Exporting for competitiveness

TEN STEPS FOR SMALL BUSINESS

Report on Small Business in Canada 1992

Industry, Science and Technology Canada
Industrie, Sciences et Technologie Canada

Canada

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A message from the minister

Canada is part of a world economy that is growing more integrated as impediments to international business activity are removed. The proposed North American Free Trade Agreement, linking Canada, the United States and Mexico, is the latest in a series of steps that has included the Canada–U.S. Free Trade Agreement and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). As barriers to international trade disappear, Canada's small and medium-sized enterprises (SMEs) are being given unprecedented access to new markets abroad.

These new opportunities are matched by new challenges. Canadian companies previously protected by trade barriers now must prepare to meet foreign firms head on. This workbook has been prepared specifically for SMEs contemplating the possibility of exporting. As the successor to previous annual reports on the state of small business in Canada, this document marks a departure in both form and content. Simple in appearance and rich in practical advice, this year's document responds to the wishes of small businesses looking for diagnostic tools and actionable information.

This workbook has two purposes. First, it will help the non-exporting small business person assess export opportunities realistically. Second, for those who have decided to try exporting, it will guide them through the challenges of the process and help them make a good start. Whether they have already made the decision to export or are still thinking about it, readers will find this a practical, step-by-step guide, expressed in easy to understand terms.

Readers will also note that this workbook contains numerous references to exporting into the U.S. market. That is because the book is geared for first-time exporters. While there is no intention to restrict Canadian export activity to one destination, it is clear that the U.S. is the most accessible market for novice exporters. Small businesses that have first honed their export capabilities in the U.S. will find themselves in a stronger position to pursue opportunities further afield.

The Government of Canada is committed to providing small business people with the tools they need to prosper. This workbook is a concrete expression of that commitment. Armed with the right information, encouraged by an environment that nurtures entrepreneurial activity and backed by the government's export-related programs and services, small businesses will be in a strong position to take advantage of the opportunities emerging in today's global economy.

The Honourable Tom Hockin

Minister of State, Small Businesses and Tourism

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Introduction

Canadian Small Business and Exporting

Whether in manufacturing or services, thousands of smaller Canadian companies are successfully selling to dozens of foreign markets, and more are joining the ranks of Canada's exporters all the time. Overall, however, Canada's export performance is dominated by the country's larger corporations.

Services

When they think of exporting, most people think of shipping products. Traditionally, most services were not traded internationally. Today, however, global telecommunications, coupled with a gradual reduction in barriers to service exports, have encouraged service industries to become more active in international commerce. As a result, services represent a dynamic, fast-growing segment of world trade that now amounts to almost $1 trillion per year.

Looking to the future, services linked to technological know-how will increasingly enter world trade and will thus become excellent candidates for export from Canada. Canadian companies possessing specific technological expertise have many attractive opportunities to sell their services and knowledge abroad.

Indirect Exporting

A large number of smaller firms are active as indirect exporters. By providing components or services to direct exporters, they are earning export-based revenues and are contributing to Canada's overall export effort. Small businesses are also active as intermediaries, introducing others to partners and export opportunities abroad. In addition, the many small businesses involved in the tourism industry are involved in an indirect form of exporting when they sell their services to foreigners visiting Canada.

Small Business Advantages

Smaller firms do enjoy certain advantages over their larger counterparts, and these advantages can be exploited in the international marketplace. Small companies are able to react more quickly to changing market conditions. They are better equipped to handle shorter production runs. And small firms are often able to deal more effectively with special needs and demands for customized products or services.

In addition, technological advances have levelled the playing field. This is especially striking in the case of service exports. Global telecommunications, faxes and modems have made it possible for even small companies to serve clients at long distances. In manufacturing, computer-assisted processes make short production runs just as economical as longer ones. The result is that small companies can develop the reach and the capability to participate actively in international markets.

Small Business Disadvantages

The limited organizational resources of smaller firms can serve as an internal obstacle that reduces the likelihood a small company will export. Large companies usually possess the resource depth that allows them to dedicate significant executive time, money and human resources to research and develop export markets. Few small firms have this luxury. Until they have gained some success abroad, most small companies are not in a position to hire specialized staff to focus exclusively on developing the exporting business.

There are significant challenges involved in exporting. From a small business perspective, perhaps the most imposing is simply finding the executive time, money and staff needed for the effort. Most smaller companies have their hands full just meeting their commitments to Canadian customers. A determined company, however, can overcome such barriers. Careful preparation can increase the returns on limited resources for investment in exporting. The key, however, is an unwavering commitment by management and employees to make the effort a success.

The Benefits and Challenges of Exporting

Potential Benefits

Increased Sales: There are many large, fast-growing markets beyond Canada's borders. Selling to them offers the prospect of boosting sales and revenue, but a competitive position at home is usually a prerequisite for export success.

Improved Profitability: If your fixed costs are already covered by Canadian sales, additional foreign sales can bring relatively more to the bottom line and can increase overall profitability. This especially true over the longer term, once export development costs have been covered.

Lower Unit Costs: Expanding your production to meet foreign demand can often lower unit costs and lead to greater utilization of existing capacity.

Diversification: Selling to multiple markets allows you to diversify your business and spread risk. It means that the health of your business need not be tied to the ups and downs of the business cycle in any one country.

New Knowledge/Experience: Exporting can yield valuable ideas for new products, new technologies, new types of services and new marketing techniques. All of these can revitalize your company and its domestic as well as foreign business.

Possible Challenges

Extra Costs: The up-front costs of export marketing can be high. Usually, it takes more time and resources to develop export markets, and the payback periods are longer.

Financial Risks: Although there are mechanisms such as export insurance to limit financial risk, the fact remains that getting paid is often more complicated when selling abroad. Checking on the credit worthiness of foreign buyers can be difficult, and collection periods are longer than for domestic sales.

Extra Paperwork: The documentation required to export is more extensive than that involved in domestic sales. In addition, shipping, tariffs and Customs procedures entail costs that must be taken into consideration when setting the price for your goods.

Product Modification: It may be necessary to modify your product to meet foreign specifications or tastes. At a minimum, modification is often necessary to satisfy foreign labelling or packaging requirements.

Market Intelligence: Researching a foreign market is unquestionably more difficult and time-consuming that analyzing a domestic opportunity. It may be hard to find information about the characteristics of some foreign markets. In the case of many less developed countries, reliable information may simply be unavailable. There is also the challenge of overcoming cultural barriers and understanding foreign business practices.

Ten Steps to Export Success: A Checklist

This checklist presents a brief outline of the topics and issues addressed in this document. As you proceed through this workbook, record your ideas in the margins and spaces provided. Check off the boxes that apply to your company as reminders for future reference.

Step 1. Evaluate Your Export Potential

Evaluate both your organizational readiness and your product-readiness for international markets in the following areas:

- ☐ financial resources
- ☐ your organization's commitment to exporting
- ☐ your possible competitive advantages abroad.

Step 2. Select and Research Target Foreign Markets

Concentrate your efforts on one or two specific markets that offer the best potential:

- ❑ use an initial screening to identify a few promising markets
- ❑ consider product potential, tariffs and non-tariff barriers such as local standards and regulations
- ❑ examine local distribution options
- ❑ get information about the size of the markets for your product, who supplies them, and key competitors
- ❑ find out about significant cultural features and local business practices
- ❑ select the market on which you want to focus.

Step 3. Master the Terminology of Exporting

You need to become familiar with the principal trade expressions and terms relevant to these key areas of exporting:

- ❑ transportation modes and options
- ❑ labelling requirements
- ❑ packing and marking
- ❑ documentation
- ❑ insurance
- ❑ methods of payment.

Step 4. Choose an Entry Strategy

Choose from the various market entry options, such as selling directly to foreign distributors or end users, using a foreign agent or representative, relying on a Canadian-based intermediary or establishing a presence in the target market, by working through these procedures:

- ❑ establish criteria for assessing market entry options
- ❑ examine market entry options and select the best one
- ❑ find an appropriate partner in the target market.

Step 5. Determine Your Price

For exporting to make sense, you must be able to charge a price that yields an acceptable profit. To set a realistic price, determine the following factors:

- ❑ your domestic costs
- ❑ costs associated with exporting (product modification, shipping, insurance, tariffs)
- ❑ the impact of exchange rates and foreign taxes
- ❑ market demand
- ❑ the pricing strategy of competitors
- ❑ your desired profit margin
- ❑ your preferred pricing formula.

Step 6. Promote Your Product or Service

Well-planned promotion is often key to success in any new market. Some of the following features may have to be modified for sales in foreign markets:

- ❑ labelling or packaging
- ❑ name or corporate image
- ❑ positioning of your product or service
- ❑ advertising

A choice of vehicles are available for promoting your product or service:

- ❑ trade and business journals
- ❑ catalogues
- ❑ direct mail campaigns
- ❑ trade shows and fairs.

Step 7. Arrange Your Financing

Investigate and select one of the following options for transacting business with foreign buyers:

- ❑ cash in advance
- ❑ open account transactions
- ❑ bills of exchange
- ❑ letters of credit.

Revenues from export sales will likely take longer to reach your company than those from domestic sales. The following measures can help:

- ❑ try to adjust your cash flow to address the delay
- ❑ investigate export financing options.

Step 8. Get Your Product or Service to Market

An international freight forwarder can provide valuable assistance in getting your goods to your foreign customers. Shipping goods to foreign destinations involves the following basic steps:

- ❑ selecting a mode of transport
- ❑ preparing documentation
- ❑ packing and marking
- ❑ arranging for shipping
- ❑ arranging for receipt of the shipment at the destination.

Step 9. Implement Your Export Plan

Having drawn up your export plan, you can move to implementation. For the novice exporter, making modest initial sales is the best way to proceed, since this allows you to become familiar with the export process while limiting your risks. The following initial steps can lead to a successful export effort:

- ❑ engage a freight forwarder
- ❑ develop a trail run
- ❑ conclude the first deal.

Step 10. Review and Revise Your strategy

Successful companies learn from their mistakes. Miscalculations, surprises and unanticipated problems are inevitable in any new business venture. The key is to retain the flexibility and adaptability to respond quickly to what you learn. The following are some of the most frequently made mistakes:

- ❑ difficulties with shipping or documentation
- ❑ inadequate financing
- ❑ a promotional approach that was less than effective
- ❑ a pricing strategy that was not fully successful
- ❑ unsuitable partners
- ❑ a distribution channel that was not effective
- ❑ lack of necessary information on the target market
- ❑ failure to modify the product or service.

Step 1

EVALUATE YOUR EXPORT POTENTIAL

Export potential depends on your company's competitive advantage, internal resources, business goals and priorities. Assessing these involves asking some frank questions about your organizational strengths and weaknesses, the competitive characteristics of your product or service, and the commitment and motivation of top management. Exporting is not for everyone. Only by evaluating your "export readiness" will you know whether or not it's right for you. Determine your export readiness by asking yourself the following basic questions:

- Are you competitive enough to survive in a foreign setting?
- Is your organization ready for the challenge of exporting?
- Do you have a product or service that can do well abroad?

Step 1 will help you analyze your company in order to answer these questions.

Assess Your Competitive Position

Before trying to sell abroad, you need a good understanding of your company's competitive edge in its existing Canadian markets. Only then is it possible to determine whether the factors that have led to success at home are transferable to international markets. Exporting is best seen as a logical step for a business that has already achieved a measure of success in its domestic market. Very rarely is it a route to survival or a "solution" for a company that cannot compete at home.

In many businesses, a competitive edge is based on the inherent advantages of the product or service being sold. Which of the following apply to your product or service?

In manufacturing:

- ❑ patented or unpatented know-how
- ❑ an exclusive production process
- ❑ special features and attributes that deliver superior value to customers
- ❑ superior packaging and presentation
- ❑ timely delivery
- ❑ after-sales servicing of products
- ❑ attractive credit or financing.

In services:

- ☐ unique knowledge or skills
- ☐ more efficient delivery
- ☐ comprehensive services ("one-stop shopping")
- ☐ ability to "package" the service attractively
- ☐ responsiveness to customers
- ☐ after-sales follow-up.

Assess Your Organizational Readiness

You can judge the readiness of your company to export by looking at its operating history and track record, its financial situation, its human resources, its willingness and ability to invest in foreign market expansion, management's motivation in pursuing foreign business, and the commitment of its employees.

Operating History and Track Record

Generally, companies that have been in business for at least a few years will be in a stronger position to try exporting than younger firms. They will have mastered the basics of managing their business, their product or service will have proven itself in the marketplace, and their cash flow will have stabilized.

A related consideration is past sales focus. If your sales have been limited to local customers or to just a single Canadian region, you may be better advised to channel your energies into penetrating other Canadian regional markets. Exporting is apt to come easier once you have been successful elsewhere in Canada. If you have previously exported on an intermittent basis or have sold your product to a Canadian-based intermediary such as an export trading company, you may have acquired experience that can assist you in making exporting an ongoing part of your business.

Financial Situation

A company whose financial position allows it to devote resources to export market development, and/or to aim for medium-term sales growth rather than short-term profitability, is well placed to make a significant commitment to exploiting international business opportunities.

If immediate profitability is a key priority underlying every business decision, exporting may not make sense, since it often requires a willingness to forego short-term profits. Nor is exporting likely to be a good idea for companies finding it difficult to obtain financing for expansion. Similarly, committing resources to develop export business may be too risky for a firm whose working capital position is weak.

Human Resources

Exporting is typically more time-consuming than pursuing domestic business. To succeed, you should aim to devote human resources on a full-time basis to managing your export effort. Be careful not to add a new set of export-related tasks to the responsibilities of people who already have their plates full. If you do, your domestic business will suffer and your export effort will likely not succeed.

Having on staff some people with some exposure to international business, the mechanics of exporting and/or particular foreign markets is a definite advantage. Tapping into relevant knowledge and experience in your own organization can obviously give your company an edge in evaluating or exploiting possible export opportunities. A skills audit can establish whether you have relevant skills in-house as well as identify what skills you are missing.

Which of the following export-related skills does your firm have in-house?

- ❑ ability to speak foreign languages
- ❑ familiarity with foreign cultures/business practices
- ❑ contacts in a potential foreign target market
- ❑ contacts in the Canadian export community
- ❑ experience in conducting international negotiations
- ❑ experience with the technical aspects of international trade
- ❑ direct experience in exporting acquired while working for a previous employer
- ❑ knowledge of where to obtain people with these skill sets.

Evaluating your in-house assets will shed light on your internal capabilities and perhaps even suggest particular foreign markets you should consider. The prior existence of in-house expertise, however, is not a prerequisite for export success: many small Canadian firms have been able to sell abroad despite its absence by reaching for the many forms of advice and assistance that are available from governments or from private sector intermediaries. Remember too that your company is not static. Through training and experience, you can develop the export-related skills of your employees.

Motivations and Objectives

Entrepreneurs and company managers have particular objectives in mind when they launch an export initiative. Review the following list of reasons for exporting and choose the ones that seem to apply to you.

dispose of excess domestic product

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....

supplement domestic sales with occasional foreign orders

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....

stabilize seasonal domestic markets

....

....

extend the life-cycle of existing products

....

....

utilize existing capacity more efficiently

....

....

build a base for long-term growth

....

....

diversify the company's markets

....

....

exploit unique technology or know-how

....

....

improve return on investment over the medium to long term

....

....

acquire knowledge/experience to help compete at home.

....

....

Of these, the first four reasons do not create a compelling case for undertaking a major export effort. By contrast, the other factors listed provide a more solid basis for making a sustained commitment to develop export business.

It takes time and effort to learn the technical aspects of exporting, understand foreign markets, and build relationships with foreign customers and intermediaries. Success in exporting normally stems from following a business strategy that is focused on achieving long-term goals such as market expansion or diversification, acquiring a better understanding of customer needs and market trends, or leveraging a company's specific knowledge or technology.

Top-level Commitment

Research shows that a strong commitment to exporting on the part of owners and managers raises the probability that a company will actually participate in international markets. Entrepreneurs and managers are busy people. Their attitudes and level of commitment towards a business goal play a crucial role in determining whether a small company meets that goal. This is certainly true in the case of exporting. Scarcity of managerial time as well as concern over the risks and barriers that confront the prospective exporter can deter many small firms from exporting.

Have a discussion about exporting with your senior decision makers and evaluate their commitment to it.

Do they have reservations about entering foreign markets?

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Do they see exporting as a peripheral or sporadic activity for the firm?

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....

Do they believe it is unnecessary to develop a strategic export marketing plan?

....

....

Do they plan to restrict their export effort to selling through Canadian-based “middlemen”?

....

....

Are they willing to devote a significant amount of senior management time to pursuing export business?

....

....

Are they committed to making sufficient funds available to develop foreign markets?

....

....

Are they prepared to trade-off profits in the early stages of an export effort for gains in the longer term?

....

....

Do they want to develop long-term international relationships?

....

....

A positive answer to the first four questions suggests a relatively weak organizational commitment to developing export business. A positive answer to the remaining questions indicates a stronger willingness to view exporting as a key strategic goal of the firm.

