - the present procedures in your organisation: the (new) ISO 9000:2000 instructions. They explain how to use the

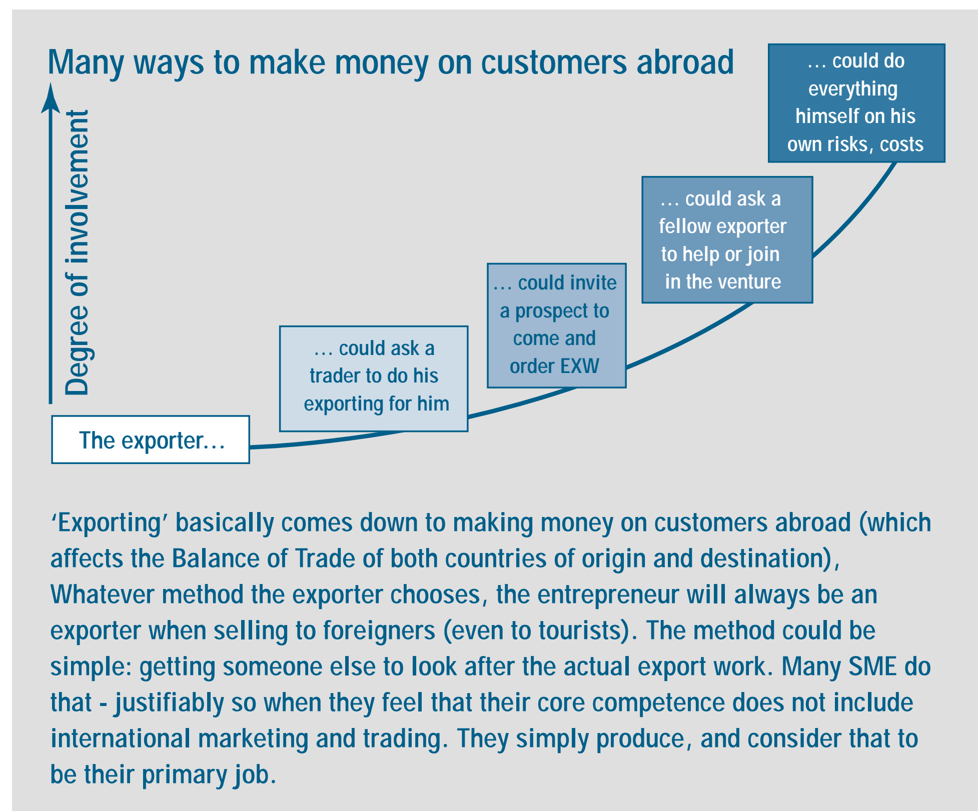
elements of strength in your company for the benefit of the customer's satisfaction. Those elements, ten in total, are graphically explained by the EFQM model, which will be shown hereunder when discussing the general corporate analysis.

2. Exporting is doing business the hard way

Five out of ten exporters should not export at all.

That is quite a statement in the context of this Export Planner. Nevertheless, it is a given fact that many SME are not capable to actively canvass markets abroad, simply because they lack adequate resources.

Figure 2.1.1
The exporter's involvement



'Exporting' basically comes down to making money on customers abroad (which affects the Balance of Trade of both countries of origin and destination), Whatever method the exporter chooses, the entrepreneur will always be an exporter when selling to foreigners (even to tourists). The method could be simple: getting someone else to look after the actual export work. Many SME do that - justifiably so when they feel that their core competence does not include international marketing and trading. They simply produce, and consider that to be their primary job.

There are many forms to export, each showing a different degree of involvement of the exporter in the actual export activities. Most exporters are only little involved: they are the subcontractors, the toll-packers, the Cut-Make-Trim garment manufacturers, all of whom produce according to their clients' specifications, preparing the goods for shipment, maybe bringing them to the nearest port - and that ends their export work. Obviously, the requirements for low involvement are less than for high involvement. That notion will influence the way you assess your company on its international trading ability.

3. General Quality Assessment

However intensive your involvement, whatever you choose to earn your profit, a few fundamental facilities and skills must be available. You must be able to do your work correctly - up to the famous zero-defect level. You know that you can use the ISO-methodology to reach that level.

ISO is the system to incorporate Total Quality Management in your company. The first method to assess your company is of general nature: the quality assessment, based on the EFQM (European Foundation of Quality Management) model.

The EFQM distinguishes five Organisation Enablers: Leadership, Human Resource Management, Policy & Strategy, Resources, and Processes. In the analysis they are in total valued at par with the four Result Elements: Employee Satisfaction, Customer Satisfaction, Impact on Society, and Business Results. All those Enablers and Result Elements are interdependent; one can strengthen the other.

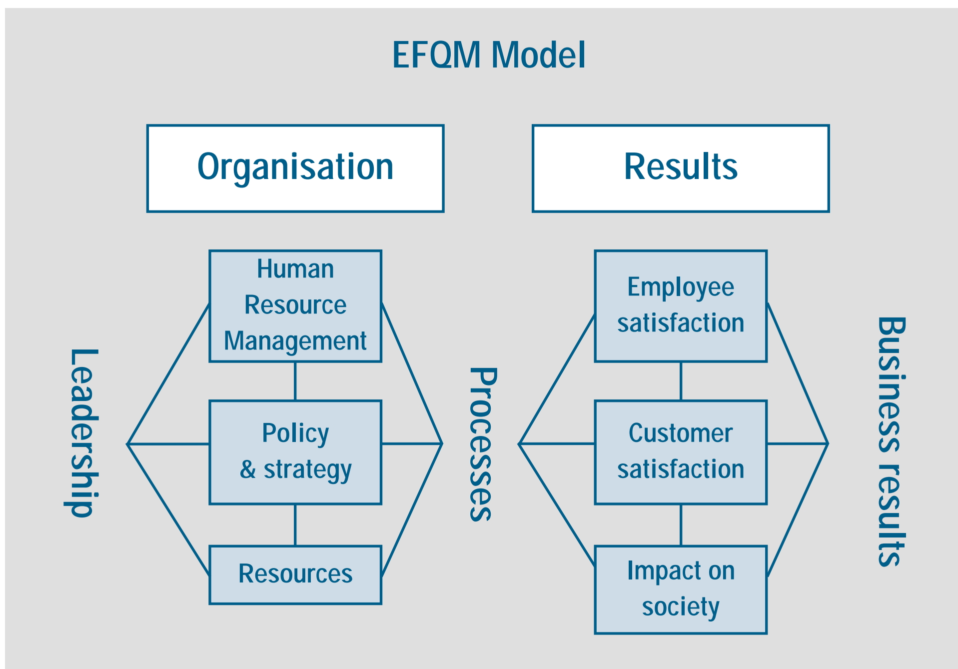


Figure 2.3.2
Benchmark for measuring TQM implementation

For the factual analysis each of the elements should be valued (given a score) as to reflect the importance of them in your organisation. Then you answer a set of questions, each pertaining to an element. The questions could be formulated by yourself, provided they allow for an honest and realistic answer. The ‘Rapid Quality Assessment’, occasionally used by CBI consultant Mr. Klaas de Boer, shows 12 categories of 4 questions each, totalling 48, which enable you a fast insight in the quality status of your company. Refer to Appendix 4.

4. The Export Audit

Assessing export potential

Every commercial venture begins with assessing whether or not the company has the means to cope with the challenge. It is the same for export. Knowing what the hazards are, is not sufficient. Management should know if the company is strong enough to fulfil the necessary tasks.

Assessing the strengths and the weaknesses of an aspiring exporter can be done via an analytic method, called “Export Audit”. This method should establish if a company could be considered specifically fit for exporting.

The Audit is basically simple. It structures the normal Strengths/Weaknesses analysis according to: a) the structural resources of the company, and b) the commercial instruments that the company uses. The first category describes all assets available to the company at present - or within a year from now. The second includes the recent performance of the company and the means which have been the basis for that performance.

After the company export audit, the external (= market's) Opportunities/Threats assessment should follow.
The Export Audit can be done by your own staff, provided they are able to conduct it in an objective way. Management-wise the auditing could be executed as a project, run by a special Project Manager with the help of various key-people in the organisation. It will take 3 to 8 weeks to do the job properly.

Subjects for analysis and assessment via the Export Audit

Export Audit	
Corporate resources: which resources does the company have available?	**Instrumental resources:** what does the company do with its resources?

A. Corporate resources: Management/Organization, Production, Finance

1. Does the management have the required motivation, mentality and qualifications to lead corporate activities in(to) foreign markets?
2. Is the know-how and experience for exporting/ internationalization available in the company?
3. Is the know-how and talent available at staff level? Is there any previous experience in international business? Could the staff be expected to have time available when the export operation would require their support? Does anybody speak English?
4. To what degree is the production capacity being utilized? How large is it now? Could it be expanded? Is skilled manpower available or should they be trained? How much would that - roughly - cost in time and money?
5. How flexible is the production unit? Could expansion of the production be realized fairly quickly after the decision to start with export? Is it easy to switch from one product to another? Could production manufacture goods with constant quality, at stable measurements? How 'accident-prove' is the machinery? Could it be quickly repaired? Could the workforce be expanded at short notice? In what skills would they have to be trained?
6. How sound is the company's financial situation? What is the relation foreign vs. own capital? Is the return on investment healthy? How much money would the company be able to reserve for export investments? Could bank credit be obtained easily?

B. Instrumental resources: Marketing Mix, Importability, Transportability

There are two ways to assess the company's instrumental resources: a simple one and a more complicated one. The second one includes a comprehensive projection of the effectiveness of the marketing mix in pre-selected target markets. That method is more reliable but it is time-consuming and not fit for starting exporters.

The simple method - sufficient for the moment - requires the judgement of an experienced marketer, who simply tries to figure out how effective the marketing instruments for the domestic market would be if applied abroad.

Both methods ask for a global orientation of the target markets provisionally selected as the most attractive. For this orientation the marketing auditor should describe a profile of (present) customers and try to establish if such customers can be expected to be found in such target markets as well. For instance: for food items that will be easy: probably there will be consumers for it in foreign markets too.

For your provisional selection of target markets you should stick to markets that are not too far away from your homemarket. The definite market selection will take place at a later stage.

The steps in the analysis process are:

Step 1. Give a global description of the provisionally selected target markets (limit yourself to three), showing the probability of consumers there that have the same consumption or buying habits as those back home. Collect some basic data on the countries/market, like: GNP, number of inhabitants, demographic break-down (age groups and household status), income per head, degree of inflation, economical trends, degree of industrialisation, economic structure. This information is readily available from public sources and can be easily found on the Internet. By interpreting these data, you should be able to conclude if there are customers for your kind of product - and if these customers can actually be reached. Sometimes the fact that your competitor is successful in the markets selected, will give you sufficient indications.

Step 2. Next step is to find out if these customers would - with some probability - buy your specific product. This is more difficult, since you don't know enough about them. So you must go deeper into the details.
Start this exercise by analyzing the strengths and weaknesses of your product, as seen through the eyes of the customers you described under 1 (also refer to II.3.1.). This is a creative process, asking you to "think like the consumer", to assimilate with the consumer and his or her needs. Try to find out possible motives why the customer would buy (or not buy) your products.
Exporters of industrial goods which could be sold to other industries for their production, should do a similar exercise. As they will have fewer customers, who they eventually will know by name, address and requirements, the assessment will probably be easier to make.
At that time, you believe your products would need some alterations or adaptations, make a note of that too. This will help you in estimating the costs of such alterations; the higher the costs, the more difficult it will become to export.

Step 3. The third step is to check the target market on the importability: can your products legally be imported into the target market? This is an easy job. A mere check via the import classification (International Tariff Codes like HS, SITC) would give you that answer. Your own Ministry of Trade, or your (or the target country's) embassy could give you that information. You could also link-up with the Eurostat databanks in Brussels through Internet. Make sure you know exactly what your product's classification category number is.
Part of the import regulations concern the environmental compatibility of your products. Check these as well.
At the same time, note down possible import duties or levies. Or, if applicable, other regulations in the framework of preferential trading facilities, if applicable.

Step 4. The fourth item to check is the "transportability". Obviously, very large and heavy goods will be expensive to transport over large distances. That will have its effect on the pricing in the target market. Your product should not become too expensive there. Small items are less expensive to transport - particularly when the relation between weight/volume and price favours the latter. But in both cases you should have a closer look at the packaging. Is that strong enough to withstand rough treatment or the hazards of transportation, however long? Will it rust or rot during shipping and storage? Does your product need special treatment (like cold storage), packaging from an environmental point of view and regulations in the target market which will make the final price very high?

By now, you, as the aspiring exporter, will have some notion about potential customers in your target markets. You will also know whether your product could be shipped there - and roughly at what (additional) costs. This is good enough for now; at a later stage you will fill in the details for your marketing plan.

Step 5. The fifth item to check is the pricing. This is a critical factor. Much depends on it. Start with the market pricing, i.e. the selling prices to the end-customers. For most consumer goods that is easy: just do a couple of store checks in the target country and note down prices of competing products in your line. For industrial products it will be more difficult. Obtaining that information will require the national trade statistics or the help of market researchers.
In the extremely rare occasion that the competition has not yet found the market, you should do some educated guesswork. Try to find a product which could compete "by substitution" e.g. compare your plywood with hardboard, or your wicker furniture with the steel- and plastic type of furniture offered in the market. Research agencies, or your own Trade Promotion Organization could assist you. Of course, knowing the market prices does not mean that you are sure your pricing would be competitive. A multiplier of 3 to 10 often exists between your Ex Works- (EXW)price and the market price. The market price includes the total set of margins, costs and duties that multiply your EXW-price several times over. Try to make that rough calculation; refer to Chapter III.3. for the calculation method. If your prices would come out higher, your product should be (much) better than the present types available. You should ideally be able to match or underbid the current market price. If your prices are far too high, forget about the operation entirely or find a different product to export.

Step 6. The next step in the Export Audit is to compare your present distribution methods with those required for the pre-selected markets. If these methods are similar to yours, then you can assume you have the knowledge to compete successfully.

If not, try to find the main differences and assess if your company is strong and/or creative enough to comply with the local situation. Look for outside help, if needed. As you know, distribution systems in industrialized countries can vary considerably. In Western countries consumer goods are mainly sold via large scale stores, organised in (buying) chains. Only a minority of goods is sold via small shops and street markets. In Japan the distribution system seems complicated because of the distances to be covered, but has proved its efficiency many times before. Read Chapter IV.4. for more details.

For industrial products, like technical components the system will be more or less similar: they will find the fastest way to the user, following specialized importer -

wholesaler links. For capital goods the distribution system will be direct - as you know it at home. But in that case you may not know the important buying decision-makers, which may prove a setback that takes time to overcome.

Step 7. With regard to the promotional methods the job is about the same as with the distribution. Note, that "promotion" includes all activities to support and promote the actual selling in the target market abroad.
Therefore, the marketing auditor should start with comparing his present marketing communication (advertizing, printed instructions and information brochures etc.) with the market habits or requirements - beginning with translating them into the appropriate language.

Next, he should also analyse the ways a sales organization could become more effective - and what the competition does in this field. That could provide him with a better understanding what it takes to become successful. If that information is too difficult to get, leave it for your future trading partner to find out. You can do without for the analysis.

As you see, auditing requires a wealth of information. Gathering information can be time-consuming, particularly when the researcher strives for perfection. Possibly, you as the manager can find the data more quickly and just as reliable, but you lack the time. Knowledge may be power - but time is money.

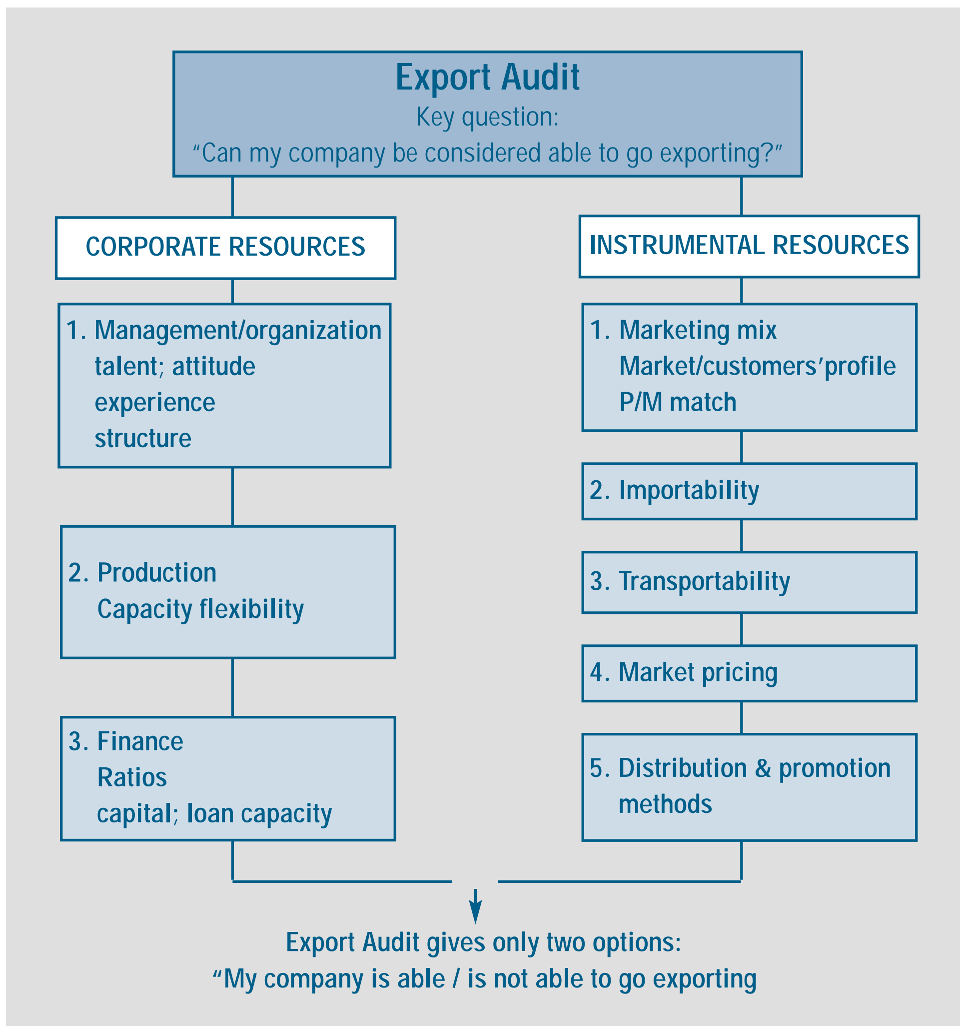


Figure 2.4.1
Export Audit

Finalizing the Export Audit

The (Company) Export Audit usually takes several weeks, sometimes even months to complete. Collecting the information takes time, since you have to depend on outside sources which do not always work as fast as you do. However, the final analysis does not have to take long.

After the Project Manager has provided the management with all the necessary data, evaluating the outcome is a matter of days. The Project Manager should prepare the evaluation, combined with his views whether or not exporting would be within the company's capabilities. Top-management should discuss the results with him and with the researchers involved.

Basically, the analysis should show how corporate assets (or 'Strengths') could be exploited in the market's Opportunities. If the analysis has shown corporate Weaknesses, look for a method to solve these weaknesses, leading you to the Threats in the market.

For easy identification you could list them in four squares, separated by a large cross, e.g. like this:

Figure 2.4.2
SWOT analysis

Strengths: • well-trained staff • ample production capacity	Weaknesses: • weak financial structure • no export experience
Opportunities: • growing market demand • novelty-minded	Threats: • strong local competition • import tax high

As you can see, the Export Audit has provided the Strengths and Weaknesses data from the analysis of Corporate Resources, whilst the Opportunities and Threats can be found in the Instrumental Resources analysis.

In this simplified example a typical 'newcomer' is attracted by a growing, possibly trend-conscious market. But so are others, local competitors, which have the advantage of being more familiar with the market. If the import tax will be too high, the prospective exporter will not have the financial means - nor the know-how - to fight his way in. If, at the other hand, the product is indeed a novelty for the target market, the chances are that a local importer, recognising its merits, will help the exporter (with know-how and even money) to gain market entry. Your final analysis would recommend "No" in the first case, "Yes" in the second. In any case the lack of money is always a formidable barrier.

In this stage you may want to involve others, particularly key-people in your organisation. An (internal or external) marketing expert's advice will prove to be very valuable. The final analysis can be prepared jointly.

The environmental assessment

There is one important area left which you may want to include in your initial analysis - either at this stage or earlier - at the third step of your assessment of Instrumental Resources. It relates to the natural environment.

Driven by the growing concern of Europe's natural environment the Europeans and their governments are developing measures to stem or stop its pollution. Those measures are becoming countless, whether from European design or from national and even local authorities. At the same time their violations are punished harder by the day, sometimes even barring manufacturers from European markets or preventing exporters from coming in.

All the more reason to check on these regulations to find out if your product will be considered environmentally admissible.

CBI can help you to find your way through this growing maze of regulations, having developed several instruments for you to use(also available through Internet): Quick Scans on environmental, social and health issues (QS), the 'Eco Trade Manual', and the Greenbuss® system. The purpose of these instruments is to inform individual companies about relevant environmental standards of trade and to offer them solutions to meet these standards. As such standards can vary per product group, Quick Scans have been developed for the most relevant sectors in CBI's export promotion programmes.
The scans consist of two parts:
1 Outlining relevant legislative standards for the products and their packaging (for the moment distinguishing between Dutch level and German level).
2 Outlining standards resulting from market pressure for environment-friendly products.

Since European environmental policy comprises the entire production cycle, the scans may have to be used both by the manufacturer of the finished product as by the suppliers of its raw materials.The scans can serve as a policy document for Trade promotion Organizations too.

The final decision

The final decision belongs with the top-management. To export or not to export, that is the issue. You must balance the strong points of the company against the weak points, which sometimes proves to be an introspective, if not painful moment. You should consider the fact that exporting will put an extra strain on all people and other corporate resources. In fact, you are considering starting-up an additional commercial operation, parallel to your domestic one.

The main question should be: do you think the organisation is strong enough to cope with the extra challenge and workload of the exporting venture?

This is an extremely important decision, since the very existence of the company may be at stake. If you are not entirely certain, don't do it. The competition in Western markets is murderous; many entrepreneurs before you have tried to penetrate them and failed.

Maybe you feel that the domestic market is large enough after all to sustain further growth and yield the adequate profits, even on a longer term. In that case, your decision not to start exporting is justified. The fruits in your back yard are easier to reach than the golden mountains at the horizon.

