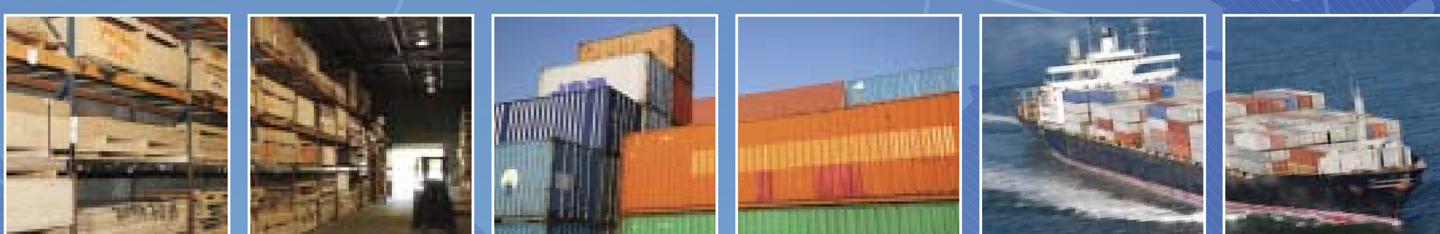
Step-by-Step Guide to Exporting

2008



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Canada

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Write Away

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About the Guide?

The *Step-by-Step Guide to Exporting* is intended to help you learn about the world marketplace and how your company can do business there. It concentrates on the overall principles of exporting and describes the processes that businesses commonly use to develop export strategies tailored to their needs. Among other things, the guide will help you:

- assess your company's export readiness;
- build an export plan;
- research and select your target market;
- create an export marketing plan;
- determine the best methods of delivering your product or service to your target market;
- develop a sound financial plan; and
- understand the key legal aspects of international trade.

Getting ready to do business outside Canada is a complex undertaking for any company. But the basic principles of exporting are quite straightforward and thousands of Canadian firms of all sizes and in all sectors have learned to use them successfully. With careful planning and a solid commitment to becoming an exporter, your company can join them in the global marketplace.

Please Note

The information provided in the *Step-by-Step Guide to Exporting* is general in nature. To ensure that your particular needs are met, always consult specialists such as the trade commissioners of the Regional Offices of Foreign Affairs and International Trade Canada, or call a Canada Business Network Information Officer at 1-888-576-4444.

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1 Getting Started: Assessing Your Export Potential

"First of all, do your homework and know yourself. Realize that it is a commitment for a long, long term. Know your strengths ... Do your research on your product or your service and then go for it."

— *Exporter*

1.1 Exporting: What's in it for you

The globalization of the world's economies has been proceeding rapidly since the early 1990s. Many companies that once used little but domestic materials and labour to manufacture their products or services now go to markets abroad to acquire the resources they need. These developments, coupled with the steady dismantling of trade barriers around the world, have opened up the global marketplace to an unprecedented degree.

This is good news for Canada, since we've always been a trading nation. The combined value of our exports and imports consistently accounts for about two-thirds of the country's GDP, which demonstrates the vital importance of global trade to our national well-being. Many Canadian companies already have long experience in the international market, and more are joining them every year as the liberalization of global commerce continues.

Why, though, would a company that's already doing well within Canada consider becoming an exporter? There are several good reasons, including:

- *Increased sales* — if domestic sales are good, exporting is a way to expand your market and take advantage of demand around the world. You may also find foreign niche markets where your product is rare or unique.
- *Higher profits* — if you can cover fixed costs through domestic operations or other types of financing, your export profits can grow very quickly.
- *Economies of scale* — when you have a larger market base, you can produce on a scale that lets you make the most of your resources.
- *Reduced vulnerability* — if you diversify into international markets, you avoid depending on a single marketplace. A domestic downturn, for example, will be less damaging if you have other markets where demand remains high.
- *New knowledge and experience* — the global marketplace abounds with new ideas, approaches and marketing techniques. You may find them very successful in Canada, too.
- *Global competitiveness* — foreign companies are entering Canadian markets and Canadian companies are going foreign. The experience your company gains internationally will help keep you and Canada competitive in the global marketplace.
- *Domestic competitiveness* — if your company succeeds in the global marketplace, it means your product can compete with the best the world can offer. This helps you succeed at home and ensures your resilience when faced with foreign competition in Canada.

Exporting does require you to deal with a variety of challenges, but you can surmount them through careful preparation and planning. Among these challenges are:

- *Increased costs* — an exporting venture means you'll have to meet many short-term costs for things such as extra travel, production of new marketing materials and perhaps additional staff. You may have to modify packaging, or your products or services, to adapt them to markets abroad.
- *Level of commitment* — it takes time, willingness, effort and resources to establish and maintain yourself in foreign markets.
- *Staying in for the long haul* — while exporting holds great economic promise for most companies, you can expect months or even several years to pass before you see a significant return on your export investment.
- *Cultural differences* — you'll need to familiarize yourself with the differences in language, culture and business practices in your target market. If you don't, you risk inadvertently offending your potential customer and losing a sale.

- *Paperwork* — you'll have to get used to it. Both Canadian and foreign governments require a lot of documentation from exporters of products and services.
- *Accessibility* — you have to be easily available to your foreign clients.
- *Competition* — you must be sure you're thoroughly familiar with the competition in your target market.

Source: *Adapted with permission from the Forum for International Trade Training, Going Global.*

Finding help

The booklet *RoadMap to Exporting*, available at **canadabusiness.ca/roadmap**, will help potential and experienced Canadian exporters with all aspects of international trade. It provides resources and contact information to help businesses with export counselling; marketing strategy information; market entry support; export financing; and in-market

Exporting goods versus exporting services

Exporting goods and exporting services present quite different challenges. The former must deal with packaging, customs and physical delivery, for example, while the latter confronts issues such as work permits, credential validation, and travel to and from the market.

1.2 Are you ready?

An export-ready business is one that has a marketable product or service, and the capacity, resources and management commitment to deliver it on a global scale at a competitive price. The trick is to determine whether this is true of your company — and if it isn't, how to make it happen.

Your first step is to think about the resources and knowledge your business already has. To begin, consider:

Your expectations — do you have:

- clear and achievable export objectives;
- a realistic idea of what exporting entails;
- an openness to new ways of doing business; and
- an understanding of what is required to succeed in the international marketplace?

Human resources — do you have:

- the capacity to handle the extra demand associated with exporting;
- a senior management committed to exporting;
- efficient ways of responding quickly to customer inquiries;
- personnel with culturally-sensitive marketing skills; and
- ways of dealing with language barriers?

Financial and legal resources — can you:

- obtain enough capital or lines of credit to produce the product or service;
- find ways to reduce the financial risks of international trade;
- find people to advise you on the legal and tax implications of exporting;
- deal effectively with different monetary systems; and ensure protection of your intellectual property?

Competitiveness — do you have:

- the resources to do market research on the exportability of your product or service;
- proven, sophisticated market-entry methods; and
- a product or service that is potentially viable in your target market?

EXPORT MYTH

I'm too small to be an exporter

No, you're not! To succeed in international markets, you don't have to be a big firm with lavish resources and an entire department devoted to exporting. Tens of thousands of Canadian small and medium-sized companies — those with foreign sales of between $30,000 and $5 million — are currently exporting and are doing very well at it.

1.3 Evaluating your export potential

Can your product or service find a worthwhile market outside Canada? It's crucial to answer this question satisfactorily — if there's no demand for what you're offering, you'd obviously be unwise to proceed. Here are some things to take into account when you're analyzing your export potential:

Customer profile

- Who already uses your product or service?
- Is it in broad general use or limited to a particular group?
- Is it popular with a certain age group?
- Are there other significant demographic patterns to its use?
- What climatic or geographic factors affect the use of your product or service?

Product modification

- Are modifications required to make it appeal to foreign customers?
- What is its shelf life? Will this be reduced by time in transit?
- Is the packaging expensive? Can it be easily modified to satisfy the demands of foreign customers?
- Is special documentation required? Does it need to meet any technical or regulatory requirements?

Transportation

- How easily can it be transported?
- Would transportation costs make competitive pricing a problem?

Local Representation

- Does it require professional assembly or other technical skills?
- Is after-sales service needed? If so, is it available locally or do you have to provide it? Do you have the resources to do this?

Exporting Services

- If you're exporting services, what is unique or special about them?
- Are your services considered to be world-class?
- Do you need to modify your services to allow for differences in language, culture and business environment?
- How do you plan to deliver your services: in person, with a local partner or by electronic means such as the Internet?

Capacity

- Will you be able to serve both your existing domestic customers and your new foreign clients?
- If your domestic demand increases, will you still be able to look after your export customers or vice versa?

TIP: Involving yourself in events held by the export community in your area can help you learn about international trade. Seminars and business breakfasts, for example, can be excellent opportunities to profit from other people's experience with exporting.

PITFALL: Lack of commitment — when start-up problems arise, the exporter does not have the determination or financial resources to deal with them.

1.4 Science and technology innovation and exports

Historically, Canada's major exports have been natural resources and commodities. But in a global marketplace that recognizes science and technology (S&T) as crucially important generators of wealth and competitiveness, we cannot depend too much on our natural resources for our economic well-being. Diversifying our exports, especially in sectors related to S&T, is an essential strategy if we are to maintain a robust and adaptable economy.

The Government of Canada has established S&T development as a major economic priority for the foreseeable future. This includes not only advanced R&D, but also the commercialization of our S&T innovations and their transfer to the global market. This outward-looking approach is important because strong international S&T linkages help connect Canadian firms to the global marketplace of ideas, talents and technologies. In turn, it ensures that our exporters have access to leading-edge research, which boosts Canada's competitiveness and productivity and ultimately leads to a higher standard of living for all Canadians.

Looking abroad is even more important when one considers the relatively small size of the Canadian market for many advanced technologies; in the aerospace sector, for example, the volume of domestic demand simply can't support the full-fledged commercialization of a service or product. Finding an international market by becoming part of a global value chain, or by supplying companies that are already established in such a chain, can be essential to an S&T company's survival.

If your company falls into this category, you will almost inevitably have to become an exporter and enter the global market. "Exporting" in this context can, of course, mean more than shipping goods abroad or providing services in a foreign country. It can also mean joining a global value chain through R&D collaboration with an overseas company, forming an international partnership to commercialize a product, or investing in a foreign business whose research and innovations complement your own.

1.5 Export quiz: Are you ready?

Is your business ready to start exporting? Take the quiz, check your score and be sure.

1. Is your product or service already available?

A. currently in production or being developed

B. at the prototype stage

C. at the idea stage only

2. Is your product or service selling in the Canadian market?

A. selling, and market share is growing

B. selling, but market share is low

C. selling in only one city in Canada

3. Do you have the surplus production capacity or available specialists to meet increased demand for your product or service?

Yes / No

4. Do you have the financing required to adapt your product or service to suit your target market and to promote it?

A. financing is in place

B. financing is being arranged

C. no financing available

5. Is your management committed to sustaining your export effort?

Yes / No

6. Does your firm have a good track record of meeting deadlines?

Yes / No

7. Does your management have experience in export markets?

Yes / No

8. Does your product or service have a distinct competitive advantage (quality, price, uniqueness, innovation) over your competition?

Yes / No

9. Have you adapted your packaging (labelling and/or promotional materials) for your target market?

Yes / No

10. Do you have the capacity and resources to provide after-sales support and service in your target market?

Yes / No

11. Do you have a Free on Board (FOB) or Cost, Insurance and Freight (CIF) price list for your product, or a rate list for your service?

Yes / No

12. Have you undertaken any foreign market research?

A. completed primary and secondary market re search, including a visit to the target market

B. completed some primary and secondary market research

C. no research

13. **Is your promotional material available in the language of your target markets? (Business cards, brochures, websites)**

    Yes / No

14. **Have you started marketing your product or service in your target market?**

    Yes / No

15. **Have you engaged the services of a sales representative/distributor/agent, or partnered with a local firm?**

    Yes / No

16. **Have you hired a freight forwarder or customs broker?**

    Yes / No

Source: *Adapted with permission from Foreign Affairs and International Trade Canada, Businesswomen in Trade Online Assessment.*

How did you score?