Remember too that export success requires the committed effort of employees at all levels in the organization. Everyone involved must understand why the effort is being made, the nature of their particular role, and how benefits will accrue both to the company and to the individuals who work in it.

Assess Your Product or Service Readiness

Determining whether your product or service is suitable for sale abroad starts with an evaluation of its competitive strengths and weaknesses in existing markets. Knowing who buys your product or service in the Canadian market, what needs it satisfies for existing customers, and its strengths and weaknesses vis-à-vis competing products or services in the home market is essential in evaluating your company's export potential. Therefore, you should assess your product or service in relation to the following major criteria:

What does the product or service do?

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What basic customer needs does it fill?

....

....

What do customers value about it?

....

....

What substitutes exist for it?

....

....

These questions go to the heart of demand for your product or service. If you lack an understanding of these issues, you are almost certain to encounter problems in determining whether the product or service is ready for export.

You also must have a clear fix on your main competitors in existing markets:

- Are you competitive in these markets in terms of price, quality and delivery?
- Are your current competitors at home also involved in export markets? If so, have they made changes to their product(s) to adapt to foreign conditions?

Other questions also should be asked about your product or service before deciding whether it is exportable to particular markets:

- Does the product or service embody advanced technology?
- Was research and development involved in developing it?
- If it is a product, does it require specialized knowledge or training to use?
- Are there options or accessories available for it?
- Does it require after-sales service?

If the answer to any of these questions is yes, you may find it easier to export to technologically sophisticated markets rather than those which are less advanced.

Modifying a Product for Export

Exporters of a product often find they must first modify it to meet the customs or requirements of foreign markets. Customer tastes, business practices and government regulations in many other countries differ markedly from those in Canada. Labelling, packaging and standards requirements also differ among countries.

Information required to judge whether product modification is necessary to sell in particular countries may be obtained by talking to current Canadian exporters or intermediaries. You can also contact your nearest International Trade Centres (see Annex) or the Canadian Trade Commissioner assigned to the proposed market. Finally, you can consult relevant business and trade journals to see what your competitors are doing.

You should consider whether your product is adaptable and thus able to satisfy foreign tastes and regulations.

Many of the following questions, however, can be answered only by referring to the situation in a specific foreign market. As you consider the list below, start thinking about what kinds of markets may be most suitable for your product. Then go to Step 2 to begin the process of selecting a target market. Once you have done so, come back to this checklist and see how well your product fits it. Remember also to evaluate its potential in more than a single foreign market. Don't give up just because you conclude that it cannot be sold successfully in a particular country.

Are foreign customers likely to use the product in the same way as domestic customers?

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Is demand for your product affected by seasonal factors?

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Will climatic factors limit its use or life in certain markets?

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Do foreign standards for such products differ from those in Canada?

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Can you meet packaging/labelling requirements in foreign markets cheaply and conveniently?

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....

Will assembly of the product have to take place in the target market? If so, is resident expertise available?

....

....

Is after-sales service necessary? Can this be provided in the foreign market?

....

....

Is the product expensive to ship, thus making it too costly in certain markets?

....

....

Does the product have special storage needs (e.g. refrigeration) that may limit the distance it can travel?

....

....

Are reputable foreign distributors/agents available who specialize in the product?

....

....

Will distributors have to make a significant inventory investment to carry the product?

....

....

Now you have a thumbnail sketch of the areas where your product could be modified. A reading of Step 2 will help you highlight what specific market characteristics the product should be modified to meet.

The Case of Exporting Services

A slightly different set of issues confronts the service exporter. While service exports do not face the need for physical modification, those who provide them may still have to adapt to local regulations, standards and certification requirements. This would certainly be the case for professionals such as engineers or architects. Even under the relatively liberal service trade regime embodied in the proposed North American Free Trade Agreement, professionals would still have to establish their qualifications before being allowed to practise their calling. In addition, because a large part of any service business involves the communication of information between people, service providers must display a greater sensitivity to cultural issues, local business practices and customer preferences. If you are hoping to export services into a particular market, make sure you take the time to learn about the country, its business practices and its people.

Conclusion

The preceding analysis should help you to determine your export readiness. If you already have your hands full meeting demand from Canadian customers, or if you have significant cash flow or working capital problems, you should be cautious about launching an export campaign. On the other hand, if your analysis suggests that your products or services can be modified to meet conditions elsewhere, or that you enjoy a distinctive competitive advantage, move on to the next step and start choosing your target market.

Step 2

SELECT AND RESEARCH TARGET FOREIGN MARKETS

If your preliminary evaluation suggests that you, your company and your product or service are ready to meet the export challenge, the next step is to screen a number of prospective foreign target markets and then to gather more detailed information on those that seem most promising. Many sources of information are available to assist you. Some of the most useful are other Canadian companies exporting to the country in question, published market research guides and reports, Canadian government representatives familiar with foreign markets, industry associations, and trade and business journals. Direct foreign visits and participation in foreign trade shows and fairs can also be very helpful.

For most small Canadian companies that are just beginning to export, the United States is the most popular initial foreign market. The reasons are not hard to understand. Not only is proximity a factor, but also many Canadian companies benefit from close cross-border business ties, common language and culture as well as similar consumer tastes and business practices. In addition, the terms of the Canada–U.S. Free Trade Agreement (FTA) have liberalized trade between the two countries and have made market entry that much easier for first-time exporters. Under the terms of the proposed North American Free Trade Agreement (NAFTA), trade liberalization will also embrace Mexico. In addition, an especially important feature of the proposed NAFTA is a set of provisions that will make it easier to trade in services anywhere within North America.

Researching Foreign Markets

Gathering information on foreign markets is perhaps the most vital task facing the prospective exporter. The following list of information sources provides an indication of where your search can start. For information about export-related federal government sources of assistance, see the Annex at the end of this document.

Periodicals: Various Canadian and U.S. trade and business magazines regularly run features on specific foreign markets. You can locate such special reports by consulting library catalogues or commercial data bases.

Canadian Posts Abroad: Staff at foreign posts of External Affairs and International Trade Canada (EAITC) regularly compile market profiles of the countries to which they are posted. Information contained in these profiles is available by contacting the appropriate desk officer at EAITC or by using the InfoExport hotline.

Government Departments: Other government agencies also encourage export activity and compile intelligence on foreign markets. At the federal level, examples are the International Trade Centres located across Canada in the regional offices of Industry, Science Technology Canada; EAITC; the Atlantic Canada Opportunities

Agency; the offices of Western Economic Diversification; the Export Development Corporation; and the Canadian Commercial Corporation. Provincial governments also have trade and/or industry departments that deal with export promotion and assemble foreign market intelligence relevant to Canadian business.

Business Associations: Canadian trade and industry associations also have information about foreign markets. The Canadian Exporters' Association, the Canadian Chamber of Commerce, the Canadian Manufacturers' Association and numerous associations that focus on particular industrial sectors all offer materials and seminars on foreign markets. In major Canadian cities, World Trade Centres are also valuable contact points for new or prospective exporters.

Foreign Embassies: You should consider contacting the embassies or trade commissions representing countries that interest you and ask for information on economic conditions, trade patterns, and business conditions and practices in their home countries.

Bilateral Business Councils: Numerous bilateral business councils are active in Canada. Wherever the volume of trade warrants it, Canadian business people with a common interest in a particular market often decide to form a council to exchange information, arrange trade missions, promote appropriate legislative initiatives and inform the business community about potential opportunities. Examples of country-to-country councils include the Canada–Korea Business Council, the Canada–Poland Chamber of Commerce and the Canada–India Business Council. There are also regionally oriented groups such as the Pacific Basin Economic Council, the Canada–Arab Business Council, and CUBE, the council promoting Canadian trade with the countries of the former Soviet Union.

Intermediaries: Business people in Canada with ties to or ethnic roots in a target market can be a valuable source of information and assistance. Some of these can be accessed through bilateral business councils; others are active in ethnic business groups in major urban centres. Multiculturalism and Citizenship Canada has published a directory of Canadian ethnocultural business associations, bilateral business councils and ethnocultural advisory councils (see Annex). If you are interested in a specific part of the world, it may be useful to contact the nearest appropriate ethnocultural business association.

Published Market Guides: There are many published statistical and market guides that offer detailed information on doing business in foreign countries. A large number of these focus on the United States, the most heavily researched market in the world. But market guides dealing with other parts of the world are becoming more common. Check the InfoExport hotline (see Annex) or contact your local public library.

Data Bases: There are several major commercial data bases that carry international economic and business information, country/industry profiles, and bibliographic references to recent articles in newspapers and periodicals. For information about these data bases and how to access them, a good starting point is the nearest public or university library.

Often, the most useful information is extracted directly from people who possess first-hand knowledge of the market targeted. Such people include the following:

- foreign distributors
- potential foreign customers
- editors of specialized trade or business magazines
- diplomatic personnel
- other federal or provincial government officials
- Canadian companies that currently sell in the market.

Especially useful are contacts with Canadian Trade Commissioners or provincial Agents General assigned to the foreign market of particular interest to your company. Periodically, Trade Commissioners are brought back to Canada to participate in seminars on business opportunities in foreign markets, organized by local business associations in conjunction with EAITC. There are also numerous Canadian companies that act as international trade and business intermediaries, bringing Canadian companies into foreign markets or introducing them to potential partners abroad.

Identifying Attractive Foreign Markets

A two-stage screening process will help you narrow the choice of countries you should target for your product or service.

First Screening

You need to have a good understanding of the general physical, economic, political and cultural factors shaping the economic and institutional environment of your potential target markets. You should be aware that the weight or importance you give to these factors in developing a target market profile will vary, depending on the nature of your product or service and your long- and short-term business goals. The following issues, common to many products or services, may also suggest other considerations you should examine in selecting a target market:

- If your product depends on timely delivery or is expensive to ship, then the foreign markets that are accessible to you will be limited to those within a certain distance or travel time.
- Sophisticated after-sales service or specialized training required to make use of what you have to offer may restrict sales to markets whose population has relatively high income and literacy levels.
- Luxury products are marketable primarily in wealthier economies.
- Products that depend on or vary with climatic conditions must be sold in markets where the weather is suitable.
- Products whose purchase must be financed will be difficult to sell in countries where such financing is hard to obtain or unavailable.
- Punitive trade barriers or foreign government controls may make some countries difficult export targets.

Now review the following list, recording the weight you attach to the characteristics featured in your potential market profile. Consider the following key factors in the initial screening process:

Market Characteristics

Demographic/physical:

population/market size

....

population density and distribution

....

climatic factors

....

shipping distances (especially relevant for perishable and expensive-to-transport products)

....

physical distribution and communication networks

....

in the case of service providers, the communications infrastructure (phones, faxes, modems) and overall technological sophistication.

....

Economic:

level of economic development

....

growth rates and potential

....

sectoral/industrial distribution of activity (and imports)

....

industrial structure, per capita income

....

income distribution

....

consumer spending patterns and trends

....

openness of the economy to imports

....

import penetration and import sources

....

currency and exchange rate factors

....

balance of payments of the foreign government.

....

Political/governmental:

political stability government involvement in the economy and in business

....

the legal framework for doing business

....

provisions for the resolution or redress of grievances

....

controls over foreign trade

....

major trade policy instruments and tariff barriers

....

non-tariff barriers such as standards and regulations

....

general state of relations with Canada.

....

Sociocultural:

literacy rate

....

language and customs

....

cultural norms and characteristics

....

business practices.

....

At the end of this stage, you will be able to eliminate marginal markets and isolate candidate countries offering higher potential for your exports.

Second Screening

Now you have an idea of the characteristics of the markets that offer the best prospects for your product or service. In moving to the second stage of the screening process, your goal is to gather more detailed information on the most promising prospects in order to make an informed choice. Most of the research can be done here in Canada, drawing on the sources mentioned earlier. In this second stage, you will be searching for specific information on subjects such as the following:

Market potential:

customer demand for your product or service

....

consumption/demand growth, recent and projected

....

exposure to and acceptance of the product category

....

extent to which it is already produced or offered locally

....

availability of substitutes

....

growth in imports

....

extent and sources of current imports

....

industry-specific demand indicators (important when selling industrial products)

....

competitive factors (price, quality measures, after-sales service).

....

Access to the market:

applicable tariffs

....

relevant non-tariff barriers, including import licensing requirements and quotas

....

documentation required for importing goods

....

restrictions (if any) on hard-currency transactions

....

local standards relevant to your product category

....

patents and trademarks

....

other legal considerations affecting access.

....

Local distribution:

availability and reputation of the local agent or distributor (a key concern if you do not plan to use your own sales force)

....

local/regional transportation options

....

local/regional warehousing and storage facilities

....

retailing options (if you plan to sell directly to end users).

....

Now you should go back to Step 1 and take another look at the chart on product characteristics.

- Is there perhaps a market you overlooked on your first analysis?
- Do the characteristics of your product or service match the market characteristics to which you attach weight or importance?
- Does the analysis of the market profile suggest ways to modify your product or service characteristics to make them more adaptable to a foreign market?

Trade Missions and Personal Visits

Once a market is identified and a preliminary analysis completed, a personal visit is often essential. As in so many areas of business, there is no satisfactory substitute for the "on the ground" experience that comes from direct exposure to the market. If you are visiting a country for the first time, it may be advisable to participate in a trade mission organized by a business association or a government agency.

Trade missions are useful for several reasons. The mission organizers are usually familiar with the target market. As a result, you can take advantage of their contacts and expertise. Usually, mission organizers will help to put you in touch with officials, companies or individuals who can help you with your particular project. You can gather a lot of useful information and insights from the other participants in the mission. Mission organizers will also handle many of the logistical details associated with the trip, leaving you free to concentrate on your business.

You can find out about forthcoming missions from officials at EAITC or from the relevant business association or bilateral business council. Government assistance may be available to many small firms seeking to visit foreign countries as part of official Canadian trade missions (see Annex).

If there are no missions being organized to your target market, you will have to organize your trip yourself. In this case, careful preparation is the key to success. Travel abroad is often time-consuming and expensive. Before you commit yourself to a trip, develop an itinerary and determine what you hope to achieve. For example, realistic goals might include the following:

- ❑ assess market demand for your product or service
- ❑ evaluate the competition facing you in the market
- ❑ determine how best to distribute/deliver, sell and promote your product or service (the right "marketing mix")
- ❑ interview/gather detailed information on possible agents, representatives, distributors or local partners
- ❑ determine whether modifications to your product or service may be necessary
- ❑ find out what regulatory requirements will affect it.

Next, think about the types of information sources in the target market that might help you compile a market profile. These contacts might include some or all of the following:

- ❑ a local market research organization
- ❑ the relevant local industry association
- ❑ local private companies active in the sector
- ❑ foreign companies with a presence in the target market
- ❑ a government ministry or agency responsible for the relevant sector or industry
- ❑ local agents, distributors or consultants familiar with the market or industry in question.

It may be hard to identify specific names and addresses of these sources from Canada. Start the search by contacting the Canadian Trade Commissioner or provincial Agent General assigned to your target market.

Trade Commissioners/ Agents General

Canadian Trade Commissioners or provincial Agents General can be especially helpful in providing background information, referrals and introductions. The best approach is to contact the Trade Commissioner/Agent General well in advance of your trip, outline your objectives and ask for suggestions. Follow up this contact by visiting the Trade Commissioner or Agent General as soon as you arrive. Make sure that you are well prepared before your meeting and that you have provided any essential background information on your business well in advance. Appropriate background information might include the following:

- a description of your product or service, its uses and a profile of your customers at home (or in other markets)
- information on your business, number of employees, capacity etc.
- data on sales and financial performance as well as a banking reference
- distribution networks used in the home market and for current exports (if any)
- time needed to deliver an order or complete a contract
- export prices and the elements included in determining them (e.g. commissions? shipping?)
- payment terms
- type of packaging to be used for export
- promotional methods used at home and copies of promotional materials to be used in the export market.

This information will help the Trade Commissioner/Agent General prepare for the meeting and provide you with better and more comprehensive advice, referrals and other forms of assistance.

Trade Shows and Exhibitions

Trade shows and trade fairs provide valuable opportunities to gather first-hand information on foreign markets. Most participating companies hope to sell some of their products at the show or fair, but they are also looking for exposure and an opportunity to make useful contacts. Participating in a trade show or exhibition is a relatively inexpensive way for a Canadian company to conduct the following activities:

- promote its product and services
- make some initial sales
- study a target market
- size up the competition
- make valuable business contacts
- take a first step toward actually penetrating a foreign market.

Information on upcoming trade shows and exhibitions around the world is available from many organizations, including the Canadian Chamber of Commerce, the Canadian Exporters' Association, EAITC or your nearest International Trade Centre.

To take one specific market, every year there are literally hundreds of trade shows held in the U.S. These exhibitions cover virtually all industries and sectors of interest to Canadian business. Participating in a national U.S. trade show will put companies in contact with a large number of prospective customers. It can also give you valuable insight into the U.S. market, how the product is normally distributed and who your competitors are likely to be. You should not exhibit at a national American trade show, however, until you feel you are ready to launch an active export program. For the novice exporter, it may be better to start with a regional U.S. trade fair. These are less expensive and easier to participate in, yet still allow you to test market your product.