However, if you are convinced that your organisation is ready for The Big Jump, do take that step. This book will help you along the path.

III The export marketing mix

Now that you have decided to go ahead with your export preparations, your first step is to prepare the marketing mix, the instruments for export marketing. You have finished the analytical work; now you should start with the constructive part - also called synthesis - of the job. It requires a different mindset and that will complicate things. Some help may be advisable.

Designing the marketing mix implies that all tools and methods you need for exporting will be made fit for that purpose. Important items in this process of preparation are:
1 your product and
2 its price in the target market,
3 the way the consumer is informed about and
4 will respond to your offer and, finally,
5 how to handle aspects of manufacturing and quality in reaction to that consumers' response.

1. The export product

What is a product?

In theory, you can find a market in industrialized countries for almost every product. In times of affluence the end-consumer increases his/her purchasing and so will the manufacturers who need your product for theirs.

The product is the company's pride and wealth. Rightfully so, because it is the result of many years of development and optimalization, adapting the products to the needs of the customer and manufacturing it in the most efficient way. This sequence is a repetitive series of "Adoption, Adaptation and Improvement", striving to make it the best in the market.

But what is a product?

According to the marketing theory, a product is something that "fulfils the needs and desires of the buyer". That buyer, customer or consumer, is prepared to pay money for that fulfilment if he (or she) expects that your product will justify the expense.

Having bought it, the customer will - hopefully - experience a certain satisfaction that will outweigh the sacrifice of its price. That feeling is what it is all about. And that is why marketers are constantly busy with realizing satisfaction. If realised, your customer will be inclined to buy your product over and over again. Re-purchasing is very important for a company - purely for economic reasons.

The customer's first purchase is essential for success. The supplying company will spend a lot of money on getting that initial purchase by means of advertizing and promotion. Therefore, that first purchase turns out to be quite expensive for the supplier. Only when re-purchases occur, the supplier will start earning money.

Re-purchasing is the basic reason why companies strive for continuity. You will do so on your domestic markets, too.

An exception might be made for capital goods, very large items with high value, which are only purchased once. For such this single transaction has to earn back all the money the supplier invested.
Obviously, you will also worry about finding buyers, customers, consumers. Basically, for all your products, original or adapted, there is a market in industrialized countries. Finding buyers requires a research process that starts with the complete understanding of your very product and the reasons why those customers would choose to buy it.

A product is what it means to the buyer

In despair psychologists, having failed to understand the mental process which makes people buy, have often described the consumer's mind as 'the black box', impossible to fathom. However, some truth is found in simplifying his deliberations and actions.

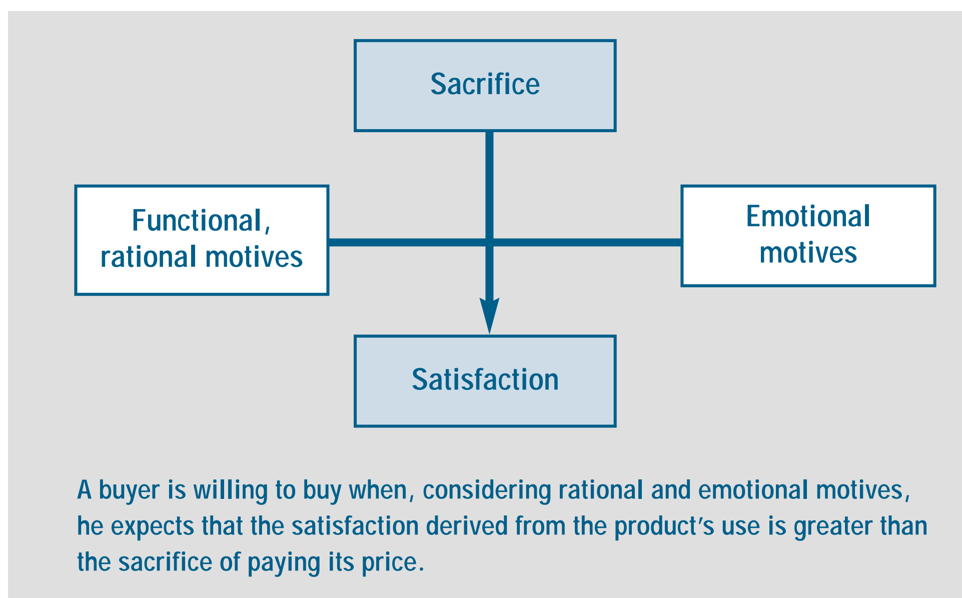


Figure 3.1.1
Basic buying considerations

The buyer is looking for satisfaction (the product makes him happy), which he gets when the product gives him more than his sacrifice (his payment) has cost him. He weighs the advantages and disadvantages of having to sacrifice purchasing power, comparing them on two 'dimensions': a functional one ('will the product perform as expected') and an emotional one ('will the product make me feel good').

Functional criteria for the buyer's choice are usually rational. He asks himself whether the purchase will solve a problem, will make his life easier, richer or more productive. That goes for industrial buyers and consumers alike. The product itself should suggest him how, by giving ample explanation on product or packaging, in a manual or directions for use, in the advertizing that supports its promotion.

Emotional motives are harder to identify. Products that are made to increase beauty (cosmetics, fashion, custom jewellery) or the sense of well-being (food, heating, aircon, furniture, home decoration) by nature have a large emotional component. Most consumers react to this emotional appeal, whilst for industrial buyers in the business-to-business area the emotional motives are less relevant.

Sometimes it is hard to see which motives dominate. When selecting a radio or a cellular telephone the potential customer will first judge the functional aspects of the product (does it work as promised, does it have a guarantee against non-performance etc.), secondly the design. When buying detergent, the housewife is led by emotional motives (caring for her family), secondly by hygienical motives (the laundry must be cleaned).

Rarely the purchasing decision is done on the basis of one type of motives only. A wise marketer always takes both types of motives into account. He should look at his product through the eyes of the buyer.

These considerations are important, in (re)designing your products for industrialized markets. The markets are not only highly competitive in such countries, but they are also buyers' markets, which means that it is the consumer who selects what to buy, not the seller who decides what the consumer is allowed to buy.

Your product should be special

When looking at your product in order to decide if it will be a good export product, your second task will be to assess its competitiveness. In most foreign markets your kind of product is already available; it is offered by your competitors, whom you have to fight in order to gain a share of the market.

This is when looking through the eyes of the buyer truly pays of: can you make your product looking different, better than your competitors'?

You know that your product should primarily be of quality. Particularly in Western export markets you will find the customers quite critical and demanding. They can afford to be demanding. They have the money to buy what they need. And the easy access to all products makes the well-informed European consumer aware of the quality that his money can buy.

A multitude of suppliers serve these wealthy markets, attracted by the huge potential of the European Single Market and its 380 million inhabitants. The competition - some 25 million suppliers from within Europe, from Japan, from the USA and from developing countries - is fierce.

Therefore your product should perform precisely as you promised - in your product description, in your brochure, in your advertizing. It should fulfil that promise. It should last long or endure rough treatment. It should not break down. Or rot or rust. Or be stained or loose colours. It should be in an impeccable shape when offered to the market.

Moreover, that quality should be consistent. No mis-manufactured products will be permitted to slip through the net of your quality control system. Most Japanese manufacturers have taken their quality control deeper in their production process. 'Up-stream', all the way up to the very moment that their subcontractors deliver components, half-materials. That way, they identify possible 'quality leaks' at an early stage and can remedy them at lower costs. They save money at the same time, since that control prevents bad products from being distributed - and then returned at their cost. Thus they limit the loss of productivity. Their pricing is usually more competitive.

Remember that your performance as a supplier is usually judged by your worst product, rarely by your best. To that end, we recommend you to embrace the ISO procedures,

since this quality system ensures you - and the buyer - that your product has been manufactured by a top quality producer. But that does not always makes your product better or special enough to be noticed as such by that buyer. The product must ideally have a unique selling proposition ('USP').

What makes your product special? What gives your product that special identity? The answer is: almost anything, as long as the consumer recognizes it as such. Always comparing it with competitive products this could be:

- a better flavour or taste, design, colour or shape
- a better performance (it works better)
- a lower price
- a longer durability or easier maintenance
- easier handling, more practical or faster
- a better or nicer-looking packaging
- a better availability (a Just-in-Time delivery, sufficient
- stocks in the store)
- a better service, etc. etc.

In short: a better buy than the competitors product.

Your chances in the export market greatly increase when your product has a USP (Unique Selling Proposition)

Figure 3.1.2
USP

To find out how you could improve your product or make it more special, you should check all possibilities along the lines of the product benefits. Product benefits are, as you know by now, the product characteristics that respond best to the buying motives of the customer. These are in fact the reasons why the consumer buys your product in the first place.

Product adaptation

The needs and wants of markets abroad differ from your home customers. That means that you may have to change your product (or service) to adapt it to the foreign customers' wishes. In marketing terms: you will have to match your product with the market's needs and wants.

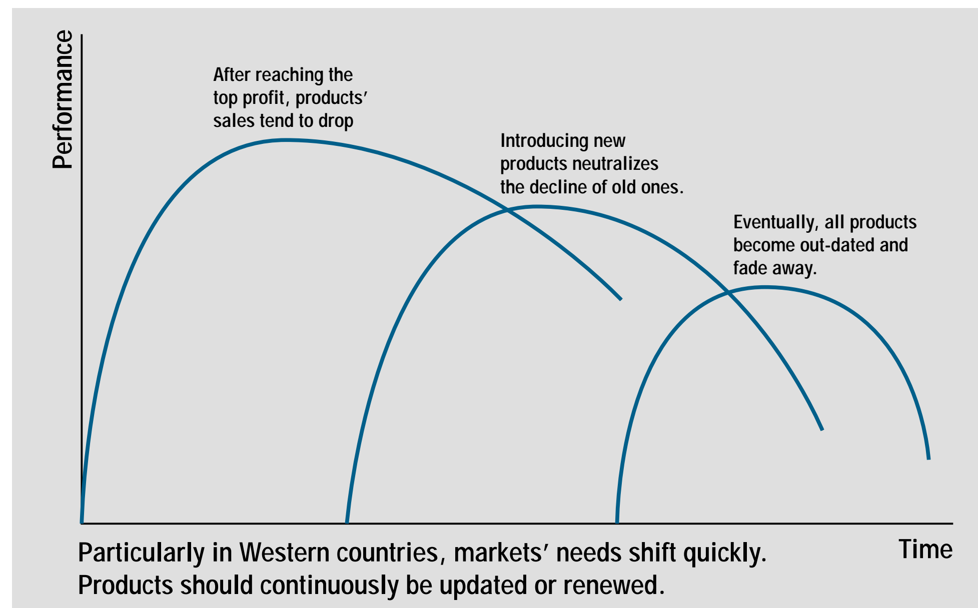
Possible reasons for product adaptation

- to make your product just as good as the competitors'.
  This is called "imitation", a "loco", or a "me-too". It leaves only your price as an instrument to beat the competition (and the lawyers to fight over patent rights)
- to make your product better or more special than your competitors'.
  This way you create a unique selling proposition (USP). It makes comparing your product more difficult for the buyer. He may think that your product is so much better that he accepts to pay a higher price for it. He will also stay loyal to it for a longer period of time.
- to conform to local rules and regulations.
  There are many of such regulations: on consumer health and safety, on standardization of size and weight. In Europe you know them by their acronyms: CE marking, CEN/CENELEC, ETSI norms etc.
- to make the product better and easier transportable.
  Packing your product efficiently may save money on the shipping bill. Or keep your product from being damaged. Or make it easier to handle for the shop salespeople.
- to "fit" into lower import rates
- last, but not least, because your customer explicitly wants you to change the product in order to suit his particular needs.
  This occurs in industrial markets, where buyers may have their own technical specifications. Increasingly those suppliers may involve you in the designing process, using your know-how to improve product and production. Suppliers follow such specifications to the smallest detail.

Innovation

Most products have a limited life-time. They become old-fashioned or outdated. The underlying reason is that the consumers' preferences are constantly evolving and changing, even to the point of unpredictability. New production techniques are introduced, enabling cheaper production. Or new raw materials are found, improving the quality of your products.

Figure 3.1.3
Products' life cycle demand innovation



For some exceptional products the "Product Life Cycle" (PLC = the profitable "life-time" of your product) is quite long. Think about Coca-Cola and cigarettes. Think about large industrial equipment. For others the PLC can be very short. In Western markets the average PLC for a consumer product will be somewhere between 1 and 5 years. Fashion can be outdated within 3 months!

The professional (export) marketeers are aware of that. They constantly monitor the customer's and consumers' preferences, in order to keep in touch with the developments in taste, fashion, life-styles, technology and even laws and regulations in the target market. They are able to anticipate which product is "growing old" and in what direction new developments may go.

Every international supplier finds himself active in the ever-lasting spiral of 'adopt, adapt, improve'. When resources fall short of requirements, he tends to focus on his best products or capabilities. Even the large multinationals retreat to their 'core competence' (the activity he does best), out-sourcing the production of half-materials, components, packaging materials and even designing to others who perform better and cheaper.

Obviously, you need to find out if your product will be bought. Research is the key to your markets. In business-to-business the buyer won't even allow you in if you do not know the basics of his market. Understanding the preferences of end-consumers is far more difficult, since it requires qualitative research, probing for the consumers' motives and habits. Researching is a specialized profession.

Is your product fit for export now?

Do check on the importability of your product in foreign markets again. Usually, a maze of tariff- and non-tariff barriers stands between you and your target markets. As entrepreneurs have a natural distaste for rules and regulations, they may oversee one - and be stopped at the border.

The rules in a far-away continent like the European Union are elaborated, to say the least. Characteristically for a well-developed free market, government tries to rule out potential disturbances in the distribution of goods and services to their people, protecting the weak, regulating the strong in order to equalize unbalance in their state of life. The Single Market is governed by a myriad of rules, which tends to get stricter along with the gradual abolishment of import duties.

The good thing is that government regulations are published, so they can be known. Simply, check the import regulations, using the BTN or international tariff code of your product as data access tool. The first information that you will find, pertains to duties and quotas or other rules concerning preferential import facilities. As said, the duties tend to diminish - as do the preferences.

The next category of import rules are the non-tariff ones. They serve to enable the end-consumers to choose prudently during shopping. Many consumer goods must be packed in boxes with standard dimensions, in packages with standard contents. Such standards also rule materials, products, processes and services used in manufacturing and/or distribution of goods. In the EU the organisations that look after the harmonisation of standards are the CEN, the CENELEC and the ETSI.

In its publication ‘Exporting to the European Union’ CBI has summed up all regulations governing standardisation and health and safety protection.

The third category is the one that requires you to mark your product with the famous ‘CE’ when that product is potentially hazardous. In order to be allowed into circulation for trade in the European Single Market, some products have to answer to certain regulations that ensure the health and safety protection of European citizens and their environment. The HACCP rules for foodstuff preparation are a good example. In most other industrialized markets you will find similar regulations. You should check first, before considering importing into such markets.

To inform you on important environmental aspects CBI has set up a computerized ‘GreenBuss®’ database and has prepared the ‘Eco Trade Manual’ together with Environmental Quick Scans for specific product groups.

Other non-tariff barriers concern the imports of endangered animals, birds and plants (CITES), or products which serve military purposes.

All those import restrictions or privileges can be checked out easily. Your government, your embassies, your Chambers of Commerce, your Trade Promotion Organizations, or the representative of the EU will be able to inform you adequately.

The last category is of an informal nature and comes from ‘grassroot’ origins. Occasionally, consumers or citizens in general form pressure groups - sometimes even demonstrating on the streets - to force government to put an end to business practices they find unethical or anti-social. They may protest against feeding the babies with infant formula, not with mothers’ milk. They may protest against child labour and invite everybody to stop buying products which are made by minors. They may protest against food preservation by gamma-radiation, or against genetically manipulated foodstuffs or biotechnology. Eventually, such consumeristic movements succeed in setting government rules; the ILO did it, the SA 8000 (Social Accountability) are examples of such. More often than not, the fact that consumers do not like certain practices, compels suppliers to adopt new manufacturing processes or materials.

Figure 3.1.4
Import and free circulation rules

Import and free circulation rules		
Formal		Informal
Tariff	Non-tariff	Consumeristic protest
Duties, accises, quotas, preferences	Standardization, safety & health protection	Protests against child labour, biotechnology, genetic manipulation, polluting product components etc.

But always and even for products or services that are not regulated in the above mentioned manner, the main ‘import barrier’ will be the current market situation, or more explicitly, the space that is left over for you by the present competitive suppliers. This is not a technical import barrier, but it can prove to be a commercial one. You can use that knowledge to your own benefit.

The 'identity' of your export product

For business people with a good commercial sense there are a variety of methods to enter foreign markets. Which method you choose depends on what your ultimate goals are. The extreme options are:

- You want to enter the markets with a minimum of fuss, money and time investments. You therefore will solicit a foreign buyer to come to you and buy directly from your factory or warehouse. You can manufacture for him at his specifications through sub-contracting or licensing. Your product will have the identity the buyer chooses, or:
- you are more ambitious than that. You want to bring your own product into the market and you will invest in customer loyalty, banking on future returns rather than on a 'fast buck', a quick return, however modest. The product will have the identity you, as the exporter, will shape for it.

In the latter option you will justify that your product should be recognized by the customer as something special. For that purpose you will try to shape your product conform the expectations and wishes of the target market (or segment). In marketing terms that is called 'positioning' and requires a joint effort of all your marketing activities, contributing to acquiring product identity, which is the way customers recognize your product.

Some exporters give their product a brandname and a label, hoping this will contribute to the product's identity and create a certain loyalty with their customers. True, that does help, but only for exporters who can afford to support that brand with ample promotional activities. The brand should become 'a person' and that requires a massive advertising effort to make the person known to the target group. Usually, the budgets of any SME exporting company does not allow such.

However, labelling your product, especially when you are ISO-certified, can be a good thing. Whatever name you use for labelling, be sure it is free from copyrights in your target markets. Check the name on possible negative connotations when you are not familiar with the language or culture of the markets you aim at.

2. Packaging

The packaging of your export products deserves extra attention.

Packaging basically has three functions:

- It protects your product during transportation
- It breaks down your product to sellable units (e.g. transforming staple goods into consumer units), or simply makes the product easily accessible to consumers
- It conveys a message to the buyer/consumer (e.g. advertisement or instructions for use etc.).

Figure 3.2.1
Three aspects of packaging

No one can overemphasize the importance of good packaging. Some (food) manufacturers go as far as declaring that they are not in the food producing business but in the food packaging business.

However important, some exporters neglect the issue almost completely. They just do not give enough attention to it, thereby forgetting what good packaging can do for them. It can actually help selling!
When you export to countries with a high standard of living, your packaging should be impeccable. Use the best material available and economically feasible. No drab paper, but strong carton or metal, excellent printing and perfect art work. It is always worth the investment; the buyer recognizes the care with which you packed the product and will appreciate the fact that you want to protect the high quality of the product.

Green dots protect environment against waste packaging pollution

In some countries there are strict regulations on packaging and labelling, particularly for nutritional, perishable or dangerous goods. In Europe the trends in packaging go a long way in protecting the environment. Before this decade is over, all suppliers of packed products should be ready and able to take back their packaging material in order to avoid it to be thrown away and pollute the environment. Plastic (p.v.c.) packaging will be phased out, unless that material can be destroyed at low costs. Bio-degradable materials, that can be absorbed by nature without spoiling it, or that even can be used again (recycling) will get preference. Your trade partner will have to inform you and take action (destruction or take-back) on your behalf. For the markets in Germany, France, Belgium and Spain, he will help you obtaining the so-called ‘Green dot’, identifying you have a contract with a third party that will look after destruction or environment-friendly recycling of your packaging for you.

Sometimes standard weights and measurements (like the E-norm) are prescribed, enabling the consumer to compare competitive products.
Protection counts for transportation too. Containers can give good protection for efficient long-haul shipping. Containers are large (mostly metal) boxes used for sea-, land- and even air transportation. They have standardized measurements, expressed in footage (20 or 40 feet); the airlift-containers are shaped to the size of a plane’s loading bay below-decks.

Apart from standard lengths there are also maximum-weight norms for the loading of such containers.

Using containers normally enables lower freight tariffs than when shipping in the conventional way. Your concern as an exporter is always to find a cheap way of transportation without endangering the protective function. Ask your forwarder.

A special remark on packaging concerns its value as an information medium, that is as a bearer of a message to the buyer. For products like medicines this does not only make sense but is also obligatory in most export markets. For food products local laws sometimes explicitly require that the contents (e.g. net minimum weight) and the composition (list of ingredients) of the product are spelled out. As a rule the package should bear the name of the supplier (you) and in some cases also of the importer.

Other packing regulations may demand the mentioning of the “last consumption date”, which should protect your consumers from buying over-aged goods. For articles used at home or in the kitchen your customer might want to print directions for use on the packaging.

All these technical regulations can be found in the laws and regulations of the target country. These are accessible for the public, so that applies to you too. Remember that

neglecting these regulations may result in you being denied an import license, or even in getting punished by fines and having the goods destroyed officially. This is a matter of serious concern!
In the end, it is the customer to whom your way of packaging should appeal. It may be a decisive moment for your buyer, so make the packaging look good. When a traditional food brand like Heinz changes his label of the tomato ketchup for the first time since 1886, that should tell you something about the importance of label appeal.

Be honest with the customer. Don't fool him or her by showing a much better quality than the pack contains. Don't show pink shrimps on your pack when the actual colour is grey. The consumer may buy it once, but certainly not a second time.

Many products imported from developing countries into Western Europe could do with a better packaging. That would increase their market opportunities considerably. Give it due attention.

Packaging will prove to be expensive, sometimes more expensive than the product inside. Your task is to design (or have designed) an export packaging that looks good, facilitates product use and costs little. That is not an easy task but it is an essential one.
Reference is made to CBI's Packaging Manual.

3. Export costing and pricing

Caught between two extremes, the exporter often finds himself doubting whether to charge high prices to wealthy customers or to accept rock-bottom prices in order to penetrate into the markets at all. Although he is right to consider pricing of utmost importance, he should handle it as he does all other tools: as a marketing instrument to achieve export success.

For exporters three financial aspects are important:

- Meeting market prices when considering market entry
- Calculating the cost-price
- Knowing how to react to price changes.

Figure 3.3.1
Three Financial aspects

Will the customer pay your price?

The easiest way to set prices for your export products is to start at the "Ex Works"-price level, add a certain percentage for profit and offer it on "FOB"-basis* to an importer abroad. This method, called Cost-Plus Method, is common practice. This may be the easiest method, but it is far from the best.