If you selected "A", or answered "Yes" to 12–16 questions, congratulations! You understand the commitment, strategies and resources needed to be a successful exporter. At the very least, you have the foundation in place to take on the world and succeed.

7–11: Not bad, but there are weaknesses in your export strategy. It may be wise to seek advice and guidance from government experts, export consultants or the international trade branch of your financial institution.

Less than 7: While you may be ready to visit faraway lands, you'll need to do more homework before you export. Consider getting help from the sources mentioned in this chapter.

2 Globalization: Joining a Global Value Chain

2.1 About globalization

Economic globalization refers to the rapid expansion of international trade and capital flows that has been occurring since the early 1990s and to the increase in foreign direct investment (FDI) that has accompanied this expansion. As a result, the economies of the world's countries have become much more closely integrated than ever before.

That's the abstract way of looking at globalization. In concrete terms, globalization has caused myriads of businesses to divide their products or services into components. Then, instead of producing the components themselves or obtaining them from domestic suppliers, they outsource certain aspects of the work and acquire these goods or services from suppliers, partners or affiliates in other countries. These components, together with the activities that create them, make up the links of what economists call a *global value chain*.

2.2 Understanding global value chains

According to the Office of the Chief Economist at Canada's Department of Foreign Affairs and International Trade (DFAIT), a value chain (whether global or not) consists of the full range of activities that are required to bring a good or service from its conception to its end use and beyond. This includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms, and can be a single geographic location or spread over wider areas.

When those activities are no longer "contained within a single geographic location" such as a country, but instead are scattered across the planet, we have a global value chain.

Global value chains aren't new. Trade and investment were becoming broadly internationalized in the late 19th and early 20th centuries as transportation costs fell and trade barriers remained low — in 1879, for example, 95 percent of Germany's imports entered the country without paying any duty at all. But this earlier move toward globalization ceased abruptly with the outbreak of World War I, and tentative attempts to revive it were stopped in their tracks by the Great Depression and the upheaval of the Second World War. In many respects, globalization didn't really resume until the last quarter of the 20th century.

Since then, global trade has been shifting away from the traditional export model, in which companies manufacture products in one country and sell them in another. It is also departing from the branch-plant approach, wherein a business produces its goods in a foreign market and sells them almost exclusively in that market. Instead, international trade is now increasingly characterized by the movement of intermediate inputs (for both goods and services) along a global value chain whose links may be anywhere in the world.

2.3 The growth of global value chains

According to the Office of the Chief Economist, there are three major forces driving the growth of global value chains.

2.3.1 Declining costs of transportation

As transportation costs fall, companies can move their goods and services across greater distances without losing competitiveness in their target markets. Unless time concerns dictate otherwise, there is thus no particular need for a company to locate its facilities close to its suppliers or consumers, so it can establish them in locations that offer the best competitive advantages.

2.3.2 Improved information and communication technologies

More flexible, adaptable and cheaper information and communication technologies (ICT) mean that companies are much less limited by distance when operating in foreign markets. Advances in ICT have also made it possible to trade in services that depend on the very rapid movement of large volumes of data (such as software development or financial services) or real-time communications (such as online medical diagnosis or teleconferencing).

2.3.3 Reduced barriers to trade and investment

The number of bilateral trade and investment treaties has been increasing quickly during the past 20 years. Global tariff rates have been falling steadily over the same period, and developing markets such as India and China have been liberalizing their economies at a rapid pace. This lowering of barriers to trade and investment has accelerated the growth of global value chains as companies gain access to markets that were formerly closed to them.

2.4 Global value chains and Canadian exporters

Global value chains take advantage of open borders and economic liberalization so that each link of the chain can specialize in what it does best. This leads to greater efficiency, increased productivity and lower consumer prices for higher-quality goods and services. At the same time, this trade environment stimulates intense global competition that encourages innovation all along the value chain.

As global value chains have evolved, companies worldwide have had to adapt to the new realities they present. In one common strategy, a firm can create its own global value chain by outsourcing some of its non-core activities; it might, for example, shift its product-assembly operations to suppliers, partners or affiliates in countries with lower labour costs or other competitive advantages. An alternative approach, especially for small and medium-sized enterprises (SMEs) is to supply goods or services to a global value chain that has already been established by another company, including a foreign multinational; by doing so, the SME can make itself part of that particular value chain.

In general, Canada has been reasonably successful at adapting to these changing conditions. Our excellent R&D environment and highly skilled workforce, together with our long experience as a trading nation, have underpinned this success. However, as companies become more internationally mobile, they will redouble their efforts to find business-friendly places to operate, and Canada will have to meet the challenge of attracting and retaining the high-value activities that support a technologically advanced, diversified and prosperous economy. Canadian businesses can play a part in this in several ways: for example, by leading the creation of global value chains for their industry sector, by participating in existing chains, by merging with larger firms or by acquiring other companies.

2.5 Global value chains and your business

You have a considerable range of strategies for benefiting from global value chains. The following are among the most common; you can use them by themselves or combine them, depending on your needs.

2.5.1 Provide an intermediate input for an existing value chain

If your product is something that another company (either Canadian or foreign) uses as an intermediate input for its own activities within a global value chain, you may be able to link into that chain by becoming a supplier to the company. This is a very common approach and certainly the simplest, since it closely approximates the traditional model of production and/or exporting. For SMEs, especially for those with niche technologies or specializations, new opportunities are emerging to sell to multinationals or their suppliers, especially as these firms outsource activities that were previously carried out internally.

2.5.2 Develop your own global value chain through outsourcing

If your company manufactures either finished products or intermediate inputs for other companies, you can use outsourcing to set up your own global value chain. This means that you acquire your own intermediate inputs, such as raw materials, components, subsystems and other goods and services, from foreign suppliers, and use them to manufacture your finished product or intermediate input in Canada (or in another country, for that matter).

2.5.3 Use FDI to connect to or establish a global value chain

By investing abroad you can gain immediate access to a foreign market, allowing you to expand your sales and promote your company's growth. There is a broad spectrum of investment approaches, ranging from the passive to the active.

You might, for example, become part of a global value chain simply by investing in a foreign company while taking little or no part in its operations. Purchasing a foreign firm, or setting up a joint venture or partnership with a foreign company, might also work for you; either of these strategies lets you take advantage of the other firm's assets and experience, which will both increase your competitiveness in the local market and give you better control of local production and distribution networks. This approach can be very cost-effective if you obtain existing production and distribution capabilities though the investment and don't need to build them from the ground up.

At the active end of the spectrum, you could become a full participant in a foreign market by establishing a wholly-owned subsidiary there. This investment strategy presents a range of advantages that can help you drive and benefit from the global value chains of which your company is a part. Perhaps the most important of these advantages is that you aren't dependent on a partner, so you control the direction your subsidiary will take. You also have direct contact with your end users, which is good for developing new products and for building solid customer relationships. Your company and its role in the value chain are likely to become better known, since your identity isn't obscured by the presence of a partner. Finally, your overseas staff answers only to you, and all data related to your foreign operation is at your sole disposal.

2.5.4 Focus on service sectors

The service sector is opening up all over the world and provides many opportunities in the financial, educational, consulting, environmental, engineering and architectural sectors, to name just a few. Even if you're primarily a manufacturer, you may be able to move up the value chain by branching into value-added services related to your sector, such as design, distribution, marketing and logistics.

Secondary industries related to your sector may provide additional opportunities. Companies are demanding an increasing variety of services to facilitate trade—such as financial, information processing, telecommunications, logistics, and legal services—and your company may have specialized expertise that is directly applicable to such activities.

3

Charting Your Route: Developing Your Export Plan

"It is critical to understand your market and the major focus of your business before you enter the international marketplace. Align yourself with strategic partners, find your niche in the marketplace and localize your products to meet the market demand."

— Canada Export Award Winner

3.1 Why plan?

If you plan your export project thoroughly, you'll have a better chance of doing well in your target market. Bad planning (or no planning) will undermine your prospects of success, and keep in mind that a major failure abroad could severely damage your domestic operations as well.

Financial institutions and other lending agencies will not normally provide funds to a business that lacks a well-developed export plan. At other stages of the export process, potential partners and investors may commit themselves only if your plan clearly sets out your objectives along with the processes and resources you'll use to achieve them.

In short, you'll get nowhere without an export plan. This chapter will help you create one.

EXPORT MYTH
Exporting is too complicated

It can seem that way, but remember that you don't have to do everything yourself. You can use outside experts such as export management companies, overseas agents, foreign distributors or freight forwarders. While you're getting established as an exporter, they can represent you, find overseas customers, manage sales orders, handle paperwork and deliver the goods.

3.2 The foundation: Your business plan

A good export plan begins at home, and is built on a comprehensive business plan that accurately reflects your current domestic operations. If your business plan is out of date, now is the time to review and renew it. If you don't have one, this is definitely the time to create one. For more information, go to the Canada Business Start-up Assistant at **www.bsa.canadabusiness.ca**, which has a section on preparing business plans.

TIP: Contact your industry association to find names of successful exporting companies in your sector and target market. You can then set up a network of business contacts who can provide you with practical advice.

3.3 Building on the foundation: Your export plan

Once you've polished up your business plan, you can start creating your export plan. It isn't something you'll finish in a week, though, and even after you've begun exporting, you'll need to update it regularly.

TIP: The trade commissioners of the Canadian Trade Commissioner Service provide assistance to small and medium-sized Canadian companies, free of charge. There are Trade Commissioner Service offices in every province; to find your local office, visit **www.infoexport.gc.ca** and click on Our Offices in Canada.

TIP: The financial needs of your export venture will affect the complexity and length of your export plan. A financing plan for a multiphase, high-value project will be more complex than one for a $10,000 transaction.

3.4 The elements of your export plan

An export plan is really just a business plan that focuses on international markets. It identifies your target market(s), export goals, necessary resources and anticipated results.

Your export plan should contain the following:

1. **Introduction**
- business history
- vision and mission statement
- purpose of the export plan
- organizational goals and objectives
- international market goals
- short and medium-term objectives for exporting
- location and facilities

2. **Organizational issues**
- ownership
- management
- staffing
- level of commitment by senior management
- relationship between exporting and other operations
- corporate experience and expertise in exporting
- strategic alliances
- labour market issues

3. **Products and services**
- description of products and services
- key features
- adaptation and redesign required for exporting
- production of products and services
- future products and services
- comparative advantage in production

4. **Market overview**
- market research
- political environment
- economic environment
- size of market
- key market segments
- purchase process and buying criteria
- description of industry participants
- market share held by imports
- tariff and non-tariff barriers
- industry trends and other market factors
- market outlook

5. **Market entry strategy**
- target markets
- description of key competitors
- analysis of competitive position
- product positioning
- pricing strategy
- terms of sale
- distribution strategy
- promotion strategy/development of sales leads
- description of intermediaries and partners

6. **Regulatory and logistical issues**
- intellectual property protection
- other regulatory issues
- modes of transportation and cargo insurance
- trade documentation
- use of trade service providers

7. **Risk factors**
- market risks
- credit and currency risks
- political and other risks

8. **Implementation plan**
- key activities
- evaluation criteria and process

9. **Financial plan**
- revenues or sources of funding
- cost of sales
- marketing and promotion costs
- other expenses or expenditures
- operating budget

4

Setting Out: Identifying Your Target Market

"Take the time to examine the local culture, find out how things are done there and adapt. Part of the process includes finding the right local partner."

— Canada Export Lifetime Achievement Award Winner

4.1 Understanding international market research

After the export plan, market research can be the most important contributor to international success. There are about 190 countries in the world, and you obviously want to pick the right one(s) for your product or service.

To do this, you need information that will provide a clear picture of the political, economic and cultural factors affecting your operations in a given market. For example, you may already be aware of an opportunity in a foreign market, but need specific information to take advantage of it. Or perhaps you have a target market in mind and you want more detailed knowledge of the demand for your product or service.