Exhibition Planning

Once a particular trade fair or show has been chosen, careful planning is needed. Consider some of the following questions:

How much are you prepared to spend on the event?

....

Who will represent the company?

....

How big is the booth to be?

....

Can you share a booth (and costs) with another exhibitor?

....

How will the exhibit be arranged, and what promotional materials will it contain?

....

Is the staff representing the company both knowledgeable and experienced in selling?

....

Support for Your Market Research

Government assistance is available to help small Canadian companies defray part of the cost of doing foreign market research — particularly research in the form of personal visits to foreign markets. The Program for Export Market Development (PEMD) provides assistance to help companies undertake or participate in various types of trade promotion activities. EAITC also has several programs specifically designed to familiarize small and medium-sized businesses with export procedures and market opportunities in U.S. border states (NEBS), the southern states of the U.S. (NEXUS) and Europe (NEXOS). For details of all of these programs, see the Annex.

Step 3

MASTER THE TERMINOLOGY OF EXPORTING

Exporting is more complex than selling into a domestic market. To succeed, you need to familiarize yourself with key trade expressions and techniques. Among other areas, you will have to understand some or all of the following aspects:

- the laws, regulations and practices governing your product in your target market
- export documentation, including invoices, bills of lading, certificates of origin, and health or safety certificates
- the tariffs, Customs duties and processing fees as well as the taxes payable on your shipment
- the export-related services offered by brokers, trading houses, agents, freight forwarders and insurance companies
- how to label, pack, transport and store your products
- payment options such as letters of credits, bills of exchange and open account transactions.

Sources of Information

There is a great deal of published material containing information about the nuts and bolts of exporting. For example, External Affairs and International Trade Canada has prepared a number of handbooks on the technical aspects of exporting. In addition, in initiatives such as the New Exporters to Border States (NEBS) program (see Annex), the department takes prospective exporters through the steps involved in shipping goods and clearing them through foreign Customs. The Export Development Corporation can assist companies with information about export credits, financing and insurance. The Canadian Commercial Corporation can provide information and technical advice on how to deal with bidding and contracting in different countries.

In the private sector, business associations, bilateral business councils, leading financial institutions and major accounting firms have prepared materials on exporting or on specific foreign markets. In addition, a growing number of universities and community colleges offer courses on aspects of international business. Some business associations also offer export-related workshops.

General Trade Vocabulary[1]

International trade carries its own particular terminology. The following are general trade expressions that the novice exporter will encounter in published sources or in discussions dealing with trade issues.

Agent: A foreign representative who tries to sell your product in the target market. The agent does not take possession of — and assumes no responsibility for — the goods. Agents are paid on a commission basis.

Certificate of Origin: A document that certifies the country where the product was made (i.e. its "origin"). A common export document, certificates of origin are needed when exporting to many foreign markets. They must be used in order for Canadian-made goods to qualify for preferential tariff treatment under the Canada–U.S. Free Trade Agreement.

Commercial Invoice: A document prepared by the exporter or freight forwarder, and required by the foreign buyer to prove ownership and arrange for payment to be made to the exporter. It should include basic information about the transaction, including a description of the goods, address of the shipper and seller as well as delivery and payment terms. In some cases, the commercial invoice is used to assess Customs duties.

Consular Invoice: A statement issued by a foreign consul in the exporting nation describing the goods purchased. Some foreign governments that maintain tight controls over imports require Canadian exporters wanting to sell in their country to first obtain consular invoices from their consulate in Canada. A fee is usually charged.

Countertrade: A general expression meaning the sale or barter of goods on a reciprocal basis. There may also be multilateral transactions involved.

Customs Invoice: A document used to clear goods through Customs in the importing country by providing documentary evidence of the value of the goods. In some cases, the commercial invoice (see above) may be used for this purpose.

Distributor (Importer): A foreign company that agrees to purchase a Canadian exporter's product(s), and then takes responsibility for storing, marketing and selling them.

Dock Receipt: A receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities (see also Warehouse Receipt).

Export Licence: A document required under Canadian law that exporters must obtain before selling certain products abroad (e.g. protected birds, animals and plants). An export licence may also apply to certain countries.

[1] Sources consulted: *The World Is Your Market: An Export Guide for Small Business* (Washington: Braddock Communications, 1990); External Affairs and International Trade Canada, *So Your Want to Export?* (Ottawa: EAITC, May 1991); Sandra L. Renner and W. Gary Winget, *Fast-Track Exporting: How Your Company Can Succeed in the Global Market* (New York: American Management Association, 1991).

Export Management Company: An EMC (see also Trading House) is an independent firm that acts as the sales or export department for a Canadian manufacturer. Some act as an agent of the Canadian manufacturer/exporter and are paid on a commission basis. Others buy directly from the Canadian supplier, assume responsibility for the goods and attempt to resell them abroad.

Ex Factory: Used in price quotations, an expression referring to the price of goods at the exporter's loading dock.

Ex Works Price: A price that normally includes export credit insurance, financing charges and profit margin. It excludes costs related specifically to domestic marketing activities.

Freight Forwarder: A service company that handles all aspects of export shipping for a fee.

Import Tariff: A tax levied on imported goods by foreign governments. Canada also imposes tariffs on some imported items.

Insurance Certificate: A document prepared by the exporter or the forwarder to provide evidence that insurance against loss or damage has been obtained for the goods to be exported.

Landed Cost: The cost of the exported product at the port or point of entry into the foreign market, but before the addition of foreign tariffs, taxes, local packaging/assembly costs and local distributors' margins. Product modifications prior to shipment are included in the landed cost.

Ocean (or Airway) Bill of Lading: A contract prepared by the carrier or freight forwarder with the owner of the goods. The foreign buyer needs this document to take possession of the goods.

Packing List: A document prepared by the exporter showing the quantity and type of merchandise being shipped to the foreign customer.

Pro Forma Invoice: An invoice prepared by the exporter prior to shipping the goods, informing the buyer of the goods to be sent, their value and other key specifications.

Quotation: An offer by the exporter to sell the goods at a stated price and under certain conditions.

Trading House: A company specializing in the exporting and importing of goods produced or provided by other companies. Canadian companies wishing to sell abroad can use Canadian-based trading houses to market their products. The trading house can act as an agent and find foreign buyers for the product on a commission basis, or it can act as a distributor, buying the product from the Canadian manufacturer and then reselling it to foreign customers.

Warehouse Receipt: A receipt identifying the commodities deposited in a recognized warehouse. A non-negotiable warehouse receipt specifies to whom the deposited goods will be delivered or released. A negotiable receipt states that the commodities will be released to the bearer of the receipt.

Shipping terms play a critical role in international trade. They set the parameters for international shipments, specify points of origin and destination, outline the conditions under which title is transferred from seller to buyer, and determine which party is responsible for shipping costs. Shipping terms also indicate which party assumes the cost in the event that merchandise is lost or damaged during transit. To provide a common terminology for international shipping and minimize misunderstandings, the following set of terms, known as "INCO Terms," have been developed under the auspices of the International Chamber of Commerce.

C & F ("cost and freight"): The exporter pays the costs and freight necessary to get the goods to the named destination, but the risk of loss or damage is assumed by the buyer once the goods are loaded at the port of embarkation.

CIF ("cost, insurance and freight"): The exporter pays the cost of goods, cargo and insurance plus all transportation charges to the named port of destination.

Delivered at Frontier: The exporter/seller's obligations are met when the goods arrive at the frontier, but before they reach the "Customs border" of the importing country named in the sales contract. The expression is commonly used when goods are carried by road or rail.

Delivered Duty Paid: This expression puts maximum responsibility on the seller/exporter in terms of delivering the goods, assuming the risk of damage/loss and paying duty. It is at the other extreme from the "ex works" expression listed below, under which the seller assumes the least responsibility.

Ex Quay: The exporter/seller makes the goods available to the buyer on the quay or wharf at the destination named in the sales contract, and bears all costs/responsibility up to this point. There are two types of ex quay contracts in use: ex quay "duty paid," whereby the seller incurs the liability to clear the goods for import, and ex quay "duties on buyer's account," whereby the buyer assumes this responsibility.

Ex Ship: The exporter/seller must make the goods available to the buyer on board the ship at the location stipulated in the contract. All responsibility/cost for bringing the goods up to this point falls on the seller.

Ex Works: This minimal obligation requires the seller only to make the goods available to the buyer at the seller's premises or factory. The seller is not responsible for loading the goods on the vehicle provided by the buyer, unless otherwise agreed. The buyer bears all responsibility for transporting the goods from the seller's place of business to their destination.

FAS ("free along side"): The goods must be placed on the dock by the seller, alongside the vessel. The seller's obligations are fulfilled at this point.

FOB *("free on board"):* The goods are placed on board the vessel by the seller at the port of shipment specified in the sales contract. The risk of loss or damage is transferred to the buyer when the goods pass the ship's rail.

FOB ***Airport:*** Based on the same principles as the ordinary FOB expression, the seller's obligation is fulfilled by delivering the goods to the air carrier at the specified airport of departure, at which point the risk of loss or damage is transferred to the buyer.

FOR/FOT ("free on rail," "free on truck"): Again, the same principles apply as in the case of ordinary FOB, except that the goods are transported by rail.

Free Carrier . . . (named port): Recognizing the requirements of modern transport, including multimodal transport, this principal is similar to FOB, except that the exporter's obligations are met when the goods are delivered into the custody of the carrier at the named port. The risk of loss/damage is transferred to the buyer at this time, and not at the ship's rail. The carrier can be any person contracted to transport the goods by road, air, sea, rail or a combination thereof.

Expressions and Terms Related to Export Financing[2]

Advance Payment (Cash in Advance): A foreign customer pays a Canadian exporter prior to actually receiving the exporter's product(s). It is the least-risk form of payment from the exporter's perspective.

Confirmed Letter of Credit: A Canadian bank confirms the validity of a letter of credit issued by a foreign bank, on behalf of the foreign importer, guaranteeing payment to the Canadian exporter, provided that the terms outlined in the document have been met. An unconfirmed letter of credit does not guarantee payment so, if the foreign bank or buyer defaults, the Canadian exporter will not be paid. Canadian exporters should accept only confirmed letters of credit as a form of payment.

Confirming House: A company, based in a foreign country, that acts as a foreign buyer's agent and places the "confirm" orders with Canadian exporters. They guarantee payment to the exporter.

Consignment: Delivery of merchandise to the buyer/distributor, whereby the latter agrees to sell it and only then pay the Canadian exporter. The seller retains ownership of the goods until they are sold, but also carries all of the financial burden and risk.

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[2] Sources consulted: *The World Is Your Market: An Export Guide for Small Business* (Washington, D.C.: Braddock Communications, 1990); External Affairs and International Trade Canada, *Export Guide* (Ottawa: EAITC, June 1989); External Affairs and International Trade Canada, *So You Want to Export?* (Ottawa: EAITC, May 1991).

Documentary Collection: The exporter ships the goods to the foreign buyer without a confirmed letter of credit or any other form of payment guarantee. The importer signs a "sight draft" on receiving the documents required to take possession of the goods.

Document of Title: A document that provides evidence of entitlement to ownership of goods. An example is a carrier's bill of lading.

Draft (Bill of Exchange): A written, unconditional order for payment from one party (the drawer) to another (the drawee). It directs the drawee to pay an indicated amount to the drawer. A sight draft calls for immediate payment. A time draft requires payment over a specified period (usually 30 to 180 days).

Export Financing House: A company that purchases a Canadian exporter's foreign receivables on a non-recourse basis upon presentation of proper documentation. It then organizes export arrangements and provides front-end financing to the foreign buyer.

Factoring House: A company that buys export receivables at a discount.

Irrevocable Letter of Credit: The bank issuing the irrevocable letter of credit agrees to pay the exporter once terms and conditions of the transaction are met. Because it is irrevocable, none of the terms or conditions may be modified without the consent of all parties, including the exporter. A revocable letter of credit does not provide this assurance and should never be used or accepted by the exporter as an adequate commitment to pay by the foreign buyer.

Open Account: An arrangement in which goods are shipped to the foreign buyer before the Canadian exporter receives payment.

Mastering the process of exporting involves more than just familiarizing yourself with a list of trade terms and expressions. Beyond the technical vocabulary, there are the issues of actually negotiating a contract, arranging for payment, packing, preparing documentation, shipping the product, clearing it through Customs and collecting payment. While there are published materials, workshops and college courses on the techniques and procedures of exporting, there is no substitute for experience. That experience must be acquired gradually. As Step 9 recommends, start with a trial run into a relatively accessible market such as the U.S., develop your skills, learn from your mistakes, and only then move on to more challenging objectives.

Step 4

CHOOSE AN ENTRY STRATEGY

Export success depends on many factors. If you are a manufacturer, you need an effective way of getting your goods into and distributed within the foreign market. That may involve using intermediaries, direct selling or partnering. If you export services, you need a mechanism that will help you secure and manage contracts there. This usually involves some form of local presence supported by some form of partnership. Whether you sell goods or services, as a first-time exporter, you are more likely to succeed if you enlist the assistance of others, either intermediaries or partners. Direct selling is an option, but it tends to be used by those who are experienced exporters. However, many foreign countries place restrictions on direct sales into their market. In these cases, you may have to utilize the services of an intermediary or partner.

The characteristics of and the rules governing the target market will help determine which export strategy to pursue. For example, companies entering a relatively accessible market such as the U.S. may determine that they can dispense with the assistance of intermediaries and engage in direct selling. That may be a viable strategy in a market as close and familiar as the U.S. is to our own. The calculation may be entirely different for a market such as eastern Europe, where cultural differences, the complexity of local business practices and an unfamiliar legal environment make direct selling a highly risky option. In that market, a preferred entry strategy would be to find a local partner through which to pursue business opportunities. Every strategy must be seen in relation to the company pursuing it and the market being entered.

Intermediaries

If yours is a smaller company that is unfamiliar with exporting, then using intermediaries such as an agent, a foreign distributor or a Canadian trading house is likely to be your best market entry option. This is particularly true if some or all of the following conditions apply:

- you are unfamiliar with the target market
- you plan to make only small or intermittent export sales
- you are selling a low-cost, mass-produced product
- the target market has a large number of end users and high sales potential
- your product requires extensive on-site training and support
- your company is not able to provide after-sales service or customer support
- the product is normally sold through local distributors in the target market.

Agents and Representatives

Agents: An agent obtains and transmits orders from foreign customers and receives a commission from the exporter in return for the effort. The agent sells at prices you set and does not normally stock your product. If you use an agent, however, remember that the risk associated with loss or non-payment and the responsibility for service and warranty remain with you, the Canadian exporter.

Representatives: A manufacturers' representative is a specialized agent who generally operates within a given geographic territory and who sells related lines of manufactured goods to a specific group of customers. Using a manufacturers' representative is a common way in the U.S. of distributing industrial and commercial products. Many U.S. buyers have found that purchasing goods from an experienced and knowledgeable manufacturers' representative is less time-consuming and less risky than dealing directly with foreign manufacturers.

Both agents and representatives are authorized to enter into contractual sales agreements with foreign customers on behalf of the Canadian exporter. They usually work on a commission basis: they are paid only when they sell your product. Depending on the agreement reached, they may or may not be paid for their expenses. When searching for foreign agents and representatives, look for those who handle complementary products, which are likely to facilitate sales of your product.

Advantages: An agreement with a foreign agent or representative immediately gives the Canadian company an experienced sales force "on the ground" in the new market. The costs of overhead and sales are lower than the costs of establishing your own direct sales force. More frequent sales calls are possible when you use a local representative. With a local agent or representative, you retain control over the product and its price — an important advantage.

A small business — particularly one new to exporting — can benefit from the wide range of advice and services offered by a good foreign agent or representative. Areas where they can be especially helpful include gathering market intelligence, advising on financing and transportation, clearing Customs, providing access to potential customers, making collections, and providing information on local business practices, legal rules and cultural traditions.

Foreign Distributors

The role of foreign distributors differs from that of agents or manufacturers' representatives. Unlike agents, distributors actually purchase the exporter's product and then resell it to local customers. For example, a U.S. distributor may import a consumer product from the Canadian producer. It then sells the imported product to retail outlets in the U.S., perhaps with the aid of its own advertising and promotion program. Often, distributors set the selling price, provide buyer financing, and look after warranty and service needs. Because it assumes risks, a foreign distributor typically insists on longer payment terms and on control over your product once it takes possession of it.

A significant potential advantage for the Canadian exporter is that the distributor is often able to provide after-sales service in the foreign market. The main disadvantages of using a foreign distributor are that your margins are reduced, you have less control over the product and price, and you do not benefit from direct contact with foreign customers.