Reason 1: your price into the target market may be too low, enabling the importer to make a huge profit without sharing it with you
reason 2: your price may be too high, which prevents you from obtaining a market share since nobody wants to buy your product.

**) FOB stands for Free on Board, which implies that the importer will pay for transport, insurance, import duties etc. This is a so-called Term of Delivery, universally accepted in the Incoterms 2000 (see Appendix 2).*

The Cost-Plus method is not suited as an instrument for export-marketing, because you can not influence the customer to buy your product and you depend too much upon others (e.g. the importer). It is better to find out yourself what the customer is willing to pay for your product. It is an important buying motive as it represents the sacrifice (paying money) he/she is willing to make in order to obtain satisfaction (the function of the product).

All customers constantly make buying decisions, comparing the sacrifice with the expected satisfaction. He/she compares prices of competitive products (e.g. different kinds of bread), but also their different qualities (which product brand gives best value). Thirdly, the customer compares products that can substitute each other (e.g. rice and bread). The main criterion used is price.

Setting the price

Exporters from developing countries will usually be price-followers, not price-setters. Their products will rarely be so unique in the target markets, that they can actually dictate the price-level in that market.

When supplying to other manufacturers - as two-thirds of all SME exporters do - the buyers usually dictate the price at which they are allowed to sell. ‘Produce this at the price of $ 2.- a piece, or else I will go to the competition’. In such cases you better do what the buyer asks and try to find your USP in another instrument of the marketing mix. In delivery reliability, for instance, since that asset weighs heavily on the buyer’s conscience.

For price-followers the pricing decisions to be taken by management are:

1 establish the current market pricing for comparative and/or substitutive products in the target market,
2 establish all the elements of the market price, like VAT, margins for the trade and the importer, import duties, freight and insurance costs etc.,
3 make a top-down calculation, deducting all the elements of the expected market price of your product(s) in order to arrive at the price “Ex Works” (traditionally called “Ex Factory”) or ex warehouse,
4 see if you can meet this price;
5 if not, re-calculate your own cost price by finding ways to decrease costs in your own factory or organisation. Or decrease your marketing budget, which also burdens your export-market price.
6 Estimate total sales over a three-years period, add total planned expenses, including those of your export department, travelling and canvassing efforts;
7 make a bottom-up calculation per product item, dividing the supporting budgets over the total number of items to be sold,
8 set the final market prices;
9 test the price (through market research).

Nine steps to set your final price in the market. It will prove a lengthy and difficult process, but it is an essential one. Therefore, this book will give you three examples, all using the same hypothetical cost data:

1. a “top-down” calculation, enabling you to establish if you can meet your competitors’ market-prices at cost-price level,
2. a “bottom-up” calculation to help you setting your final price in the target market.

The third example concerns a “feasibility calculation”, assessing the feasibility of your export plans on the basis of your set prices. That example is shown in Chapter VI.4.

Example 1: Top-Down calculation

Consumer Price:	1,180	
VAT*):	180	+ 18%**)
Market price minus VAT:	1,000	
Margin retailer:	250	= 25% **)
Price to retailer:	750	
Margin wholesaler:	90	+ 12%**)
Price to wholesaler:	660	
Margin importer:	33	+ 5%**)
Landed-cost price:	627	
Import duties:	188	+ 30%**)
Other costs (storage, banking)	15	**)
CIF (port of destination)	424	
Transportation costs:	120	**)
Insurance costs:	4	**)
FOB (port of shipment):	300	
Transportation costs factory to port:	5	**)
Export price Ex Works (EXW):	295	
Factory cost price:	255	**)
Export Profit (per unit):	40	

*) Note that VAT is calculated as a percentage of the price without VAT. Trade margins are usually calculated as a percentage of the trade selling price (see Example 2). For some sectors the trade margins are calculated as a percentage of trade buying prices. Also note that VAT-rates differ from country to country, even inside the European Union (see ‘Exporting to the European Union’).

**) assumptions

The outcome of this calculation will be that you could export your product, provided it will not cost more than the hypothetical factory cost price (255); if yours is lower, your chances grow.

In this calculation example for consumer goods the price Ex Works (295) = 25% of the consumer price (1,180). The Multiplier is: 4. This ‘multiplier’ is a calculation aid, cutting short lengthy calculations when price alternatives are to be considered. When using the multiplier, keep in mind that it may cause slight calculation deviations.

The next step is the reverse of the first: you will be calculating 'bottom-up'. This method you can use:

a. to establish the possible market prices when you have no other way of knowing them
b. to double-check if your efforts to bring down the cost price, will effectively bring the market price down.

Example 2: Bottom-Up Calculation

Steps	Activities
1.	Estimate total sales in the plan-year in numbers of units;
2.	set factory cost price* per unit and multiply with total number of units to be sold,
3.	gives total cost price for planned sales volume,
4.	Add: targeted profit (or feasible profit indicated by top-down calculation); also add: total budget for export marketing support, or export promotion;
5.	add: total transportation costs from factory to port of shipment (plus possible costs in port),
6.	gives total (planned) turnover at FOB level.
7.	Add: total transportation costs to port of destination, also add insurance costs,
8.	gives total turnover at CIF-destination level,
9.	Add: import duties and handling costs in port of destination,
10.	gives total (planned) value of sales at LCP level (Landed Cost price).

From here on, the calculations are done on unit basis, i.e. broken down to smaller sales units: boxes for the distributive trade, or items for the consumer price setting.

11.	Calculate sales price of the importer (assume his margin 5% of his sales price);
12.	calculate sales price of wholesaler (assume his margin 12% of his sales price);
13.	calculate net sales-price (excl. VAT) of the retailer (assume his margin 25%);
14.	calculate consumer price, or retail price including VAT (assume VAT is 18%) unit;
15.	compare with general market pricing. Adjust (sales target, profit target or promotion budget) if necessary.

*) Don't forget the costs of currency and credit and the agent's commission.

To illustrate the steps listed above, we shall do the calculation using hypothetical figures:

Bottom-up calculation example

Steps	Results	Method
1. Total units sold	1,000 units	unit
2. Sales x price	255	x (unit currency)
3. Sales in value	255,000	= turnover (T/O)
4. Target profit	40,000	16% of T/O
5. Transportation to port + costs	55,000	estimate
	5,000	1,000 x 5
6. T/O at FOB level	355,000	adding
7. Long-haul transportation	124,000	1,000 x 124
8. T/O at CIF destination	479,000	adding
9. Import duties + costs	143,700	assumption: 30% of CIF
	8,000	assumed handling costs
10. T/O at LCP	630,700	adding
Box	6,307	assumed : 10 units/box
11. Importer sells at:	6,639	(100 : 95) x 6,307
12. Wholesaler sells at:	7,544	(100 : 88) x 6,639
13. Retailer net selling price:	10,059	(100 : 75) x 7,544
Package		ass.: 10 in box
14. Consumer buys (incl. VAT) at:	1,187	(1,18 x 10,059) : 10
15. Price adjustment. If the market price = 1,100, then deduct (255 : 1,187) x 255 = 54,78 from factory cost price, bringing it to 200		

As step 15 shows, you can use this bottom-up method to calculate market prices in foreign countries.

The information you need for price calculations is:
1. Your export cost price per unit product
2. your objectives for sales and profit
3. the transportation costs from factory to port
4. the costs of long-haul shipping to your target market
5. the costs of insurance, of documentation, of credit / payment terms
6. the mark-ups of the distributive trade in your target market
7. the VAT or sales tax rate there.

Actually, you can use the same top-down/bottom-up method for feasibility calculations (Chapter VI). In this case the period is usually longer (up to 3 years) since the exporter will have to invest in a market position.

The calculations for industrial goods are less complicated, since there are fewer intermediate levels between supplier and customer; frequently there are none at all when supplying directly. That does not mean that you should refrain from calculating, because you should have insight in the market pricing in order to strengthen your position during negotiations. Never allow a customer to catch you on lack of market know-how as that weakens your bargaining power.

For industrial quotations VAT can be left out, since only end-consumers pay this tax.

The permanent pressure on your cost price

Most industrialized markets, particularly where demand meets saturation, know fierce competition. In the Single Market, on the whole prices have actually gone done with some of 6% as a result of the liberalisation of the circulation of goods throughout its territory. That trend is universal; cross-border procurement is the rule rather than the exception.

For survival, the suppliers to such markets should dedicate a lot of effort to decreasing costs and prices. For a proper pricing several aspects require special managerial attention:

a. The level of your cost-price is very important to your market price. Adding one dollar to your cost-price, means that your market-price (in the calculation example) will increase with 4 dollars! The multiplying factor can be established via your “top-down calculation”.
   Therefore, you should always try to keep your costprice as low as possible. Your ISO-methodology, if certified, will help you there. Management should continuously look for ways to decrease their costs. Just claiming low labour costs is usually not sufficient for price-matching; don’t forget that in industrialized countries labour has largely been replaced by automation, so in that respect their production costs can be as low as yours. The technique of ‘bench-marking’ (comparing your performance with those of your nearest or strongest competitor with the help of TQM) could help you out.

b. Cost-cutting is nowadays an integrated element of (quality) production management, trying to make the most with less resources. Areas for possible improvement of cost efficiency are:
   - reducing the costs of raw and half-material and of components
   - reducing the costs of energy and labour
   - increasing overall production efficiency, decrease waste, etc.

Spreading production costs over a larger number of units produced, contributes to the economy of scale. This is the second approach to cost-efficiency. Actually, since the enlarging of the sales areas within Europe allow for such scale-economizing, many manufacturers seek alliances to realize larger production runs, spreading the costs of Research and Development, procurement, maintenance and skilled labour over more units produced.

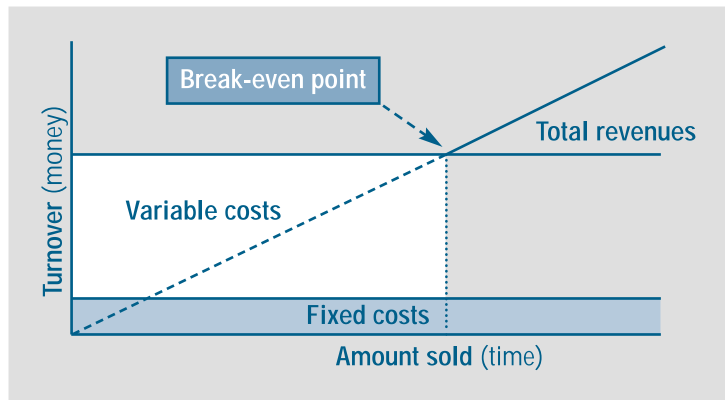


Figure 3.3.2
Break-even point

To obtain economy of scale - over and above Break-even (BE) - several measures could be pursued:

- the number of items produced could be increased (particularly when the spare capacity is large);
- the assortment could be made smaller, so that larger production runs could be made;
- new methods for improving production efficiency could be introduced;
- the costs of internal and external transport could be decreased;
- etc.

On average a Western industrial manufacturer will purchase almost two thirds of his production output (at EXW value) from outside parties. This trend, resulting from the outsourcing of non-core activities, requires careful purchasing management.

It shows that industrial suppliers tend to specialize more on the process of value addition by utilizing their own particular strengths. In doing so, they concentrate their talents and investments on the areas they master best - and thus competitively. They themselves will never manufacture any service or component outside that specialisation; they simply buy it elsewhere. Other sub-suppliers or sub-contractors may be better equipped for that job. That supplier could be you.

Probably, one of your most effective methods for cost-price reduction is therefore to increase cost-efficiency, searching less expensive components instead of producing them yourselves, negotiating with several possible sub-suppliers all over the world to obtain best possible prices.

c. Sometimes the situation will require deviation from standard ex-works' cost pricing. You may have to go below that price. This is allowed in only one situation; when your planned sales volume sold is already covering your fixed costs.

When you do, you will apply the 'marginal costing'-method, which excludes the fixed costs from the factory cost-price and sets the sales-price at a level which is barely higher than the variable costs that you must cover anyhow.
You may need such a pricing method when participating in tenders (large orders, usually from governments).

Warning: Marginal costing should be applied cautiously. It can only be used (e.g. for tendering in a new market) when it is (almost) certain that your regular sales will cover your fixed costs. In that sense it is a risky short-term solution.

d. If your organisation does not (yet) have a good financial information system on the elements which constitute your cost-price, you should develop such a system immediately. Without it, you will never be able to do a good exporting job.

Methods for market pricing

If your primary aim in the target market is to offer your products at a price-level that does not exceed that of your competitors, your importer will be the first one to tell you that.

Actually, you should try to price slightly lower, some 15% if possible, particularly when entering the market. This is called Penetration Pricing: trying to gain the customer's preference because your price is irresistibly low compared to your product quality.

The reverse policy is called Skimming, but that will only be used when offering a unique product with obvious customer benefits - and unfortunately only few exporters can offer such. a product.

You will probably try to apply the Penetration Pricing method. The Japanese car makers used it very successfully. Be careful: don't price it too low, as not to create suspicion in the minds of the prospective buyers.

What is more, you may raise the suspicion that you are 'dumping', offering your goods below cost price. That is not only foolish but also illegal, invariably leading to 'retaliate action' from your competitors who will be quick to notify the governmental tax inspectors.

Try to find a balance between the quality and the price of your product. In fact you should try to price it at the "perceived value level". Market research will tell you how consumers perceive that level to be. A penetration price will probably lie somewhere between 5 and 20% below the current price.

Never confuse the buyers. Try to create stability and reliability in your pricing as well. Your importer will judge your performance by it.

Having gained a certain foothold in the target market, you gradually may want to increase your profit by increasing your price. That is logical, as long as the customer accepts it. That goes for your trading partner too. He has a vital task in your price-setting policy.

How do you know if the customer will accept that price-increase? That depends upon the "Price-elasticity of the demand".

Essentially, price-elasticity describes how much the price can be changed before customers begin to react by buying less when the price is increased or by buying more if the price is decreased.
Convenience goods (like many packaged staple foods) do not meet much reaction when prices increase moderately. Consumers will buy anyway. Shopping goods (more expensive consumer items) receive a stronger reaction, because the buyers start comparing the product with other brands or substitutes to satisfy their needs. Industrial goods meet even less reactions, unless the buyers can choose from a multitude of suppliers - and drop you when they can buy it a dime cheaper.

You can actually calculate the price elasticity of the demand by using the following formula:

% change in the quantity demand / % change in price	When >1, then demand is elastic

Figure 3.3.3
Price elasticity of demand

Example: in a split-run research (simultaneous survey on comparable target groups) you have found out that a price-increase of 5% resulted in 10% less sales, whilst a decrease of 10% resulted in 20% higher sales. The quotient in both cases is: 2, which implies your products meet an elastic demand. If so, you must avoid drastic price increases, or use price decreases only when (temporary) turnover targets are set higher.

React to changes in market pricing

Your pricing is one of the strongest instruments in your marketing mix. It certainly is the best instrument to evoke swift market reaction. So you must constantly ‘play’ with this instrument, like an angler keeping a tight line to the fish.

There are many reasons which may induce you to change your price, having gained market presence. Most of these reasons are usually external forces which make the market prices go up or down.

a. Market prices go down

Reasons:

- **Supply increases** (any dumping?)
- **Effects of currency fluctuations**
- **Price leader decreases price** (= more competitive)
- **Distribution channel decreases price** (policy)
- **Product range gets old-fashioned**
- **New competitors enter the market with penetration pricing**

Possible reactions:

- **Following decrease**
- **Add new product**
- **Sleeping status or withdrawal from the market**
- **Change quality, contents**
- **Increase % margins for the trade**
- **Appeal to buyers via promotional campaign**
- **Appeal to government (price control)**

b. Market prices go up

Reasons:	Possible reactions:
• General cost increase	• Follow price increase
• Supply decreases	• - same, but with temporary decrease (discount)
• Effects of currency fluctuations	• Promote your 'low price"
• Price leader increases prices	• Increase supply
• Some supplier is 'skimming'	• Appeal to consumeristic organization
	• Appeal to government.

Whatever your (forced or voluntary) changes in your prices may be, always make sure that your customer and your trading partner understand the reasons for it. Those reasons should be made acceptable and justifiable in their minds.

Currency decisions

The choice of currency in which you want to be paid eventually will prove more academic than realistic. Since the buyer has the money - and since he can choose from scores of suppliers - he will dictate the terms. In nine out of ten contracts he will decide on his country's currency, just because he does not like the headaches of buying foreign money when he could get his own.

However, for the sake of completeness, let us look at the deliberations.

Your advantages when invoicing and getting paid in your currency are:
- you know what you get in terms of value for money
- you do not have to organize complicated and expensive currency transactions (usually with your bank).

The disadvantages are:
- your buyer may refuse paying in your currency - or at least charge you with the costs of currency exchange
- your currency may not be available on the money markets in Europe
- during the transaction period your currency may lose value quicker than the other party's currency. Your buyer will profit from that more than you
- you will have to pay twice for currency exchange if /when you buy materials and machines for production from Europe.

If you plan exports to Europe, do not shy away from quoting in European currency, particularly if your exports become substantial. Many buyers already use the Euro - in their budgeting, in their financial statements.

As the Euro, which will be Europe's currency as of the end of January 2002, is expected to become one of the world's main exchange currencies, your exporting should profit from that instrument of stability. For other countries, the dollar will be a sound choice.

Experts believe the € (Euro) and the $ (US dollar) will become the leading currencies for world trade.

4. Customer information

Having adapted your product to the customer's wishes, you should communicate with him to make sure he knows about it and buys it and uses it to his satisfaction.

Commercial communication basically serves two purposes:
1. it informs the customer about the benefits and availability of the product, and
2. it instructs him/her about the proper use of the product in order to ensure maximum satisfaction.

For this communication you should know:
a) which form your message should have,
b) which medium (message carrier) you should use,
c) how to organize the communication.

Formulate your message

The customer hardly pays attention to all commercial messages that are aimed at him or her. That would be humanly impossible. People are virtually bombarded with all kinds of advertizing. In industrialized countries more than 2,000 of such messages are estimated to reach the end-consumer every day!

Understandably, the consumer has become selective in what he wants to see and what not. That is called "selective perception". Your product message should be so interesting and so well-tuned to what he/she wants to hear, that the consumer will inevitably pay attention.

Psychologists have simplified the mental process that is triggered by advertising. They identify the stages of perception as: arouse Attention, create Interest, stimulate Desire and provoke Action (the "AIDA" sequence). Sometimes, the S of Satisfaction is added: AIDAS.

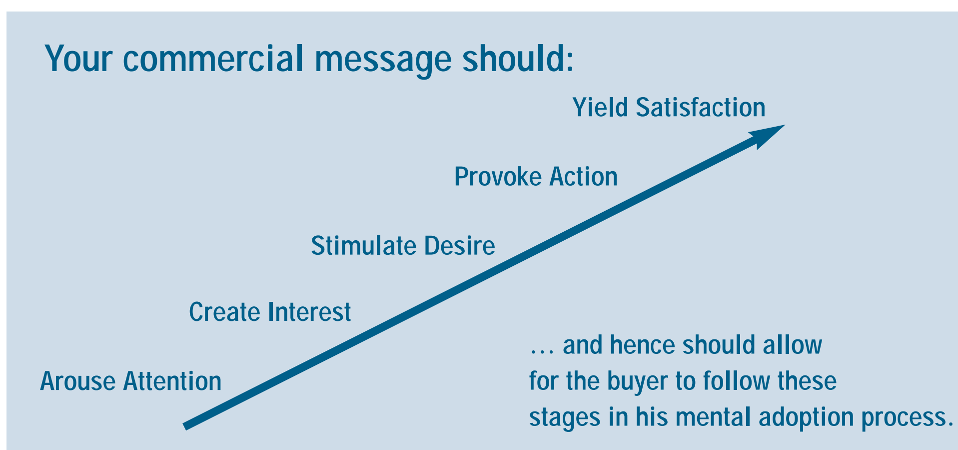


Figure 3.4.1
Commercial message

In order to “arouse attention”, your message should be striking. To “create interest”, your message should be informative, giving facts. To “stimulate desire”, your message must be appealing to intelligence as well as emotions. To “provoke the action” of purchasing, your message should be convincing. And to secure repeat-orders your after-sales service should be reliable.

You already have one great advantage: you know the preferences and buying motives of your potential customers in export markets. That’s what Chapter II.4. was all about.

But you do not know in what manner to approach him. You don’t know his language, nor his cultural and social habits. In “talking” to him almost face-to-face, you will feel a vast distance between you and him, which is hard to bridge. This is, in fact, what makes international marketing so difficult.

Fortunately, you will have a strong ally: your trade partner (see Chapter V) is going to help you. He has market knowledge - or knows which market research will get that, he knows his compatriots and can judge the right approach. Together with your trade partner abroad you are going to find the right form of your message. The right words, the right tone of voice, the strongest arguments for sale, the correct psychological approach. The right instruments to draw attention and to penetrate into the customer’s scope of interest.

Selection of media

“Media” are the actual message carriers. These (advertizing) media can be papers or magazines (“print”), radio, television, brochures, instruction manuals, direct mailings, E(lectronic)-mailings etc. Even point-of-purchase materials like posters, display-boxes or your own outercarton as well as your product packaging can be message-carriers.

Which medium should you use to bring your message across depends on: a. your type of product, b. your target group, c. the availability and the costs of media.

If you sell an industrial product, your media selection is easier. You actually know who your buyers are by name, by address. You have that advantage over suppliers of consumer goods for whom the market is basically a group of anonymous buyers, known only by the fact they share the same needs and wants.

So you will be able to concentrate your communication efforts on individual buyers whom you know where to find. You choose any medium which relates directly with these buyers. This can be Internet, or direct-mail or professional magazines. Or product brochures and manuals to point out the advantages and benefits of your product.

Figure 3.4.2
E-Commerce

Consumers can do their shopping 'online', now. Two-thirds of them would be willing to do so in the future, as more women (housewives) take part-time or regular jobs and routine shopping is thought 'boring'. As in America ('Peapod'), European food retail chains, like TESCO, Metro and Ahold, have 'built' Internet-sites like ('virtual') shops, enabling the consumer to order - just by clicking the icon showing the products. Payment is immediate (through credit card), delivery follows soon.

Industrial buyers and similar customers start their procurement scouting on Internet. Large buyers, like Ford, DaimlerChrysler, GM have built a kind of virtual market to find, negotiate with and contract suppliers, with whom they only communicate through Internet. As borders are irrelevant for Internet, suppliers from all over the world - including developing economies - build their own Website under their (protected) 'domain name' showing catalogues, designs, specifications, price-lists, company profile - plus an electronic ordering option. Yours could be amongst them!