Market research is the key to understanding your opportunities. It can confirm that an opportunity actually exists in a particular market and can help you analyze the market's characteristics. It can give you insight into how a new market can be developed. Most important, it helps you discover what's important to your potential customers and what may influence their buying decisions.

Although there's usually a lot of detail involved, the three basic steps of international market research aren't particularly complex. They are:

Step 1: Screen potential markets

Collect statistics related to your sector that show product or service exports to various countries.

Identify five to 10 large and fast-growing markets for your product or service. Look at them over the past three to five years. Has market growth been consistent year over year? Did import growth occur even during periods of economic recession? If not, did growth resume with economic recovery?

Select some smaller emerging markets that may hold ground-floor opportunities for you. If the market is just beginning to open up, you may not have as many competitors as you would in an established market.

Target three to five of the most promising markets for further study.

Step 2: Assess target markets

Examine trends that could influence demand for your product or service. Calculate the overall consumption of products or services like yours and identify the amount imported.

Study the competition, both domestic and non-domestic. Look at each competitor's Canadian market share.

Identify what affects the marketing and use of the product or service in each market, such as channels of distribution, cultural differences and business practices.

Identify any foreign barriers (tariff or non-tariff) for the product or service being imported into the country, as well as any Canadian barriers (such as export controls) affecting exports to the country.

Search for Canadian or foreign government incentives to promote the export of the product or service.

Step 3: Draw Conclusions

After analyzing the data, you may decide that you should restrict your marketing efforts to a few countries. In general, new-to-exporting companies should concentrate on fewer than ten markets. One or two countries are usually enough to start with.

With these conclusions in hand, you can then begin to develop your marketing strategy (see Chapter 5).

Source: *Adapted with permission from Western Economic Diversification Canada, READY FOR EXPORT: Building A Foundation For A Successful Export Program.*

TIP: Exploring foreign markets can take longer and cost more than you expect. Be prepared for additional expenses for market research, product launches and personal visits.

PITFALL: Going it alone — opportunities are missed when the exporter doesn't investigate potential strategic partnerships, joint ventures and technology exchanges.

4.2 The kinds of market research

There are many ways to study a market, so the second step of your international market research may take different forms. You might sometimes rely on a "gut feeling," and at other times use sophisticated statistical techniques. The more detailed and objective your research, however, the better.

There are two main types of market research, secondary and primary.

4.2.1 Secondary research

You do this in Canada, using data such as periodicals, studies, market reports, books, surveys and statistical analyses. Many of these are available online, as well as through chambers of commerce, economic development organizations, industry and trade associations, and Canadian companies that are already doing business in your target market.

4.2.2 Primary research

After completing your secondary research, you move on to the primary research phase. Here you collect market information through direct contact with potential customers or other sources.

Primary research almost always demands direct, personal involvement through interviews and consultations. Your foreign or domestic contacts will be able to help you better if you state your company's objectives at the outset and present your questions clearly. For example:

Company Description — give a brief description of your company, its history, industries/ markets served, professional affiliations (if any), and your product or service.

Objectives — briefly list or describe one or more objectives for your planned export product or service, based on your secondary market research.

Product or service — clearly describe the product or service you want to export.

Questions — base your questions on your secondary research and be as specific as possible. You'll get a better response if it's clear that you've carefully researched your subject.

4.2.3 Online resources

The export section of the Canada Business website at www.canadabusiness.ca/export brings together federal and provincial/territorial resources on the Canadian export market, including links to market and sector information, trade statistics, and sources of trade leads and potential partners..

The Canadian Trade Commissioner Service at **www.infoexport.gc.ca** will give you access to hundreds of market studies and country reports. CanadExport at **www.canadexport.gc.ca** is another excellent source of current business news and market studies. It will also keep you informed about upcoming trade conferences and trade shows. For companies in the agri-food sector, a wealth of market studies and country reports is available through the Agri-Food Trade Service website of Agriculture and Agri-Food Canada; you'll find it at **http://ats-sea.agr.gc.ca**.

EXPORT MYTH:
I can't compete overseas

That's not necessarily true. Even if your product or service has no obvious foreign market as yet, the world is a big place with many needs and appetites. After all, your business sells domestically, so why shouldn't it find customers abroad? And remember, price isn't the only selling point — other factors such as need, utility, quality, service and consumer taste can make you competitive even if your prices aren't the lowest in the market.

4.2.4 Profiling potential markets

Here's a checklist to help you summarize what you learn about a possible market. After you've created two or three profiles, you can compare them to see which one(s) present the best overall opportunities.

1. **Market type**

   Is it:

   - a fully developed market (Canada, Germany, the U.S.)
   - a developing market with rapid growth (China, India)
   - a developing market with marginal growth (many African nations)

2. **Political highlights**

   Describe:

   - the government
   - who's who
   - major political themes
   - relations with Canada, including agreements

3. **Economic highlights**

   Describe:

   - the domestic economy
   - economic trends
   - general imports and exports
   - imports and exports to and from Canada

4. **Business information**

   Specify:

   - the currency
   - the language
   - business practices and regulations
   - any differences in legal framework
   - government procurement practices
   - work relationships
   - office hours

5. **Partnering options**

   List:

   - Canadian firms doing business in the target market
   - major firms from the target market doing business in Canada
   - options for local partners

6. **Support for market-entry strategies**

   Identify:

   - industry associations
   - trade events in the target market
   - other networking options
   - trade media
   - research facilities
   - market research sources

7. **Cultural considerations**

   Specify:

   - greetings
   - forms of address
   - do's and don'ts
   - cultural differences
   - attitude toward Canadians
   - general tips

8. **Travel tips**

   Describe:

   - visa or other requirements
   - work permits needed
   - business support services
   - suitable hotels
   - telecommunications standards
   - tipping customs
   - electrical voltage
   - religious holidays

5

Reaching the Customer: Developing Your Export Marketing Strategy

"Treat all markets differently. Don't assume that because you're successful in one, you'll be successful in another. There are cultural differences out there that you need to respect."

— Canada Export Award Winner

5.1 Understanding export marketing plans

Long before you fill your first order, you'll need an export marketing plan. While you're developing it, remember not to confuse marketing with advertising, sales or promotion. Marketing is strategy. The other three are the tools your strategy will use to reach your target audience.

A good marketing plan should answer the following questions:

According to your research, what are the characteristics of your target market?

How do your competitors approach the market?

What is the best promotional strategy to use?

How should you modify your existing marketing materials, or even your product or service?

TIP: Building business relationships in foreign markets is best done face to face. Faxes, phone calls and email are good for follow-up, but they can't compete with face-to-face contact.

5.2 The many P's of international marketing

The ***Four P's of Marketing*** are commonly referred to as the "marketing formula" and include:

Product — what is your product or service and how must it be adapted to the market?

Price — what pricing strategy will you use?

Promotion — how will you make your customers aware of your product or service?

Place — how and where will you deliver or distribute your product or service?

International trade is more complicated, and adds nine P's to the list to produce the ***13 P's of International Marketing***. They are:

Payment — how complex are international transactions?

Personnel — does your staff have the necessary skills?

Planning — have you planned your business, market, account and sales calls?

Paperwork — have you completed all the required documentation?

Practices — have you considered differences in cultural and business practices?

Partnerships — have you selected a partner to create a stronger market presence?

Policies — what are your current and planned policies?

Positioning — how will you be perceived in the market?

Protection — have you assessed the risks and taken steps to protect your company and its intellectual property?

Source*: Forum for International Trade Training, Going Global*

PITFALL: No translations — the exporter should be prepared to have documents translated into the language of the target market. Current and potential customers will appreciate it.

5.3 Building your export marketing plan

Because marketing is an ongoing activity, your marketing plan is a work in progress that you'll modify continuously. As you develop it, consider the following questions:

- What is the nature of your industry?
- Who are your target customers?
- Where are they?
- What is your company's marketing strategy?
- What products or services do you plan to market?
- How will you price your products and services?
- Which segment of the market will you focus on?
- Does your marketing material accurately convey the quality of your products or services and the professionalism of your company?

As for content, a good marketing plan is closely related to your export plan and should contain the following:

Executive summary — state the purpose of your marketing plan. This provides an overview of your objectives and how the plan will be used in your exporting strategy.

Product or service analysis — give a clear description of your export product or service, its unique selling points and how marketable it might be internationally.

Market analysis — describe your target market in terms of size and trends. Include key economic, social, political and cultural characteristics, a profile of your target customer, buying patterns and factors influencing purchasing decisions.

Competitive analysis — analyze the competitiveness of your product or service. This will help you to position it effectively in your target market, and to decide pricing and marketing strategies.

Goals — state your objectives in terms of market share, revenue and profit expectations. Indicate the position you would like to occupy in the target market and explain how you will go about achieving it.

Marketing strategy — describe your marketing strategy, including information on specific product or service pricing recommendations, mode of delivery and proposed promotional methods.

Implementation — list the activities you'll undertake to carry out your marketing plan, indicating target dates and who will perform the activities. Prepare a detailed marketing budget.

Evaluation — design a method of evaluating your marketing plan at various stages to determine if your goals are being achieved and what, if any, modifications may be needed.

Summary — include a half-page summary of your marketing plan goals, describing how they fit into your overall export plan.

PITFALL: Poor market research — the exporter takes insufficient time to collect background information on the target markets, such as consumer demand, the competitive landscape, local import laws, customs requirements and other important factors.

5.4 Setting prices

Strategic pricing is one of the most important factors in achieving financial success in your export business. Part of setting a realistic export price, and therefore an appropriate profit margin, is to examine production, delivery costs, competition and market demand. You should also understand the variables of your target market and other export-related expenses such as:

- currency exchange rates;
- market research and credit checks;
- receivables/risk insurance;
- business travel;
- international postage, cable and telephone rates;
- translation;
- commissions, training charges and other costs involving foreign representatives;
- consultants and freight forwarders; and
- product or service modification and special packaging.

5.4.1 Market demand

As in domestic markets, demand in foreign markets can affect your price. In other words, what will the market bear?

For most consumer goods, per-capita income is a fairly good way to gauge a market's ability to pay. Per-capita income for most industrialized nations is similar to that of Canada or the United States, while it is much lower for the rest of the world.

It's true that some products or services may create such a strong demand that even low per-capita income will not affect their selling price. Generally, though, simplifying products or services to reduce the selling price may be the best option in less affluent markets.

Remember that currency valuations affect affordability. Your pricing should try to accommodate currency fluctuations and the comparative value of the Canadian dollar.

5.4.2 Competition

In domestic markets, few companies can set prices without considering their competitors' pricing. This is also true in exporting.

If you have many competitors in a foreign market, you may have to match or undercut the going price to win a share of the market. If your product or service is unique or new to a market, though, you may be able to set a higher price.

5.4.3 Pricing strategies

How will each market affect your pricing? To begin with, you have to include things like product modifications, shipping and insurance in your calculations. And as mentioned above, you can't ignore your competitors' pricing.

Refer to your market objectives when setting your price. For example, are you trying to penetrate a new market? Looking for long-term market growth? Or pursuing an outlet for surplus production?

You may have to tailor your marketing and pricing objectives to certain markets. For example, pricing strategies for developing nations, where per-capita income may be low, will differ from your objectives for high per-capita markets.

This all means that you have several pricing strategies available:

Static pricing — charging the same price to all customers.

Flexible pricing — adjusting prices for different types of customers.

Full cost-based pricing — covering both fixed and variable costs of the export sale.

Marginal cost — covering only the variable costs of production and exporting, while you pay overhead and other fixed costs out of domestic sales.

Penetration pricing — keeping your price low to attract more customers, discourage competitors and gain quick market share.

Market skimming — pricing the product high to make optimum profit among high-end consumers while there is little competition.

After you've determined your costs and chosen your pricing strategy, establish a competitive price for your product or service that gives you an acceptable profit margin.