Selecting an Agent or Distributor

To find a good foreign agent or distributor, put together a professional-looking kit that contains the following information:

- an overview of your company, its history and its objectives
- a description of your capabilities, including a clear description of your product, appropriate promotional material (pictures and brochures) and information on your ability to provide parts and after-sales service
- your view of the market for the product, including a profile of who will buy it and why
- the price or price list for the market targeted by the exporter, inclusive of insurance and freight, and stated in local currency
- information on transportation options and costs, and on frequency of delivery
- Customs documentation.

Armed with this material, you can start contacting possible candidates. Looking for a foreign agent or distributor is easier than you might expect. Many avenues are available to assist you. In the private sector, Canadian trade associations, bilateral business councils and banks can be a useful source of intelligence. Talking with other Canadian exporters or potential foreign customers can also shed light on what to look for in a foreign agent or distributor, and may assist in identifying particular agents or distributors in a target market.

In the public sector, government agencies and departments, particularly External Affairs and International Trade Canada, are committed to helping Canadian exporters sell abroad (see Annex). Canadian Trade Commissioners can provide advice and information on foreign markets, distribution channels and trade shows. They may be able to identify prospective foreign customers and suggest suitable agents or distributors to sell your product.

After you have developed a list of potential candidates to sell or distribute your product, think about narrowing the choice through personal contact. Visit the foreign market and meet with potential representatives and distributors. Above all, you must gain an understanding of the foreign representative or distributor's ability to promote your product effectively and also get a sense of its general market potential. You will want to ask the following questions:

What is their previous track record? How many companies/products have they successfully represented or marketed?

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What facilities do they have available in the target market (e.g. storage facilities)? This is relevant only in the case of a distributor. An agent will not store your product.

....

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What about the agent or distributor's financial position?

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What kind of regional and industry representation can the candidate provide?

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....

What marketing and promotional programs does the company currently have in place?

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....

Who are their current customers?

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What lines do they currently carry?

....

....

Do they provide after-sales service?

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....

What are the terms and conditions of sale and payment?

....

....

Talk to several firms and check their references to ensure that you find a reputable company that can satisfy your requirements. You can also protect yourself by entering into a limited-term trial agreement. If the foreign intermediary does not meet your expectations, you can find an alternative after the trial period is over.

Trading Houses

Trading houses are domestically based intermediaries that market Canadian goods abroad. A full-service Canadian trading house handles all aspects of exporting, including conducting foreign market research, arranging merchandise transportation, appointing overseas distributors or agents, exhibiting products at trade shows, advertising and arranging documentation. The trading house can take full responsibility for exporting on behalf of Canadian companies that generally lack direct experience in this area.

There are approximately 500 to 600 trading houses currently operating in Canada. Some act as "principals" or "export merchants," buying products outright from Canadian suppliers. Others act as agents, selling on a commission basis. A few act on behalf of foreign buyers who want to obtain inputs from Canadian sources for inclusion in offshore products. Most Canadian trading houses are modest in size, with an annual turnover of less than $25 million. Some specialize in particular sectors, such as agri-food or industrial raw materials. Others focus on particular foreign markets.

Trading houses are not a particularly important distribution channel for Canadian exports to the U.S. but they account for between 30 and 40 percent of Canada's non-U.S. export trade in any given year. In recent years, more than two thirds of Canada's exports to Japan, some 60 percent of exports to Latin America and almost half of exports to Africa have been channelled through trading houses.

A trading house may look for several things from a prospective Canadian client:

- a product suitable for export
- a commitment to export on an ongoing basis
- a willingness, on the part of the Canadian company, to view the trading house as its exclusive channel for distributing into a particular foreign market
- a fair pricing arrangement, bearing in mind that the trading house must also earn a profit for the work it performs (and the risks it assumes if it buys your product directly).

The following types of companies may do well to consider using a trading house:

- small and medium-sized businesses that are new to exporting and do not want to sell directly to foreign customers or go through the process of finding a foreign agent or distributor
- companies involved in specialized fields such as agri-food, fisheries or high technology
- manufacturers of industrial products sold on a subcontract basis
- Canadian companies wanting to sell into foreign markets that are very distant or that present special difficulties because of differences in language, culture, business traditions, etc.

Canadian trading houses have formed the Council of Canadian Trading Houses. There is also a body representing Quebec-based trading houses, the Association des maisons de commerce extérieur du Québec. In selecting a trading house, these organizations may be able to direct you to a trading house that is appropriate for your needs. Also, please refer to the previous checklist on the selection of agents and distributors.

Direct Sales

Advances in telecommunications and process technologies, more efficient transportation linkages, just-in-time delivery systems, improved inventory management techniques, together with a host of other developments, mean that direct selling by exporters in foreign markets has become a more viable option for small Canadian companies in the 1990s. In some cases, a combination of direct selling and the use of a local intermediary may be the best overall market entry strategy.

Over the long term, selling directly to foreign retailers or end users may yield higher margins for the exporter than selling through an agent or distributor and may also mean lower prices for the foreign customer. Moreover, it allows the seller to benefit from closer direct contact with end users. But direct distribution can also have disadvantages. Since the company will not have the services of a foreign representative or distributor, it must take the time to become familiar with the foreign market and with the export process. Building a direct sales force can entail a significant commitment of time, effort and especially money.

In deciding whether to sell directly into a foreign market or to employ an intermediary, much depends upon your business objectives, the characteristics of your product, your company's financial and human resources, and the nature of the target market. Before deciding whether direct selling makes sense, consider these questions:

What is the size of the market?

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....

Are your potential customers in large, geographically concentrated areas?

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....

Is a geographically restricted marketing strategy more prudent for your product?

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....

Are there government restrictions on direct sales into the target market?

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....

Do your potential customers prefer local representation and/or frequent sales calls?

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....

Do your potential customers have homogeneous or diverse characteristics?

....

....

Is the target market familiar to your company?

....

....

Is there some specific advantage to keeping in direct contact with end users?

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....

Direct distribution in a foreign market is more likely to be feasible in the case of a familiar market such as the U.S. Direct sales are more complicated and risky when dealing with a more distant or culturally distinctive market. As mentioned previously, some countries place restrictions on direct sales. Companies manufacturing specialized industrial equipment that requires customer training normally prefer to sell directly. Businesses with modest resources and/or that need to reach a broad, dispersed customer base usually decide to sell through intermediaries.

If your company decides that direct selling makes sense, it can pursue this in some of the following different ways.

In-house Sales Staff: This option involves hiring local personnel and training them in how to use your product or service. It may be possible to engage such sales people entirely or partially on a commission basis. The advantage is that the staff will understand local business practices and some may even come to your company already equipped with a network of contacts and potential customers.

Catalogues: This option is suitable for those offering a wide range of goods. Considerable time and expense may be involved in preparing the catalogue, translating it into the local language, printing it, developing a mailing list and then sending it out to potential customers. You will also require some way of taking and filling orders.

Direct Mail: Like the catalogue option, direct mail involves the time and expense of developing a mailing list, sending out solicitations to potential customers, and maintaining some way of taking and filing orders. Be warned that the ratio of responses to pieces mailed may be very different in the target country from that in Canada. Some countries may be unsuitable for both catalogue shopping and direct mail, either because mail service is problematic or because people are unfamiliar with and therefore unresponsive to the technique.

Trade Shows: Selling through trade shows in the foreign market is a good option for specialized markets. For example, if you sell industrial machinery, a trade show featuring such equipment will give you an excellent opportunity to meet with and show your product to a large number of potential industrial buyers in a very short time.

Retail Outlets: Undoubtedly the most risky option, the creation of your own retail outlets in the target country is likely to be expensive, time consuming and complex. This option will appeal only to suppliers of a large number of different consumer goods. The advantage is that the supplier can use direct contact with end users as a way of monitoring the success of the product.

Partnerships

Another option open to exporters is to develop some form of partnership abroad. Sometimes known also as strategic alliances, partnerships can help overcome the many challenges of doing business internationally. They may be useful to product exporters seeking to overcome various kinds of trade barriers and import restrictions. They are also useful to service exporters seeking a local presence and representation.

Advantages

Barriers impeding entry into foreign markets may include cultural factors, corporate concentration, unfamiliarity with consumer tastes or government regulation of foreign ownership. A local partner can complement a company's capabilities, providing the expertise, insights and contacts that can spell the difference between success and failure. A well-structured partnership offers concrete benefits to both sides:

- each company focuses on what it does and knows best
- the partners share the risk and therefore minimize the consequences of failure
- partnering extends each side's capabilities into new areas
- ideas and resources can be pooled to help both sides keep pace with change
- small firms can use partnering to take advantage of economies of scale and achieve the critical mass needed for success
- through partners, a company can approach several markets simultaneously
- partnering can provide a firm with technology, capital or market access that it might not be able to afford or achieve on its own
- both sides can translate the synergy gained into a competitive advantage that will help them succeed in today's global marketplace.

Partnering abroad can be used to support an export-based business strategy by offering a variety of ways in which the Canadian firm can penetrate foreign markets. For example, more than half of the fastest-growing manufacturing companies in the U.S. use various forms of partnering to enter foreign markets. In the service industry, this figure is close to 100 percent. In addition to exporting, companies are penetrating foreign markets through joint ventures, consortial arrangements, co-production or co-marketing agreements (see chart at the end of this section) as well as through mergers, acquisitions and even direct overseas investment.

Potential Dangers

For all its advantages, partnering also carries potential disadvantages. You may have to give up some freedom of action. You may have to spend considerable energy on just managing the relationship. Occasionally partnerships can lead to dependence on another firm. With many forms of partnership, there is always the danger that strategic or proprietary information may be inadvertently shared or leaked outside the alliance.

Developing a Partnering Strategy

There are three basic steps in developing a partnering strategy:

- deciding whether or not partnering is appropriate for your company
- defining the form and structure of the partnership that best suits your needs
- finding a partner that meets your criteria and complements your strengths and weaknesses.

Is Partnering Right for You?

While there are many reasons why companies seek partnership, this does not automatically mean that partnering is right for your company. Before investing time and money in finding a partner or negotiating an agreement, make sure that it makes sense, given the specifics of your own particular corporate strategy. If your needs can be satisfied in-house within a reasonable time frame, then a partner may be unnecessary. If the problem is financial, you may be better off looking for investors instead of partners. But if, after going through these options, there is still something missing — special expertise, synergy in product development, a local market presence — then partnering should be given a closer look.

To help you decide, you should focus on the following characteristics of your company and define them concisely.

What is your corporate direction?

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What are your company's competitive advantages?

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....

What does your company lack?

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....

What role can a foreign market play in achieving your goals?

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....

What skills and resources do you have that can help you succeed in a foreign market?

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What is missing from your human resource skill set?

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Which of these skills and resources can the company acquire?

....

....

Which can be secured only through a local partnership?

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Are there other ways of filling in the gaps?

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....

What Kind of Partnering?

If your preliminary analysis suggests that you can benefit from a partnering arrangement, your next step is to define the form, structure and objectives of the partnership you want. Entering a partnership without a clear set of objectives means risking loss of control over its direction. Developing a clear plan before you engage in the process can minimize such dangers and ensure a positive result. Start by defining your company's goals and determine your own ability to achieve them. Then, define what you might expect from a partnership.

What skills and resources should the partner bring to the table to make the venture a success?

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How should the partner's contribution be formulated and evaluated?

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There are many different types of partnering arrangements (see chart at the end of this section). What are the pros and cons of each?

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Which one is best suited for your exporting drive?

....

....

Which Partner?

Once the type of partnership needed has been identified, the search for a suitable partner can begin. The right partner is one that complements your capabilities so that the venture has a complete set of the skills and resources required for success. In addition, the partner's organization must be able to work harmoniously, effectively and efficiently with your own.

The amount of collaboration needed tends to increase with the uncertainty and complexity of a venture. Levels of interaction will increase with the number of products involved, the size and number of the markets being addressed, and the number of distinct objectives set for the partnership. Close cooperation will also be required if the two partners are characterized by any striking dissimilarities.

For example, if the partners are very different in size, special partnering arrangements may be required to compensate. The smaller partner may prefer to enter into a joint venture that is accorded considerable autonomy. In the case of partnering between Canadian and foreign firms, cultural differences will also have to be bridged. There are always the internal characteristics of an organization — its operating philosophy, attitudes, practices and structures — that make it unique. These too must be accommodated in any partnering arrangement. The following questions may suggest some avenues you should explore:

How risky or complex is the proposed venture?

....

....

How much cooperation will be required?

....

....

Are operations centralized or decentralized?

....

....

Are organizational structures compatible?

....

....

Do the partners have a similar attitude to marketing and distribution strategies or to customer service?

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Are they compatible in the all-important area of finance?

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Do they have similar attitudes toward risk, the distribution of dividends, reinvestment, the most appropriate debt/equity ratios or tax policies?

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....

Do they have similar employee policies, compensation programs, hiring strategies and attitudes to labour relations?

....

....

You should be ready and willing to assume the large commitment involved in finding the right partner, structuring the deal and managing the venture. Poor partner selection is one of the chief reasons cited by experienced managers for the disappointing performance of unsuccessful partnerships. The process needs to be approached with considerable patience and realistic expectations.

Where to Look

Even when you know exactly what kind of a partner you want, you may not know where to look. A good way to start is by talking to any existing business contacts active in the target country. Basing a partnership on an existing business relationship means that you already know how well your companies work together; you have personal ties, and your companies are familiar with each other's skills, resources, corporate culture and values.

If you have no close business contacts abroad, you may look for leads from suppliers, customers, industry associations, bilateral business councils, banks, other financial institutions, auditors, government officials and regulators. Remember too that Canadian Embassies and Trade Commissioners abroad can help you to identify candidates and arrange for introductions. You may also want professional help from financial advisers, accountants, lawyers, consultants or market researchers who can fill gaps in your own capabilities. If you reach for expert advice, be sure to define clearly what you expect before retaining professional assistance. Screen all prospects carefully, no matter how few are under consideration. In the final analysis, the overriding consideration must be the compatibility, commitment and credibility of the potential partner.

Form of Partnering	Description/Considerations
Joint venture	An independent business formed through the cooperation of two or more parent firms.
	Traditionally used to avoid restrictions on foreign ownership when entering a foreign market.
	Useful if the project requires commitments that are more complex and comprehensive than what can be spelled out in a simple contract.
	Suitable for longer-term arrangements that require joint product development as well as ongoing manufacturing and marketing.
	Can also be used as a way of developing a local presence for service exporter.
Licensing	Not usually considered to be a form of partnership, it can lead to partnerships or be an important element in their formation.
	A firm sells the rights to use its products or services but still retains some control over the product or service.
	Issues subject to negotiation include royalties, patents, sublicensing possibilities, rights to sell and manufacture, duration of the arrangement, geo graphical limitations of the licence, exclusivity and issues related to the updating of technology.
Cross-licensing	An increasingly popular form of strategic alliance between two firms in which each licenses products or services to the other.
	A relatively straightforward way for companies to share products or expertise without the complications of closer collaboration.
	Because they involve minimal cooperation, cross-licences are less likely to achieve much synergy.
Cross-manufacturing	A form of cross-licensing in which companies agree to manufacture each other's products.
	Co-manufacturing may be combined with co-marketing or co-promotion agreements through which companies cooperate to advertise and sell each other's products.
	A comprehensive cooperative agreement could involve cross-licensing, a shared promotion campaign or even the formation of a joint venture to market each other's products. Most do not involve licences or royalties, but some rights to the product may be worked into the agreement.

Co-marketing	Co-marketing is also done on the basis of a fee or percentage of sales.
	An effective way to take advantage of existing distribution networks and an ally's knowledge of local markets.
	It allows firms with complementary products to fill out a product line while avoiding expensive and time-consuming development.
Co-production	Represents cooperation in the production of goods.
	Enables firms to optimize the use of their own resources, to share complementary resources and to take advantage of economies of scale.
	Cooperation may involve the manufacture of components or even entire products.
	Many foreign engineering firms have entered joint production agreements with domestic firms that have manufacturing expertise (in the auto and telecommunications industries, competing firms often form an alliance to make components used by all the competitors).
Franchise	Represents a more specific form of licensing.
	The franchisee is given the right to use a set manufacturing process or service delivery process, along with set business systems or trademarks, and the franchisor controls their use by contractual agreement.
	The franchisor is remunerated through an initial franchise agreement fee, from royalties on sales and, in some cases, through control of supplies to the franchisee.

Step 5

DETERMINE YOUR PRICE

Proper pricing is a key ingredient in successful exporting. Yet even for the experienced exporter, setting a price is one of the most challenging aspects of selling abroad. This step covers the various cost elements that must be considered, and identifies alternative pricing methods and strategies employed by Canadian exporters. Two sample export pricing worksheets are also provided.

Exporters must familiarize themselves with the factors that enter into export pricing decisions. Domestic costs, costs specific to exporting and an appropriate profit margin must all be taken into account. In addition, information must be gathered on pricing and other features of the competitive environment in the target foreign market.