If you market a consumer product, the ideal medium is the one that covers your large target group best at the lowest costs per target consumer reached. Apart from Internet, television and radio are such media. Consumers in Europe watch TV almost 2.5 hours per day (!), listen to the radio for about the same time and 'browse' on Internet for somewhat over half an hour. Such information, including names and addresses, you will find in the (extensive and informative) manuals on European media. It will take the expertise of a (local) advertizing agency to decide which media selection is best for you. Your trade partner will guide you.

However, these types of media are usually very expensive, exceeding your budget by far. Commercials for TV cost roughly $ 50,000 to make, $ 1 million to broadcast. In that case you could decide to direct your efforts solely at the immediate buyers: the importer, the distribution channels. That will be the buyers of supermarket chains or department stores. Or wholesalers who in turn may advertize your products to their customers, the retailers.

Many exporters from developing countries have been successfully communicating with their customers by using fairs and exhibitions. TPOs can be helpful in organizing national fairs, bringing exporters from one country or one industry sector together in a combined (or 'clustered') fair stand. The CBI has a vast experience on such matters and actively supports exporters this way (reference is made to 'CBI Show Master', a manual for fair participation).

In Europe you can buy almost any media support conceivable.

Select your promotional media by balancing:

1. the degree to which you not only reach the target customer but also effectively catch his attention in favour of your product (= the 'medium benefit')
2. the costs of the medium/media - for which you should ask for (written) quotations or a pro forma contract.

Organizing communication

- You have designed and formulated your message to the customer,
- adapting that to the specific requirements of the media you considered best publication value for your money.
- Now you should consider the organizational aspect of communicating with your customers.

Organizing communication implies planning and timing.

Planning is required because communication with your customer is an essential part of your total export-marketing activities. You are, so to speak, telling your customer that the product he needs, is actually on sale, mentioning where he can get it.

That task is just part of the total promotion job; in turn your communication plan should be a logical and integrated part of your entire marketing plan.

The costs for promotion will be considerable. You will never be able to measure its results accurately.
You have to plan them carefully before spending the money. The expenditure will decrease your income and influence your feasibility negatively.

Many professionals will be involved in the communication efforts: your partners, the advertizing agency, the media, the design studios, the film-makers, the printers and so on. As most professionals in the service industry are being paid by the hour, their work should be organized smoothly to save time and utilize their talents efficiently.

Timing is important, too. You should never advertise before being sure that your goods are actually available for sale or ready for delivery at the buyer's warehouse.

Imagine the frustration of a prospective customer whom you have convinced into trying your product, going to the store, only to find he can not get it. Imagine the damage incurred to your industrial buyer when your goods are not in time to start production or your importer who promised his customers a timely delivery.

Most media require a certain period (from 2 to 20 weeks) before publishing your advertisements. The same goes for the printers of your brochures. Make sure you know how long the periods of preparation are. They can seldom be altered.

They are of particular importance since you will want to concentrate your publicity efforts on a certain moment. Most people can be approached by more than one medium. In fact, this multi-medium effect will strengthen your message considerably. If possible, try to synchronize all your publicity efforts. That goes for consumer as well as for industrial publicity.

Manufacturers of consumer goods usually plan their publicity campaigns as a combined effort of several media. They advertize in print, run a TV-commercial and organize in-store promotions simultaneously. This increases the effect of the individual media. If your publicity budget is low, you should use your promotional money by sustaining 'exposure': just keep up the pressure and try to use frequency of messages as opposed to a one-shot impact.

Industrial marketers can also utilize that multi-media approach, supporting their sales visits by advertizing in trade magazines (e.g. by emphasizing the supplier's reputation), by direct mailing, by using the bell-sell methods (telephone approach).

A word of caution refers to local laws. In some countries consumer advertizing is curbed. Television advertizing for cigarettes is such an example; in most European countries commercial television for smoking is prohibited. Other limitations are inspired by consumerism; there are laws on privacy prohibiting a direct consumer approach,

regulations that compel you to indicate clearly what the composition, weight and origin is of most consumer goods. As a rule, the consumer is being protected by law against dishonest advertising. Whatever product you advertise, make sure you never claim product benefits that are not true. You may be liable for punishment. And more important: your customer will start distrusting you.

5. Customer response

Communication suggests a two-way exchange of messages. You tell your customer about the benefits and availability of the product. But what is the answer of the customer! Is the consumer "talking back" to you?

Of course he is! The industrial marketer knows that; he talks to his customer face-to-face, combining market research, promotion and the actual selling in a few conversations. But for exporters of consumer products it is usually hard to receive the messages from his market, because they are few and sometimes disguised. The clearest message is: yes, I like the product. The purchases will tell you that. And your importer will send you repeat-orders.

On the other hand negative reactions (either explicitly or implicitly, e.g. when sales decrease) are also important to recognise. They may indicate that you are doing something wrong. Such information enables you to redress and improve the situation. Usually, you learn more from mistakes, because they mean that you can still improve your performance. Therefore, you should always pay attention to the market's response.

A. Who will respond?

You can expect three target groups to respond:
1. your end-customers/-consumers
2. the intermediaries (importers, distributors amongst others)
3. the "publics" (i.e. the people, organisations, associations etc. who are not your immediate customers but who influence the buying decisions of your customers. Examples are: the government, consumeristic movements, the Advertising Review Board, or even your colleagues and competitors).

B. What will the response be about?

The reactions may touch upon various subjects:
1. your product
2. the use of your product
3. the availability of your product
4. the price of your product
5. the advertising, etc.

C. What will the response contain?

1. For industrial exporters the customer response is usually a straightforward yes or no - unless he is stalling you with "Don't call us, we'll call you". Then you better try again, and keep trying.

2. The most common response from the "anonymous consumer" is the negative kind: complaints. Complaints about your product when it is broken, rotten or spoilt.

Complaints about using it when it does not perform according to your promises. Complaints that the prospective customer cannot find it in any shop. Complaints about the price (it's always "too expensive" and the buyers want "their money back").

3. Rarely the consumer's response is positive. But is does happen that buyers want to ventilate their enthusiasm. That is nice to hear. Thank him for it. The contented buyer may tell his friends about it.

D What should you do?

First you should make it possible for your customers to react. In most Western cultures it is quite normal that customers tell the suppliers what they think about their products and services. They know that they are important to the suppliers. And they want to be taken seriously.

So, always make yourself known, either by leaving your business card, or by printing your name on the product or packaging, or even mentioning your address and telephone number on the product or packaging, sometimes adding your fax number and/or e-mail address.

The importance of customer communication

Commercial success largely depends on knowing what the customers want. Suppliers at every level of the consumption chain go out of their way to establish communication links with their buyers.

Many Western manufacturers of consumer products have organised a "Customer Service Department" to enable the customers to contact them and to react swiftly and effectively on their complaints and suggestions.

Most retailers distribute 'customer's cards', to be used (as credit cards) for payment at the check-out. At that moment the purchases are centrally registered, allowing the retailers to collect data on buying behaviour. These are the basis for a system called 'Efficient Customer Response' (ECR), which should streamline the processes of logistics, automation, product selection in order to win customers' preference and loyalty.

Secondly, you should do something about the reaction, not just hear them out. When the reactions are positive, industrial customers like to be acknowledged for that. And reacting consumers will like to be thanked.

When criticized, you will interpret that as a warning signal: something may be wrong and should be put right fast. Take the critic seriously, thank the consumer for his reaction and find a way to solve the problem. Try to get back to the critical customer and “pacify” him e.g. by sending a new product, by repairing it at no costs, by returning his money. Never forget the saying: “behind every complaint there are 100 other dissatisfied customers”.

Thirdly, make sure that you make use of this kind of feedback. Find out what the very reason for dissatisfaction is. You know that the customer is always right. In many cases he indeed is right. Check the problem in your organisation and redress the failure or improve the situation at your home-base. That will improve the quality of your organisation as a supplier.

Generally it will be your agent or importer who will deal with this kind of customer response. Frequently, he will not know what to do and relays the problem to you. Give him the means to handle the problem. This way he feels supported by you, not only physically but also morally. Thus you make him a powerful ally.

IV The target market abroad

In the previous chapter you have focused attention on your own organization and the marketing tools you would use to bring your products to export target countries. You have learned ways to communicate with potential buyers.

Now you should identify which specific markets would be best for you, how to recognize and approach them and how to establish their accessibility in spite of competitive activities.

1. Selecting your target market

What is a "market"?

Talking about marketing you may have heard at least three definitions of the word "market":
- a group of customers or consumers who share the same needs, and who are willing and able to buy;
- a place where buyers and sellers come together;
- total sales (in value or in volume) of a specific product-category.

This CBI Export Planner will predominantly use the first definition, which is the purest. You may have learned about the old adage: 'markets = people'. Note that the definition emphasises that those people should not only be willing, but also able to buy, which presumes purchasing power.

Market selection method

You have read in Chapter II.4.B. (Instrumental resources) that already in an early stage of company Export Auditing you need to know if there are any markets your products could be exported to. That is required for the first planning activity, called: Own orientation (see I.3.2.). In the second stage, Analysis of Markets and their Environments, you should confirm this tentative market selection. How do you actually find these markets? After all, there are over 200 countries in the world and each could contain at least one, probably many more markets for your products.

Several techniques for marketing selection are at your disposal. Note, that there are five checkpoints to keep in mind.

Market selection methods must:

a. be systematical
b. be effective
c. based on measurable criteria
d. use sound screening methodology
e. lead to priority ranking

Such a technique should be executed systematically (using one method consistently) secondly: effectively (it should lead to results) and thirdly: based upon criteria that can be assessed and verified easily. The fourth checkpoint refers to the screening methodology, which implies the activity of selecting the countries you think appropriate, and eliminating those that show no export potential at the first analysis.

Since you, as an exporter, can not conquer the world in one stroke, you should plan which market you would like to penetrate first. Even the most experienced and strongest exporting companies rarely succeed in reaching more than one foreign market each year. The investment is simply too big to do more than that. The same applies to the risk involved in each new unfamiliar market.

Therefore, your screening method should result in a certain priority-ranking. After having applied the various screening factors to the countries of the world where you assume markets, your analysis should lead to a list, showing several countries with export-marketing potential. This is the fifth checkpoint of activity.

Market selection criteria

Six selection criteria will help you to identify potential export markets. Some of these criteria refer to the environmental factors (formulated by Dr Philip Kotler, USA) by which each country can be described. For the task of screening and selecting, we use the factors to establish 'distances': to what degree are the potential target markets distanced from our home market? The greater the distance (in concrete or abstract terms) the harder it is to bridge them through your commercial efforts.

Figure 4.1.1
Market selection

The first and simplest way of selecting markets is to apply the geographical criterion. For that selection method (physical) proximity is the key word. You may assume that there are markets close to your own, which could contain potential buyers of your present product. Such markets may be found in neighbouring countries, as this CBI Export Planner pointed out in Chapter I.3.1.

As a matter of fact, most nations have the largest trading volume with their neighbours, crossing only one common frontier. You may assume that there are opportunities in the first "circle" of neighbours around your own country.

The second criterion pertains to socio-political factors. Having listed the potential markets within neighbouring countries, you start looking for potential markets further away. This may lead to listing the countries that have a common interest with yours, e.g.

in an economic community, also indicated as a 'trading block'.
There are several of such communities: the ASEAN in Southeast Asia, the PTA in Eastern and Southern Africa, the European Union, the Caribbean Based Initiative in the Caribbean, the NAFTA in North America, the Andecom and the Mercosur in South America, and so on.

Such communities are mainly based on a political agreement on the necessity of common (economic) interests. Politics have created a more or less stable trading environment for the member countries. They can for example be structured as "customs unions", having eliminated internal customs' tariffs in favour of a common external system of import tariffs.

If your government has established such ties with other countries, you will probably find potential export markets there.

The same goes for countries where the social structure (relationships, family composition, age division, life-styles etc.) resembles yours. There are some basic requirements stemming from social situations, that run parallel world-wide. The blue jeans is a universal clothing of the younger generations; young families spend more on their children than on themselves, newly weds spend a lot on housing, furniture, interior decorating.

In fact, when selecting markets this way, you are using socio-political factors as criterion. You screen all countries that have social and/or political environments comparable to your own. And you select those countries that show most similarities - for the simple reason that less risks of misunderstanding may occur during business.

That excludes countries that are unfriendly to yours. Trade only flourishes in a stable, friendly climate, not in a hostile situation. The governments may wish to impede all influx from countries with different life-styles or political systems. That will stand in the way of exports.

The third criterion for screening has to do with economic factors. This refers to the target countries' economic possibilities. Or simply said: can the people there afford to buy your goods?

Of course, in such countries bartering potential (trade without money) may exist. But you would be wise to exclude such economies from your initial screening. You may run into problems of fast devaluating currencies, of inconvertibility, of currency losses, of delay in payments.

It will limit the number of potential export countries to those with a medium or high per capita income. This information (the Gross National Product GNP divided by the number of inhabitants) has been calculated for all countries in the world (refer to Worldbank data). Although the per capita income may prove a helpful screening factor, it can be deceptive. Firstly, it does not show the actual buying power per household. That figure you get by multiplying it by the number of persons in the average household. Secondly, even in the poorer countries, there may be money to spend, for instance in certain large cities or regions. Or their governments may be able to buy your goods or services. In other countries, bartering may have created an economy without money payments (like in the UK). So, treat this screening factor carefully.

A better figure may be derived from the actual productivity per head. Productivity supports the balance of payment as well as the economic stability and growth.

The fourth and most intangible selection criterion has to do with cultural differences. Culture, the sociologists say, is the strongest determinant of human behaviour. In cultures that differ from yours, you will have to deal with different people. People with different ideas about what is good or appealing. Consumers with different preferences, with different buying habits.

Culture is evident in the life-style of the consumers, in the communication with business relations, in social life. Even in religion. Or in business ethics. It may be tempting to relate culture with the degree of civilisation. But don’t let that consideration interfere with your commercial purpose. Your task is to recognize that there are cultural differences. And to estimate their effects on the communication and commercial operations.

However you do not necessarily have to understand the cultures - if ever you could. You merely should respect them. Similarly, your trade partner should respect your culture and customs. Mutual understanding is based upon respect.

The fifth criterion, technological conditions, tries to describe the relative degree of technological advancement in export countries. That factor will be evident when comparing the technological “state-of-the-art” in the target markets with yours.

You can safely assume that some of your country’s product may seem old-fashioned in industrialized countries, made obsolete by their technological innovations. You can not sell an ox-drawn plough to Western farmers who use tractors and are used to computers and robots on their farms.

Simple field research will quickly show the degree of technological development. Your trade promotion official in the target country could see to that. He could also collect some trade magazines and competitors’ catalogues for the sector in which you are interested.

Characterizing countries by their geophysical and climatic conditions is the sixth and last criterion for screening. Indeed, the climate influences product preferences. So does the fact that a country is mountainous, swampy, rocky or blazing hot. Do not follow this as a rule; classic examples of exceptions include selling iceboxes to Eskimos, skates to Saudis, water to the Dutch (all of which proved possible).

Instead, identify conditions of climate and geophysics which may influence logistics (transport, storage). Selling ice-cream in the ASEAN started becoming big business only after the supplier installed a chain of open-top cooling display units. Exporting fresh produce from Kenya became a possibility after a direct airlink was established with a Dutch auction, enabling shipping whilst still fresh. A vast fertile country would seem ideal for agricultural business, whilst a densely populated country would be more interested in all kinds of services or space-saving hardware.

Research for market selection

Market screening needs exploratory research that depends upon gathering “secondary data”. These are data that have been compiled and published earlier, by someone else.

Primary data refer to the information that you collect yourself - through so-called 'field research'. This kind of information is required when secondary data are falling short of your needs, e.g. when researching your specific type of consumer about the acceptance of your specific product is concerned (in the third and fourth stage of your Export Planning).

Secondary data - the information that has been researched and compiled by someone else before you - can usually be found in public sources, like governmental databanks, libraries in the target country or in your own. You can collect such data virtually from behind your desk, hence the name 'desk research'.

Figure 4.1.1
Two kinds of research data

Primary data	Secondary data
Tailor-made, so specific answers	Not exclusively collected for your purpose
Expensive	Not so expensive, sometimes free of charge
Exclusive, secret	Not secret
Collection and interpretation of results slow	Fast

You will be surprised how many subjects already have been researched. As for quantified macro-economic data most relevant for your market selection purpose, you will find what you are looking for. More important: the data are usually exhibited in such a manner as to enable comparison. There are more than 5,000 databanks world-wide. Some of them are free of charge, like the Eurostats (European Statistics). Try: www.europa.eu.int or www2.echo.lu/databases/en/bindex.html or refer to 'Exporting to the European Union', CBI. Other databanks may charge entrance fees. All data retrieval requires telecommunication, for which you always have to pay something.

Being a creative marketeer, you will start looking for other ways to at least get a notion of the customer's preferences. You can start with:

- reading the local newspapers and magazines, or trade press in your industry sector
- ask your agents to buy samples of your competitors' products or to collect their catalogues
- visit shops in the target country
- talk to your customers or to the wholesalers and retailers
- buy previously published reports on the market
- talk with suppliers, with specialists, with colleagues, and even with competitors.

Again, you will find your trade partner's assistance indispensable provided that he is also convinced of the need of such activities. You should do the convincing.

Having received the data, you might want to list all information about the target countries. That is tedious work; any staff worker can do it. Then you apply the selection criteria as described above. You already could add some criteria which have relevance to your specific industry, or the manner in which your products are used.

Based on your evaluation of each and every factor you can "judge" the attractiveness of the market, e.g. by giving them a classification or a score ("very much the same as in

your own country, largely similar, somewhat different, entirely different"). The larger the differences, the lower the score.

Scorings:	Totally similar: 1	Largely similar: 3	Largely different: 7	Totally different: 10

The result of this screening exercise should be a tentative list of countries, offering market potential, ranked according to a certain priority estimation.

2. Estimating market potential

By now you will have a list of countries in which you believe there might be markets for your product. According to the adage "Markets = people", you will want to dig deeper, in search for the potential customer. Your customer. But can you actually reach him? And is the demand large enough to justify the effort? What competition will you be faced with?

By nature, the screening method is based on the principle of elimination: you discard options which - hypothetically or even on face value - are not attractive or relevant to you. There are few directives to go by; the most important one is: limit your activities to a market that is not too big, not too small, but just right. For that you make use of segmentation techniques.

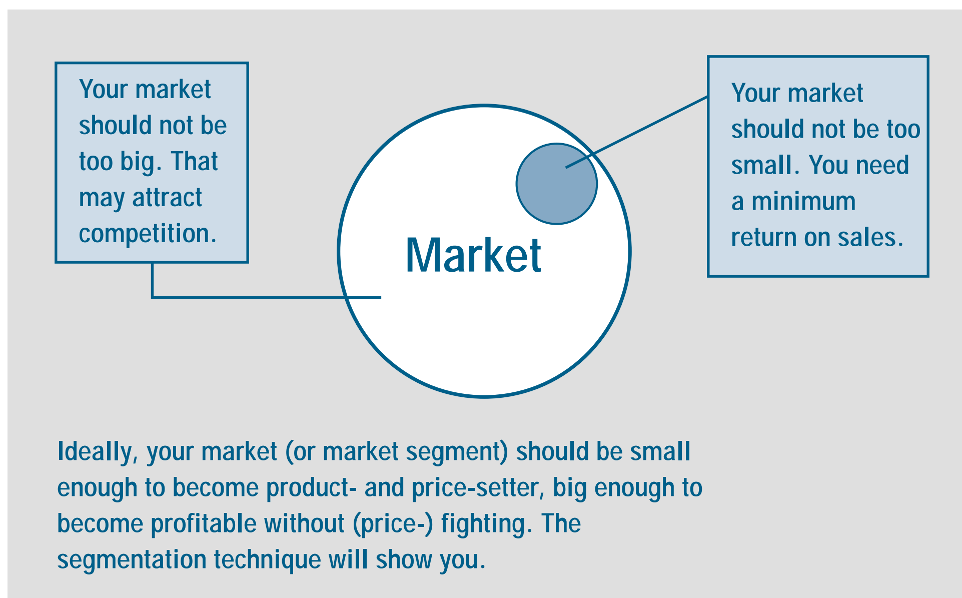


Figure 4.2.2
Market segmentation criteria

Market segmentation

A market, as defined earlier, is a group of people (potential buyers), sharing a common need for a certain kind of product or service.

Within that group a sub-division can be made, splitting-up the group in smaller groups who share the need for a particular product. Such a sub-divided group is called a market segment. Segments, in turn, can be sub-divided in even smaller parts, called 'niches'. In the present competitive times, most suppliers aim at such niches (assumed they can actually identify one) to penetrate foreign markets. Start small, is the motto.

In the early fifties the European housewives generally washed their laundry in tubs. They used solid bars of soap, sudging heavily. When the washing machines were introduced,

the housewives needed a different type of soap: low-lather or -foaming detergent, which was offered in powder-form for easier administration. A new (sub-)segment in the soap market was formed.
Nowadays, other segments develop: housewives who want strong detergents with enzymes to wash at lower temperatures (using less electricity), and housewives who want non-phosphate detergents (to protect the natural environment). Or detergents to wash their modern textiles with. Nowadays, P&G is selling detergents that allow a certain in-home 'dry-cleaning'. Such segments will always come up (and eventually vanish again). The manufacturers are quick to recognize new segments as they constitute new market potential. One of the most challenging and creative tasks for the marketer is to identify such segments. That is called "segmentation".

The "trick" of segmentation is finding a balance between competitiveness and profitability. So you will not only be looking for markets, you will also have to identify relevant market segments and niches. 'Relevant' means: fit for your specific product(s). In practice, you will combine this segmenting with the identification of possible importing buyers; reference is made to Chapter V.

Once you have found out that you could enter the market, you now want to assess if the market is big enough to promise return on investment. In this case the "market" is the consumers' total demand, either evident or potential. You have to estimate its size (in value and/or in volume).

At the same time you are interested in the way that demand is growing or decreasing. So next to size you will assess the market trends.

Assessing market size

Many markets have been researched before. There may be market surveys available. As mentioned elsewhere, the CBI has surveyed more than hundred markets over the past years. They cover industrial and consumer markets. A list is published in the CBI News Bulletin (for Trade Promotion Organizations) and in 'Exporting to the European Union'. Many of these surveys can already be downloaded through Internet, by approaching CBI's website: http://www.cbi.nl - usually free of charge.