TIP: Business people and customers in most foreign markets will appreciate your efforts to learn about their culture. Such efforts will probably increase their interest in doing business with you.

5.5 Promotion

The outcome of your promotional strategies can make or break your export venture. In this context, promotion refers to all the communications tools you use to convince people to buy your product or service. They are:

Advertising — carefully select the media that have a wide circulation within your target audience. If few people have televisions, is radio a better bet? Or print?

Promotional materials — you may need to redesign your marketing materials and packaging to remove elements that are inappropriate, offensive or meaningless in the target market. You'll also need to translate these materials into the native language, so be prepared to hire a professional translator with experience in commercial and business writing. And before you use the translation, have it double-checked by a native of the country.

Direct mail — a targeted direct mail campaign can be very effective. Research and experience in your target market will help you build a base of potential buyers and clients to whom you can direct your company's message.

Media — publicity via the media is a good way to establish awareness, profile and credibility. Prepare a media kit that introduces a profile of your company, new products/services or newsworthy activities. Include copies of any articles published about your company.

Personal visits — personal contact with potential clients is perhaps the best means of promotion. Many cultures value such contact in their business relationships. Your attention to it can impress your foreign contacts.

Trade shows — attending or participating in international trade shows is an excellent promotional method. It also allows you to check out the competition and do market research. If it's difficult for your company to take part in a trade event, consider teaming up with other Canadian companies, or joining a federal or provincial delegation.

Internet — it's generally assumed that a business will have a website. A well-designed site can help your export venture in many ways, from promotion to customer service. Be prepared to commit time and money to keeping the site up-to-date, though — an outdated site can do your enterprise more harm than good.

Branding Canada for agri-food companies

Is your company in the food and agricultural sector? If it is, you should know about Branding Canada, a program developed by Agriculture and Agri-Food Canada in close partnership with industry and provincial governments. This initiative is designed to leverage Canada's strong international image to increase the sales and profile of Canadian agri-food products. For more information, refer to **www.ats.agr.gc.ca/brandingcanada**.

TIP: Be careful to look into the meanings that your name or corporate image may have in the target market. You don't want to discover, too late, that they are inappropriate in the local language or culture.

5.6 Marketing tools

Getting your marketing tools right is crucially important. Here's a list of things to remember about them:

Business cards should be:

- professionally designed and of high quality;
- easy to read;
- in the appropriate language;
- consistent throughout your firm;
- distinctive and informative; and
- up-to-date and complete, including area codes, country, telephone and fax numbers, postal code, e-mail and website addresses.

Brochures should be:

- creative and appealing;
- informative and easy to read, highlighting your uniqueness;
- professionally designed and printed; and
- visually pleasing.

Customer testimonials should:

- show that your company is highly recommended;
- represent your best customers;
- be from top executives; and
- be included in your brochure.

News articles should be:

- clear in stating that your company is a recognized leader;
- quoted in your brochure;
- reproduced on your letterhead;
- displayed in your office; and
- sent to potential clients.

Videos should be:

- sophisticated and interesting;
- professionally produced;
- oriented to the quality and benefits of your product or service;
- clear and concise; and
- easily available.

Websites must be:

- comprehensive and informative;
- professionally designed;
- visually pleasing;
- up-to-date;
- e-mail enabled; and
- capable of allowing online purchasing (if appropriate).

5.7 Pricing checklist

Use this handy checklist to track your costs and develop your pricing strategy.

Marketing and promotion

- agent/distributor fees
- advertising, media relations
- travel
- communications
- materials (brochures, business cards)
- trade fairs and exhibitions

Production

- unit cost of manufacture
- product or service modification
- Preparation
- labelling
- packaging
- packing
- marking

Documentation

- inspection
- certification
- document preparation
- cargo insurance
- freight forwarder's fees

Transportation

- lading and related charges
- carriage
- warehousing and storage
- insurance

Customs

- customs and others duties at port of entry
- customs brokerage fees

Financing

- costs of financing
- interest charges
- exchange rate fluctuations
- export credit insurance

Source: *Forum for International Trade Training, Going Global*

Marketing goods versus marketing services

This table outlines some of the differences between marketing services and marketing goods in an export environment.

FACTOR	FOR GOODS	FOR SERVICES
Demonstrations	Sample product	Presentation of capabilities
Initial marketing by…	Sales representatives	Firm's principals
Stages of marketing	Marketing your product	Marketing your firm *and* your service
Local market presence	Sales/distribution facility	Office or virtual office in target market
INFORMATION NEEDS		
Cultural factors	Product design and packaging	Interpersonal dynamics
Local associations	Distributors, marketers	Service industry
Local events	Trade shows	Conferences (as speaker)
Media	Product advertising	Press coverage
Local partners	Production/distribution firms	Other service firms
Government procurement	Goods acquisition	Services contracts

6 Opening the Door: Entering Your Target Market

"It's very important for new exporters to go to a target market personally and get a feel for local conditions. It's also important to partner with someone who's familiar with the local business culture."

— Exporter

6.1 Understanding entry strategies

Developing a market entry strategy simply means finding the best methods of delivering your goods to your market and of distributing them there. Or, if you're exporting services, it means setting up ways to obtain and manage contracts in the foreign country.

Foreign Affairs and International Trade Canada has trade commissioners in every province who can help you design your market entry strategy. Outside Canada, trade commissioners in more than 140 cities can help you deal with the challenges of market entry. For more information, visit **www.infoexport.gc.ca**.

Trade Routes support for cultural exports

Trade Routes is part of the federal government's Department of Canadian Heritage. It supports initiatives from arts and cultural organizations that are linked to the development of long-term export strategies for this sector. See **www.pch.gc.ca/routes**.

6.2 Working out your entry strategy

Based on your market research, you've chosen the most promising markets for your product or service. Using what you know about these markets, you next decide which entry method best suits your needs. Some factors to consider are:

- How is business conducted in your target market and industry sector?
- What are your company's export strengths and weaknesses?
- What is your company's financial capacity?
- What product or service are you planning to export?
- How much service and after-sales support will your customers require?
- What trade agreements or barriers apply to your target market?

6.3 Methods of market entry

The traditional means of market entry fall into several broad categories: *direct exports*, *indirect exports, partnerships* and *acquisitions/investments*. We'll examine each of these and then look at the question of intermediaries — agents, distributors and other go-betweens.

6.3.1 Direct exports

This varies depending on whether you're selling products or services.

For products, you market and sell directly to the client.

For services, you negotiate, contract and work directly with the client.

Direct exporting has advantages because it can:

- give a higher return on your investment than selling through an agent or distributor;
- allow you to set lower prices and be more competitive; and
- give you close contact with your customers.

It also has disadvantages, because:

- you don't have the services of a foreign intermediary, so you may need longer to become familiar with the market; and
- your customers or clients may take longer to get to know you, and such familiarity is often important when doing business internationally.

6.3.2 Indirect exports

Again, your approach depends on whether you're selling products or services.

For products, you market and sell to an intermediary such as a foreign distributor. You can also retain a foreign agent or representative who does not directly purchase the goods.

For services, you contract with an intermediary who then negotiates and contracts on your behalf. For many new exporters, an intermediary may be the best way to enter a market.

6.3.3 Partnerships

A solo entry into a foreign market may not always be the best approach for an exporter. You might find it advantageous to partner with a local company whose strategic position complements or enhances your own.

A well-structured partnership can benefit both parties in the following ways:

- Your partner can complement your capabilities and provide the local expertise, insights and contacts that may make the difference between success and failure.
- Each company focuses on what it does and knows best.
- Both partners share the risk.
- You can pool ideas and resources to help keep pace with change.
- You can approach several markets simultaneously.
- Your partner may provide technology, capital or market access that you might not be able to afford on your own.
- Partnerships may help resolve problems related to professional accreditation, movement of personnel across borders, and tax and legal status.
- Combining the technical and financial strengths of two businesses can make both more competitive — a big advantage in today's highly competitive global market.

You develop a partnership strategy in three steps:

- First, decide whether or not partnership can work for you. If your needs can be satisfied in-house, a partner may not be necessary. If you need financing, you may be better off looking for investors. But if you require special expertise or a local market presence, then a partnership might work very well.
- Define the form, structure and objectives that a partnership must have to suit your needs. To do this, evaluate your company's goals, its ability to achieve them and where you need help in doing so. Then identify how the partnership must work in order to fill in those gaps.
- Find a partner who meets these criteria and who will be a good "fit" with your company.

There are several different forms of partnerships. The major options are:

Licensing — a licence is the grant of rights to another business so that it can legally use your proprietary technology and/or intellectual property; for example, to allow an Indian company to manufacture a product of your design and sell it in India. It usually doesn't involve granting all the rights to the property — in the example above, the licence might be for the Indian market but not for the Chinese.

Franchising is a more specific form of licensing. The franchisee is given the right to use a set of manufacturing or service delivery processes, along with established business systems or trademarks, whose use is controlled by the licensing agreement.

Cross-licensing — each firm licenses products or services to the other for sales purposes. *Cross-manufacturing* is a type of cross-licensing in which companies agree to manufacture each other's products. It can also be combined with co-marketing or co-promotion agreements (see below).

Co-marketing — carried out on the basis of a fee or a percentage of sales, co-marketing lets you and your partner take advantage of each other's existing distribution networks and domestic markets.

Co-production — this arrangement involves the joint production of goods, enabling your business to use its skills and resources to best advantage. It can also provide cheaper manufacturing through economies of scale.

Joint venture — the two businesses each contribute capital to a newly created corporation that they operate together, or the Canadian and the local businesses enter into a general partnership agreement and operate the joint venture as a partnership.

Using the expertise of lawyers, accountants, bankers and other professionals is vitally important when setting up any type of partnership. All parties must be absolutely clear on who holds which rights and which responsibilities.

PITFALL: Poor alliances — the exporter pays too little attention to the qualifications of a foreign agent or distributor.

6.3.4 Acquisitions and investments

A partnership isn't the only way to tap into the resources of a foreign company. Acquiring a firm in your target market, or making a substantial investment in it, can achieve the same results and help you with your market entry in several important ways.

You immediately gain access to the local market, which speeds up the process of expanding sales and promoting company growth. This can also lead to sales in other countries.

It allows you to take advantage of the local firm's assets to increase your competitiveness in that particular market, in Canada and possibly elsewhere. These assets can include patents and other intellectual property, resource availability, access to capital, specialist expertise, proprietary technology and product differentiation.

You may enjoy lower operating and production costs in your foreign operation than at home. This can stem from easier access to supplies, lower labour costs and lower transportation costs.

Working abroad

Exporters of services should be aware of the personal and business issues involved in working outside Canada. Foreign Affairs and International Trade Canada publishes a guide called *Working Abroad: Unravelling the Maze* to tell service exporters about potential problems and how to deal with them. Refer to **www.voyage.gc.ca/alt/working.asp**.

6.3.5 Selling to foreign governments

Foreign governments can present a rich source of contracts for exporters in sectors ranging from environmental technology to aerospace. To help Canada's businesses sell to these customers, the federal government has established the Canadian Commercial Corporation (CCC), a Crown Corporation that acts as Canada's international contracting and procurement agency. It brings foreign government buyers and Canadian exporters together by assisting with the negotiation and execution of contracts.

To do this, the CCC signs two contracts: one with the foreign government buyer, and the other with the Canadian exporter. As the intermediary, the CCC ensures that the contract is completed according to the conditions of the agreement and transmits the contractual obligations down to the Canadian exporter. The result is a secure government-to-government contract with the best possible terms and conditions for all concerned. In addition, CCC manages the cycle of payments from the foreign government buyer to the Canadian exporter to maintain a predictable and timely payment schedule.

The CCC also specializes in managing contracts with the U.S. Department of Defense and NASA, so if your company operates in a defence- or space-related sector, you should definitely consider talking to a CCC representative; for more information, refer to the CCC website at **www.ccc.ca**.