Pricing is generally more of an issue for product exporters than it is for service exporters. The pricing discussion in this step tends to be oriented toward the export of manufactured goods. In many professional service contracts, for example, pricing is determined by the exporter's daily rate plus expenses. The crucial pricing decision revolves around the extent to which that rate is competitive with what other companies charge for similar types of expertise. More complex, however, are service contracts that also involve the sale of products as part of the same package.

Cost Factors

In export pricing, you need to distinguish between domestic costs and costs associated with exporting itself.

Domestic Costs

Companies doing business in Canada typically calculate their prices by first determining manufacturing/production costs, development costs, overhead and administration, freight forwarding charges, the costs of promotion sales and marketing as well as distributor margins (provided that a distributor is used). They then add their profit margin on top of the sum of these. When you export, you start with the same domestic costs. However, because your domestic prices include domestic promotion, sales and marketing costs, these should be dropped when calculating prices for exported goods. For service exporters, the analogue might be the overheads associated with maintaining the domestic operation.

Costs Specific to Exporting

After examining your domestic costs, you must consider costs associated with exporting. For product exporters, these include the costs of tariffs, shipping, insurance and distribution in the foreign market. Many exported goods must also take into account the applicable costs of carrying out the following tasks:

- modification of the product in order to meet foreign customs, needs and standards

- modification of packaging and labelling
- foreign promotion, sales, marketing and advertising, which are particularly important if you choose to sell direct rather than to use a foreign distributor or other intermediary
- providing product guarantees and after-sales service in the foreign market
- transportation/financing.

The worksheets at the end of this section provide examples of how these various export costs can enter into a company's pricing equation. In the case of service exports, the costs associated with exporting largely involve travel and communications expenses. Service companies may incur expenses in securing work permits and certification in the foreign market. They may also need special types of insurance to cover their employees while working abroad.

Tax Considerations

Canadian exporters benefit from the fact that, unlike the old manufacturers' sales tax, the federal Goods and Services Tax (GST) implemented in 1991 does not apply to exports, and the GST paid on raw materials and components is refunded to companies selling goods abroad. This has lightened the burden of federal taxes on exporters' production costs, thus enhancing their competitiveness. Also, Canadian companies selling in the United States should be aware that under the bilateral Free Trade Agreement, Canadian duty drawbacks (a refund of the duty charged) are available for most imported components until 1 January 1994. The proposed North American Free Trade Agreement would extend the duty drawback to 1 January 1996.

Export Pricing Methods

Exporters generally rely on a handful of methods to calculate their prices on goods or services sold in foreign markets.

Domestic cost plus markup is the simplest pricing approach. It involves taking your domestic costs and markup, and then adding export costs such as packaging, tariffs, freight, insurance, etc. As noted above, domestic marketing costs should be removed from your cost base before adding export-specific costs. The analogue on the service side is to calculate the basic daily rate and add export-related costs. This export pricing method allows you to maintain your domestic profit margin percentage. Its primary disadvantage is that it ignores market and demand conditions in the foreign country.

Full-cost pricing takes account of fixed as well as relevant variable costs, including those specific to exporting, in establishing prices. This method allows you to recover your total costs, to which a profit margin is then added to yield the final price. But again, it overlooks the competitive situation in the target market.

Marginal-cost pricing results in a lower price and thus may improve your competitive standing. To calculate your marginal cost price, add together the following elements:

- your floor price, which is the basic unit cost based on your out-of-pocket costs of producing and selling the merchandise for export (including costs specific to exporting, such as product modification, packaging and labelling necessary to sell your product abroad)

- a markup to the estimated marginal (export) cost to yield your profit margin.

Marginal-cost pricing produces a lower export price than domestic cost plus markup and is also more complicated. But it provides a more accurate picture of the cost of getting your product to a foreign market, and helps to isolate the profitability of your export business. Marginal-cost pricing is a good alternative if you have surplus capacity on an ongoing basis, which means that the goods of services for export can be produced without raising your company's fixed costs.

Pricing Strategies

To determine an appropriate price, pay attention to the competitive situation in the target market and ask yourself the following questions:

What prices are other suppliers (and exporters) charging for the product? (Try to get copies of competitors' price lists.)

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How strong is local demand for your product or service?

....

....

How fast is local demand growing?

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....

These questions can be answered through careful market research. Talking to potential foreign customers, foreign agents and distributors as well as other intermediaries can provide you with a reasonably good understanding of local market conditions.

If your calculated price for the export is higher than prevailing prices in the target market, you will have to differentiate yourself from your competitors by offering superior quality, better service or some other unique attribute.

Intelligent export pricing consists of more than the mechanical task of using one of the cost-pricing calculations noted above. Successful companies also focus on strategic goals in setting their prices. Any one of a number of strategies can make sense, depending on your business objectives.

Market penetration strategy offers speedy market entry through setting the lowest possible price while still covering your basic costs. The impact on total profits from reducing your expected per-unit margin may be offset by higher volumes.

Skimming price strategy maximizes profits on new or improved products that do not face direct competition in the market in question. If and when competing products enter the market, you should reassess this strategy.

Flexible pricing strategy works to improve overall profitability by offering the same product to individual customers in the market at differing prices. Often the price chosen reflects the knowledge, bargaining power and negotiating ability of particular customers relative to those of the supplier. However, this strategy may also lead to problems by alienating those customers who are charged the higher prices.

Static pricing is the opposite of flexible pricing. It entails charging exactly the same price (excluding possible differences in shipping costs) to all customers in a particular market. A product sold directly to end users through a catalogue, for example, reflects a static pricing strategy.

Export Quotations

Export price quotations are typically more detailed than those prepared for domestic sales. In preparing the quotation, you should describe the product, the price at point of delivery, the time of shipment and the terms of the sale (e.g. irrevocable letter of credit, sight draft, etc.). Other elements to be included are the gross shipping weight, cubic volume or other relevant measures. You should provide freight insurance and other costs if requested by the buyer in order to allow for calculation of the "landed cost."

The quotation can take the form of a "pro forma" invoice transmitted by letter, fax or telex. A quotation is usually contractually binding in international business, so careful preparation is essential. A freight forwarder can offer valuable assistance in developing quotations. In selling to the U.S., your price should be expressed in U.S. dollars, and should include the costs of shipping to the relevant U.S. destination as well as Customs duties and other fees.

Export Pricing Worksheets

The following worksheets break down the expenses encountered in a typical export transaction. The first involves the shipment by truck of a finished consumer product to the United States. All transport costs, Customs duties and other export-specific charges are included in the selling price. The second worksheet provides an example of an overseas shipment of a bulk order of industrial raw materials.

Worksheet 1.
Shipment of Furniture to a Customer in New York [a]

1. Unit Cost	$650
fixed	300
variable	350
2. Labelling ("Made in Canada" label)	10
3. Tax/Duty Adjustments (subtract)	160
GST rebate	70
duty drawbacks	10
non-applicable fixed costs	80
4. Net Production Cost (1 + 2 – 3)	500
5. Packaging	45
6. Forwarding Agent's Fees	65
7. Promotional Costs	50
8. Other Costs (financing charges, documentation preparation, export credit insurance)	30
9. Export Commissions (10% of selling price to U.S. agent)	140
10. Total (4 + 5 + 6 + 7 + 8 + 9)[b]	830
11. Trucking Costs	130
12. Merchandise Insurance	20
13. Customs and Clearance Fees	45
14. Profit (Export Income)	375
15. Final Price (10 + 11 + 12 + 13 + 14) (truck delivered selling price, cleared through Customs)	$1 400

[a] Example is based on a worksheet contained in *The Export Connection*, a manual published jointly by the National Bank of Canada and the ministère du Commerce extérieur et du Développement technologique du Québec in 1986.

[b] Known as "Ex Works Price" (see expressions listed in Step 3).

Worksheet 2.
Shipment of Metal Rods Sold to a Customer in the United Kingdom (1 container holds 5 000 rods)[a]

1. Unit Cost	$6.50
fixed	4.00
variable	2.50
2. Labelling	—
3. Tax/Duty Adjustments (subtract)	2.00
GST rebate	0.45
non-applicable fixed costs	1.55
4. Net Production Cost (1 + 2 – 3)	4.50
5. Packaging	1.00
6. Forwarding Agent's Fees	0.04
7. Promotional Costs	0.15
8. Other Costs (financing charges, document preparation export credit insurance)	0.50
9. Export Commissions	—
10. Total (3 + 4 + 5 + 6 + 7)[b]	6.19
11. Shipping Costs	0.60
12. Merchandise Insurance	0.03
13. Customs and Clearance Fees	—
14. Profit (Export Income)[c]	1.30
15. Final Price (10 + 11 + 12 + 13 + 14) (Hamburg selling price per rod, CIF)[d]	$8.12

[a] Adapted from the same source as Worksheet 1.

[b] Known as "Ex Works Price" (see expressions listed in Step 3).

[c] Total exporter profit on a sale of 5 000 in one container is $6 500.

[d] for definition of CIF, see INCO Terms in Step 3.

Step 6

PROMOTE YOUR PRODUCT OR SERVICE

Well-planned promotional strategies often play a key role in achieving success in international markets. This step briefly reviews several key aspects of promotion in external markets.

Promoting Services

This step is largely focused on the promotion of products. Services are not promoted in the same way. A service provider's offerings can involve conventional advertising, though in many instances there is no substitute for direct approaches based on cold calls and personal contact. Remember too that in many service-oriented sectors a company's reputation spreads by word-of-mouth or personal referrals. Many service contracts are issued by government institutions or international development agencies, and the supplier has to keep an eye on what contracts are being put out for tender. In such cases, the major form of promotion in such cases tends to be the "lobbying" associated with the proposal, bid or tender that leads to the contract. The support of the Canadian government through the embassy, or the services of an agency such as the Canadian Commercial Corporation or the Canadian International Development Agency, can be important (see Annex).

Packaging

Packaging is a factor that affects the competitive potential of many products entering international trade. This is especially so in the case of products sold to foreign retailers/wholesalers and end users. Packaging considerations tend to be less important for products aimed at commercial or industrial markets.

Recognize that it may be necessary to redesign your Canadian packaging before trying to sell your product abroad. Some colours, signs, pictures and symbols used on products sold at home may be inappropriate — or even offensive — in certain foreign markets where consumer tastes and values differ from those at home. Redesigning packaging entails costs that must be factored into your pricing decisions. Foreign sales agents and distributors are able to provide useful advice on package design and many other matters related to this facet of promotion.

Promotional Options

Buyers in many markets, especially in the industrialized economies, are strongly influenced by advertising. Strong brand loyalties, often stimulated by aggressive advertising, have prevented the introduction of competing products or new brands in many markets. There is, however, a growing trend toward niche marketing and even customization of products to suit the needs of specific buyers. You have several options for advertising your product or service in foreign markets: trade/business magazines, directories, other publications and other media; direct promotional materials such as brochures; and trade fairs and exhibitions.

Trade Magazines

Advertising in trade journals, business directories or catalogues is a popular way to reach prospective foreign buyers. Note that many English-language trade publications and business directories enjoy wide circulation in countries where English is not the native tongue. The literally hundreds of trade journals produced in the United States are a very useful vehicle for making potential U.S. customers aware of your product. Many of these are also read widely within the respective trades/industries in Canada and other countries. All trade publications tend to carry a great deal of product advertising, and are widely read by buyers for this reason. As a new exporter, you can learn a great deal about your competitors' products, prices and marketing approaches by reviewing foreign trade magazines and catalogues that focus on your industry or product category.

Promotional Materials

Promotional materials describe your product or service, inform potential customers why they should consider purchasing it, and indicate how to place an order or obtain further information. Promotional materials can be used in a direct-mail campaign or distributed at a trade fair or show. They can be directed either at your target market, importers/distributors, foreign agents and representatives, or end users.

The materials for your export promotion campaign must be "internationalized." Modified materials will be needed; you cannot simply rely on what you use at home. Here are some important points to remember:

- Where necessary, rewrite your sales letters and literature to adapt the materials for foreign markets. Try to use fairly simple and straightforward language, and steer clear of slang words or other terminology that a foreign buyer is unlikely to understand.
- Pictures are often an effective way of communicating your message and portraying the application of your product or service. Where possible, use colour photographs and illustrations. Pictures/illustrations also allow you to avoid lengthy descriptions.

- Consider whether you should translate your materials into the language of your target market. In many parts of the world, English is a common language in business, even when it is not a native language. If you are translating, be sure to hire a first-class translator who has experience working with commercial and business-oriented materials. You may wish to have translated materials reviewed by a native of the target country.
- In non-English and non-French speaking countries, examine the meaning and acceptability of brand names and logos used in Canada. Make sure that no negative or inappropriate connotations are conveyed.
- Make sure that colour and symbols used in promotional material are sensitive to local tastes and consumer preferences.

You may decide to use direct-mail promotion, particularly if you have gained access to a foreign buyer data base or business directory that lists potential customers and their addresses. You may also decide to target foreign distributors or agents. An initial direct-mail promotional package should comprise the following elements:

- a covering letter that introduces your company and line of business, indicates how long you have been in business and summarizes other basic facts about the company (it can also be helpful to provide a banking reference)
- product literature
- a return sheet or "bounce-back" card that allows interested prospective customers to respond quickly to your solicitation and provide you with some basic information on their business and need for your product or service.

Once a potential customer (or agent/distributor) reacts to your initial letter, respond quickly with a sales follow-up letter, more detailed product information, further information on your company, and price quotations (if requested).

If you are seeking a foreign agent or distributor to represent you in the market, a special kit can be helpful in responding to inquiries from this source. The contents might include product specifications and a catalogue, background information on the product, product samples, annual report or other concise summary information on your company, a questionnaire to help you learn more about the foreign agent or distributor, and a proposed understanding or representation agreement.

Trade Fairs and Exhibitions

Some general comments on participating in trade shows, fairs and exhibitions are offered in Step 2. Trade fairs are an effective way of familiarizing yourself with other markets and promoting your product with prospective foreign buyers. The main goal of trade fairs/shows is to encourage business exchanges between buyers and sellers of a particular category of products.

Most trade shows/exhibitions focus on particular industries. As an exporter, your objectives in participating in these events are to display your merchandise, make business contacts, check into the market, learn more about your competitors and their products, and make some sales. Some foreign trade fairs/shows are order-taking events. Attendees come prepared to buy or, in the case of agents/distributors, to negotiate representation agreements. These events are also useful in finding potential agents/distributors. You should therefore be ready to take orders or to discuss the possibility of being represented by a foreign intermediary.

Each year, External Affairs and International Trade Canada participates in a variety of international trade fairs. The majority are held in the U.S. and western Europe. As discussed in Step 3, assistance in selecting, planning for and funding your attendance at international trade fairs is available from both federal and provincial government departments.

Promoting in the United States

Canadian exporters have advantages when it comes to promotion and marketing in the huge U.S. market because of geographic proximity, language, familiarity with the culture and business practices, and the impact of the Canada–U.S. Free Trade Agreement, which has removed many trade barriers. But because of its sophistication, highly competitive nature and sheer size, the U.S. market poses both challenges and opportunities for novice Canadian exporters looking to promote their products.

Small exporters are advised to approach the United States as a series of distinctive regional markets and to adapt their promotion strategies accordingly. The continental U.S. can be divided into at least five main regions: the northeast, the midwest, the southeast, the southwest, and the Rocky Mountain/western states. Often it makes sense to break these regions into smaller subunits or even to focus on particular states. California, with 30 million people, has a larger population and economy than Canada. Other heavily populated states that are important markets for Canadian companies include New York, Texas, Florida and Illinois. It can make sense to focus your promotion efforts on specific U.S. geographic markets — for example, by participating in regional trade fairs, advertising in regional trade and business magazines, etc.

American buyers tend to perceive companies based in Canada as being domestic or "North American." They want to make their purchases in the same manner as when buying from U.S.-based suppliers. As a consequence, many exporters choose to deal directly with any U.S. Customs requirements. The priorities of American buyers are the exactly the same as when they deal with domestic suppliers: a competitive price, good quality, on-time delivery and superior service.

Step 7

ARRANGE YOUR FINANCING

Financing is central to the success of all businesses. For smaller businesses that are considering whether to pursue external markets, financing issues are a major concern and can sometimes serve as an impediment to exporting. This remains true whether the company exports products or sells services. In the case of manufactured exports, it may often be necessary to finance the additional production destined for export. Following shipment, it may be necessary to finance the account receivable while awaiting payment from the buyer. Service exporters will have to carry their overheads; if a foreign contract has led to an expansion in staff, cash flow will have to be financed until payment is received. In both the product and service areas, exporting brings additional risks in terms of payment delays, disputes and defaults.

Fortunately, there are ways to plan for and minimize these risks. Companies embarking on an export drive need to become familiar with various options for financing transactions. They should also be aware of strategies to secure protection from non-performance on the part of foreign buyers. While financing problems are common in international business, they need not be an obstacle to exporting your product or service.

How You Can Expect to Be Paid

There are a variety of ways in which the Canadian exporter can arrange to be paid. Four common short-term financing methods are discussed here, in order of increasing risk to the exporter: cash in advance, letters of credit, collections and open account transactions.