The CBI surveys give relevant though condensed information on total market size (in volume as well as in value), market trends, growth patterns, identification of buyers, frequency of purchasing, market segments, distribution channels etc. As said, there are many other databanks with meso-economic databanks; an important source is the Economist Intelligence Unit (EIU).

There are two ways of assessing market size:

a. by analyzing government statistics
b. by totalizing customer demand or consumption.

Ad a: Government statistics:

Theoretically, most markets can be quantified (in volume as well as in value of total units purchased) by adding local production to total imports per annum and deducting exports and unsold stocks:

"apparent consumption = import plus local production minus export minus unsold stocks".

However, if you ever have worked your way through the official trade statistics, you will know that: 1) it is hard to recognize your specific product category, since the data seem too general, 2) some data are based on strange common denominators for volume or weight, so that you can only rely on the data indicating total value, and 3) data on domestic production are very hard to obtain.

Therefore, your desk research should always include the analysis of customer demand, if only to verify your "educated guesswork".

Ad b: Totalizing customer demand:

Check all industry information you can find. Most industry sectors are represented by certain organisations. These organisations usually publish production figures as well as total consumption data, mainly in value (prices at wholesale level).

Occasionally, national governments publish data on some of their markets. You could retrieve them throught official channels. Ask your local TPO or commercial attaché. Sector specific industry data can be obtained from sector organisations or found in trade or business magazines.

If you are a supplier of industrial goods, components or if you want to offer your production capacity on the basis of subcontracting or licensing, your (prospective) customer might know the market size. Ask him (see Chapter V).

Industrial suppliers know that their market potential is often based upon "derived demand". This means that their customers need the suppliers' products for manufacturing their own products. The demand for the latter products determine the demand for industrial goods. So if you can establish the "original demand", you could estimate the derived demand for your goods.

Market trends and patterns

a. Trends

Knowing the size of the market is a vital piece of information. However, since you will need at least another six months of lengthy preparations before you can enter the market, you must know how large the market might be in the future. Knowing which way the trends of your markets develop is of vital importance for your planning.

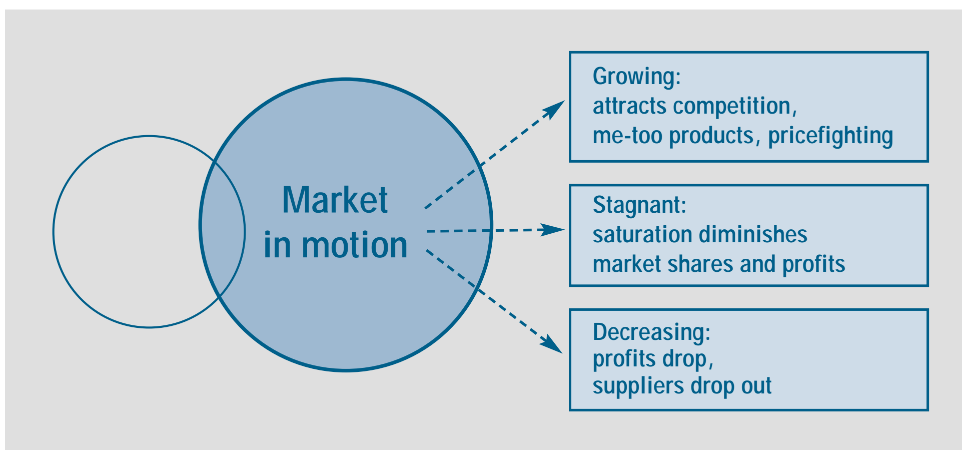


Figure 4.2.2
Market in motion

Therefore, you will have to estimate the market size for the next three to five years. From historical data, one could try to extrapolate the future trends: growth, stabilisation or decrease.

Growing markets offer great potential, but they will attract strong competition, especially when the market is big. Price levels tend to decrease. Yet, there still can be room for you. Consider the possibilities of finding new segments by offering a competitive product advantage.

Stable markets probably indicate saturated demand. Many competitors are active, though some may already withdraw. Prices are under constant pressure. Promotion is heavy. Such a market is not easy to penetrate, unless you offer a competitive price. Most markets (in the sense of market demand in volume) in Europe are stable, because of saturation of the needs of a non-growing population.

Decreasing markets offer hardly any profit potential. It will cost you too much to maintain your position in the market and still earn money.

Note, that this is just a generalisation. Nevertheless it suggests that you should carefully assess the trend of the market in order to make the right decision: entering this market or not?

b. Patterns

Probably the most relevant pattern for your market selection is geographical. That is directly related to the physical distribution, the logistics of your export products.

This refers to the actual location of the demand. Is your market concentrated in a certain area within the target country? Are your customers living - or buying - in a specific territory, well distinguishable from other areas?

In a large country like Germany there are several concentrations of buyers, mainly in the heavy populated areas (Ruhr-area, Bavaria a.s.o.). Industrial developments usually attract more people in the area, seeking work and a place to live. Sometimes, industrial buyers show a similar pattern, when most industries are situated in a commercially strategic area (like in Free Trade zones, Industrial areas etc.).

Within Europe the industrial and consumptive concentration zones cover part of the South-east of England, the Benelux, Northern France, the French Grenoble area, Western and Southern Germany, Northeast Spain and Northern Italy. With the pending EU membership of some of the Central-European states (Poland, Hungary, Czech Republic) the string of potential markets will extend Eastbound. Graphically, you could draw a line connecting those industrial hot spots and look at the new industrial highway of Europe in the future.

In smaller countries, like The Netherlands, you can safely assume your market covers the entire country (with a slight preference for the Western part, covering the three largest cities of Amsterdam, Rotterdam and The Hague, together forming the so-called Randstad). Refer to 'Exporting to the European Union', which gives ample information about the Dutch territory.

The reason to focus on this geographical pattern is that it is important to know in advance what physical distances you (and your products) have to cover in order to reach your customers. Geographical concentration can be advantageous for your distribution. The main competitive battles in Europe are fought with the weapons of international coverage and logistics. The coverage has fuelled the creation of large (merging) companies, which run subsidiaries incorporated in European networks. Logistics is the weapon for small suppliers as well as the bigger ones, offering 'Just-in-Time' deliveries at the expense of slower, less customer-oriented competitors.

Figure 4.2.3
Logistics

3. Identifying the competition

Fighting for the same customer's dollar

Competition is everywhere, a harsh fact of every businessman's life. The more lucrative the trade, the stronger the competition. If you are ambitious enough to aim at the far-away markets in Europe, competition is the first thing you will encounter. You could have expected that, having read the Treaty of Rome which promises a free circulation of goods and services throughout the EU. Indeed, in spite of the numerous barriers still remaining, the European Union has progressed far in liberalizing trade and opening up its outside borders.

You will find a multitude of other suppliers (manufacturers, traders) competing for the favours of the same customers. In the EU some 25 million suppliers are active, supplying to almost 400 million inhabitants, which is by far the highest supplier density in the world. Hence, in Europe you will stand face to face with the strongest, fiercest, biggest competition you have ever experienced.

Figure 4.3.1
Distance target market

Along the lines of preparing their economies for integration in the European Union, several Central and Eastern European countries have shifted their commercial attention to Western Europe. Their economic situation will remain tense for the years to come, industrial productivity has decreased considerably, but free enterprise inspires many business people to build trade relations with their Westerly neighbours. Countries like Poland and Hungary thank their growth to trading with the West.
Exporters from developing countries will recognize that these countries' traders will pose a strong competitive threat for them, since they aim at the same markets.

Obviously, the customer can only spend his money once. So he will make a selection from the wide range of products offered in the market place. To make sure that it is you who profits from that one purchase, you must not only know what the customer's purchasing motives are. You should also be able to satisfy his needs and wants in a better way than your competitors can.

The success of many suppliers to Western-European markets depends largely on knowing what the competition does in order to win customer preference. They are not hunting for undetected 'holes in the market', they are fighting each other for their share of the market. Experience has taught them that a good competitive analysis is very effective to avoid a head-on collision with that competitor. That collision may lead to a showdown that 'runners-up' (who enter a market after their competitors) can never win.

So exporters entering a market where competitors are already present, will seek a different strategic position. They try, for instance, to be better, or faster and more successful in winning customer preference than their competitors. Therefore, they must know who the competitor is, how strong he is and to what degree he can threaten your market position.

Competitive marketing analysis

If you know your competitor, you can fight him. When high interests are at stake - as for the large European competitors - it pays to scrutinize your competitor. Some have specialized departments with 'Competition observers', keeping track of their activities on a daily basis, up to a point where the competitor's action can almost be predicted.
They know their strategic goals, their management, their business culture thoroughly.
Financially, that is probably out of your reach.

Figure 4.3.2
Understanding your competitor

First step to understanding your competitor: look at his product in the market place

1. Start with looking at competing products, noting their strong points compared to yours
2. Register names/origin of these products. Collect data on suppliers
3. Register the prices, calculate top-down to the possible EXW pricing
4. Find out how the products are being sold / promoted (by asking outlet managers)
5. Register type of outlet, which indicates choice of outlets.

Nevertheless, it pays to learn whatever you can about your competitors, domestic as well as foreign.

Part of your management task is to describe your competitor and his activities. You could do so by checking the way his products are presented: in retail outlets, or at the wholesaler, by simply visiting these outlets and following a systematic routine.

1. **What products compete with yours?**
   Ask any distributor or retailer; he will specifically describe you the present competition in his area or store. He welcomes competition amongst his suppliers, as it brings prices down. But he, too, has to make a choice which product to distribute. His selling space is physically limited. Go to the shops or wholesalers and have a look yourself. And keep on doing that on a regular basis (e.g. quarterly). Are these products better than yours? Or more unique? Can you beat them on quality? Is your product more attractive?

   You may want to imitate those products, although that is not always commercially wise. Moreover, those products could even be protected by patents or trademarks, which makes imitation illegal and punishable.

2. **Who are the suppliers or manufacturers of those products?**
   In most European countries the products must carry the name of the manufacturer or importer. Register the names. What do you know about them? Are they small or do they belong to a multinational? Are they manufacturing locally, or do they import their products (who are, in that case, your potential competitors to supply)? Such questions will reveal a lot about their ability to defend their market shares. The big ones will have the knowledge, experience and money to effectively fight your market entry or market presence.

3. **Very important: what are the competitors' prices?**
   Price is one of the main motives for buying - next to quality .In most free economies in the Western world, you will find that your potential buyers will force you into a price-fighting with competing suppliers. Consequently, your price-setting largely depends on the competitor's prices. That goes for their (trade) discounts, too. And for their bonus system or commission rates. Try to find out.

4. **How does the competition canvass, sell, advertise or promote their products?**
   Do they employ sales representatives? Do they have special promotional material? Are they successful? Take their example - but always add something special: something that no competitor can copy.

   Read newspapers, magazines, brochures, catalogues. They tell you a lot about the competition and how they view their (and your potential) customers.

5. **The same goes for the distribution methods of your competitors**.
   Which channels have they selected to reach their buyers? Or do they supply them directly? Sometimes, you don't have the time or the means to find that out yourself. In that case the competitive channel selection can be a good guideline.

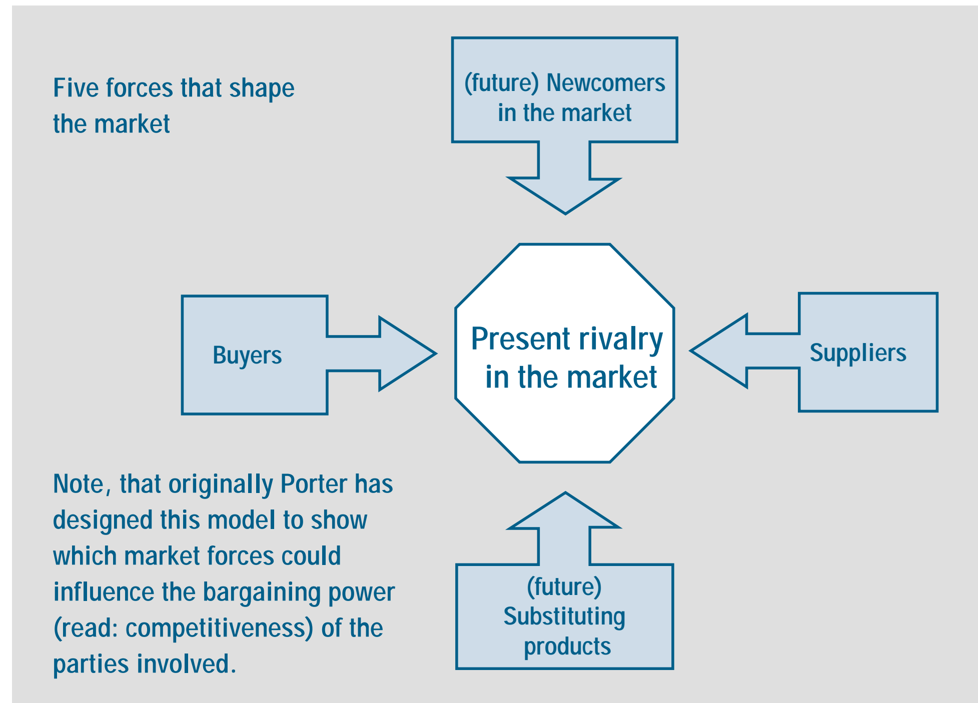
With the arrival of pan-European media like television, 'Teleshopping' has become popular. Cable-networks link households to television advertizers offering consumer goods (from consumer durables to fashion and jewellery). Direct-mail or mail order has become big business as La Rédoute in Paris, France, has proven.

However, since the expansion of Internet, that medium seems to be taking over tele(vision) shopping fast. So, browse through Internet, looking for competitive offers under your product category heading. Such information can also be bought from Internet service agencies.

Looking at your competitors' products is just the first step into understanding their strong points. Now you should try to understand their market position in order to predict how they will react on your market approach. Porter's model gives an indication how to assess that position.

Porter's Competitive Analysis

Figure 4.3.3
Forces that shape the market
(acc. to Michael Porter)



Ever since Western marketeers have recognized the ever-increasing changes in customers' preferences, they use dynamic models to assess their own strength vis-à-vis their competitor's. The first practical model was formulated by Michael E. Porter (1980) and indicated five competitive factors which could influence competitive strength, measured by the expected decrease in profitability.

The market actors are:

- the present rivalry in the market. What would be the effects of an initiative which might distort present market shares? Is retaliation to be expected? Will that decrease profits?
- The bargaining strength of the buyers. Are the buyers so strong that they can dictate the terms of transaction (prices, delivery conditions a.s.o.) to the suppliers? Or are the buyers competing amongst each other to be supplied by you?
- The bargaining power of the suppliers. Same as above, but projected on the relative influence of your suppliers (of halfmaterial, components etc.). If the suppliers are few, their power is great, reducing yours - and your profits.
- The threat of potential entrants into your market will decrease your profitability. If market entry is easy, many competitors can be expected to fight for a piece of the profits, reducing yours. But if entry barriers are high (e.g. large investments in equipment, in know-how), you will enjoy some protection.
- The threat of product/service substitutes is more difficult to identify. Some products can

come and take over the function of yours' (e.g. desktop publishing took over the function of type-setters, the manufacturers of industrial glues pushed many nuts-and-bolts producers out of their markets). Identification of substitutes requires a 'helicopter view', the ability to look beyond the boundaries of one's own product area.

The Competitive Analysis seems complicated, but has proven valuable in assessing one's competitive strength. As you can analyse your competitors' present position, you could also asses your own position in the near future. A discussion with key-persons in your organisation ('brainstorm') could provide you with many answers in a short time.

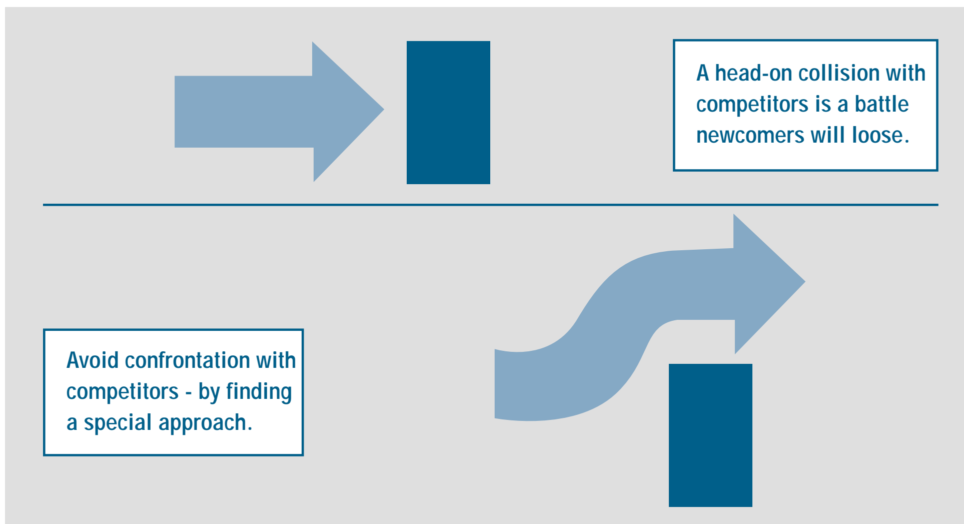


Figure 4.3.4
Competitive strategy

Your position amongst the competitors

Knowing about your competitors' products allows you to (re)design your own range in a manner that strikes your prospects as special. You could add a USP (unique selling proposition). In doing so, you will avoid a 'head-on collision' with them, which occurs when coming into the market with a similar product, with similar product benefits. In that case the competition will eventually take retaliative action, trying to discourage potential customers to buy from you.

In competitive markets it is always best to choose a market approach through which you will not have to invest in heavy promotional efforts to convince your prospects to change suppliers. Newcomers with a 'me-too' product inevitably will have a hard time.

According to Michael Porter there are basically three distinct strategic approaches possible in a competitive market situation:

Price-related	Product-related
Cost Leadership (Best price/quality relation)	Product differentiation (wide product range)
	Specialization (special products, niches, tailor-made promotion

Figure 4.3.5
Strategic approaches
(See Chapter I .2)

By designing a special product or a special market approach, your chances to survive competition improve considerably. That is a strategic decision, to be designed before you venture into the foreign market. Of all (three) options, Porter recommends 'Specialization'.

The bottom-line is: do not follow the competition blindly at all times. If you, as an entrepreneur, are convinced you are doing the right thing, then go along with it. Even - or especially - when the competitor follows a different path. You may end up well ahead of him!

4. Channels of distribution

Distribution - the mechanism through which your goods eventually reach the buyer - can be distinguished in the physical as well as the non-physical sense. Physical distribution describes the actual transportation of the goods from your factory or warehouse via the intermediaries to the users' storeroom or the retailer's shelf. In that respect transportation costs, packaging and carriers are relevant. As such physical distribution is the downstream element of the art of logistics, which describes the flow of goods from its natural sources through the processing stage in your factory all the way up to the end-consumer. Most of these aspects have already been explained. The selection of transportation media (the "carriers") is something to leave to the professionals (e.g. your freight forwarder, your trade-partner). They will tell you the best and cheapest way for your products to reach their destination.

In this paragraph the non-physical (indirect) distribution is described, explaining which channels (importers, wholesalers, retailers, department stores, supermarkets etc.) to choose.

Channel selection is a typical consumer marketing subject and as such a very important one; industrial marketers usually supply directly to their customers because their number of buyers is small enough to organize it themselves. Since many exporters from developing countries have neither time nor money enough to study consumer publics, they often limit their actions to those of such industrial suppliers, focusing on the importer / trade partner rather than the end-consumers. In the next Chapter V the channel selection is linked to the selection of trade partners who may give access to those channels.

What can distribution channels do for you?

Distribution channels bring your products (closer) to your buyers. They not only take care of the physical transportation, they also support selling by means of promotion or simply by making the goods available. You can not do without the help of the distribution channels; they are your inroads to the customers.

Functions of the distributive channels for consumer goods

- Interpreting and anticipating customers' demand
- storing the goods required and distribute the goods locally to the (= your) very consumers
- providing low-cost storage and delivery
- offering credit and capital to finance inventories
- buying large quantities (from you) and break them up for other intermediaries

- (personal) selling to other channels
- advertizing, promoting sales and displaying your products on the point-of-purchase (also called: point of sale)
- handling guarantees, repairs, complaints, maintenance, instructions for use etc. on behalf of the supplier.

For these services, that are essential for the efficient and uninterrupted flow of goods from supplier to buyer, the channel member charges a trade margin on top of his buying price (See III.3). So in the end, the end-consumer or -buyer pays for the distributive services. These costs add up to the final ‘availability price’, which is the only relevant criterion the consumer bases his decision on.

Which channel is best for you?

In most European countries the distributive system is highly developed, though rather complex, even differing from one European state to another. Many different types of stores cater for consumers’ needs, wherever these live and however rich or poor they are. Thousands of stores, or “outlets” as the marketer calls them, are scattered over the country, trying to close in on the potential customers.

For foreign suppliers of consumer goods the job of selecting the right channels involves too much know-how, time and footwork. They tend to leave that important decision to their trade partner, who knows the market better.

On the whole, that may prove sensible. Your trade partner is your representative and should be capable of finding the best channels for you (See Chapter V).

Nevertheless, you must know enough about the local distribution system to justify, or at least understand, your partner’s proposals.

Perrier, a famous French brand of mineral water had penetrated the US market by selecting gourmet food shops as their outlet. Later, inspired by the upswing in the consumer preferences for natural foods and drinks, they decided to broaden their distribution. They successfully penetrated several supermarket chains, thus reaching a wider range of consumers. Within three years their sales tripled.

Getting to know the distributive system is not always difficult. It depends upon your kind of export product. If it concerns a specialty product, for which the buyer is prepared to pay a premium price, there will be specialty stores to distribute it. If your (consumer) product is just a normal “run-of-the-mill” product, you will select a convenience store or a supermarket as outlet. If (your low) price is your biggest asset, you could consider selecting discount stores, that buy larger quantities and sell cheaply.

Your TPO, your consultant or your trade partner will be able to find a list of distribution outlets and their specific function, reputation or character. CBI includes such addresses in their market surveys.

There are also specialized wholesalers that usually supply to such outlets. Examples are available in sectors such as building materials, furniture, hospital supplies, electronics, household appliances, fresh food and catering, textiles / garments etc. Some of the larger outlets (mainly in food and garments) have their own wholesaler. The biggest of them all even do their own importing or come and visit you in your home country to buy directly from you.