Your opportunities for selling to the U.S government aren't limited to defence and aerospace, of course. For a detailed explanation of U.S. government procurement in general and how you may be able to take advantage of it, visit Foreign Affairs and International Trade Canada's SELL2USGOV website at **www.international.gc.ca/sell2usgov**.

6.4 Intermediaries

While you may be sure that the direct-exporting route is best for your company, don't be too quick to jump on a plane and start knocking on doors. Think first about using a intermediary, because the right one can save you an enormous amount of time and money. They come in several types: agents, representatives, trading houses and distributors.

6.4.1 Agents and representatives

Agents and representatives aren't exactly the same. An *agent* secures orders from foreign customers in exchange for a commission. A *representative* is a specialized agent who operates within a specific geographic area and who sells related lines of goods or services.

Both may be authorized to enter into contractual sales agreements with foreign customers on your behalf. Normally you pay them a commission only when they sell your product or service.

An agreement with a foreign agent or representative immediately gives you a presence in your target market. This is usually less costly than setting up your own direct sales operation. Your representative can also make more frequent sales calls than you probably could. Finally, such an arrangement gives you control over the product or service and its price — an important advantage.

Good foreign agents or representatives can help you in many ways. They can research markets, advise on financing and transportation options, clear goods though customs, provide access to potential customers, make collections, and supply information on local business practices, laws and cultural traditions.

TIP: Developing foreign markets is a long-term commitment. It takes time, effort and resources. Make sure your management is committed to the export venture and be prepared for the long haul.

6.4.2 Trading houses

Trading houses are domestic intermediaries that market your goods or services abroad. A full-service trading house handles a great many aspects of exporting, such as market research, transportation, appointing distributors or agents, exhibiting at trade fairs and preparing advertising and documentation.

Some act as "principals" or "export merchants," buying products outright from Canadian suppliers, while others act as "agents," selling on commission. Some specialize in specific industry sectors, while others focus on particular foreign markets.

If you prefer not to sell directly to foreign customers or worry about finding a foreign intermediary, you might consider using a trading house.

PITFALL: Poor distributor relations — the exporter treats foreign agents or distributors as minor partners, giving preference to domestic distribution channels.

6.4.3 Foreign distributors

Unlike agents, distributors actually purchase your product or service and resell it to local customers. Often, they set the selling price, provide buyer financing and look after warranty and service needs.

A bonus is that the distributor can usually provide after-sales service in the foreign market. On the other hand, using a foreign distributor may reduce your profit margins and result in a loss of control over your product and/or price.

6.5 Choosing an intermediary

You can obtain information about potential intermediaries from the Canadian Trade Commissioner Service in Canada and abroad, and from trade associations, business councils and banks. Talking with other Canadian exporters or potential foreign customers also can help you identify prospective agents or distributors.

Once you've developed a list of candidates, you should visit the market to meet them. Talk to several firms and then carry out your due diligence to make certain they're reputable.

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 once the trial period is over.

To evaluate a prospective intermediary in detail, use the checklist below. Be sure to tailor it to your company's particular needs and the characteristics of your chosen market.

Size of sales force

- How many field sales personnel does the agent or distributor have?
- What are its short- and long-range expansion plans, if any?
- Will it have to expand to accommodate your needs properly? If yes, would it do so?

Sales record

- Has its sales growth been consistent? If not, why not? Try to determine its sales volume over the past five years.
- What are its sales objectives for the next year? How were they determined?

Territorial analysis

- What territory does it now cover?
- Is it consistent with the coverage you're looking for? If not, is it willing and able to expand?
- Does it have any branch offices in the territory you wish to cover? If so, are they located where your sales prospects are greatest?
- Does it plan to open additional offices?

Product or service mix

- How many product or service lines does it represent?
- Are they compatible with yours?
- Does it represent any other Canadian firms? If so, which ones?
- Would there be any conflict of interest?
- Would it be willing to alter its present product or service mix to accommodate yours, if necessary?
- What would be the minimum sales volume needed to justify handling your lines?
- Do its sales projections reflect this minimum figure?
- From what you know of the territory and the prospective agent or distributor, is its projection realistic?

Facilities and equipment

- Does it have adequate warehouse facilities?
- What is its method of stock control?
- Does it use computers? Are they compatible with yours?
- What communications facilities does it have?
- If servicing is required, is it equipped and qualified to do so? If not, is it willing to acquire equipment and arrange for training?
- If so, to what extent will you have to share these additional costs?
- If necessary, would it be willing to inventory repair parts and replacement items?

Marketing policies

- How is its sales staff compensated?
- Does it have special incentive or motivation programs?
- Does it use product managers to coordinate sales efforts for specific lines?
- How does it monitor sales performance?
- How does it train its sales staff?
- Would it be willing to share expenses for sales personnel to attend seminars?

Customer profile

- What types of customers is it currently in contact with?
- Are its interests compatible with your lines?
- Who are its key accounts?
- What percentage of its total gross receipts do these accounts represent?

Principals represented

- How many principals does it currently represent?
- Would you be its primary supplier?
- If not, what percentage of its total business would you represent? How does this percentage compare with other suppliers?

Promotional thrust

- Can it help you research market information?
- What types of media does it use, if any, to promote sales?
- How much of its budget is allocated to advertising? How is it distributed?
- Would you be expected to share promotional costs? If so, how will this amount be determined?
- If it uses direct mail, how many prospects are on its mailing list?
- What printed material does it use to describe its c ompany and the lines it represents?
- If necessary, can it translate your advertising copy?
- Does it have its own website?

Source: *Adapted with permission from Western Economic Diversification Canada, READY FOR EXPORT: Building A Foundation For A Successful Export Program.*

7

Shippers and Shipping: Delivering the Goods

"Time spent preparing before shipping your goods overseas means having your product arrive on time and at the right cost. Choosing the right shipping method is vital to your export success."

— *Exporter*

7.1 International trade regulations

You'll have to familiarize yourself with your target market's import regulations, product standards and licensing requirements to make sure that your products are imported without difficulty. If you're a service exporter, you may have to acquire professional or other accreditation from the country where you'll be operating.

Trade and international security

Because the global trading system is vulnerable to terrorist exploitation that would severely damage the world's economy, the World Customs Organization (WCO) has begun an initiative that will help protect the international supply chain. Called the SAFE Framework, this initiative aims to establish and integrate standards for supply chain security and management, strengthen cooperation among customs administrations to improve their detection capabilities, strengthen customs-business cooperation and promote the seamless movement of goods through well-secured international supply chains.

7.2 Export declarations

Reporting your goods exports is mandatory under Canadian regulations (unless you're exporting to the United States — there's no reporting requirement in this case). For details how to do this, go to the Canada Border Services (CBSA) website and download or read Guide RC4116, *Exporting Goods from Canada*, which you'll find in the list at **www.cbsa-asfc.gc.ca/publications/pub/pubs-eng.html**.

Speaking of forms, you'll probably have to deal with the B13A Export Declaration. This form, along with the appropriate permits and licences, must be prepared by exporters prior to exporting to all non-U.S. destinations. It's available on the CBSA website at **www.cbsa-asfc.gc.ca/E/pbg/cf/b13a/README.html**.

TIP: You can also submit the B13A Export Declaration electronically using the Canadian Automated Export Declaration (CAED) software. The Statistics Canada webpage at **www.statcan.ca/english/exports** will tell you how to do this.

7.3 Export permits

You'll need an export permit if:

the destination country is on the *Area Control List* (a list of countries for which any export, except humanitarian items, requires an export permit) or

the goods are on the *Export Control List* (a list of goods and technologies that require export permits to be exported from Canada, pursuant to the *Export and Import Permits Act*).

For detailed information about export and import controls and permits, refer to the Export and Import Controls Bureau (EICB) website at **www.dfait.gc.ca/eicb/menu-en.asp**. A PDF publication called *A Guide to Canada's Export Controls* is available at **www.dfait.gc.ca/eicb/general/general-en.asp.** Companies in the agri-food sector can learn about export regulations and certifications for food products by visiting the Canadian Food Inspection Agency website at **www.inspection.gc.ca.**

PITFALL: Eyes too big — the exporter tries to enter too many different markets too quickly.

7.4 Delivering products

There are four ways of getting your product to your customer's doorstep. Choosing the right shipping method, or combination of methods, is vital to export success — you want the product to get there on time and at the right cost.

Truck — trucking is popular for shipments within North America. Even when you're shipping goods overseas, trucks often deliver the product to its final destination. The quality of trucking services declines, however, once you go beyond the major industrialized countries.

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, and from seaports to a final destination.

Air — international air freight is another possibility. Not all destinations are covered, however, and special charters may be required for more exotic markets. Shipping by air is more expensive than surface or sea transport, but the higher costs may be offset by faster delivery, lower insurance, cheaper warehousing and better inventory control.

Ocean — goods exported to offshore markets are most often transported by ocean carriers. Shipping large items, bulk commodities and goods that do not require fast delivery is more economical by sea.

Agriculture and Agri-food Canada's website has a useful list of shipping resources that are applicable not only to agri-food but also to most other sectors. Refer to **ats-sea.agr.gc.ca/access/shipping-e.htm**.

Using Incoterms

To provide a common terminology for international shipping and minimize misunderstandings, the International Chamber of Commerce (ICC) has developed a set of terms known as Incoterms. These are listed and described in the Glossary under International commerce (INCO) terms. More information is at the ICC website at **www.iccwbo.org/incoterms**.

7.5 Freight forwarders and brokers

You'll need to deal with a lot of documents when delivering products to foreign countries. However, you don't normally do it all yourself — you use freight forwarders and customs brokers.

Freight forwarders — a freight forwarder will help you improve your delivery times and customer service. Many specialize in arranging shipments to certain countries, while others concentrate on particular types of products. And if you're arranging financing through letters of credit, a good freight forwarder can help you clarify the conditions of the transaction.

These agencies will negotiate rates for you with shipping lines, airlines, trucking companies, customs brokers and insurance firms. If you want them to handle all your logistical requirements, they will. Or you can just have them negotiate a shipping rate; it's up to you.

Customs brokers — brokers clear goods through customs, prepare customs documentation and remit duties owing on exported goods. They are also good sources of information on recent tariff changes and other customs-related developments.

7.6 Packing your goods

Since you want your products to arrive at your customer's door on time, in one piece and free of legal tangles, you have to take special care in packing, marking and labelling them. Here are some things to consider:

Assume they'll have a bumpy ride, particularly if you're shipping them overseas with repeated loading and unloading. Pack them to survive rough-and-ready cargo handlers and poor roads.

During transit, handling and storage, your goods may have to endure bad weather and extreme temperatures. If they need special temperature controls or other protective measures, be sure they get them.

The type of shipping may determine the kind of packing you should use. For example, if the goods are carried by ship, you need to know whether they will be placed above or below deck.

Remember that proper packing can reduce the risk of theft during transit.

The Canadian Trade Commissioner Service offers two publications about stowage and packing for international shipments. One is *Safe Stowage: A Guide for Exporters*; the other is *Export Packaging: A Guide for Exporters*. You'll find downloadable versions on the TCS website's Guides and Tips page at **www.infoexport.gc.ca/shipping/menu-e.htm**.

7.7 Labels and marks

Be sure your goods are properly labelled and marked. Labelling regulations vary widely from nation to nation, so verify the required labels before you ship. If labelling, packaging or advertising restrictions apply to your goods, take them seriously. Your product may not clear customs if labels don't conform to local requirements for things like product weight or electrical standards.

Marking distinguishes your goods from those of other shippers. Marks shown on the shipping container must agree with those on the bill of lading or other shipping documents, and may include some or all of:

- the buyer's name or some other form of agreed identification;
- the point/port of entry into the importing country;
- the gross and net weight of the product in kilograms and pounds;
- identification of the country of origin, e.g. "Made in Canada";
- the number of packages; and
- appropriate warnings or cautionary markings.

You must also provide a packing list identifying and itemizing the contents of each container, and each container must contain a copy of the relevant packing list.