Cash in Advance

Cash in advance is the most secure option for an exporter, since it eliminates all risk of non-payment and bolsters working capital. Unfortunately, few foreign buyers are willing to pay full cash in advance. On occasion, a buyer will provide a portion of the contract by way of cash in advance as down payment when Canadian vendors need financing to manufacture the goods ordered by the buyer. In the case of services, a partial payment may be made upon signing a contract, after which progress payments are matched to deliverables.

Letters of Credit

These instruments are frequently used in international commerce. A commercial letter of credit, or documentary credit, is an instrument issued by a bank at the request of an importer, in favour of a supplier/exporter, for the purpose of financing the importation of goods and/or services. By opening the documentary credit on behalf of the importer, the bank lends its own name to the transaction, in effect obligating itself to pay the exporter, provided that the exporter complies strictly with the terms of the credit. In effect, this eliminates credit risk of the buyer. The importer's bank instructs its branch or correspondent bank in Canada to make payment to the Canadian exporter/supplier, provided that the documents presented by the exporter to the Canadian bank comply with the stated terms and conditions of the documentary credit. The transaction is completed when the funds are deposited in the exporter's account by its own Canadian bank, following transfer of the funds from the importer's bank. Both the foreign and the Canadian bank receive fees for providing this service. For a detailed description of how a letter of credit works, see Step 9.

There are several varieties of letter of credit. Both "revocable" and "irrevocable" letters of credit are used to finance international transactions. An irrevocable letter of credit cannot be amended or cancelled without the consent of all parties, including the exporter. A revocable letter of credit can be cancelled without the exporter's consent and, as such, is not a true guarantee of payment.

A distinction is also made between "confirmed" and "unconfirmed" letters of credit. If you are not prepared to accept the credit risk of the issuing bank, insist on a confirmed letter of credit. A letter of credit issued by a foreign bank can be confirmed by a Canadian bank, constituting a guarantee of payment. This is an undertaking by the Canadian bank to pay if the foreign bank does not. The most secure form of letter of credit is one that is both confirmed and irrevocable.

Finally, there are also "sight" and "term" documentary credits. A documentary credit calling for a sight draft means that the exporter is entitled to receive payment upon presentation of the draft to the bank. A term documentary credit, in contrast, may allow drawings over 30, 60 or 90-day periods. In this case, the Canadian exporter/supplier is granting payment terms to the foreign buyer.

Letters of credit offer many advantages. Most importantly, the exporter has the promise of a bank rather than simply a foreign business. In addition, letters of credit can reduce risk by helping to assure the availability of foreign exchange in countries where shortages and currency restrictions are in effect. Letters of credit are legal documents that must be honoured. Their main disadvantage is the cost of the associated banking fees and services. Remember to factor these costs into your selling price if you plan to pursue this alternative.

Collections

These arrangements provide a lower level of security for the exporter than a letter of credit. A "documentary collection," the most common type, consists of a bill of exchange, which is an unconditional order, signed by the exporter, requiring the importer to pay, on demand or at a determined future time, a specified amount of money to a specified person, and is accompanied by commercial documents that confer ownership of the goods shipped. A "clean collection" is a bill of exchange not accompanied by shipping documents, as these are sent directly to the buyer. In both forms of payment, there is evidence of a legal obligation on the part of the importer.

In essence, bills of exchange and related documentation are forwarded by the exporter to the importer/purchaser via their respective banks for final settlement. The exporter gives its bank instruction to release the documents upon payment or acceptance by the importer. The documents and the payment instructions are then passed on by the exporter's bank to the importer's bank, which presents the documents to the importer for payment or acceptance. Once paid, the funds are transferred to the exporter's bank for payment to the exporter. If the collection is unpaid or unaccepted, the documents are held by the importer's bank pending instructions from the exporter's bank, thereby ensuring that the exporter retains control of the goods.

Collections provide the exporter with a lower level of security than letters of credit, and the bank charges are less. However, in some cases, especially in dealing with countries where the banking system is less developed and letters of credit may not be available, collections may be the only alternative.

Open Account Transactions

Selling on open account is arguably the easiest way to make export sales, since this arrangement incurs minimal costs to the exporter and involves little paperwork. However, it may also be quite risky. With this method of payment, the exporter has sole responsibility for determining the ability — and willingness — of the purchaser to pay. Banks provide no protection. The exporting party must finance the transaction with its own funds. This means the exporter must be liquid enough to act as a short-term creditor to the importer/purchaser. In essence, the exporter agrees to ship the product along with the title documents and to wait for the buyer to pay the agreed price within a specified time. This mirrors the procedures used by small Canadian companies when they sell to many of their domestic customers.

Shipping on open account is the most common form of payment for Canadian exporters selling into the U.S. Open account transactions are appropriate when you trust your foreign customers and have access to bank credit. The foreign importer should have an established credit record and, preferably, should be located in a country with a stable economy and government.

To reduce the risk associated with open account transactions, some Canadian banks have established services whereby they purchase invoice acceptances from the exporter. In this situation, the bank purchases the foreign accounts receivable from the exporter outright, thereby assuming the risks associated with the export sale. In return, the bank discounts the invoiced value of the accounts receivable. Factoring houses perform a similar service by purchasing invoices to foreign buyers at a discount. Firms take advantage of their service to maintain their cash flow in return for slightly reduced profits.

How to Make Sure You Get Paid

Types of Security

When selling into a new and unfamiliar market, one precaution is to demand more secure forms of payment. Apart from the payment terms mentioned earlier, there are other forms of security. The most common is export insurance (see box). Both federal government agencies such as the Export Development Corporation (EDC) and private insurance firms will offer policies to protect your export receivables. Insuring receivables offers exporters another advantage. Because they are essentially guaranteed, most banks will accept insured receivables as security if the exporter wants to borrow additional working capital. The receivables can also be sold to a lender at a discount.

A different type of security is provided by the Canada Commercial Corporation (CCC). Its role is to facilitate a deal between Canadian suppliers and foreign purchasers by providing assurances to both sides. For foreign buyers, the CCC undertakes to guarantee the performance of the Canadian supplier, ensuring that goods or services will be delivered as specified. For Canadian exporters, the CCC guarantees that payment will be made if the terms of the contract are fulfilled and, in many cases, it can even accelerate payments.

Export Insurance

What Can Be Insured

- raw materials and general commodities
- manufactured goods
- consumer goods and semi-processed items
- rights to a licence, patent, copyright
- proprietary technology
- engineering, technical and professional services.

What Need Not Be Insured

- sales done through cash in advance
- sales by irrevocable letter of credit
- sales to U.S. government agencies
- sales in the U.S. on a cash-on-delivery basis.

Risks Covered

Commercial Risks

- insolvency of the buyer
- default by the buyer
- repudiation of goods
- unilateral termination of the contract by the buyer.

Political Risks

- war-related risks
- cancellation of import/export permits by the Canadian or foreign government
- conversion and transfer difficulties caused by the currency and exchange policies of a foreign government.

Credit Management

Credit management is a key concern for most businesses when dealing with their domestic customers. The same issues arise when you begin to export. Often it is necessary to extend credit in order to win and retain foreign customers. But before doing so, be sure to check out the buyer's credit worthiness. This is comparatively easy in the case of importers located in the United States and many European countries. It is also necessary to take into account the political/economic stability of the importing country, the availability of credit insurance, and the value of the sale both in absolute terms and in relation to your total sales.

You would do well to take the following sorts of precautions to avoid credit/collection problems:

- do a thorough credit check of your foreign customers
- use a sales contract, which constitutes a legal agreement
- make sure the goods shipped are exactly as described, taking care to follow the importer's instructions with respect to documentation.

If problems do arise in getting paid and the importer is clearly the one at fault, you have several avenues of recourse:

- try to collect through persistent persuasion
- lodge a formal protest to register the debt, which establishes your legal claim on an importer who is unable or unwilling to pay (a notary in the buyer's city will prepare and present the protest documents demanding payment)
- if the above actions do not bring results, take the claim to court or to commercial arbitration (most industrialized countries have standing arbitration procedures that apply in the case of defaults or other commercial disputes).

Managing Exchange Rate Risk

International trade can put either the importer or the exporter at a foreign exchange risk. A contract that is to be paid in the exporter's currency — the preferred option for the Canadian exporter — could leave the importer at risk of currency fluctuations. By contrast, the Canadian exporter may be put at risk when the contract specifies payment in the importer's currency. Such risks can be mitigated or avoided through hedging in the foreign exchange market.

For the exporter expecting payment in a foreign currency, hedging involves negotiating the future payment by the importer at the exchange rate prevailing at the time the contract is signed. This eliminates the exporter's exposure to the risk of possible fluctuations in the value of the importer's currency vis-à-vis the Canadian dollar. Banks and other financial institutions can assist you in taking steps to manage your exchange rate risks. Ideally, however, you should try to transfer exchange rate risk to the foreign importer of your product by persuading it to agree that it will make payment in Canadian (or perhaps U.S.) dollars.

Where to Look for Financing

An exporter who needs to finance sales has several alternatives. Funds can be borrowed from a bank or other financial institution, preferably against insured receivables. Government agencies often provide export credits or short-term financing. If you need to secure export financing, one or more of the following types of institutions may be able to assist you.

Government Departments and Agencies

Both federal and provincial governments maintain a variety of programs to facilitate Canadian exports. Many government programs are designed to encourage foreign visits by small and medium-sized Canadian firms as well as their participation in trade shows, fairs and other marketing efforts.

Some federal government agencies offer services of direct interest to exporters. The EDC facilitates trade and investment by providing risk management services, including insurance, finance and related advisory services. The Federal Business Development Bank (FBDB) can also provide some assistance with export receivable loan guarantees. The CCC issues guarantees of performance to foreign buyers and guarantees of payment to Canadian suppliers. It also takes over responsibility for collecting from the foreign buyer and can even accelerate payments to the Canadian supplier. If you plan to establish a joint venture, invest or transfer technology to a less developed country, the Industrial Cooperation Division of the Canadian International Development Agency (CIDA) can provide you with advice. If your project is eligible, CIDA can also contribute financial support. For details of the services offered by these agencies, see the Annex.

Commercial Banks

Canadian banks have long been involved in financing foreign trade. Thousands of Canadian exporters have looked to banks to finance their export sales. Banks can assist both the exporter/seller and the importer/buyer by providing credit, collection, advice and other assistance.

For most Canadian exporters, the credit role of their commercial banks is crucial. Banks may extend short-term credit to the foreign buyer and/or the Canadian exporter. In either case, they will carefully assess the credit worthiness of the prospective borrower. In granting credit to Canadian exporters/sellers, banks often work in conjunction with the EDC in order to offer insured credit. Canadian banks also provide many other services that can be useful to exporters, thanks to their international networks, foreign affiliates, knowledge of foreign exchange issues, and comprehensive information and documentation services. Banks may also assist with collections in some foreign countries.

Normally, Canadian banks will not extend credit to a buyer in another country unless that country is judged stable and does not maintain currency or capital controls. Canadian banks that agree to grant credit to a foreign buyer may insist upon a guarantee from the foreign country's government or national bank.

Other Sources

There are several other sources of export financing used by Canadian exporters.

Confirming houses act as a buyer's agent, and place and confirm orders with Canadian exporters. They guarantee payment to the exporter. Credit terms are normally short, up to 180 days, and are usually covered by bills of exchange drawn on the foreign buyer.

Export financing houses purchase the Canadian exporter's foreign receivables on a non-recourse basis upon presentation of proper documentation. They then organize export arrangements and provide front-end financing to the foreign buyer. The cost of financing reflects all of the expenses incurred.

Factoring companies purchase accounts receivable and make immediate payment (discounted) to the exporter, thereby assuming the risk of default by the importer. Fees charged are usually higher than those levied by banks.

For more information about the services of these institutions or for contacts and referrals, you can talk to local exporting companies, business associations or trade specialists.

Step 8

GET YOUR PRODUCT OR SERVICE TO MARKET

Understanding what is involved in getting your product into the foreign target market is an important part of the export process. Most exporters rely on professional or expert assistance when shipping outside Canada — especially for overseas shipments. Still, you need to be aware of the basic steps in transporting exported goods.

Transportation Options

You have four options for getting your goods to your foreign customers. Often, a particular export shipment will involve more than a single mode of transportation.

Truck: Trucking is a popular option for shipments within North America. Many small Canadian exporters to the U.S. ship via truck. Extensive cross-border trucking services are available, including general carriers, specific-commodity carriers and private carriers. Different rates are charged for truckload and less-than-truckload quantities. Even if shipping goods overseas, you may still use trucking to deliver the product to the final destination. The quality of available trucking services declines, however, once you go beyond the industrialized countries. In eastern Europe, for example, the poor condition of the roads makes rail a more popular and more reliable delivery option.

Rail: This is another common option, especially when shipping to the United States. Rail is also widely used when shipping to seaports for transport abroad by ocean carrier and shipping from seaports to a final destination. Certain countries of the world rely on rail transport far more than they do on trucking. Be sure you know what form of transportation is the most cost-effective and reliable for your particular market. Shipments in whole carload lots are less expensive per unit than those in partial carload lots.

Air: International air freight is expanding rapidly. Regular service to U.S. and overseas destinations is available from major Canadian airports. Not all destinations are covered, however, and special charters may be required for more exotic markets. Shipping by air costs more than surface or sea transport. The higher cost may be offset by faster delivery, lower insurance and warehousing costs, and better inventory control.

Ocean: Exports of goods to offshore markets is most often accomplished via ocean carriers. Large items, bulk commodities and items that do not require fast delivery are usually shipped most economically by sea. Canadian exporters shipping orders of significant size to Asian or European markets have little choice but to ship by ocean. Remember, however, that for certain markets, there may be no regularly scheduled shipping from Canada. In that case, a special voyage may have to be chartered, which makes sense only for very large shipments. A freight forwarder, on the other hand, may know of special charters going to your target destination and can get your shipment on board.

As discussed below, freight forwarders can play a valuable role in helping you select a carrier and negotiate the most advantageous terms, given your needs and your foreign customer's requirements.

Delivering Services

The challenges associated with providing services to a foreign market are no less complex, but they are quite different from those faced by the goods exporter. If you are a service exporter, your ability to deliver services to the customer will depend on factors such as the following:

- extent and reliability of telecommunications links in the target market
- the degree to which an infrastructure of computers, faxes, modems etc. exists in the target market
- frequency and convenience of regularly scheduled air links between Canada and the target country
- the relative technological sophistication, receptivity and flexibility of customers in the target market
- the support you may receive from official channels, government departments and international development agencies
- your ability to satisfy legal regulations governing work permits or professional certification.

Freight Forwarders

An international forwarding agent is often a key participant in the exporting process. A good freight forwarder takes care of all aspects of merchandise transportation, relieving the exporter of this sometimes onerous responsibility. Effective use of a forwarder is particularly important for companies new to exporting.

Freight forwarders are specialists in handling and shipping goods for sale to foreign countries. They can provide estimates of transportation and shipping costs, and can inform you of other costs related to shipping your product to foreign markets. Among the specialized services they offer are the following:

- selecting a suitable carrier for your product and target market
- negotiating all arrangements with the carrier
- coordinating the movement of cargo to the port of embarkation
- preparing the necessary documents
- providing advice on packing, labelling and marking of goods
- arranging warehouse storage and cargo insurance.

There are two main types of freight forwarders: air freight forwarders, and ocean freight forwarders. It is advisable to find a knowledgeable and experienced forwarder with which to establish a close ongoing relationship. Because shipping can be a significant cost factor, using the services of a good freight forwarder can minimize costs and thus can increase the likelihood that your product's export price will be competitive in the target market.

Many forwarders specialize in arranging shipments to certain countries or areas of the world; some concentrate on particular types of products. Talk to local exporting companies, business associations and trade specialists to find out about freight forwarders in your community or area.

Packing of Goods

Proper packing and marking is necessary for goods entering international markets. Merchandise shipped internationally, particularly via ocean or regular air freight, is susceptible to damage and loss. In selecting the appropriate packing method, consider several factors.

- Some types of goods being exported are at risk of damage during handling, in transit or in storage. They may require special temperature control or protection while being shipped and/or in storage.
- The type of carrier used to ship the product may determine the kind of packing to use. For goods carried by ship, you need to know whether they will be placed above or below deck.
- Adverse weather conditions may be experienced in transit. Extreme temperatures can damage many types of products.
- At port and handling facilities at the point of entry into the importing country as well as during transit within the country, cargoes are often handled roughly in some parts of the world, and thus should be packed with extra care.
- Protection against theft during transit can be increased through proper packing, and the risk of pilferage can be similarly reduced.

Marking

Marking containers identifies your goods in relation to the consignment or cargoes of other shippers. Marks shown on the shipping container(s) must conform to those shown on the commercial invoice/bill of lading. Required markings include the following items:

- buyer's name or some other form of agreed identification
- point/port of entry into the importing country
- gross and net weights in kilograms and pounds
- identification of the country of origin, i.e., "Made in Canada"
- number of packages for shipments consisting of more than one container
- warning/cautionary markings, if necessary
- the packing list, plus one copy in each container, itemizing the contents.