For industrial suppliers, the selection of distributive outlets is easier. The channel of distribution is shorter. That can be explained by the number of buyers: there are far less industrial buyers than customers, so that the system can be more simple, involving fewer intermediaries.
In fact, there are no retail outlets for some industrial products; the buyers buy direct from wholesaler-type of stores. Here, “vertical integration” (channel members adopting the functions of up-/downstream distribution outlets to be able to control the supply flows better) is common practice. Usually, most importers do their own wholesaling. In such cases their trade margins are somewhat lower.

Sell through, not to your channels

In Western-European countries the distribution channels have become very large and powerful. Often they have organized their purchasing on a cross-border basis, together with colleagues abroad, totalling procurement budgets of over 20 billion Euro. Thus, they can buy larger quantities at better prices. They know you can not do without them and they fight for their own margins - even when they have to fight you.

Though not as big as the American Wal-Mart chain (selling for some $ 130 billion through more than 4,000 outlets) European distribution chains are huge. Names like Tesco, Metro, Ahold, Coop, Casino, Aldi are well-known in food distribution. In some countries, like The Netherlands, Belgium and Germany such distributing organizations cater for more than 45% of the goods to be distributed. In Scandinavian countries it can be as high as 80%! The large retail outlets there virtually dominate the trade, which is a significant trend in Europe.
Wise suppliers therefore dedicate a lot of attention to the distribution channels, particularly to the large ones. They enable them to do the best possible distribution job. They adapt their own packaging and their pricing to the distributor’s requirements, they plan their deliveries according to the distributor’s wishes (supplying them ‘JIT’, Just-in-Time). Sometimes they even prepare special promotions for them (with tailor-made in-store advertising and - display).

That attitude has developed into a certain kind of “trade marketing”. Large manufacturers have trained sales people as special - or key account managers, whose only job it is to look after such distributors.

By now you know, why you should treat the trade channel members as your distribution partners. They have the same objectives as you: selling to the customers who need your product. Therefore, your (agent’s) job is not just to sell to the distribution, but to facilitate him selling to your customers.
In practice, that means that you will be asked (by your trade partner) to prepare sales promotion instruments for your distribution. That can be either of simple nature like fixing special price tags or printing the UPC “bar-codes” on the packs (pictorial with number of vertical narrow and wide lines, which can be translated by computer optics into item particulars such as price, required stock level, name of supplier).

Your channel members also could ask you for some difficult and expensive assistance, like changing your brand-name into the (“private”) brand of the chain store, altering the packing size, preparing a display box, providing a budget for co-operative advertising (jointly paying for such expenses).

Do not refuse such requests right away, even though they are expensive and seem too much trouble for the profit. Discuss them with your trade partner and evaluate the expenditure against the privilege of having a nice place in the shops. Your attitude may decide on the future of your products.

V Market entry through trade partnership

Nine out of ten exporters need intermediaries when trading with far-away markets. The reasons are clear: the multitude of markets and their complexity, the numerous and tedious tasks of exporting, the regulations and risks involved, all such aspects make exporting too difficult to do it by yourself.

Particularly when exporting to industrialized markets, the exporter from a developing country will usually decide to ask for the assistance of a third party. He believes that the work in the target country can be carried out - far better - by a local representative than by himself. That is when your most important ally in export comes in: the trade partner.

The intermediary, who is to become your trade partner, may have a simple task of just getting the goods to the other side of the border. But he also may have a demanding job: finding buyers for you and making sure those prospects will be happy with your products. In practice, your success will largely depend on him.

When interviewed, exporters from all over the world consistently declare that the most crucial part of their work is to find - and to keep - a trade partner. This Chapter tells you how.

1. Why do you need a trade partner?

Direct market entry

Of course, you could try to export directly into the country where your customer is situated. Several exporters do. Such companies can afford this luxury of bypassing intermediaries.

Suppliers can export directly if they:

- are large (often multinationals) and have a long-time experience, or:
- have previously established a sales office or a (fully or partly owned) subsidiary in that country, who must do the job of importing and distributing for them, or:
- deliver their goods in the hands of another company that will do the actual exporting for them, or;
- export (large) technical, industrial goods or capital goods to only a few customers, whom they know by name, location and buying habits, or:
- sell to trading houses in their own country and don't bother about destination or about following-up, or:
- produce on specifications of a visiting buyer, usually under control of this foreign customer, having decided manufacturing is what they can do better than exporting.

All these companies use a method of direct market entry, not asking for anyone's help except from their own organisation.

However, the majority of exporters, from industrialized and developing countries alike, use the indirect method of exporting to build a presence in the market abroad with continuity as main goal. They do need the help of a third party for market entry.

Indirect market entry

When you plan to export to a target market, you will need to know all about the country that market is located in. Particularly for markets far away or very different from yours (like those in the Western world). That is where you will need a third party. He will make his knowledge and experience in that country available. He probably knows the target market already. He will be able to guide your products to the right customers, via the right channels of distribution.

You, with your knowledge about the product, and your Trade Partner, with his knowledge about the market, will form a strong team. And with such team-work your export operation will have better chances on success. Since the two of you share the same target customer, both will have the same interests at heart. There is no room for competition, animosity or even distrust; it can be a true partnership. Your trade partners will serve as your representative in the target country.

Therefore, you will be wise to consider indirect market entry (i.e. with the help of a trade partner) very seriously.

Reasons for choosing indirect market entry

International business is very complicated and takes many forms. Different markets require different entry techniques. Obviously, there is no such thing as “the ideal form of market entry”.

The difficulty of the choice of a trade partner is to anticipate what you may need him for.

There are five general tasks for which a trade partner could be essential. Check them in order to see if they are valid for you. If you find any one of them relevant, your choice is the indirect entry method.

You will need some third party:

1. to take care of the actual importing into the target country,
2. just to find buyers for your products (and leave the importing to you),
3. to give you access to a specific channel of distribution in the target country,
4. to relieve you from some of the financial worries and risks and do the (entire) exporting for you,
5. to give you the same facilitating services that your competitor gets there.

Your second check should look deeper into your business situation, both internally and externally. The first checklist compels you to realise again what the strengths and weaknesses of your own company are (See Chapter II.4. The Export Audit).

Checklist 1: Reasons relating to your company

- Is your company financially and organisationally strong? Do you have good and experienced people to do the job? This could mean that you could do most of the exporting job yourself, leaving only the necessary importing tasks to your trade partner - and have better control on and a better yield from the export operation
- Is your financial position weak? Do you have insufficient manpower? Then leave the worry and the risk to your trade partner and concentrate on satisfying his needs and wishes
- Do you want to concentrate on manufacturing as your 'core competence' and not on trading? In that case you will out-source the exporting operation to better qualified people who make that their core business
- Does your product need a lot of instructing, (after-) sales service, maintenance and repairs? In that case, choose a partnership that does the importing for you but also allows you to follow the flow of goods into the market closely.

Next to your company's requirements, your market will also influence your choice of trade partner. That market may be situated in far distanced countries, industrialized or emerging, rich or poor, strongly regulated or hardly organised.

The second checklist makes you ask yourself a few questions about the market.

Checklist 2: Reasons relating to the market situation

- Is your market very far away? Is it hard to reach and difficult to communicate with? Is there a certain degree of protectionism? Then you should have a strong partner who can work independently, knows the market well and can find his way to the main buyers;
- What do the laws of the target country prescribe? What about currency regulations? Are there any tax advantages involved when choosing certain partners?
- What is common practice in the target country and in the industry sector?
- What alternatives will you have when all the good trade partners are already committed to your competitors? Could you find a better system of market entry than your competitors?

List the answers to direct your future decision.

Main forms of indirect market entry

In a sophisticated area like that of the Single Market, the distributive trade becomes simpler at the one hand, complex at the other. Integration tends to eliminate intermediate functions, whilst new channels of distribution, bypassing others by merit of super-specialization, are being created. The basic structure shows:

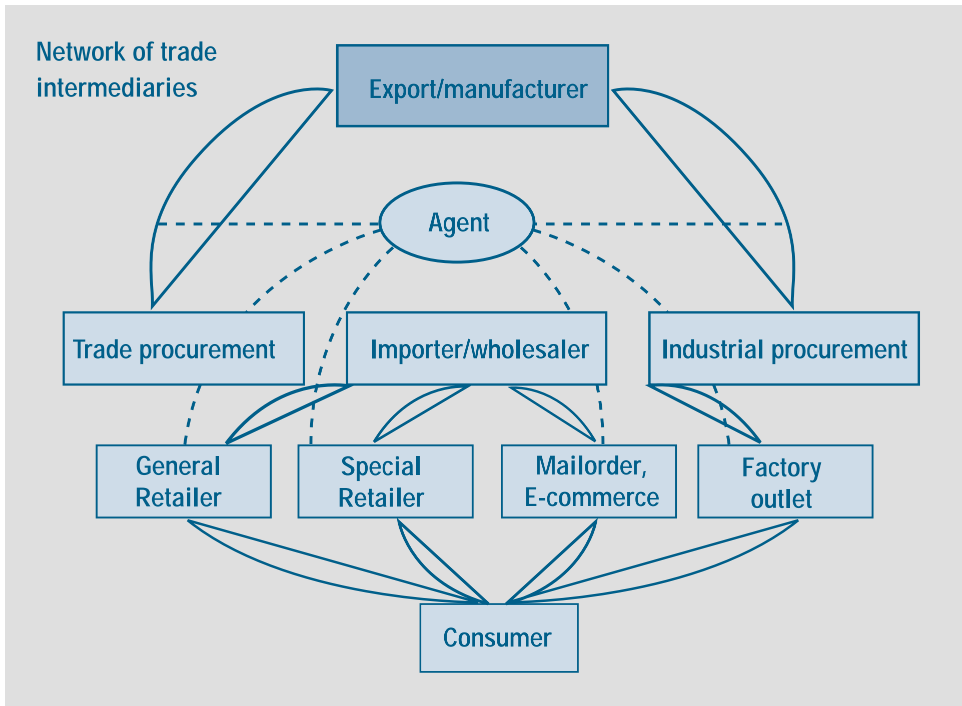


Figure 5.1.1
Distribution network

This is the fundamental structure of intermediaries giving access to any market. Positioned between supplier and buyer they try to close the functional (cross-border) gap by matching the two. Most industrial goods flow from supplier through the importer (/wholesaler) straight to the buyer. For consumer goods the flow follows a more intricate system of distribution and re-distribution through retail channels until they have reached the end-consumers in the corners of the area served.

Yet, markets change and so does the structure, changing the traditional functions according to the shift in market dominance. Intermediaries can integrate their functions vertically (along the flow of goods) or horizontally (covering more than one assortment or sector). Sometimes (like in the garment trade) that integration changes the activities and functions of the intermediaries as it comes: importers becoming manufacturers or exporters themselves, agents becoming importers, retailers becoming wholesalers and so on.

From the above diagram it will be clear that you can find your trade partner both in the target country and in your own. Small, inexperienced exporters or entrepreneurs who merely manufacture as their core business, may prefer to deal with a domestic partner for their exporting. They can understand him well, the transportation problems are few and sometimes these partners actually buy directly from them, virtually eliminating risks of non-payment or currency problems.
However, you should realize that in such situations your compatriot trade partner will claim a bigger share of the profits and will leave you with piecemeal.

It is obvious that if you can organize, manage and control your own exporting all the way to the customers, your profits can be larger. At the same time, you will have better control of the operation.

If you feel strong enough, you could choose a trade partner in the foreign market itself. That could be an importer, who buys from you and in turn tries to find local buyers. It could also be an agent, who finds (importing) buyers for you in your name and therefore

is no more (and no less) than an intermediary, a scout, acting as your ‘long arm in the market abroad’.

Most importers have immediate access to the market. As a rule they combine their importing work with wholesaling, capable of order-taking and delivering, breaking bulk imports into smaller quantities, holding stock in (own) warehouses etc. They sometimes have their own sales force too, canvassing the market, the buyers, the retailers or the sub-wholesalers for orders.

These organizations are called importing wholesalers. They could prove to be valuable for you whenever you are looking for an independent, knowledgeable trade partner - and whenever you wish to have someone else to share the financial burden.

Main trade partners for indirect market entry

- The (straight) importer, buying from you and selling to a distributing wholesaler
- The importing wholesaler, distributing commodities and popular industrial goods, or specialties
- The trading house, buying and selling to businesses in a certain sector
- The broker, usually active for branded consumables and commodities, and:
- The agent, whose main task is to find the trade partner you wish.

Summing up, there are several types of trade partners you can choose from:

- the (commission) agent, an independent person or company, merely intermediating (bringing the exporter/seller and the importer/buyer together). His services are paid (usually by the exporter) in the form of a commission, which is a percentage of the (CIF) value of the goods imported.
- The importer, an independent company, specialized in importing a certain range of goods from abroad. Such an organization buys directly from the exporter and thus becomes the rightful owner (‘takes title’) of the goods. In turn, he will try to sell it to wholesalers or, in the case of industrial goods, to the customers.
- The importing wholesaler, which is a company that not only imports but also operates facilities to forward the goods into the distribution channels by means of promotional support.
- The trading house, which is an independent company that specialises in trading certain range(s) of goods. Usually it covers a wide field of goods, sometimes even competing. A trading house or -company buys and sells for its own account and risk. It decides on its own export assortment; if your product happens to be renown and outstanding, they will not wait for you but come and look you up on their own initiative. Trading houses usually have a strong commercial acumen and professionalism. Sometimes they lack a strong after-sales performance, necessary for most technical and industrial products. Trading companies can be located in your own country or in the target country. Some of the larger companies even have international networks in several countries abroad.
- The broker, whom you can charge with the execution of your marketingplan (he will help you to design it) against a fixed fee. Brokers operate in several European markets (commodities, branded consumer goods).

These are just the main forms of indirect market entry - so via a representative. The agent is the most popular form since he works fast and has to be paid only after his efforts have proven successful.

He will, however, ‘go after the fast buck’, not invest in your future market position. Moreover, a good agent is hard to find; most are active for others (i.e. your competitors).

You could also make use of your agents for other tasks, such as collecting market data, screening competitive products, but in that case you must pay him for his time.

For inexperienced exporters the importer will prove a solid alternative since he will pay you directly as if he were your customer. A disadvantage is that no importer will have to justify his market activities to you. As he bought the goods from you, he can do with your products whatever he likes (even re-export them or market them in disagreement with your marketing plan).

The economic integration and further expansion of the Single Market will change the function of the Europe-based importer, emphasising the distributive function. A free flow of goods, as the Roman Treaty stipulated, implies that importers can not claim exclusivity for a certain EU country anymore. Legally, your Portuguese importer could bring your goods, which you may have priced lower in view of the local spending power, as far as wealthy Denmark, frustrating your efforts for market differentiation.
Exclusivity may only be possible by voluntary restriction of activities or because the nature of the goods recommend a regional marketing approach.
In some sectors (e.g. the automotive sector) exclusivity will be tolerated by the European Commission for a limited period. This is thought necessary to span the time until all prices and conditions in the member states have been harmonised.
As long as trade opportunities exist, trade partners can be found - even if that means that they have to reshape their organization for the purpose.

Agents, who usually are rewarded commission on sales, could be paid an additional cost compensation in order to keep them looking for customers when market conditions slow down his work. Importers may be made more eager by promising them a certain additional commission (bonus), just like an agent. In short: you can shape the trade partner into what both of you need.

Other forms of indirect entry have developed along the same lines. Internet-shopping has created a virtual form of distribution, complemented by intelligent logistics (transportation and payment). Satisfying the need of large organizations, for instance, has led to the creation of importing wholesalers that specialize in bulk purchasing. This applies to hotels, restaurants, hospitals etc., all of which buy from wholesalers that have extensive knowledge of their specific requirements. As such, specialization has become the trend for fashionable consumer goods too. True to their nature the distribution follows new trends and patterns and proves very flexible and dynamic.

Even the armed forces buy from specialized procurement agencies, mostly government owned. They, too, could be buying from you. Local and national governments buy via such agencies. For large-scale orders their purchasing potential can be phenomenal; the total market of this kind of “tendering” is estimated at a staggering US$ 80 billion world-wide.

Collective exporting

In view of the complicated and demanding nature of exporting, you may believe your company by itself is simply not good enough to stand the task. Just selling to trading

houses may not always be the best answer. In that case you may consider joining other (potential or established) exporters.

Figure 5.1.2
Collective exporting

Collective exporting with equal partners	Collective exporting with larger partners
Recommendable, if partners trust each other and are non-competing	Cheaper but risky, since your products will never get maximum attention.

If you have met with representatives of your national Trade Promotion Organization or your Embassy, you may already have discussed the possibilities of joining with other exporters to do the task together. These exporters will mostly come from the same sector, be of roughly the same size, and manufacture a variety of non-competing, usually complementary products. For suppliers of industrial goods and components, this may offer good opportunities.

Many developing countries organize collective events, like fair and exhibition participation. They share the cost and the burden of the export operation or promotion. Often, their government stimulates them in doing so by granting subsidies.

It is wise to consider the advantages of collective exporting. Western markets are so complicated to export to that only by joining forces with compatriots, you may stand a chance of succeeding. Always ask for the help of your Trade Promotion Organization or Embassy in such matters.

For the same reasons you could consider joining with larger, well-established companies. Ask them to incorporate your products in their export assortment, so that both product ranges eventually will be brought to the customer - managed by the larger partner.

Obviously, this is a tricky situation. This construction of collective exporting, sometimes nicknamed: “Hitch-Hiking” (or Piggy Back), may give you market access but does not promise great profits. Your products will always have a secondary position; the salesman will first try to sell his “own” goods, and only then - if his time allows - he may offer yours. Even though you pay a fee for the services, you are an easy victim of the whims of your “carrier”. Always make a watertight contract.
The best basis for such a partnership is when you actually know - and trust - the manager of the larger company.

Which form should you choose?

If you are looking for your best method to enter your markets, don’t be discouraged if the answers come slowly. As a matter of fact, the task of finding an appropriate trade partner normally scores highest in the list of Main Export Problems.

One-third of all exporters has serious trouble in finding good trade partners. Moreover, finding them requires investments in your time and money that may amount to many months and thousands of dollars on travel costs.

On the other hand, the selection of your trade partner in a country where your market is located, is too important a decision to be indifferent about. Ask help, seek professional assistance.

You should make two decisions:
1. assuming that you prefer not to go exporting alone, you first should decide on the type of trade partner. Consider what the market necessitates and what your company needs;
2. next you should consider joining other exporters if you feel you will do a better performance at lower (shared) costs.

Whichever trade partner you will choose, his help should not keep you from getting to know and understand your own market, even though it is in his country. You must also have that knowledge. It may prove the only instrument of controlling your future partner.

2. Selecting a trade partner

It can take weeks, sometimes months, before you will find a business partner with whom you are willing to face the future. Obviously, the process is difficult enough to allow sound preparations.

Figure 5.2.1
Partner selection process

Partner selection process	
1. List criteria for your future partner	What partner assets do you find necessary
2. The search	Hire someone else to do the actual searching
3. Screen shortlist	Talk with prospects, exchange data, create interest
4. Select from shortlist	Rationally, also ‘human chemistry’
5. Reach agreement on market approach	Plan together. Agree on terms. Draft contract
6. Confirm partnership	Create trust. Agree on trials

What to look for

You have to select a trade partner who has or can give you access to the buyers, or to the distribution channels where your customers usually buy.

Having researched your target market you already know which channel is best for you. Maybe, you also have got a general idea which form and type of trade partnership (sometimes indicated as “representation”) is preferable.

Start with drawing up a list of criteria you want your future partner to meet. Merely as an example, this list could show:

- partner should be well-established, reputable and trustworthy
- partner should be medium-sized, financially healthy and well-managed
- partner should have at least five years of experience in the sector, but should not have competing accounts
- partner should have an adequate office, storage facilities, a sales force of at least 10 people, telephone, telex/telefax and a computerised administration
- partner should employ at least one professional who has experience in your industry sector; he/she should become the ‘account manager’, liasing with you.

Send your criteria list to your TPO or your Embassy in the target country, hoping they may help you in drafting a short-list of potential partners.

How to look

Then your actual search starts. This requires a lot of footwork. You should travel around, pick up information, compare and select. And later on, you should visit the prospective trade partners (agents, importers, trading companies etc.) to meet with the people in person.

You could ask a trusted and experienced employee to do the job. Alternative solutions are to hire a consultant, who knows his way around, or to participate in a trade fair hoping a prospective partner will show up. Or spread the word through local organizations (incl. the CBI News Bulletin). But in the end, you should be present personally to make the final choice. Nobody can replace you in such a delicate matter. As personal judgement is important when assessing people, you should do it yourself.

Fortunately, in most Western countries it is not difficult to trace trade representatives. Most of them advertize in trade journals and trade directories. But it certainly is difficult to find good ones, or simply available ones.

Trade directories (like the Kompass or the ABC) are widely available, also on database and CD-Rom. Don’t buy them; most public libraries will lend them to you. Usually, the library of the Ministry of Foreign Trade, or the Chambers of Commerce and Industry have copies. If you can’t get the directories, as a last resort you could try - like in your own country - the Yellow Pages of the telephone directories. But don’t judge their importance by the size of their advertisements.

Trade associations, commercial banks or maybe even shippers and forwarders will prove a good source of information. Sometimes databanks can be consulted.

The short-list that you compiled, should be discussed with your managing director or your export manager.

Talk with all prospects

Arrange for personal meetings with all the companies on your short-list. The reason is simple: you should not only get an impression of the companies’ actual facilities, but also of the people who run them.

Most agents and importers can generally receive you on short notice: one to three days in advance. Fax them, then call them by telephone; make sure you meet the right man or woman - and be in time.

Westerners usually stick to time quite strictly. Being late is not only impolite but also considered a waste (of time, that is).

The Western manner is very direct; they discuss business openly. The word “No” is seldom considered an insult. Their voices can be loud, harsh or excited, but that does not mean they are angry. In your discussions, you can come to the point quite quickly. Don’t compare their degree of cultivation with yours; their culture is entirely different. And do not be afraid about their business ethics which are usually straightforward, clear and easy to understand.

In these discussions you not only gather additional information on the prospective partner. You also give factual information about yourself and your company (and your export products). So try to arouse his commercial interest in you.

Gather information about the potential partner

- What industries is he active in? What sales territory does he cover? Is he used to operating on an exclusivity basis? What distribution channels does he serve?
- Who are his customers (ask for names for future reference)?
- How is he organized? Does he have special strong points, like selling, marketing, after-sales services etc.?
- Is he financially strong? Who is his banker? Does he pay his bills in time?
- Who will be responsible for your account, if agreement will be reached?