7.8 Transportation insurance

Cargo insurance is more important in international transportation than in domestic transportation. International carriers assume only limited liability for goods when shipping by air or sea. Terms of sale often make the seller responsible for the goods up to the point of delivery to the foreign buyer. For this reason, you absolutely must have transportation insurance.

Marine transportation insurance protects both ocean- and air-bound cargo. It also covers connecting land transportation. There are three main types:

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

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

All Risk is the most comprehensive, protecting against all physical loss or damage from external causes. In international transportation, it is important to remember that once the documents transferring title are delivered to the foreign buyer, you are no longer liable for the goods.

The *Safe Stowage* guide, mentioned in the "Packing your goods" section above, has a chapter on ocean cargo insurance.

7.9 Export documentation

Export documentation identifies the goods and the terms of sale, provides title to the goods and evidence of insurance coverage and certifies that the goods are of a certain quality or standard. Several documents are required for overseas shipping and fall into two categories.

7.9.1 Shipping documents

Shipping documents are prepared by you or your freight forwarder. They allow the shipment to pass through customs, to be loaded onto a carrier and be transported to the destination. Key shipping documents include:

- a commercial invoice;
- a special packing or marking list;
- a certificate of origin;
- a certificate of insurance; and
- a bill of lading

A *bill of lading* is used for land and ocean freight, and an *air waybill* is used for air freight. Note that the ocean bill of lading can be a negotiable instrument that passes title to the goods. This is unlike the other types, which are simple bills of lading that pass title to the consignee as soon as the goods are delivered.

Your shipment also needs an insurance document. Goods shipped by sea are typically insured for 110% of their value, to compensate for the extra costs involved in replacing lost goods.

7.9.2 Collection documents

Probably the most important collection document is the *commercial invoice*, which describes the goods in detail and lists the amount owing by the foreign buyer. This form is also used for customs records and must include:

- the date of issue;
- the names and addresses of the buyer and seller;
- the contract or invoice number;
- a description of the goods and the unit price;

- the total weight and number of packages;
- shipping marks and numbers; and
- the terms of delivery and payment.

Other collection documents include:

- certificates of origin;
- certificates of inspection, used to ensure that goods are free from defect; and
- import and export licences as required (for example, a NAFTA certificate of origin).

7.10 Duty Deferral and Duty Relief

If you're importing goods in order to re-export them, you might be able to take advantage of the Duty Deferral Program administered by the Canadian Border Services Agency (CBSA). The program relieves or defers payment duties if the goods are in transit through Canada and will not be sold here.

There are three components to the Duty Deferral Program:

Duty Relief Program — Enables eligible companies to import goods without having to pay customs duties, as long as they export the goods after importing them. For more information, refer to Memorandum D7-4-1, "Duty Deferral Program," at **www.cbsa-asfc.gc.ca/E/pub/cm/d7-4-1/README.html**. For further information on the program, refer to **www.cbsa-asfc.gc.ca/import/ddr-red/tab1-eng.html**.

Drawback Program — With the Drawback Program, duty is refunded on previously imported goods when these goods have been exported. For more information, refer to Memorandum D7-4-2, "Duty Drawback Program," at **www.cbsa-asfc.gc.ca/E/pub/cm/d7-4-2/README.html**. For further information on the program, refer to **www.cbsa-asfc.gc.ca/import/ddr-red/tab1-eng.html**.

Bonded Warehouse Program — A bonded warehouse is a facility operated by the private sector and regulated by the CBSA, in which you may store goods without having to pay duties and taxes. This could be beneficial if you're planning on importing goods for the purpose of exporting them. For more information, refer to Memorandum D7-4-4, "Customs Bonded Warehouses," at **www.cbsa-asfc.gc.ca/E/pub/cm/d7-4-4/d7-4-4-e.html**. For further information on the program, refer to **www.cbsa-asfc.gc.ca/import/ddr-red/tab9-eng.html**.

7.11 Delivering services: How it's different

The challenges of delivering services to a foreign market are just as complex as those of delivering products. They're different challenges, though, and often depend on factors in your target market such as the:

- extent and reliability of telecommunications/Internet links;
- existence of a reliable IT infrastructure;
- frequency and convenience of air links between Canada and the market;
- technological sophistication, receptivity and flexibility of customers;
- potential support through official channels, government departments and international development agencies; and
- ability to satisfy legal regulations governing work permits or professional certification.

You'll most likely be delivering your services by one of the following methods, or a combination of them:

Provider visits client — this is the method most commonly seen as an export activity. You will probably need to meet the client repeatedly, often at the site.

Client visits provider — the classic example is tourism. Every year, thousands of Canadians earn income by meeting the needs of foreign visitors.

Establishment in the market — large firms are most likely to use this method which is important if they want to become a major player in a market. Legal and accounting firms and major banks are examples of businesses that establish their presence abroad.

Electronic delivery — electronic delivery has expanded dramatically with the availability of the Internet. An obvious example is the increasing global importance of e-business.

You can get more information on this subject from the export section of the Canada Business website at www.canadabusiness.ca/worldview.

8 Paying Your Way: Planning Your Export Financing

"It's important to be diplomatic, especially when 'securing payment' for overseas sales. Demanding payment up front can be a terrible insult in some cultures."

— Exporter

8.1 Understanding the risks of export financing

Imagine that you've just received your first international order for your product or service, and to your astonishment it's far, far larger than you expected. Suddenly you realize you're going to need more production capacity to fill it — but how are you going to finance the expansion you need? You can't do it from the export sale, because your buyer will likely want a 30, 60, 90day, or even longer payment plan, and possibly will ask for financing assistance as well. And what if the buyer defaults, or goes out of business before paying you?

These risks mean that self-financing a growing export business can be very risky, especially for new or smaller exporters. Fortunately, however, there are options that can minimize your risks and even give you a competitive edge. For example, many new exporters may be able to offer their foreign customers competitive loans or financing terms through Export Development Canada (EDC).

There are numerous publications tol help you learn about export financing. One is *Introduction to Export Finance*, available at **canadabusiness.ca/exportfinance**. Another is EDC's *Export Finance Guide* at **edc.ca/english/tools_12185.htm**.

TIP: Be prepared to meet increased demand from a successful foreign sale. And don't forget to plan how you'll adapt your product or service to the needs and tastes of your target market.

EXPORT MYTH:
I can't afford to export

Yes, you can! It's true that you'll need to market your product or service abroad and that you may have to expand capacity to fill foreign orders, but this won't necessarily demand large capital outlays and a lot of new staff. Sources such as Export Development Canada, the Business Development Bank of Canada the Canadian Trade Commissioner Service will be happy to furnish all kinds of inexpensive help, from market entry support to the provision of working capital.

8.2 Planning your export finances

There are lots of stories about small firms finding overnight success in the export market. Most profitable export ventures, however, are built with sustained effort over relatively long periods of time.

Even though Canada is one of the least expensive countries in the world in which to do business, the costs of exporting can add up. Because of this, your export drive will need the financial stability and strength that comes from a reliable cash flow. You will also need a comprehensive financial plan for the export venture. If you don't have one, it will be very difficult to arrange the financing the venture may need.

The most important objective of your plan, however, is ensuring that your company always has sufficient cash or operating lines of credit. To do this, the plan must include:

A cash budget — this highlights your financing requirements over the next two or three years, so you can determine the timing and amount of your cash expenditures.

A capital budget — this is a longer-term cost-benefit assessment of your export objectives. It provides an overview of the funds you'll need to complete your export project and provides an operating plan against which you can measure actual expenditures and revenues. It also tells you when the project will start generating positive cash flows.

With respect to cash, you'll need to know the timing of both inflows and outflows. Cash flow planning can help you defend against such problems as:

- exchange rate fluctuations;
- transmission delays;
- exchange controls;
- political events; and
- slow collection of accounts receivable.

These segments of your financial plan relate mainly to your company's current financial situation, and accurate details are important to the overall effectiveness of your export plan.

TIP: Remember that international trade payments usually take longer to arrive than domestic ones, so allow for this in your cash flow planning.

8.3 Where to get financial help

There are several sources of financial aid for exporters; three of these are Export Development Canada (EDC), the Business Development Bank of Canada (BDC), the Trade Routes Contributions Program and the Canadian Agriculture and Food International Program.

8.3.1 EDC's working capital solutions

With a new international contract comes one of the most difficult obstacles smaller exporters face: raising working capital to fund pre-shipment costs. That's where EDC's Export Guarantee Program can help. Under this program, EDC encourages Canadian financial institutions to advance pre-shipment loans to Canadian exporters, and then covers up to 75 percent of the value of the loan.

If you're short of cash for purposes such as promoting your company in a new market, the EXPORTExpress-Credit Program may be exactly what you need. Offered jointly by EDC and Mercantile Finance Services Ltd., this unsecured export loan program features a simplified application process and offers total flexibility on how you use the cash to expand your business abroad.

To find out more about EDC's Export Guarantee Program, the EXPORTExpressCredit Program and other EDC products and services, refer to **www.edc.ca** or call 1-800-368-6664.

8.3.2 Business Development Bank of Canada

BDC can help you meet your working capital needs through long-term financing and flexible repayment options. Call a representative at 1-877-232-2269 or visit **www.bdc.ca**.

8.3.3 Trade Routes Contributions Program

The Trade Routes Contributions Program (TRCP) provides financial support to entrepreneurs in the arts and cultural sectors including crafts, design, film and video, new media, performing arts, publishing, sound recording, television and broadcasting, and visual arts. Refer to **www.canadianheritage.gc.ca/routes/rctr_e.cfm** for more information.

8.3.4 Canadian Agriculture and Food International Program

The Canadian Agriculture and Food International (CAFI) Program is a key element of Canada's international strategy. It supports Canada's agriculture and food industry by building long-term international strategies to ensure that the industry is well positioned in key markets and that it can respond to increasing consumer demands and global competition.

The CAFI Program matches industry funds dollar-for-dollar to support activities that enhance and promote Canada's reputation as the world leader in supplying safe, high-quality agri-food products that meet the changing demands of world markets. For more information, refer to **www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1180110497029&lang=e**.

TIP: When you're researching your export financing, don't forget to check the **canadabusiness.ca/export** website. It has links to international, federal and provincial bodies that offer financial information and assistance to both new and experienced exporters.

8.4 Finally, it's payday

There are several common ways for customers to pay an invoice in international trade: cash in advance, letter of credit, documentary credit, documentary collection and open account. We'll examine them in order of increasing risk to your company.

8.4.1 Cash in advance

Cash in advance is your most secure option because it eliminates all risk of non-payment and adds to working capital. Unfortunately, few foreign buyers are willing to pay cash in advance, although some will pay a portion when goods or services are specially ordered. For services, a retainer might be paid upon signing a contract, after which progress payments are matched to deliverables.

8.4.2 Letters of credit

Letters of credit (L/Cs) provide some security to both the importer and exporter because they rely on banks to receive and check shipping documents, and to guarantee payment. An L/C can allow the costs of financing a transaction to be borne by either the exporter or importer. Both sight and term payment provisions can be arranged.

Letters of credit can be *confirmed* or *unconfirmed*. For example, a Canadian bank can *confirm* an L/C issued by a foreign bank, thus guaranteeing that the Canadian bank will pay the exporter even if the foreign bank doesn't. This kind of L/C is obviously much better for you than the unconfirmed one.

L/Cs can also be *irrevocable*. This means it can't be cancelled or amended without your approval. The most secure form of an L/C is one that is both confirmed and irrevocable.

In practice, an L/C works like this:

- Your customer arranges a letter of credit with his or her bank.
- The customer's bank prepares an irrevocable L/C. This includes specifications as to how you'll deliver the goods.
- The customer's bank sends the L/C to your Canadian bank for confirmation.
- Your bank issues a letter of confirmation and sends the letter and the L/C to you.
- You check the L/C *very* carefully. In particular, you ensure that it agrees in all respects with the terms of your contract with the customer. If the L/C's terms and those of the contract are different, and if you don't meet the L/C's terms because you overlooked the discrepancy, the L/C may be deemed invalid and you might not get paid.
- You arrange shipping and delivery with your freight forwarder. Once the goods are loaded, you get the appropriate shipping documents from the forwarder; you use these to prove that you have fully complied with the terms of the contract.
- You take these documents to your bank, which sends them to the customer's bank for review. The customer's bank sends them to the customer, and the customer obtains the documents that will allow the goods to be claimed.
- The customer's bank pays your bank, which then pays you.