If you have little experience in exporting and shipping, it is advisable to have export packing and marking done by an international freight forwarder.

Product Labelling

Beyond marking the container, you may also have to provide your products with labels suited to the target market. Product labelling is no trivial matter. Your goods may not clear Customs or may not be admitted into the country of destination unless your product labels conform to all local requirements. These may include some or all of the following:

- use of the local language
- name of the country where the product was made or manufactured
- name of the producer or shipper
- product details such as weight, ingredients, etc. (in the case of foodstuffs)
- type of fibre and instructions for use (in the case of clothing)
- technical specifications (in the case of machinery and equipment)
- certification of conformity to local technical standards (in the case of appliances, etc.).

Canada, for example, has very specific rules about product labelling, requiring all of the aforementioned information to appear on imported goods wherever it is relevant. Other countries are equally stringent.

Types of Insurance

The impact of insurance on export financing is discussed in Step 7. Generally, cargo insurance is more important in international than in domestic transportation. International carriers assume only limited liability for your goods when shipping by air or ocean, in contrast to the situation when shipping in your home market. The terms of sale often make the seller responsible for the goods up to the point of delivery to the foreign buyer. Thus it is recommended you obtain transportation insurance when exporting, particularly overseas.

Marine transportation insurance protects both ocean- and air-bound cargo, and also covers connecting land transportation. Three main types of (marine) transportation insurance are available.

Free of Particular Average (FPA) provides the narrowest type of coverage. Total losses, and partial losses at sea if the vessel sinks, burns or is stranded are covered.

With Average (WA) provides greater protection from partial losses at sea.

All Risk is the most comprehensive type of transportation insurance, and protects against all physical loss or damage from external causes.

Note that in international transportation, once the documents transferring title are delivered to the foreign buyer, the Canadian exporter no longer is liable for the goods.

Documentation for Overseas Shipping

A number of documents are required for overseas shipping. These generally fall into two basic categories: shipping documents and collection documents.

Shipping documents: Key shipping documents include packing lists, validated export licences (if required by Canadian law), domestic bills of lading and other export documents. Shipping documents are prepared by the exporter or freight forwarder, and allow the shipment to pass through Customs, to be loaded on a carrier, and to be transported to the destination.

Collection documents: Principal collection documents include commercial invoices (the seller's bill of sale), consular invoices (required by some foreign countries), certificates of origin (attesting to the origin of the exported goods), import licences (importers in some foreign countries are required to obtain these), inspection certificates (health or sanitary certificates are required by many foreign countries for animals, animal products, plants, and other agricultural products), and dock and insurance receipts. Collection documents are submitted in advance by the exporter to the buyer or its bank, and trigger payment of the goods once they have been received. A freight forwarder should be able to handle all export document requirements, for a modest cost.

Note that under the Canada–U.S. Free Trade Agreement (FTA), Canadian exporters seeking to benefit from reduced or tariff-free entry to the United States must obtain a certificate of origin for each product. This document attests that the exported product originates in Canada (or the U.S.), and complies with the rules set forth in Chapter 3 of the FTA. Standard certificates of origin for U.S.-bound goods are available from Canada Customs and from External Affairs and International Trade Canada (EAITC). Similar rules of origin will apply under the proposed North American Free Trade Agreement that includes Mexico.

Step 9

IMPLEMENT YOUR EXPORT PLAN

Once you have decided upon an export strategy for your company, you must move to implement it. Before you do so, however, ask yourself the following questions:

- Are you ready to commit the resources and time to attempt exporting? (Step 1)
- Are you comfortable with the choice of target market? (Step 2)
- Are you confident that you have the right product or service for that market? (Steps 1 and 2)
- Have you become familiar with the necessary technical information? (Step 3)
- Are you confident with your choice of entry or distribution strategy, and do you feel you have the right partners and/or associates? (Step 4)
- Are you confident your price is competitive? (Step 5)
- Do you have a promotional plan? (Step 6)
- Can you finance the transaction? (Step 7)
- Have you chosen an appropriate way of delivering the shipment? (Step 8)

If you are confident that you can answer positively to all of these questions, you are ready to move from planning to action. If you answered no to any of these questions, you may wish to go back and review the relevant step.

Build Your Team

A key element in getting your export drive started is securing the commitment of those employees who will be charged with implementation. They should be brought into the process and informed about why the company is taking the initiative, the role each individual is to play, what the company hopes to gain, and what each participant can expect to get out of it. This is the first step in developing an export-oriented mind-set within your company.

Ideally, your team should include a variety of functional areas and skills to ensure that it can respond effectively to the wide variety of issues that may arise. For many smaller companies, at least in the initial phases of the export drive, it is more realistic to speak of the individual who is tasked with managing the export plan. In many smaller firms, that person may be the owner.

Regardless of how many people are involved in the effort, it is vital to have a champion with the authority to make things happen and the perseverance to carry the effort through to a successful conclusion. This individual should be sensitive to the cultural nuances of the target market and possess strong interpersonal skills to bridge gaps and establish fruitful relationships.

The Trial Run: Market Selection

The best approach to implementing many major business initiatives consists of a series of manageable small steps, none of which puts the business at risk. Because the steps follow each other in rapid succession, the company can move swiftly toward its objective. For the novice exporter, the recommended approach is to test the waters with a trial run. Once your team has gained experience and confidence, more ambitious export objectives can be pursued.

As has already been noted in Step 2, most new Canadian exporters start with the U.S. market because of its proximity and familiarity. While there are advantages to this approach, once you have successfully demonstrated your company's ability to export, take a look at the growing opportunities to be found in other export markets.

The Trial Run: Preparation

Whether you export goods or services, many (though not all) of the preparatory steps will be similar.

- If you have decided to mount your trial run in the U.S., choose a specific regional market as the focus of your initial efforts.
- Research the regional market you have chosen. Consult the market intelligence available at External Affairs and International Trade Canada and look at trade-oriented publications and magazines. Contact the Canadian Commercial Corporation to find out about procurement opportunities.
- Visit cities in the region, talk to potential buyers and intermediaries as well as the nearest Canadian Trade Commissioner.
- Develop a network of contacts and potential partners. Find out who your competitors and potential allies are. Who are the most important importers, distributors and agents for your product?
- If working through agents and distributors, develop a short list of potential candidates, assess their qualifications and capabilities, and check their track record. Develop a profile of the ideal associate and then select the one whose skills and experience most closely complement your export objectives. If exporting a service, consider the possibility of finding a local partner to represent your interests.
- Put together a promotional package describing your company and its products or services.
- Identify and attend a regional trade exhibition, if possible. Do some preliminary promotion, collect business cards and establish contacts with potential buyers and associates.
- If selling directly to customers, place an ad in a U.S. trade magazine that is widely read by potential buyers.
- Select and enter into arrangements with key providers of export services such as freight forwarders and Customs brokers.

The Trial Run: Implementation

The following checklist provides a quick summary of the procedures involved in actually concluding a deal and shipping goods to your buyers. It shows how the planning elements covered in previous steps can be implemented in practice. Use the summaries beginning each subsection as a check-off list of things to do.

Service exporters will share certain steps (checking references, visiting prospects, finalizing the terms, arranging for payment) but will not have to concern themselves with documentation, freight forwarding, shipping and Customs clearances.

Check References

- ☐ rating issued by commercial credit organization or commercial bank
- ☐ other exporters who have had dealings with the customer
- ☐ solicit opinion of nearest Canadian Trade Commissioner.

Whether you are dealing with end users, retailers or intermediaries, it is wise to check the references of those to whom you are shipping your goods and those from whom you expect payment. This is easy to do in the U.S. market by approaching other Canadian exporters, commercial banks, other people in the industry or the nearest Canadian Trade Commissioner.

Visit Prospects

- ☐ gather insights into customer's operations and requirements.

If exporting to the U.S. market, visits to important customers are feasible. Such visits might be contemplated if you are selling equipment to a company or making an arrangement with a retailer. A visit can provide you with useful insights into the operations and credibility as well as the requirements of your potential customers.

Finalize the Sale

Confirm the following details of the transaction with the customer:

- ☐ quantity
- ☐ payment terms
- ☐ shipping terms
- ☐ transportation method
- ☐ price.

Confirm the details of the transaction with the buyer. Be sure both sides agree on the quantity, payment terms, shipping/trade terms, transportation mode, price and other specifics of the sale. Typically, the process will be initiated when your sales department receives a purchase order from the buyer. You should respond with an acknowledgment of the order or a sales confirmation.

Prepare a Letter of Credit

- ☐ the buyer issues an instruction to its own bank
- ☐ the buyer's bank sends your bank the letter of credit
- ☐ your bank sends you the letter of credit.

If payment is to be made through a letter of credit, the buyer instructs its bank to issue a letter of credit in your favour. The buyer's bank then asks your bank to transmit the letter of credit to you. After you ship the product together with all required documentation, you present your own bank with the letter of credit and a demand for payment (sight draft) addressed to the customer's bank. Your bank will check the documents and then will pass them along to the buyer's bank, which will also review the documents, accept the draft, notify your bank of acceptance and inform them of the maturity date (for example, 30 days after the draft is received). The buyer's bank then releases the documentation to the buyer, who uses it to clear the goods through Customs and obtain delivery. On the maturity date, the buyer's bank transfers funds into your bank and your bank credits your account.

Be warned. The letter of credit is a crucial document in this process. It must be carefully reviewed by your export team, including your freight forwarder, banker and even your legal counsel. It is vital that the letter is consistent with your sales agreement and that you can comply with all of its provisions. Remember that the buyer's bank could fasten on any discrepancies in your documentation. It pays on receipt of correct documents, not on successful completion of the transaction. If a name or address is misspelled, if the shipping date is wrong or if all charges are not included, you may find yourself unable to collect.

Prepare Other Documentation

Your shipment must be accompanied by all relevant documentation:

- ☐ commercial invoice
- ☐ packing slip
- ☐ shipper's instructions
- ☐ certificate of origin
- ☐ standards documentation (if necessary)
- ☐ health certificate (if necessary).

Commercial Invoice: This contains all details of the agreement and must match the specifications set out in the letter of credit. As your customer will use the commercial invoice to clear the shipment through Customs, the product description must be detailed enough to allow for proper classification and valuation. The selling price as well as shipping charges and all other associated costs must be itemized clearly.

Packing List: This is required if there is more than one container or packaged unit in the shipment. The list indicates the items included in each container or package and the markings on each. It must be consistent with the commercial invoice in every respect.

Shipper's Instructions: This letter authorizes your freight forwarder to act on your behalf, and it specifies the terms and conditions of the sale. It also includes all information required by the forwarder to carry out its part of the process.

Certificate of Origin: When shipping to the United States, you must establish that the goods carry a certain minimum of Canadian or U.S. content to be considered for preferential treatment under the terms of the Free Trade Agreement.

Standards Documentation: In some instances, you need to certify that the product meets all applicable local standards.

Health Certificate: In the case of exports such as meats or live animals, the products must be inspected and certified free of any disease.

Freight Forwarding

The freight forwarder prepares the following documents:

- ❑ Customs invoice
- ❑ consular invoices (if required)
- ❑ special packing or marking list
- ❑ insurance and certificate of insurance
- ❑ bill of lading.

The freight forwarder delivers copies of all documents:

- ❑ to the buyer
- ❑ to your commercial bank
- ❑ to you.

You can now inform your freight forwarder that your container is packed and provided with the required documentation. At this point, the freight forwarder will take the lead in getting your paperwork completed and delivering the shipment to the buyer. Among the services provided by freight forwarders is assistance in completing documents such as Customs invoices declaring the value of the products being shipped or consular invoices through which the consulates of some countries certify the value of the shipment, port of shipment, destination and origin of the merchandise. If special packing or marking is required, the freight forwarder can provide this and can also arrange for the appropriate insurance.

Your shipment will have to be provided with a transportation document such as a bill of lading or air waybill that specifies the mode of transportation, the route the goods are to take and delivery times. It must be presented to your bank with the letter of credit and other documents involved in the payment process.

The shipment may also require a certificate of insurance as evidence that it is insured against loss or damage. The insurance must comply with the specific coverage indicated in the letter of credit. Normally, you should obtain all-risk insurance, which does not, however, cover war or strikes.

Shipment

- ☐ the freight forwarder sends the goods to the carrier
- ☐ the customer receives all relevant documentation allowing for the shipment to be cleared through Customs.

Once your freight forwarder delivers your shipment to the carrier, it is on its way. The freight forwarder prepares, assembles and forwards copies of all documentation to your customer, to your bank and to you. Your customer will be notified that the product has been shipped and informed of when to expect arrival. The freight forwarder will then invoice you for all charges relating to the services provided. The buyer will use the documentation to clear the shipment through Customs.

Customs Clearance

- ☐ the goods clear Customs at the destination entry point.

How customs clearance occurs depends on what form of exporting you are using. If you are shipping goods to a wholly owned subsidiary in a foreign country, then you are responsible for taking the goods through Customs, transporting, storing and delivering them. In many cases, however, the buyer is informed that the goods are being held in Customs. The buyer then arranges to have them cleared and delivered. That is why many prices quoted in international transactions are to the buyer's border.

Collection

After the shipment has been sent:

- ☐ your freight forwarder presents your commercial bank with the letter of credit and all accompanying documentation
- ☐ you present your bank with a sight draft (demand for payment)
- ☐ your bank passes the documentation to the buyer's bank with a demand for payment
- ☐ the buyer's bank accepts the documentation and informs you of the date on which funds will be transferred to your bank
- ☐ your bank transfers funds into your account.

Your freight forwarder has presented your bank with the letter of credit, the sight draft and all documents required to comply with the provisions of the letter of credit (including certificates of inspection, commercial invoices, packing lists and insurance certificates). The bank will check all of these documents for any discrepancies. They will also check if the shipment was delivered on time. If there are any discrepancies, there are three options:

- correct the discrepancies
- request the bank to contact the customer's bank to ask for a waiver for the discrepancies
- ignore the discrepancies and attempt to collect.

Finally, the draft and the documents are sent to the customer's bank, which also checks them for discrepancies. If none are found, the draft is accepted and you are notified of that acceptance. At a specified time, your bank will receive the funds from your customer's bank, and your trial run is complete.

Step 10

REVIEW AND REVISE YOUR EXPORT STRATEGY

After you have completed your trial run, it is a good idea to review several features of your export strategy and, if necessary, redirect your plan in light of the experience acquired. Answer the following critical questions.

Product

Does the product need to be modified in some way not anticipated initially? How?

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....

Do you need to strengthen your capability to provide training to use the product?

....

....

Is it necessary to make better arrangements for providing after-sales service?

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Price

Is your price competitive?

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....

Can you accept a reduced profit margin to yield a more competitive price and thus improve the appeal of your offering?

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....

Is it possible that you can actually raise the price and boost your profits?

....

....

Target Market

What assumptions had you made about your foreign market that have not been borne out? What are the implications?

....

....

What surprises have arisen during the course of doing business abroad?

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....

Are there other markets, identified in your Canadian-based market research, that might be better candidates?

....

....

If you have achieved some initial success, should you expand your geographic export effort within that country, or add other countries to your list?

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....

Technical Elements

Are you familiar with the techniques required to maintain control over the export process?

....

....

Are you comfortable with exporting and do you feel you have a handle on what is going on?

....

....

Intermediaries

If selling via intermediaries, are you happy with the sales performance of your agent/representative?

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....

If selling to a distributor, has the expected quantity of orders been placed? If not, has the distributor offered explanations to account for any shortfall or recommended changes in your product or service or price?

....

....

If selling through a trading house, how successfully has it been selling your product abroad? If the performance has been poor, would it make sense to look at alternative distribution options?

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....

If working through partners abroad, has the relationship proven stable and mutually beneficial?

....

....

Financing

What methods have you been using to be paid for the foreign sales made to date?

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....

Has the experience been satisfactory?

....

....

How long have you had to wait to get paid?

....

....

Has there been a negative impact on your working capital?

....

....

Have you faced credit or collection problems?

....

....

Have you incurred any bad debts?

....

....

Are you satisfied with the service provided by your bank?

....

....

Promotion

Are there other more cost-effective ways that you could use to promote your product?

....

....

Is your promotional material (company brochures, sales letters, samples, etc.) in need of change or improvement?

....

....

Have you learned anything about the target market that leads you to want to reassess your promotional strategy? For example, have you discovered trade magazines or exhibitions that appear more promising that those on which you initially concentrated?

....

....

Shipping

Are you and your foreign customers satisfied with the shipment and delivery of your product?

....

....

Are there less expensive or quicker ways to get your product to the market?

....

....

Is your freight forwarder doing a good job?

....

....

Ten Common Exporting Errors

As you review the success of your trial run, keep in mind the 10 most common errors made by novice exporters listed below.[1] You may have made some or all of these mistakes. If you have, you are in good company. Exporting success does not depend on avoiding all mistakes. The true test of success is whether or not you learn from your mistakes. If you use your experiences, both negative and positive, to improve your export strategy, you are well on the way to becoming a successful exporter.