It is always wise to double-check the information. Check with his customers, banker, the government - and maybe even his competitors. There are organisations that specialise in providing this kind of information (like Dun & Bradstreet).

Provide information about yourself

- Explain about your company, its reputation, the strength in the local market, the product, the export markets you already deal with;
- indicate if you already have dealt with customers in his country before;
- give your company's sales figures; give him a balance sheet;
- explain the specific strong points of your organization;
- explain how your company is organized; show him brochures on product and company;
- tell him about your plans and your strategies.

At this stage of the selection process it is good to remember that the theory differs from the practice. In real life you won't have much choice: more often than not it will be the partner who does the selection (of his principal), not you selecting the partner. The reason is twofold: a. there are simply not enough trade partners available, meaning they will do the choosing, and b. only few trade partners would dare to go into business with a newcomer from a developing economy, uncertain of his reliability.

That is certainly something to keep in mind. It means that you have to do some selling - of yourself.

Create interest:

- Ask his opinion about the market your are aiming at.
- Ask for the trend in the market, the pricing levels, the usual distribution methods, his ideas about the effects of the market integration in Europe etc.
- It may be that you already have sufficient information about the target market. If so, show it, though with modesty. He will be impressed by your sound preparation and be more willing to accept you as a good and reliable partner, who knows his job. If you don't know about the market, your (future) partner could do some research for you. That serves also his interest.
- Ask his opinion about the products you hope to sell to his market - or to himself.
- Ask him how he thinks the marketing (pricing, distribution, promotion) should be done. That will spur his imagination.

- Stay polite, don't boast (however enthusiastic you are), but do show conviction. Discuss the manner in which he wants to be treated, informed, communicated with.

Part of the information can be gathered later, by letter.

Select the prospective partner

Your selection should not be done on the above information alone. The future partnership deserves your judgement of personalities.

If you have formed an opinion on which organization would suit your export purpose best, you should do the same about the people involved.

The co-operation between your company and the partner-organization may look good on paper, but largely depends upon the capability of its employees to work together. There should be a high degree of understanding and trust between you and your partner. That trust will prove beneficial when the co-operation is organized smoothly. However, if there are frictions, misunderstandings or just bad times, you need that mutual trust to keep the partnership intact. Friends are more willing to forgive you your occasional mistakes than enemies.

This is the time to find out whether you are also able to have such a personal relationship with the people in charge of your account. Do you find them agreeable and pleasant to work with? Do you actually like them? If you don't, the partnership will never be a complete success.

Some of the prospective partners may prove difficult to approach, or reluctant to give information. Don't rule those out at first sight. They may just be cautious, unwilling to spend time on rash, inexperienced exporters. Keep in mind that they get scores of similar requests almost every week!
This applies especially to the successful agents and importers. They can afford to be selective themselves. Maybe they already have a good account in your market, which prevents them from working for competitors. Or maybe they feel they are already at the maximum of their capacity.

As said, convincing those people to take you as a partner, would be one of the best "sales" you will ever make.

Don't let yourself be blinded by the size of the organization. A small agent can be more motivated and productive than a large trading company, which has to spread his attention

over many other lines to cover his heavy overheads. But on the other hand a small import partner could lack the financial resources to buy and keep stock.

In the end, make your final selection and approach him for final discussions on the terms of the contract. Do not (yet) write the others off in case the selected partner turns you down.

Coming to terms with your partner

Since it concerns a commercial venture, the best terms of agreement lie in the planned marketing activities and their financial results. That means planning of potential sales, of the required marketing support and their costs and of the profit derived from the joint effort.

Make such a plan together. It should cover more than one year, particularly when the product is new in the market. In that case the first year after introduction will probably not show profit, so you must calculate over a longer period of time, preferably 3 years (See Chapter VI.4: Feasibility).

Your partner's input in the plan will be the estimation of potential sales. He will come to such an estimate by comparing your product strengths with the market needs and estimate the possible market share.

If your partner is an importer/wholesaler, calculate with his importer's margin. If it is an agent, he will mainly be interested in his commission (% of sales realised). In both cases he will be interested in the market performance of the product.

At this stage you will have to decide on additional support, either in money (promotional support, discounts etc.) or in kind (training of operators, of sales people, providing free samples, making goods available on consignment etc.). You must know in advance how much that will cost. You also should know your bottom line: how much money are you willing and able to spend before endangering your own profits?

Even more important is to reach agreement on the terms of delivery and payment (both shown in the Appendixes of this CBI Export Planner). In exporting the fact that the goods - and their payment - have to cover large distances increases the risks for both parties, buyer and seller alike. If you have selected an importer, he will be your primary customer, buying from you. But even when you have selected an agent, who does not buy but only intermediates on your behalf, he needs to be fully informed.

After a good number of years the trade partnership will have matured into trust, allowing for shipments and payments to be executed without the added security of legal documents, of proof of payment. The trust could imply that the exporter is willing to ship without prior payment, whilst the importer is willing to accept the supplier's verbal promise that money has been transferred on 'open account'. That status is ideal, since it involves a minimum of cost and delay. But even then, not all risks have been covered.

Shipping accidents, political unrest, weather conditions and such could hamper the shipment - with none of the partners to be blamed. Therefore, the exporter should first try to assess the risks.

Export risk analysis

- what can go wrong in the chain of activities between production and delivery of the export goods, and how realistic are such conditions
- how much could the (maximum) damage be (value-wise)
- who should pay if the damage occurs.

This risk analysis will show that there are two kinds of risk factors: the one that can be controlled or avoided, and the one that concerns factors beyond human control. The first kind will be covered by the terms of the very transaction, whilst the second category includes dangers that can only be covered via outside insurance (nature's disasters, political unrest, revolutions, currency fluctuations etc.).

The terms of the transaction describe to which extent the buyer and the seller have divided the costs and the risks of the transaction between them. The seller's task is to

make the goods available; to that task the 'terms of delivery' pertain. The buyer should pay, which will be specified in the 'terms of payment' .
The terms of delivery describe in detail at what moment the legal possession ('title') of the goods change hands and at what moment the risk burden shifts to the buyer. These terms are universally accepted and indicated as 'INCOTERMS 2000' (see Appendix 2).

The terms of payment describe how and when the money is transferred to the seller. Commercial banks around the world use the same nomenclature for the various options for securing payment (see Appendix 1).

Figure 5.2.2
Two sides of the deal

Sales contract	
The terms of payment arrange when the money for the shipment should be received by the supplier	The terms of delivery determine when where the goods should get in the buyer's possession
- when are the agreed conditions met?	- when does the 'title' changes hands?
These export terms are interlinked; they depend on each other and complement each other.	

When studying the terms of payment and delivery, you will recognise that they cater for a wide variety of security conditions which on the one end of the scale favours the buyers and on the other extreme favours the sellers.

The best buying condition is 'DDP on consignment' This implies that the goods, which must be Delivered on his doorstep with the import Duties Paid, will be paid for after the buyer has sold them. The best condition for a seller would be 'advance payment EXW': the buyer pays before the supplier makes the goods available at the gates of his factory or warehouse.

During the negotiations buyer and seller have to agree upon the conditions, which will reflect the bargaining power of either party. Usually, they will meet somewhere halfway where costs and risks - and the rights and duties of buyer and seller - are more or less equal. They will find a balance which will satisfy them both.

Whenever damage occurs, either buyer or seller should be responsible (or the forwarder, who plays a role in the transportation) or a third party, usually the insurance company who is paid to cover non-controllable risks.

If buyer and seller disagree about the blame, they can have the dispute solved by arbitration or a regular (civil) court. Often, an inspection of a third party (surveyors) will provide proof of the status of the goods at various points of the distribution chain.

Confirm the partnership

A written settlement of an agreement is common practice in most Western countries. Many partners would be satisfied with a simple letter of agreement, some even with verbal arrangements (which are legally binding for the parties).
But the safest way is to write a contract. It will avoid misunderstandings which could trouble the co-operation.

In writing a contract, pay particular attention to the official protection that his country's laws provide for the trade partner. Although the European Union tries to harmonise regulations on this aspect, some differences still exist.

Most Chambers of Commerce and Industry have a standard format for an agency- or importers contract. So will the International Chamber of Commerce (ICC) in Paris, France. Ask your (prospective) trade partner to provide you with a copy. Always have the final draft of the contract checked by your partner's and your legal advisers. As it binds the company, the managing director should approve it. He may ask you - as a company representative - to sign it.

Contents of an agency agreement

- the geographic area (sometimes specified as specific target market) at which the sales activities will be aimed at (e.g. a country, a region). Most trade partners strive for exclusivity, meaning that they want to be the only party that is allowed to trade your goods in their market. This exclusivity, as pointed out before, can not always be effectuated legally. Particularly in the EC such exclusivity goes against the Rome Treaty which allows a free flow of goods throughout the Single Market. Sometimes, the trade partners voluntarily restrict their activities, sometimes the nature of the product requires it (fresh perishables cannot be transported widely);
- the product (range) with technical specifications, declarations of conformity to rules and regulations, waiver; exclusions (competitive products);
- the trade partner's activities, specifying products, partner's tasks, activities of selling, canvassing, sales objectives (*), communication with customers and government, setting/maintaining prices, formulating terms of delivery, order-taking, physical distribution, holding (minimal) stock, payment conditions to creditors (including you, as the exporter), handling complaints, servicing, gathering (market) information etc.;
- prices and payment conditions: your prices, the currencies involved, insurance, commission, margins, financial and promotional support from you etc;
- guaranteeing: not only product warrant (which should be channelled to the exporter), but also guaranteeing for tender participation;
- sampling: how many samples to be distributed, who pays for them, for what purpose will they be used;
- communication between the partner and you; regular reporting on the partner's activities and performance, your right to ask information and check;
- duration of the contract; measures for contract termination: when and why *), returning goods and promotional means and instruments to the exporter, how to calculate a closing balance, establishing indemnification etc.
- "competition clause", keeping the partner from taking competitive accounts;
- arbitration: which law is applicable (make it your national law system!), whether or not conflicts will be settled in court or via arbitration etc.

When your partner and you agree upon the arrangements, the co-operation between you and your new trade partner can be sealed. Sign the contract - have it confirmed by a notary, if you wish. This is a happy moment: the beginning of a promising and lasting relationship. Inform the people back home about the first step into a new foreign market. Write a letter to the prospective partners that have not been selected, thanking them for their efforts.

**) In several Western countries it is very difficult to get rid of a trade partner who is not fully satisfying your needs. Ask your national representative or your TPO to check the laws of the country involved. The best motive to terminate a trade-partnership is by proving that the partner has not met the sales targets. This is called the 'performance clause'. It is an easy-to-prove criterion, that no judge could misinterpret.*

Sometimes, your brand-new trade partner may insist on a certain trial period to find out how successful your product will be on his market. Since that may be a sign of seriousness from the part of your partner, do take that option into consideration. It may prove to be in both parties' interest.
Immediately arrange the follow-up. Your partner will place a (trial) order. Your task is to have your product adapted to his wishes (translating labels and instructions for use, rearranging contents, providing manuals etc.). You will also send samples and promotional material. Maybe some advance payments are requested by facilitators (e.g. when advertising, or for legal registrations of the company, patents, brand names etc.).

3. Making the most of your trade partnership

Having signed the contract of partnership and having returned home, your "marriage" with your trade partner should not fade away. You should make an effort to keep it alive and functioning. The trick is to make him feel supported and backed-up at all times.

Start with appointing an "area manager" or any employee who will be responsible for the management of this market's operations. There are several topics where your area (or account) manager could organize partner support.

- Always answer his letters, telefaxes and e-mail messages promptly. Even when answering his questions may take time, tell him you are working on it. Make your correspondence adequate, complete and fast.
- Be painfully precise and strict in your deliveries and shipments. Not only your success but also his profit will depend on that. Don't ship the wrong goods. Ship in time. Avoid damage because of poor packing.
  If delays are unavoidable, inform your agent about them immediately.
- Pay him promptly - as you would like to be paid promptly yourself.
- Invite him to visit your factory (you will pay the costs he makes in your country, he will pay the travel costs). Give him (periodical) training on the product or equipment and inform him about the product merits as well as product weaknesses. Trust him to sort out the sales motives himself.
- Give him all the information you have on the product and the manufacturing country. He should never be without promotional material. Supply it to him free of charge or arrange for a joint promotional budget (whereto he - for instance - will pay for the translation costs).
- Visit him regularly, at least every four months or so. Let him inform you how your products are performing. Join his sales people in their trips to buyers. Talk with those buyers; they will appreciate that and you will find out more about what they think of your product.

Your trade partner can only function well if you allow him to. Much will depend on your ability to be a reliable supplier. If he is good he will treat you the same way. Communication is the key word. In that far-away market he works for you.

Figure 5.3.1
Partnerships

The partnership is all about joining forces and using synergetic potential. Both partners will contribute since both parties will eventually share in the success. Between the two there is a balance, which partners can only explain as a ‘win-win situation’.

Selling products will need an occasional commercial stimulus in every market. A sales campaign, a strong advertizing drive, a promotional activity, a new-product introduction. Your product deserves that additional boost, too.

As such activities are out of the ordinary sales routine, you will have to pay for them additionally. It may cost you extra money or samples, it will certainly cost you time.

Fairs and exhibitions are an excellent method to generate extra customer attention and to boost sales, provided it serves a tailor-made purpose. Maybe you have taken part in a fair before; your national TPO may have organised a collective national participation to an important European fair.

This time it will probably be your trade partner who will propose participation. Discuss such opportunities with him; he will expect you to join forces with him. Organize it together with him. He will know how to do it, or he will ask specialists. You will offer product knowledge; he will make it effective by bringing in the customers.

That is what partnership is all about: you will have an extra set of ears and eyes - as well as hands - in your target market. He will help you effectuating sales. You should see to it that both he and you profit from that equally.

What is more, the risk of misunderstandings is great, particularly when you have selected a foreign partner. He will come from an entirely different culture and as you have seen (in Chapter I.3) that influences the relationship - up to a point where you need all your emphatic abilities to keep the communication intact.

Culture influences:		
- the way you feel	- the way you think	- the way you act
and that explains why your partner from abroad sometimes seems incomprehensible.		

Your trade partner lives in a different environment. It is different from yours in many aspects:

- social structure, business organization, family life;
- economically: income, spending power, wealth;
- political structure; government influence, laws;
- climatic conditions;
- state of technological advancement, etc.

In nine out of ten cases the differences in culture can easily lead to miscomprehension. It is hard to prepare yourself, other than acknowledging the differences. Occasionally you may find a travel guide explaining them, and how to deal with them. Your experience (and your colleagues) may tell you more about the ways Western businessmen react. But there is no manual on “bridging the cultural gap”.

On this subject too, your trade partner may come to your assistance. He could help you to understand foreigners and to deal with them successfully. But he can only do that if you allow him, in turn, to understand your culture and your habits. Invite him to your environment, to your culture, to your home and friends.

So, in dealing with foreigners, let your partner do the delicate negotiations. And ask him to explain them to you - just as you explain your thoughts, reactions and feelings to him. Being a true partner, he will do his best to understand.

Export marketing planning

VI

You have worked your way through all aspects of export preparation. Numerous aspects of planning all your managerial instruments have been analysed, redesigned into effective tools for selling your products abroad. Now it is time to bring them all together.

That activity means fine-tuning to the market needs and to the capacity of the exporting company. In this process of planning, the combining of marketing tools into the 'export marketing mix' will shape your selling power.

As outlined in the first chapter of this book, your export performance will improve by systematically planning your activities before you embark on implementing them. You will put the planned activities on paper, assuring that all people involved in the implementation will know what to do and by which standards their performance will be judged.

This way you make the best use of your resources: your money, your product, your people and your time - with the highest chances on success.

As for the chronological sequence of the export preparation process, refer to Appendix 3.

1. Purpose, function and form of an Exportmarketingplan

Basically, the Exportmarketingplan (EMP) shows everything you have devised for your commercial operations abroad. Its purpose, function and contents make it one of the most important strategic and tactical documents in your company.

The purpose of the Exportmarketingplan (EMP) is:

- to bring all relevant marketing instruments together in a productive "mix";
- give direction to all your planned activities for optimal effect. That direction is outlined in the objectives;
- estimate when the activities should take place. This timing will clarify the logical sequence. The same applies to the very moment results can be expected. That facilitates good management and sound decision-making;
- estimate how much the activities are going to cost, in order to make the money available whenever necessary;
- estimate the feasibility, deducting all costs from the profit to establish if the results are worth those costs.

The function of the plan is:

- to inform all people involved about the objectives of the export operation;
- to give them specific instructions as to what their contributions to the export activities will be;
- to provide a certain justification for the money that will be spent in the export process. This justification is meant to convince the directors and owners of the company.

The form of the EMP:

- the exportmarketingplan should be in written form (although some advanced Western exporters incorporate export planning in their computer-driven corporate planning). Parts of the EMP can - selectively - be distributed within your company and your Trade Partner's;
- the plan should be short, factual, precise and complete. It is not a manual nor a short story. Basically, it is a set of instructions, backed up by logical analyses and considerations.

A brief outline for an exportmarketingplan follows hereafter.

2.a. Exportmarketingplan: General contents

EMP structure

1. Background information
- strengths and weaknesses of the organization
- corporate analysis, highlights from Export Audit
- present performance
- 'rationale' (arguments and considerations) as the basis for the decision to internationalise.

2. Product/Market Match (or combination)
Specifying which product has been selected to sell to which foreign market; including the motivation for that P/M - selection.

3. Objectives
- Marketing objectives (Turnover or T/O, sales, market share)
- financial objectives (profit/contribution)
- feasibility calculation (1-3 years).

4. Means
- Marketing mix (-instruments)
- organizational support required
- assistance from third parties
- total costs.

5. Action plan
- description of organizational tasks,
- project planning and timing schedule.

2.b. Exportmarketingplan: specification of plan elements

1. Background information
- description of present corporate situation. General commercial and financial situation. Ownership. History (if relevant). Main activity. Main policies / social justification etc. -

1.1. Product
(if not brought under second heading)
Including packaging
- specification (type, sort, size, dimensions, weight)

- technical details
- quality
- unique selling proposition / competitive advantage.

1.2. Past performance

- Show 3-5 years' historical performance:
  sales/turnover/profit/return per market, per product (category).

1.3. Users - (for consumer products: end-users or buyers)

- Profile customer / consumer, motivation for use, buying behaviour, spending power buying frequency etc.

1.4. Market

- Market characteristics (main markets only)
- trends, development, changes
- main competition (plus product range offered and prices quoted)
- general selling and promotion methods used by main competitors.

1.5. Distribution

- General description of distribution channels or methods to reach buyers
- same for entry strategies present export market
- relative importance of these channels / entry methods.

1.6. Promotion

- General description of promotional methods presently utilised at various levels of distribution and entry
- relative importance of those methods.

2. Export product/market match

2.1. Market selection

- Criteria for country selection
- country selection
- criteria for market (segment) selection
- market (segment) selection

2.2. Size of market selected

Total demand in:

- volume (past/present/future)
- value (past/present/future); or:
- derived demand
- hypothetical demand.

2.3. Customer / consumer

Specification of 2.2.:

- numbers
- location
- other details required for market targeting.

Comparison with 1.3.

2.4. Competition
- Competitive suppliers, product range/prices
- possible product substitutes
- comparison strengths/weaknesses vs. own products.

2.5. Export product
Specification (compare with 1.1.)
- special (health, safety and other) regulations and norms governing export market selling. CE marking

3. Objectives

The Export Marketing Plan covers at least 1, preferably 3 (operational) years

3.1. Marketing Objectives
- sales volume
- market share
- brand awareness
- product improvement/adaptation/development
- target pricing policy
- distribution channels and entry strategy decided upon.

3.2. Financial objectives
- production costs
- transport and distribution costs
- promotion costs
- gross mark-up (operational)
- operational results.

3.3. Organizational objectives
- organizational measures, organigram
- task descriptions
- communication plan (with trade partner)
- training required.

Feasibility calculation covers 3 (operational) years and should calculate cumulative results / break-even point.

3.4. Means
- covering marketing mix to achieve the plan's yearly objectives -

3.4.1 The export product
- Technical aspects
- quality standards and control procedures
- performance standard, design, colour, flavour etc.
- packaging
- terms of delivery.

3.4.2. Pricing
- price break-down / bottom-up price calculation
- terms of payment
- insurance
- currency aspects
- credit system selected; costs of interest for supplier's credit.

3.4.3. Distribution
- target customer / consumer group
- distribution & shipping methods
- description of trade partner(s) selected
- main items trade partner contract
- pre- and after sales services (design, repair maintenance, training etc.).

3.4.4. Promotion
- brand image / supplier's reputation
- selection of media
- research.

Total promotional costs.

3.5. Action plan (operational year)
What specific activities to be carried out when by which member in the organization at what costs ('what, when, by whom, how much').

3.6. Supportive plans (operational year)
- liquidity (assessing liquidity requirements per month)
- debtors (assessing credit to buyers: per month)
- stock (requirements for product in stock per month)

3.7. Optional: contingency plans
A prudent manager will ask himself what to do if conditions change so much that his plan loses its basis. Examples: the price of raw materials is going up unexpectedly, or the competition suddenly drops its prices strongly, a newcomer is entering the market with a much better proposition, pushing you out of a profitable account.

Most managers can foresee such calamities and decide beforehand what to do if they actually happen, mostly through saving costs, making additional budgets available or introducing a new product variety. Foreseeing implies planning; such plans are called contingency plans ('what happens if...').

4. Feasibility calculation: Will export be worth the investment?

The 'acid test' of export preparations is the assessment of economic feasibility: will the expenditure yield profit?

Basically, that comes down to a simple calculation: turnover minus costs should equal profit target. Unfortunately, the mathematical simplicity disguises the fact that such a calculation is subject to interpretations and therefore just as valid as those estimates. Reality shows that planning can go terribly wrong - and so can feasibility assessment.

Calculating feasibility depends upon the value of planning its elements: market acceptance, projected sales, pricing decisions, margin and bonus decisions, marketing cost estimates, currency and credit costs etc. Again that shows that good planning is essential.