PITFALL: Low priority — the exporter uses foreign markets as a backup to the domestic market and abandons exporting when the local economy booms.

8.4.3 Documentary credit

Exporters can also use *sight* and *term* documentary credits, as follows:

- A documentary credit calling for a *sight draft* means that the exporter is entitled to receive payment on sight, i.e. upon presentation of the draft to the bank.
- A *term* documentary credit, in contrast, may allow for payments to be made over terms of 30, 60, or 90 days, or at some specified future date.

8.4.4 Documentary collection

In a collection, you ship goods to an importer (your customer) and forward the shipping documents to a collecting bank. Next, the customer pays the collecting bank in exchange for the documents. You then obtain the money from the bank.

With a collection, you're exposed to the credit risks associated with the importer until you actually get the money. In other words, no bank has guaranteed that you'll get paid, and you're required to finance the shipment until your customer receives the goods and pays through a sight or term draft.

8.4.5 Open account

Open accounts require you to ship goods and pass title to the customer before payment is made. In these cases, you're fully exposed to any credit risk associated with the customer until payment is received. In addition, because open account terms usually allow 30, 60, 90 days (or even longer) before payment is due, you are in fact financing the transaction for your buyer.

8.5 Insuring against non-payment

Imagine this: you assumed your foreign purchaser was reliable, but something has gone seriously wrong and now your buyer can't, or won't, pay. If the future of your company hangs on the deal, this is a nightmare scenario. Even if it doesn't, the impact of non-payment can be severe and lasting.

You can protect your company from such a disaster through Export Development Canada's Accounts Receivable Insurance (ARI). ARI protects you against non-payment by covering up to 90 per cent of your losses resulting from a wide variety of commercial and political risks. Better still, you'll be able to free up your capital and possibly extend more attractive payment terms and credit options to new customers. For details, visit **www.edc.ca/english/insurance_accounts_receivable.htm**.

9

The Fine Print: Understanding the Legal Side of International Trade

"It takes years to build a market, but only days to lose it."

— Canada Export Award Winner

9.1 Understanding international contracts

Once you and your client have agreed to the deal, you'll need to draw up a contract to cover the transaction. In essence, this means that one party makes an offer and the other accepts it. The arrangements governing this exchange constitute the contract and are legally binding.

In international trade, however, contractual arrangements can be much more prone to complications than domestic ones. You and your customer are usually from different countries. Language barriers may cause misunderstandings. Cultural and geographical impediments may crop up. Words may have different meanings in different places.

Most important, you both may be used to different laws and business practices. This is why international business contracts must be precise, specific and all-encompassing. This will go a long way toward reducing misunderstandings, misconceptions and disputes.

For further protection, it would be a *very* good idea to find a legal professional who specializes in international trade. This will help you sidestep pitfalls of regulation and law and, if necessary, resolve disputes. You yourself should try to acquire some knowledge of international conventions, the business laws governing your target market, and existing trade agreements between that market and Canada.

9.2 Understanding the "proper law"

Certain basic issues are common to all international contracts, but the most fundamental principle is that of the "proper" law of the contract.

Problems in international business contracts can occur because of differences in the laws of the countries involved. When different laws are applied, results may be inconsistent, and substantive rights may depend on whose law applies. For example, one law may require that a contract be written, whereas another may not. Or, under one law, persons who are not a party to the contract may have certain rights, whereas under another law they may have no rights. You absolutely must, therefore, establish from the outset which law is the "proper law."

9.3 Resolving disputes

Many issues can become controversial in international trade transactions. For example:

- disputes with agents;
- collection of payments due;
- breach of contract or warranty;
- intellectual property rights;
- secured creditors' rights, e.g. seizure of assets; and
- enforcing foreign judgments.

But don't be in a hurry to turn to the courts if you have legal problems with a customer or partner abroad. Litigation in a foreign country is likely to be time-consuming, expensive and possibly not in your best interests, no matter how justified your position.

A better choice might be arbitration. Also called alternative dispute resolution, arbitration uses a tribunal to consider the questions over which the parties are in conflict and to decide how to resolve them. You can find out more from the ADR Institute of Canada at **www.amic.org** or the American Arbitration Association at **www.adr.org**.

EXPORT MYTH

Exporting is too risky

It doesn't have to be, because you can reduce risk to a safe level. Letters of credit will ensure that you get paid. Export credit insurance programs can protect you against customers who default on their loans. Reference checks through banks and international credit reporting agencies can detect a potential for fraud. Trade laws tend to be straightforward and legal advice about them is easily available. Exporting doesn't need to be more risky than doing business at home — it's just different.

9.4 Meeting international standards

There are standards for almost everything, from the ingredients in food to the certification of electrical equipment. If you're an exporter, you need to ensure that the standards you use in your export product or service comply with those of your intended target market.

Adopting international standards will bring you at least three major benefits. First, it will increase your competitiveness in the global marketplace, which translates into faster, easier access to foreign markets. Second, compliance with standards will make it simpler for you to exchange technical information with experts in other countries. Third, you'll avoid the cost and bother of testing and recertification when you move into a new market.

The best place to learn about standards is the Standards Council of Canada. The Council's website at **www.scc.ca** includes a section devoted to industry-related issues. It also provides a free information service (refer to **www.scc.ca/en/programs/information/index.shtml**) that can help you:

- understand SCC's accreditation programs, services and activities;
- identify applicable standards, regulations and conformity-assessment procedures that would apply to the market acceptance of your product;
- find competent standards authorities to contact in Canada or abroad;
- identify Canadian, international or foreign standards in a particular area; and
- locate standards published or under development by a specific technical committee.

The SCC also provides custom research on a growing range of standards, legislation and conformity assessment requirements in world markets. There is a fee for this service; for more information, contact an SCC information officer at 613-238-3222.

The SCC also operates Export Alert!, a free service that tell you about pending changes to trade-related regulations. In addition to monitoring regulatory developments from a range of countries, Export Alert! allows you to monitor regulatory changes under the World Trade Organization Agreement on Technical Barriers to Trade, and under the Agreement on the Application of Sanitary and Phytosanitary Measures. Administrative features allow you to track your requests and access full texts, and offer links to a number of related information resources.

Export Alert! is made available through the SCC with the support of Foreign Affairs and International Trade Canada. To learn more about Export Alert! or to subscribe, visit **https://alert.scc.ca/ExportAlert/Index**.

Two more SCC tools are RegWatch (**https://alert.scc.ca/rwh/basic_e.jsp**), a database of standards referenced in federal legislation, and Standards Alert! (**www.scc.ca/en/programs/information/standards_alert.shtml**), which allows you to monitor Canadian, ISO and IEC standards and get automatic notification of changes.

9.5 Corporate Social Responsibility

Corporate social responsibility or CSR, according to the Industry Canada publication *Corporate Social Responsibility: An Implementation Guide for Canadian Business*, is

> the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society… Corporate social responsibility activities that integrate broader societal concerns into business strategy and performance are evidence of good management. *In addition to building trust with the community and giving firms an edge in attracting good customers and employees, acting responsibly towards workers and others in society can be in the long-term interest of firms and their shareholders.* [Italics added]

9.5.1 Operating according to CSR principles

The Government of Canada expects companies to carry out their operations in accord with CSR principles, especially in countries where governance structures are weak. This is not simply the ethical thing to do, as there are also good business reasons for doing it. Among them are:

- establishing a good corporate reputation;
- improving management of social, environmental, legal, economic and other risks;
- enhancing the company's ability to recruit and retain staff, and better staff morale;
- obtaining higher operational efficiencies and cost savings;
- improving access to markets and capital;
- maintaining better relationships with regulators; and
- maintaining better compliance with local laws and regulations.

Your company will be expected to act in accordance with CSR principles when operating abroad, so you should develop your CSR policies and practices before you venture into foreign markets. In general, the process works like this:

Conduct an assessment — consider the firm's products, services and activities to determine how you appear from the CSR perspective. Develop a working definition of CSR for your firm.

Develop a strategy — this establishes your direction and scope of activity over the long term, and sets up priorities for action.

Develop commitments — develop the methods you'll use to address the social and environmental effects of your foreign operations.

Implement your commitments — using the methods you've developed, consistently live up to your commitments. Monitor your success in doing so and deal with problems immediately.

Verify and report on progress— regularly inspect and review your operations to make sure you're meeting your CSR goals, and report to senior management on the firm's performance.

Evaluate and improve — find out where you're doing well, where you're lacking, and take steps to improve your performance.

It's very important to engage all stakeholders at suitable stages of the process. If you develop your CSR program without such engagement, it will be much harder to get people to buy into the program, and you may ultimately do the company more harm than good.

9.5.2 CSR and corruption

CSR principles forbid corruption, and Canada, like many other countries, has passed laws against corrupt practices. The Canadian legislation is set out in the *Corruption of Foreign Public Officials Act* (available at **www.justice.gc.ca/en/dept/pub/cfpoa/guide5.html**), which provides for the prosecution of Canadians in Canadian courts if they break the anti-corruption laws or counsel other people to break them. For a plain-language guide to this legislation, you can download EDC's pamphlet *Keeping Corruption Out*, which is available at **www.edc.ca/english/docs/csr_anticorruption_e.pdf**.

The Organisation for Economic Co-operation and Development also has deep concerns about bribery, and publishes a 100-page booklet called *Bribery in Public Procurement*; to read an online copy, refer to **http://213.253.134.43/oecd/pdfs/browseit/2807061E.pdf.**

9.6 Contracts for the sale of goods

A contract covering the sale of goods involves you (the seller) transferring, or agreeing to transfer, your goods to the buyer in return for a sum of money. The actual transfer of the property is important, because it distinguishes the sale of goods from other transactions such as leases or property loans.

The term "goods" includes all movable things, excluding real estate, and such intangibles as debts, shares, patents and services. Furthermore, the fact that money changes hands distinguishes a sale of goods from other transactions, such as barter or counter-trade.

9.6.1 Transfer of title and the effects of transfer

Several things hinge on the exact legal moment when the buyer takes ownership of the goods (in formal terms, when title passes or is transferred from you to the buyer).

Risk — the transfer of title affects the parties' rights in case of total or partial loss, damage or destruction of the goods.

Rejection — once it has occurred, transfer of title may preclude your buyer from rejecting the goods, despite valid complaints regarding quality, quantity or description.

Price — once your buyer takes title, you can sue him or her for the full unpaid price, rather than merely for the lost profit.

Rights of Action — after taking title, the buyer can enforce his or her property rights through court action or other methods.

9.6.2 Delivering the goods

You must deliver the goods to your buyer in one of two ways:

- *Physically*, by delivering a legal document of title, such as a bill of lading; or
- *Symbolically*, by delivering, for example, the key to where the goods are stored.

Your contract should specify where the delivery will take place. In international matters, this is usually defined by using such International Commerce (INCO) terms as Cost, Insurance and Freight (CIF) or Free on Board (FOB).

Note that if the contract does not specify the place of delivery, then the place of delivery is understood to be your place of business. In this case, the delivery is considered complete when you deliver the goods to a carrier.

9.6.3 Acceptance or refusal of goods

If you meet all the conditions of the contract, your buyer must accept the goods. Refusal to accept them without justification gives you the right to sue for damages. But if you breach a condition of the sale, the buyer can legally reject the goods.

Upon request, you must allow your buyer to examine the goods. The buyer can accept or reject them by:

- conveying his/her acceptance to the seller;
- acting in a manner that is inconsistent with the seller's ownership of the goods, e.g. by reselling the goods after they are delivered; or
- by keeping the goods without notifying the seller that he or she has decided to reject them.