- ❑ The company did not gather all the necessary background information about the target market. It failed to devise a meaningful marketing plan before attempting to export.
- ❑ The company did not have the commitment or the determination to overcome the difficulties associated with exporting, and it lacked the resources to meet the financial obligations incurred during the initial stages of exporting.

[1] Adapted from "The Ten Most Common Mistakes of New-to-Export Firms," Business America, 16 April 1985, p. 9.

- ❑ Not enough attention was paid to choosing a foreign agent or distributor. The one chosen performed poorly and the company became discouraged.
- ❑ In the first flush of enthusiasm, the company spread itself too thin, attempting to enter several different markets, rather than focusing on one and establishing a base of expertise and strength from which further efforts might be undertaken.
- ❑ The company regarded exporting as a safety net, turning to it only when the domestic market experienced a downturn and abandoning it when domestic business recovered. It did not develop a long-term strategy or presence.
- ❑ The company treated its foreign partners' agents and distributors with less consideration than it treated its partners and associates at home.
- ❑ The company refused to modify its products to respond to regulations or cultural preferences in its target markets.
- ❑ The company attempted to operate exclusively in English and did not bother to provide itself with capabilities in the language of the target market, nor did it seek to produce documents in that language.
- ❑ The firm attempted to do everything by itself instead of engaging specialists such as freight forwarders and Customs brokers to handle the technical details of exporting.
- ❑ The company failed to investigate the potential benefits of partnerships, joint ventures and technology exchanges as a way of enhancing its export efforts.

Annex

EXPORT-RELATED PROGRAMS AND SERVICES OF THE GOVERNMENT OF CANADA

The following is a brief description of the federal government's export-related programs and services. For additional information, please call InfoExport of External Affairs and International Trade Canada, the toll-free export counselling and referral hotline, at 1-800-267-8376.

External Affairs and International Trade Canada (EAITC)

External Affairs and International Trade Canada is the lead government department charged with supporting the export marketing efforts of Canadian business. It helps Canadian firms to access foreign markets for their goods and services through its Trade Commissioner Service as well as through the following export-related programs and services.

International Trade Centres

International Trade Centres have been established across the country in the regional offices of Industry, Science and Technology Canada (ISTC) as a first point of contact for novice exporters. They help companies determine whether or not they are ready to export, assist firms with marketing research and provide access to government programs designed to promote exports. For additional information, call the nearest International Trade Centre in your province or territory.

NEWFOUNDLAND
International Trade Centre
Atlantic Place
Suite 504
215 Water Street
P.O. Box 8950
ST. JOHN'S, Nfld.
A1B 3R9
Tel.: (709) 772-5511
Fax: (709) 772-2373

NOVA SCOTIA
International Trade Centre
5th Floor
Central Guarantee Trust Tower
1801 Hollis Street
P.O. Box 940, Station M
HALIFAX, N.S.
B3J 2V9
Tel.: (902) 426-7540
Fax: (902) 426-2624

PRINCE EDWARD ISLAND
International Trade Centre
Suite 400
National Bank Tower
Confederation Court Mall
134 Kent Street
P.O. Box 1115
CHARLOTTETOWN, P.E.I.
C1A 7M8
Tel.: (902) 566-7400
Fax: (902) 566-7450

NEW BRUNSWICK
International Trade Centre
12th Floor
Assumption Place
770 Main Street
P.O. Box 1210
MONCTON, N.B.
E1C 8P9
Tel.: (506) 851-6452
Fax: (506) 851-6429

QUEBEC

International Trade Centre
Suite 3800
800 Tour de là Place Victoria
P.O. Box 247
MONTREAL, Que.
H4Z 1E8
Tel.: (514) 283-8185
Fax: (514) 283-8794

ONTARIO

International Trade Centre
4th Floor
Dominion Public Building
1 Front Street West
TORONTO, Ont.
M5J 1A4
Tel.: (416) 973-5053
Fax: (416) 973-8161

MANITOBA

International Trade Centre
8th Floor, Newport Centre
330 Portage Avenue
P.O. Box 981
WINNIPEG, Man.
R3C 2V2
Tel.: (204) 983-8036
Fax: (204) 983-2187

SASKATCHEWAN

International Trade Centre
Suite 401
119 – 4th Avenue South
SASKATOON, Sask.
S7K 5X2
Tel.: (306) 975-5315
Fax: (306) 975-5334
International Trade Centre
4th Floor, 1955 Smith Street
REGINA, Sask.
S4P 2N8
Tel.: (306) 780-5020
Fax: (306) 780-6679

ALBERTA

International Trade Centre
Suite 540, Canada Place
9700 Jasper Avenue
EDMONTON, Alta.
T5J 4C3
Tel.: (403) 495-2944
Fax: (403) 495-4507
International Trade Centre
11th Floor
510 – 5th Street Southwest
CALGARY, Alta.
T2P 3S2
Tel.: (403) 292-6660
Fax: (403) 292-4578

BRITISH COLUMBIA

International Trade Centre
Suite 900, Scotia Tower
650 West Georgia Street
P.O. Box 11610
VANCOUVER, B.C.
V6B 5H8
Tel.: (604) 666-0434
Fax: (604) 666-8330

YUKON

International Trade Centre
Suite 210, 300 Main Street
WHITEHORSE, Y.T.
Y1A 2B5
Tel.: (403) 667-3921
Fax: (403) 668-5003

NORTHWEST TERRITORIES

International Trade Centre
10th Floor
Precambrian Building
P.O. Bag 6100
YELLOWKNIFE, N.W.T.
X1A 2R3
Tel.: (403) 920-8568
Fax: (403) 873-6228

Program for Export Market Development (PEMD)

Administered by the International Trade Centre of EAITC and ISTC, this program is often referred to as the cornerstone of the federal government's assistance to Canadian exporters. PEMD seeks to increase export sales by covering up to 50 percent of the costs of industry-initiated activities aimed at developing export markets. Contributions are conditionally repayable, depending on the level of success achieved with each project. Activities eligible for financial support include:

- participation in recognized foreign trade fairs outside Canada (PEMD will contribute between $1 000 and $50 000 per application, with an annual limit of $100 000 per applicant; preference is given to proposals from companies with annual sales in excess of $250 000 and less than $50 million)
- trips to identify promising export markets abroad as well as visits to Canada by prospective customers (PEMD will contribute between $1 000 and $50 000 per application, with an annual limit of $100 000 per applicant; preference is given to proposals from companies with annual sales in excess of $250 000 and less than $50 million)
- capital project bidding or proposal preparation at the precontractual stage for projects outside Canada (preference is given to applicants with annual sales of at least $1 million; the minimum bid value must be $1 million; PEMD's contribution may range between $25 000 and $250 000 per company for the bid preparation costs, and there is a maximum of $400 000 per project where two or more companies are bidding jointly on a project)
- special activities undertaken by sector-specific, non-sales trade associations for the benefit of their members (approval of the project will be required from the association's board of directors; PEMD's contribution can range between $15 000 and $100 000; only one application per year is permitted).

All proposed activities must be accompanied by a documented marketing plan. Please note that the program and the conditions mentioned above are currently under review. To find out additional details, please contact the nearest International Trade Centre.

InfoExport Centre

The InfoExport Centre offers suggestions on how to start exporting, gives advice on export programs and services, helps find fast answers to export problems, acts as the entry point to EAITC's trade information network and distributes copies of specialized export publications. For information, call the toll-free hotline at 1-800-267-8376. Businesses in the National Capital Region should call 944-4000.

International Financing

EAITC helps Canadian exporters interested in pursuing multilateral business opportunities. Canadian exporters and trade associations can access market data, obtain a better understanding of the competition, and determine whether a market opportunity is practical and worth pursuing. EAITC can provide information and advice on available Canadian government-funded assistance programs and can also help companies develop effective export marketing strategies. Contact the EAITC Export Finance and Capital Projects Division at (613) 995-7251.

New Exporters to Border States (NEBS)

"Export-ready" Canadian companies without previous export experience can spend time in a Canadian trade office in a nearby U.S. border state and go through a step-by-step program covering the entire process of exporting. The program covers return transportation costs. For information, please contact the nearest International Trade Centre.

New Exporters to Overseas (NEXOS)

Exporters new to Europe are given an opportunity to learn the essentials of doing business there through a business mission. Each mission focuses on a specific sector in one country. For more information, please call the nearest International Trade Centre.

World Information Network for Exports (WIN Exports)

This computer-based information system is designed to help Canada's trade development officers abroad match foreign needs to Canadian capabilities. It provides users with information on the capabilities, experience and interests of more than 30 000 Canadian exporters. For more information about registration in the data base, please call (613) 996-5701.

Publications

To order export-related publications from EAITC, fax your request on company letterhead to (613) 996-9709. EAITC also publishes a free newsletter called *CanadExport*. For a subscription, send your business card with your request to:

CanadExport (BPT)
External Affairs and International Trade Canada
125 Sussex Drive
OTTAWA, Ont.
K1A 0G2

Agriculture Canada

Agriculture Canada plays a role in assisting the agri-food industry in its international trade and marketing efforts. The department's International Programs Directorate consists of five divisions: International Market Services, Office of Trade Evaluation, International Strategies and Services, International Agriculture Development, and the International Secretariat. International marketing assistance is handled by the International Market Services Division, which focuses its support through agri-food organizations under the Agri-food Industry Market Strategies (AIMS). The objective is to work closely with agri-food sector and government specialists to determine the best marketing strategy for each sector of the industry and to support that strategy with promotional materials, studies and missions. Individual business people in the agri-food industry can contact the Office of Trade Evaluation (OTE), the directorate's statistical analysis unit, for information on world agri-food trade. For further information on these and other forms of assistance, contact the directorate at (613) 993-6671.

Atlantic Canada Opportunities Agency (ACOA)

ACOA works in partnership with business to stimulate the emergence of an entrepreneurial and internationally competitive economy in the Atlantic region. A key objective is to increase the number of Atlantic businesses that are active in international trade. ACOA's activities include the monitoring of emerging international trade opportunities, communications initiatives to promote the region, educational workshops and other related activities.

ACOA supports the development of exports through the marketing element of its Action Program. It will assist Atlantic small and medium-sized businesses in the development of a marketing plan and also will support them in other areas of the marketing business cycle. For example, it will provide assistance for initiatives such as advertising campaigns or attendance at trade shows. For further information about ACOA and its programs, call the toll-free number at 1-800-561-7862.

Canadian International Development Agency (CIDA)

CIDA is responsible for administering about 75 percent of Canada's official development assistance. At least half of CIDA's bilateral aid is tied to the procurement of competitively priced goods and services from Canadian firms. These may be purchased for particular projects or may be supplied under general or sectoral lines of credit provided to recipient countries.

In addition, CIDA's Industrial Cooperation Program (INC) provides financial incentives to Canadian companies interested in entering into long-term business cooperation agreements with developing countries. Projects must include social economic and industrial benefits for both the developing country and Canada. INC's investment-oriented programs help eligible Canadian companies conduct studies on cooperation agreements in developing countries. Its professional services programs help eligible organizations conduct studies and provide professional guidance to clients in developing countries. The specialized activities and programs support other activities that could have a major impact on developing countries, including seminars, missions, technology transfer exhibitions, training and trade facilitation. For further information, contact the Industrial Cooperation Division at (819) 997-7901.

Canadian Commercial Corporation (CCC)

CCC offers exporters a wide range of services designed to help them conclude sales to foreign governments and international agencies. In such transactions, CCC assumes the role of prime contractor and assists the Canadian supplier through all phases of the transaction.

CCC's participation, on behalf of the Government of Canada, guarantees performance of the contract. This enhances the supplier's competitiveness while increasing the customer's confidence. The corporation takes part in the negotiations and signs the contract with the customer. It then follows through on all aspects leading to the implementation of the contract, including payment to suppliers and collection from customers.

Exporters using the services of the CCC benefit from the authority, technical expertise and support of the Canadian government in their foreign export ventures. For further information, call (613) 996-0034.

Export Development Corporation (EDC)

This financial institution provides several types of financial and risk-management services to facilitate Canadian exports. EDC helps Canadian exporters compete more effectively in international markets by reducing the financial risks associated with export sales. EDC provides various types of insurance, financing and related advisory services to Canadian companies and their global customers.

Export Credit Insurance

EDC's export credit insurance helps Canadian exporters manage risk by protecting exports against up to 90 percent of losses caused by commercial and/or political events. Insurance coverage is available in more than 150 export markets. EDC's insurance products include short- and medium-term insurance and foreign investment insurance — the latter protects new Canadian investments overseas against political risks.

Export Financing

Through its export financing programs, EDC extends to the Canadian exporter's foreign buyer the medium- or long-term financing required to purchase Canadian goods or services. Up to 85 percent of the Canadian portion of an export deal can generally be financed. Once the Canadian exporter has fulfilled the terms of the commercial contract and has provided the appropriate documentation, EDC pays the exporter on behalf of the foreign buyer/borrower. EDC thus assumes all subsequent payment risk and collects payments from the borrower over the life of the loan. EDC's export financing services include direct loans; lines of credit and protocols, which are streamlined financing facilities set up between EDC and a foreign bank; note purchase agreements, under which the EDC buys promissory notes issued by foreign banks to Canadian exporters for the purchase of Canadian goods or services; and specialized credits. For further information, contact (613) 598-2500.

Federal Business Development Bank (FBDB)

The FBDB promotes the creation and development of small and medium-sized businesses in Canada by providing a range of flexible financial and management services to their owners. For the prospective exporter, the FBDB offers a range of financial services, including loans and loan guarantees for business expansion, acquisition of fixed assets and the purchase of existing businesses. Working capital loans can also be granted to finance increasing sales. As a way of improving the cash-flow situation of exporting companies, FBDB can also provide guarantees to financial institutions for export receivables of these firms. On the management services side, the FBDB offers strategic planning, financial planning and counselling services that can assist exporters with their projects. For further information, please contact the FBDB through its toll-free number at 1-800-361-2126.

Industry, Science and Technology Canada (ISTC)

Business Opportunities Sourcing System (BOSS)

BOSS is a computerized data bank that profiles more than 26 000 Canadian companies. It lists basic information on products, services and operations that is useful to potential customers. The system was established to help Trade Commissioners posted abroad find Canadian suppliers able to take advantage of foreign market opportunities. More than 11 000 international and domestic subscribers use BOSS to locate Canadian suppliers, to obtain market intelligence and to identify market opportunities. For further details, contact ISTC–BOSS at (613) 954-5031.

Multiculturalism and Citizenship Canada (MCC)

MCC provides information on the economic dimension of Canadian multiculturalism, including the capabilities of the ethnocultural business community as a bridge to overseas markets. It also works with the Canadian business community to promote linkages with ethnocultural business and professional groups as a way of tapping into their trade-related expertise and knowledge of business practices abroad. MCC works with the FBDB to sponsor Ethnocultural Business Advisory Committees in major centres across Canada. It also publishes a directory that includes information about ethnocultural business associations, bilateral business councils, ethnocultural advisory councils, as well as other ethnocultural institutions and sources of information. For further information, please call (819) 953-3442.

Standards Council of Canada

Technical standards for products and services differ from country to country, as do the requirements for demonstrating conformance with standards. The Standards Council of Canada, a federal Crown corporation, helps exporters learn about the standards, regulations and conformity assessment procedures of Canada's trading partners. The council also operates a Sales Division, where foreign and international standards can be purchased. For more information, contact the Standards Council at (613) 238-3222, or fax your request to (613) 995-4564. The Sales Division can be reached toll-free at 1-800-267-8220.

Statistics Canada

As the country's central statistical agency, Statistics Canada maintains an information base on Canada's international merchandise trade. Of particular importance to prospective exporters are the detailed monthly, quarterly and annual statistics on Canadian exports to all markets of the world by product and by other characteristics such as value, quantity, country of destination, province of origin, etc.

The data are available in a wide variety of forms (tabulations, diskettes, magnetic tapes), including a standalone PC data base system (TIERS).

Statistics Canada also maintains a "World Trade Data Base" showing annual trade among 160 countries of the world by approximately 600 commodity categories. For further information, please contact the International Trade Division, Statistics Canada, at (613) 951-9647.

Western Economic Diversification (WD)

WD works with business to strengthen and diversify the western Canadian economy. Two of the department's key programs are specifically aimed at opening up new export opportunities for western Canadian business.

International Marketing Initiative (IMI)

WD identifies major marketing events both in Canada and overseas that are likely to be significant export opportunities and provides assistance to selected companies to participate.

Quality Assurance Assistance Program (QAAP)

Financial assistance is provided to companies to achieve international quality standards so that they can be more competitive in global markets.

Information on any of WD's programs can be obtained from the department's offices in Edmonton at (403) 495-4164, Saskatoon at (306) 975-4374, Winnipeg at (204) 983-4472, or Vancouver at (604) 666-6256.