Some aspects deserve your attention:

- The export feasibility should only be concerned with export activities. Corporate accountants love to charge overheads to (profitable) export departments. Make sure your calculation shows how effective your export marketing investments have been. You can do so by introducing different ‘levels of contribution’. Contribution is a better word than profit because it defines how much money will be available to pay for (other) overheads.
- Calculate over (at least) three consecutive years, starting with ‘Plan year 0’, which is the period preceding market entry. You probably will spend money in entry preparation; you should show that as well. Calculate cumulatively, so adding up the results of all plan years together. The first year will show losses, which is hard to defend to the shareholders if the ultimate feasibility is not known.
- Focus on the first operational year. Make that planning as good as you can; the following years allow some margin of error.

The operational costs are most important since they show how much your marketing instruments and activities cost. These instruments should eventually generate profit. Overheads and other indirect costs never will.

- If during the operational year the targeted results would appear too optimistic, you can always decide to cut on costs. As your main (or even sole) responsibility concerns the marketing budget, you can only cut marketing costs (by eliminating certain activities). This will show immediate improvement but will have negative results in the long term.

Format for calculating export feasibility (to be filled in by export manager)

Export feasibility forecast
Country/market:...

(in units/$ x 1,000)

Plan year	0	1	2	3
Market size	100	102	104.0	107.2%
change/annum	+2	+2	+3	
Market share (%)	0	1.5	4	5
Gross Turnover				
1. at market prices				
2. at EXW prices				
-/- commissions				
-/- bonuses				
-/- claims, returns				
Net sales	0			
-/- Export marketing costs (see EMP)	0			
Contribution to export dept.				
-/- indirect costs export dept. (travelling etc.)				
Contribution to export overheads				
-/- overheads export dept. (salaries, rent etc.)				
Contribution to corporate overheads (actual export profit)				
Same, cumulative	0			
-/- corporate overheads (corp. salaries, R&D, warehousing, admin., provision dubious debtors etc.)				
Gross profit (before taxes)				

Appendices to CBI Export Planner

Appendix 1: Terms of payment

Appendix 2: Terms of delivery (Incoterms 2000)

Appendix 3: Exporting Step-by-step

Appendix 4: CBI Rapid Quality Assessment

Appendix 5: References

Appendix 1 : Terms of payment

1.1. Terms of payment primarily cover risk of non-payment

Commercial (exporting) risks can be covered by:
- insuring them via an insurance broker
- dividing the (non-) delivery risks between buyer and seller by specifying tasks (Appendix 2)
- dividing the (non-) payment in the same manner.

These three elements of risks coverage usually are combined in the terms of transaction.

1.2. Short term and long term credit

The first element of risk coverage defines the duration of credit, granted by the supplier to the buyer. The credit term is, if relevant, combined with the various forms of payment, e.g. “L/C 60 days”. The payment should be promised by a letter from the bank, payment is due after 60 days after the L/C is presented.

There are two forms of credit:
- short term credit: the payment term covers a period no longer than 12 months, i.e. the time between the delivery of the goods and the realization of payment is not longer than 12 months. This short term credit usually applies to consumables, raw materials and semi-manufactured goods.

- Long term credit: payment is effected more than 12 months after delivery of the goods or after completion of the project/assignment.

1.3. Terms of payment determine the degree of security

The various forms of payment, customary in international trade, reflect the required or desired measure of security the stronger partner in the negotiations has succeeded to lay down in the contract conditions.

OPEN ACCOUNT
Payment after delivery of the goods without any security.

CHEQUE
A kind of IOU (“I owe you”, the abbreviation for stating one’s financial obligation towards a ‘receiving’ person or organization) in the form of an order of payment to the bank.

BILL OF CHANGE
A written, sometimes bank-guaranteed, promise to pay at the date mentioned in the draft.

DOCUMENTARY CREDIT
Payment or presentation of a bill of exchange against receipt of the relevant shipping documents.

LETTER OF CREDIT
A bank guarantee for payment under well-described conditions of proof of order execution.

1.4. Payment conditions specified

OPEN ACCOUNT/ACCOUNT CURRENT

The seller allows credit to the buyer for a certain period of time after the delivery of the goods, most often this is a short period; the buyer will usually effect payment through a bank transfer.

Prerequisites for this type of payment are:

- a well-known customer with a good reputation in general and specifically toward the seller;
- standard merchandise that can be identified along the lines of the delivery circuit;
- no political risks or drawbacks in international trade.

PAYMENT PER CHEQUE

The cheque is an unconditional order to a bank to pay - on first presentation of the document - the amount shown on the cheque. Payment should be done to named person, or to his order or to bearer.

Due to the fact that the issuing bank will pay the amount concerned only if the customer's account shows a sufficient balance, this method of payment does not give much more security than the open account. Although, in many countries the issue of an uncovered cheque is a criminal offence.

Cheques issued by a bank are usually guaranteed by that bank and they can as such be negotiated with the bank of the beneficiary party.

PAYMENT AGAINST DOCUMENTS (C.A.D. or D.A.P.)

In international trade shipping documents, such as bills of lading, airway bills and certain consignment notes (C.M.R.), represent the shipped cargo, i.e. the merchandise can only be accepted ('taken delivery of') against presentation of such shipping documents.

Payment against documents is a payment method that is based on the representative value of those bills of lading.

The supplier presents the documents to his bank (e.g. bills of lading, insurance policies, certificates of origin, and inspection certificates) with the instruction to send them to the customer for collection of payment.

Bound by the agreed terms in the selling contract, the customer exchanges the documents against actual payment of the invoice amount or against a draft (bill of exchange), being a promise to pay the amount on agreed date of "maturity".

Bills of Exchange can be considered as guaranteed payment if they are countersigned ("for aval") by a bank.

CASH AGAINST DOCUMENTS

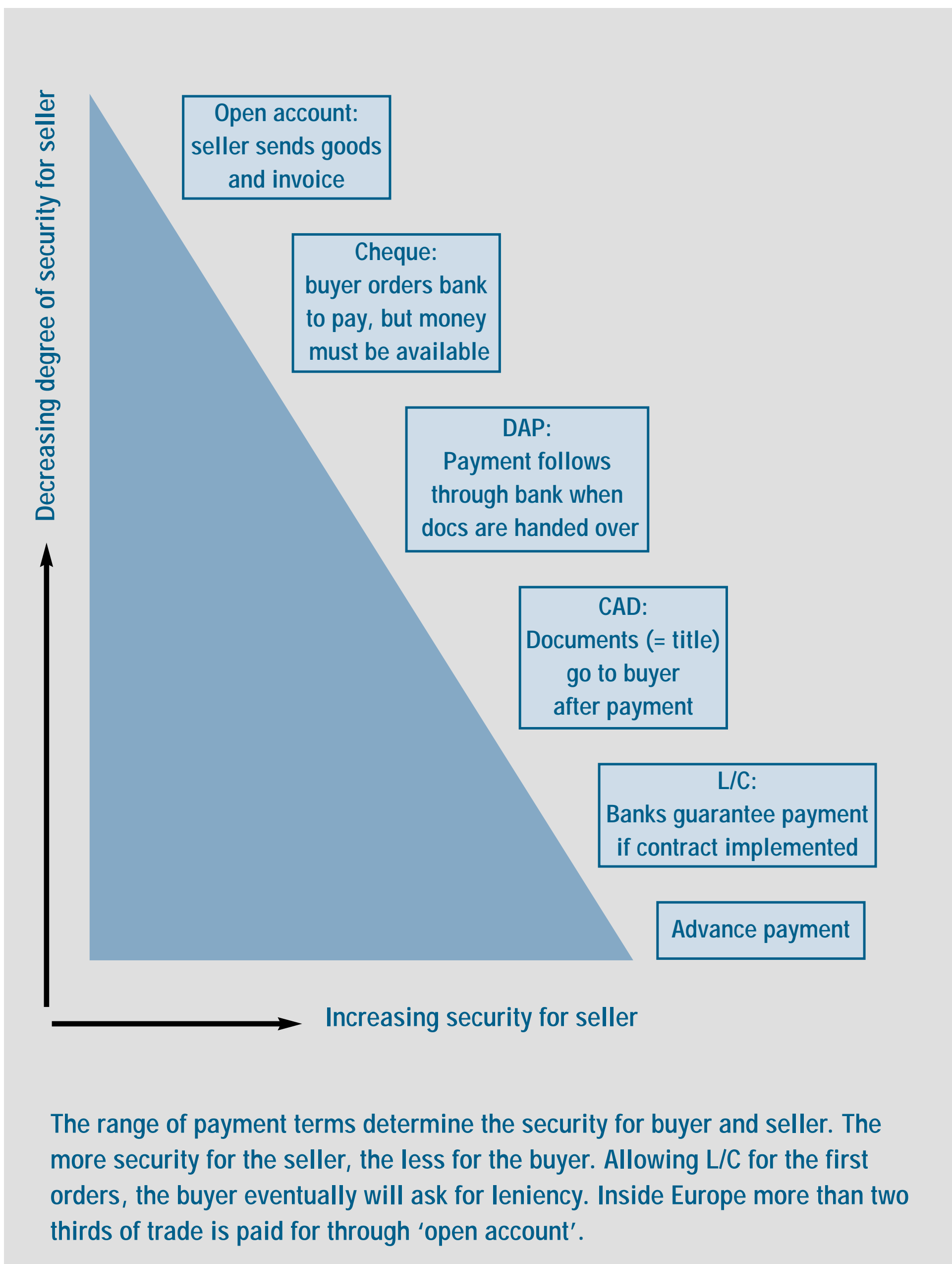
Cash against documents gives the seller the security, that even in the event the documents are not accepted by the customer, the goods remain available for the supplier.

Nevertheless an advantage with a very limited positive effect, as in such a case:

- the goods have to be sold to another client (available at the same price?)
- the goods have to be returned to the seller (double cost of shipping etc.)
- there is the risk of a dead stock if the goods were made to special specifications or of practical loss in case of perishables.

LETTER OF CREDIT (L/C)

The L/C requires involvement of commercial banks, who take over the obligation to pay on behalf of the buyer. In order to do so, the buyer's bank, who has extended credit to the amount of the invoice, will scrutinize the contract for agreement. Occasionally, the seller will invite his own bank to reconfirm the obligation to pay, which implies payment by this bank (who in turn will charge the buyer's bank). L/C payments are very secure but costly.



The range of payment terms determine the security for buyer and seller. The more security for the seller, the less for the buyer. Allowing L/C for the first orders, the buyer eventually will ask for leniency. Inside Europe more than two thirds of trade is paid for through 'open account'.

Figure A1.1.1
Payment terms and their security

Appendix 2: Terms of delivery

2.1. Incoterms 2000

In their sales contract buyer and seller agree on the conditions of sale: payment on the one hand, delivery on the other. These terms determine at what precise moment in time or at what precise location the ownership of the goods is transferred from seller to buyer and when / how payment will be done. In international trade a universal set of rules on delivery has been developed over the years. It is called ‘Incoterms’.

The universal Incoterms 2000 (the number 2000 refers to the year of the most recent version) are grouped in four categories. The first group (E) has only one trade term: EXW, formerly ‘Ex factory’. The second F-group indicate the obligation of the seller to hand over the goods to a carrier Free of risk and expense to the buyer. The third C-group include terms that indicate the seller’s obligation to bear certain Costs after main carriage, which is a critical point in the contract : the obligation to bear risks and costs are changing from one party to the other. The fourth D-group include the terms that prescribe that the goods must have arrived at a specified Destination, implying all costs have been borne by the seller.

Obviously, the terms of payment and the terms of delivery, brought together in the sales contract, have to be balanced so that obligations and risks are more or less equally divided between both parties.

	Incoterms 2000	
Group E Departure	EXW	Ex Works
Group F Main carriage unpaid	FCA	Free Carrier
	FAS	Free alongside ship
	FOB	Free on board
Group C Main carriage paid	CFR	Cost and Freight
	CIF	Cost, Insurance, Freight
	CPT	Carriage Paid to
	CIP	Carriage and Insurance Paid to
Group D Arrival	DAF	Delivered at Frontier
	DES	Delivered Ex Ship
	DEQ	Delivered Ex Quay
	DDU	Delivered Duty Unpaid
	DDP	Delivered Duty Paid

(Note, that when the Incoterms indicate a certain point or “...”, the point of destination or origin must be mentioned)

2.2. The Incoterms divide costs and risks

The Incoterms of trade have been designed to clarify obligations of both parties, the buyer and the seller. Principally, these are:

The seller must:	The buyer must:
provide the goods according to the contract	pay the price as agreed upon

In order to finalise the transaction, both parties will have to perform certain tasks, like:

- Arrange for licences, authorisations and formalities	- Arrange for licences,
	- authorisation and formalities
- arrange for shipment	- arrange for shipment
- arrange for delivery	- accept delivery
- bear the risks for his activities	- bear the risks involved in his contractual activities.

Source: Guide to Incoterms, ICC Paris

As such, the actions and the risks and costs involved in their contractual obligations can be divided between the partners. The Incoterms 2000 give detailed descriptions of which risks and costs should be borne.

Cost of goods plus cost of:	code	Explanation
Export packing & marking	EXW (named place)	'Ex works' means that the seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e. works, factory, warehouse etc.) not cleared for export and not loaded on any collecting vehicle.
Getting goods to railway station or truck for transportation to port	FCA (named place)	'Free Carrier' means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at any other place, the seller is not responsible for unloading.
Transport to port and getting goods alongside ship	FAS	'Free Alongside Ship' means that the seller delivers (... named port when the goods are placed alongside the vessel at the of shipment) named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods from that moment.

Cost of goods plus cost of:	code	Explanation
Getting goods on board and preparing shipping documents	FOB (.. named port of shipment)	'Free on Board' means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FCA term should be used.
Freight cost (port to port)	CFR (... named port of destination)	'Cost and Freight' means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.
Marine insurance	CIF (... named port of destination)	'Cost, Insurance and Freight' means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage.
Putting goods at disposal of customer on board vessel at port of destination	DES (...named port of destination)	'Delivered Ex Ship' means that the seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination before discharging. If the parties wish the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used.

Cost of goods plus cost of:	code	Explanation
Unloading charges at port of destination	DEQ (...named port of destination)	'Delivered Ex Quay' means that the seller wants the goods are placed at the disposal of the buyer not cleared for import on the quay (wharf) at the named port of destination. The seller has to bear costs and risks involved in bringing the goods to the named port of destination and discharging the goods on the quay (wharf). The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import.
	DAF (...name place)	'Delivered at Frontier' means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the customs border of the adjoining country. The term 'frontier' may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.
Payment of duties and transport to customer	DDP (...named place of destination)	'Delivered Duty Paid' means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods thereto including, where applicable, any 'duty' (which term includes the responsibility for and the risk of the carrying out of customs formalities and the payment o formalities, custom duties, taxes and other charges) for import in the country of destination.

Refer to Guide to Incoterms 2000, ICC Publishing S.A. 1999, International Chamber of Commerce, 38, Cours d'Albert 1er, 75008, Paris, France, fax +33 1 49 53 29 02; www.iccbooks.com

2.3. Incoterms 2000 - an example

A customer in Hanover, Germany, asks for a quotation for 3000 pairs of shoes, to be delivered DDP at his warehouse. You have decided on a unit selling price of $ 2, giving a total nominal price of $ 6000 for the goods when sold domestically. For export you will have to calculate with an additional set of costs which are involved in making them physically available to your customer.

What are the additional costs of getting the goods from your factory in (e.g.) Lahore, Pakistan, to the customer? How (*) is your quotation affected by the terms of delivery?

If you quote:	your price should include:	Additional costs:	Your total price is:
EXW	Ex-works Lahore. Export packing, marking crates with shipping marks	300	6300
FCA	Free on Carrier at Lahore station. Carriage and insurance for delivery to railway station by road transport including insurance	100	6400
FAS	Free alongside ship at Karachi port. Rail transport to port (including insurance) and getting goods on the quay alongside ship	310	6710
FOB	Free on board Karachi. Dock dues, loading goods on board ship. Preparing shipping documents	100	6810
CFR	Cost and Freight. Sea freight to Hamburg (nearest port to Hanover)	875	7685
CIF	Cost, insurance, freight. Sea freight + marine insurance (port to port)	100	7785
DES	Delivered ex ship at Hamburg. Landing charges at Hamburg port.	90	7875
DDP	Delivery duty Paid at customer's warehouse in Hanover. Import duties for 3000 pairs of shoes	1200	9075
	Transport by rail Hamburg to Hanover	150	9225
The buyer actually pays**		1350	9225

(*) In this calculation example, all costs are hypothetical.
(**) = 'availability price'.

Appendix 3: Exporting step-by-step

Chronological activity guide through the export preparation process
(Source: adapted from Export-Stappenplan, Laman Trip & Bakker, Fed Holland 1994)

For the manager's planning a condensed 5-step procedure as described below could help outlining the sequence of activities. All individual activities have been described in this CBI Export Planner, some of them in detail; the references direct to that.

In this sequence 7 checkpoints for the manager are built in. They invite a managerial decision whether or not to proceed. Note that with each next checkpoint the risks as well as the investments tend to increase. The checkpoint's decisions require explanations (to the person executing the planning and to topmanagement).

STEP 1: Assess corporate attitude

1.a. Find out the key people's views regarding export (e.g. through brain-storming)
1.b. Execute an Export Audit

Checkpoint 1 for Management: is company ready / able to export?

STEP 2: Exportproduct and -market

2.a. Define criteria for (hypothetical) feasibility export
2.b. Decide on possible export assortment
2.c. First selection target countries for export
2.d. Formulate required additional market data and calculate costs of market research

Checkpoint 2: decision on investment in market research

2.e. Formulate definite export assortment

Checkpoint 3 on export assortment and required product adaptation

STEP 3: Market Entry

3.a. Listing criteria for direct or indirect market entry strategy; pro's and con's

Checkpoint 4: decision on direct or indirect market entry;
alternatively: collective export + form

3.b. Describe profile ideal trade partner;
collect addresses and give selection proposal

Checkpoint 5: decide on top-3 prospective trade partners

STEP 4: Export-Marketing planning

4.a. Collect data and design EMP (at least 2 alternatives)
4.b. Start approaching top-3 prospective trade partners; discuss marketing and planning.

Checkpoint 6: decide which plan and which partner promises best results (calculate feasibility)

STEP 5: Implementation

5.a. Design export organization / -department, find people, design structure and information flows
5.b. List immediate investments in export promotion; specify planning and budgeting. Invite trial orders

Checkpoint 7: go / no-go

Appendix 4: CBI Rapid Quality Assessment

(by courtesy of CBI consultant Mr. K.P.W. de Boer)

1. The Management of our organisation:

❏ A. Actively helps in solving problems
❏ B. Promotes and facilitates selfdevelopment
❏ C. Delegates operational problems successfully
❏ D. Has been trained in Quality issues

2. The culture within our organisation is based upon:

❏ A. Helping each other, also between departments
❏ B. Continuous improvement of the services rendered
❏ C. Professionalism and commitment
❏ D. Satisfying the customer, regardless the efforts needed

3. In our organisation we invest time and funds for:

❏ A. Training to improve the general professional level
❏ B. Registrating the needs and appreciation of our clients
❏ C. Acquiring knowledge and skill with regard to improvement techniques
❏ D. Exchanging our know-how and experience with other organisations

4. Our personnel:

❏ A. Seems to be pleased with the organisation's performance
❏ B. Always likes to come to work
❏ C. Has to be reminded of its tasks all the time
❏ D. Can hardly be motivated

5. The financial results of our organisation:

❏ A. Are always around break-even
❏ B. Are always very positive
❏ C. Have been mainly positive during the last few years
❏ D. Have been mainly negative during the last few years

6. The improvement of our organisation's performance is based upon:

❏ A. Customer complaints
❏ B. Problems with our service quality, reappearing regularly
❏ C. Trend analyses and meeting improvement targets
❏ D. Benchmarking with other organisations and customer needs

7. Our human resource policy includes:

❑ A. Investment in the skills of our personnel
❑ B. Objective selection of employees
❑ C. The influence of the individual on his salary, training and career
❑ D. Systematic assessment of employee satisfaction

8. In our organisation the targets are:

❑ A. Agreed upon with our staff and the organisations with which we work
❑ B. Defined by the Management and adopted and implemented in each department
❑ C. Defined and agreed with the employees involved
❑ D. Set by the Management

9. Our customers value our products/services:

❑ A. Low, but they do not have other alternative options
❑ B. Average, but there is a urgent call for improvement
❑ C. Good, but of course there is room for improvement
❑ D. Excellent, the best there is

10. In our organisation, relevant information for the improvement of our quality is:

❑ A. Registered and analysed by means of a management information system
❑ B. Hardly registered
❑ C. Collected systematically and analysed on the basis of the gaining of knowledge
❑ D. Collected through open interviews with our clients, followed by registration and analysis

11. Our suppliers are being assessed on:

❑ A. Reliability
❑ B. Price and comparison with other vendors
❑ C. Realisation of targets, developed together with us in order to solve our problems
❑ D. Meeting the performance milestones on the basis of long term planning

12. Our operational procedures and management functions have been:

❑ A. Described in an organisation chart
❑ B. Translated into schemes and procedures
❑ C. Brought in relationship with our environment (clients, suppliers, etc.)
❑ D. Communicated verbally only

CBI Rapid Quality Assessment

SCORING TABLE

Question / Answer	A	B	C	D	Your Scores
1	20	40	10	30	
2	30	20	10	40	
3	10	30	20	40	
4	30	40	20	10	
5	20	40	30	10	
6	10	20	30	40	
7	20	10	40	30	
8	40	20	30	10	
9	10	20	30	40	
10	30	10	20	40	
11	20	10	40	30	
12	20	30	40	10	

Score lower than 200 points : The attention is on independant activities and lack of process coordination. Too much damage control. Start with describing tasks and functions. Do not create a bureaucracy however. Start making (small) investments in your personnel and make performances measurable. Use simple methods to map your problems and their causes. Maybe ISO 9000 might be a good start for your quality policy.

Score between 200 and 300 points : The attention is on the primary processes in relation to the service output and the management thereof. Also describe the supporting activities in your organisation and assess their performance in relation to the critical points of your services. It will create common understanding and directs the way to improve process management. Start with simple customer satisfaction assessments and visualise costs of errors. The general lack of information has a negative impact on your results.

Score between 300 and 400 points : Management is in control of the total organisation, including the supporting activities. The organisation is client centered and has a preventive approach to problems. Next comes the linking of several sources of information. A computerised assessment methodology might be of great help.

Score of more than 400 points : You are part of the TQM elite. You use all available know-how and skills. In an open atmosphere you are relating to customers, vendors and other parties, while striving for the most effective and efficient way of working. Integrate Quality permanently in the organisation and search for the best sparring partners, for example through competitive benchmarking.

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