Once any of these types of acceptance or rejection has taken place, the buyer can no longer refuse the goods, even if you have breached a condition of the contract.

9.6.4 Unpaid seller's rights

Your best protection as seller is payment in advance or upon delivery. Next is payment by confirmed letter of credit (preferably irrevocable). If neither is possible, then you should take out security for the unpaid purchase price. This can take several forms, but the most common method is to reserve title or to take a secured interest in the goods.

PITFALL: Rigid practices — the exporter balks at modifying products in compliance with foreign regulations and cultural preferences.

9.7 Contracts for the sale of services

Service contracts can range from a handshake to pages of legal and technical specifications. Whatever the form, both parties should have the same understanding of:

- the service to be provided;
- the personnel who will provide the service;
- the facilities to be made available to the client;
- the date on which the provision of service is to begin and end;
- the payments to be made;
- the benchmarks or dates when payments are to be made;
- the circumstances under which the contract may be terminated, and any implications in terms of completion of the work, handing over the work completed to date, partial payments, penalties, and so on;
- the procedure in case the client is unable to provide the agreed personnel, information or facilities;
- conditions for holdbacks;
- conditions for the return of bid or performance bonds or guarantee; and
- procedures for resolving disputes.

9.8 Negotiating in other business cultures

The usual Western business practice is to negotiate a transaction and then construct a buyer-seller relationship around it. In the business cultures of many countries, however, this process is reversed. One starts out by building a personal relationship with a prospective customer and, once that relationship has been established and everyone is comfortable with it, the actual business negotiations can begin.

It's very important to remember this when you're trying to arrange a deal in a relationship-based business culture. While the *ultimate* goal of all parties is to sign a contract, the *immediate* objective is to establish the personal connections that are a necessary precondition for serious negotiations. In such a business culture, your non-Canadian counterparts will want to get to know you as a way of building mutual trust. This takes time and can be frustrating, since it may appear that your prospective customer isn't really interested in doing business with you. But you have to be patient — pushing negotiations onto someone who isn't ready for them will be seen as rudeness, and that can greatly diminish the possibility of a sale.

9.9 Protecting intellectual property rights

Services and tangible goods aren't the only assets your company may possess. Many businesses own proprietary technology such as industrial processes or patented machine designs, and/or intellectual property such as computer software code. These kinds of property are known as intellectual property or IP, and should have a level of protection that matches their value. Note that securing your IP in Canadian law (by registering a trademark, for example) usually does *not* provide protection in other countries. Your trademark, to continue the example, would also have to be registered in the U.S. if you wanted to protect it there as well.

To protect your IP rights in Canada, you should establish ownership through the Canadian Intellectual Property Office (CIPO) at **www.cipo.gc.ca**. Links to foreign IP offices can also be found on the site. Three other important organizations that deal with IP are the World Intellectual Property Organization at **www.wipo.org**, the Intellectual Property Institute of Canada at **www.ipic.ca** and the World Trade Organization at **www.wto.org**.

Here's how to protect key elements of your intellectual property:

- *Patents* — for inventions (and new or improved technology), protection in Canada extends up to 20 years from the date the application is first filed. You can receive a patent for a product, composition, machine and/or process that is new, useful and inventive.

  The cost of securing and maintaining foreign patents can be high. However, because Canada is a member of the Patent Cooperation Treaty (PCT), you can use just one patent application, filed in Canada, to file applications in more than 100 member countries.
- *Copyrights* — literary, dramatic, music, artistic, performer's performance, communication signals, and sound recordings are protected for the life of the author plus a number of years that can vary from 50 to 70 (or even more), depending on the country. Copyright covers both published and unpublished works and means that you alone are allowed to produce, reproduce, perform or publish the work, or to permit anyone else to do so. Copyright is automatic and acquired upon creation, so registration is not mandatory. However, registration of copyright provides presumption of rights if there's a court dispute.
- *Trademarks* — these are words, designs, or a combination of them that you use to distinguish your wares and/or services from those of others. A trade-mark registration gives the owner the right to its exclusive use in Canada. Protection can be renewed for 15-year periods. If you're starting a business, you should ensure that no one else has registered, is awaiting registration, or is using a trade-mark or trade name similar to yours.
- *Industrial designs* — Features of shape or ornamentation that give a manufactured article visual appeal are called "industrial designs." Some such objects can be protected by copyright or trademark rights, but the majority can only be protected by obtaining an industrial design registration, which has a term of ten years.
- *Integrated circuit topographies* — protection is for the three-dimensional configuration of the electronic circuits used in microchips and semiconductor chips. Registration offers exclusive rights for up to 10 years on original circuit designs. Protection can extend to the layout design as well as to the finished product.

TIP: If you export intellectual property, be aware of countries that don't uphold intellectual property laws. Taking legal action against violators in these countries can be very difficult. For details, consult CIPO at **www.cipo.gc.ca**, or a professional specializing in IP issues.

10 Selling Online: E-Business for Exporters

"Since adopting our new e-business strategy, our company's success at home and abroad has significantly increased."

— *Exporter*

10.1 Understanding e-business

According to the definition that appears on Industry Canada's ebiz.enable website at **www.strategis.gc.ca/ebizenable**,

e-business means using the Internet or related technologies for any of your normal business operations. You might use it for buying, selling, advertising, managing — you name it. You may use the Internet to reduce costs, improve productivity, or increase revenue (and it can do all those things).

E-business is a viable approach for both large and small businesses. When carried out properly, it can be especially suitable for smaller companies, since doing business electronically can increase your efficiency and productivity and lower your costs — all of which leads toward greater competitiveness and higher profits. Indeed, if you don't move at least some of your business operations to an online model, you can face major threats from those competitors who are already doing so.

In this chapter, we'll assume that your business already has a Web presence that makes you a potential exporter of goods or services through the Internet. If you don't have such a presence yet, now is the time to acquire one.

10.2 E-business applications and benefits

E-business has many applications, including sales, customer relations, finance, market research, market intelligence and procurement. Some of the benefits these applications can bring to exporters are:

- reduction of the time needed to deliver and update information about products or services;
- flexibility and adaptability of online marketing and advertising;
- customer access to your products or services 24 hours a day, every day of the year;
- faster responses to customers' needs;
- more efficient ordering and order processing;
- easier access to intelligence about export essentials such as demographics, market characteristics and competitors;
- electronic rather than physical delivery of certain products and services; and
- access to world markets, leading to more export opportunities.

Of course, using an e-business model to support an export venture doesn't do away with the traditional side of exporting. You'll still have to deal with matters such as shipping, customs regulations and work permits, just as you would if you were doing business without the Internet. Seen from this angle, e-business hasn't changed exporting all that much. What it *has* done is make all kinds of export-related communication and connection much easier.

10.3 Assessing your e-business potential

If you're going to succeed in e-business, you have to start with a clear-sighted evaluation of your company's e-business potential. You could try to work this out from scratch, but it's easier to use the Business Development Bank of Canada's eBusiness Readiness Diagnostic, which you'll find at **www.bdc.ca/en/business_tools/diagnostic_tools/default.htm**. The questions encourage you to think about issues such as:

Your IT resources — how sophisticated is your Web presence? How much experience do you have in managing IT projects? Are you aware of new technology and how you can use it?

Your management — your e-business strategy needs to be developed in the context of your overall corporate objectives. Do you know what parts of your business should be put online? Is senior management committed to going in this direction?

Your personnel — do your employees understand your e-business strategy? Have you asked for their input to help you develop it? Do you have a plan for training them in the new skills they might need?

Your customers — do you use online resources to track competitive trends and identify potential new business? Does your e-business strategy address the security and privacy concerns of your customers? Is your website customer-friendly?

Your competition — are you aware of the e-business initiatives of your competitors and how this could affect our competitiveness?

Your suppliers — do you know if you can reduce procurement costs by purchasing online? Do you use the Web to look for suppliers? Have you used supplier input to help you plan your e-business strategy?

Your profitability — have you done cost-benefit analyses for your e-business strategy? Do you know how long will it take to amortize the start-up costs?

At the end of the diagnostic, you'll get a detailed analysis of how ready you are to adopt an e-business strategy. The tool will also give you recommendations for improving your competitiveness in this venture.

Determining Return on Investment for e-Business

Determining the Return on Investment (ROI) can be crucial in deciding whether to invest in a new information technology. Doing this, however, it is not an easy process, since many of the benefits are intangible and difficult to quantify. Industry Canada's ebiz.enable website lists several resources you can use to help you with this challenge; refer to **www.strategis.ic.gc.ca/epic/site/dir-ect.nsf/ en/h_uw00632e.html**.

10.4 Website suitability

Depending on your product or service, your needs and your objectives, your company's website might do any or all of the following:

- provide information that will attract potential customers to your product or service;
- provide an online catalogue and a secure electronic means for your customers to order and pay for your goods or services;
- provide your customers with access to their invoices and records of orders; and
- serve as a marketing tool for your products or services.

Doing this properly, if you're an exporter, means that you have to adapt your website to suit your target market. This is called *localization*.

Language is probably the most important issue in localization. If you want to sell to someone, you'll more likely succeed if you use his or her native tongue — even if that person is also fluent in English. This means that an exporter's website, or at least part of it, has to speak the same language as its target market.

Completely translating a website is expensive, so you may prefer to begin by localizing only the most important pages. But be sure to use professional translators familiar with the target market and the target language.

Other suitability issues to consider are branding, currency denomination and payment methods. Branding that reflects the market's customs, laws and traditions, as well as language, will make a potential buyer feel more at home. Using local currency for pricing, shipping and tax calculations will do the same and will allow customers to compare prices more easily. Related to this is the ability to accept payment in local or U.S. funds, and to do so efficiently and simply.

TIP: To be truly international, a website should be accessible in English, French, German, Japanese and Spanish (and soon, inevitably, Chinese). A possible exception is sites that deal primarily in technical information, which is commonly written in English and is understood by buyers in most countries.

10.5 The technical side of e-business

The software, hardware and applications used on websites are much more complex than they were just a few years ago. Trying to set up your own online presence using in-house resources is usually not a good idea, unless your business is quite small and you have access to some very adept IT people. As a rule, you'll get much better results if you outsource the creation of your Web presence to a service provider specializing in website development.

10.6 Finding e-leads

Because so many companies worldwide are engaged in e-business, the Internet has become a fruitful source of electronic business leads, usually called e-leads. There are several ways to track down such opportunities. Two major ones are:

Virtual Trade Commissioner — Provided by the Canadian Trade Commissioner Service (TCS), the Virtual Trade Commissioner (VTC) provides trade leads for your priority markets. To subscribe to the free VTC service, go to the TCS website at **www.infoexport.gc.ca**.

International marketplaces — These are Internet-based electronic marketplaces where buyers and sellers can find each other. Many are industry-focused and have the backing of major companies in the industry. They offer you a variety of tools, such as posting requests for quotations or displaying online catalogues. One such catalogue is available on Industry Canada's ebiz.enable website at **www.strategis.ic.gc.ca/epic/site/ee-ef.nsf/en/h_ee00191e.html**. Another is eMarket Services at **www.emarketservices.com**.

10.7 Checking e-leads

The precautions you use in traditional exporting also apply to the world of e-business. Some guidelines are:

- Be sure you know who you're dealing with. Always verify addresses and avoid doing business in countries that are known for fraud. If you can't identify a potential customer or the country in which an order originates, don't proceed with the deal.
- Other characteristics of the potential customer's country are also important. How good is its communications infrastructure? How stable are its financial systems? What level of political risk does it represent? As in all export operations, due diligence is an essential precondition of success.
- Market research is a key component of evaluating e-leads. The principles of market research are the same for e-business exporting as they are for traditional exporting.
- Credit assessments are as important in e-business as anywhere else. Credit card fraud is common, so be doubly careful when dealing with credit card purchases from these regions.

Shipping and documentation

The Internet hasn't done away with the physical movement of goods or the documentation that goes along with them. It can, however, let you transmit documents electronically, which is much faster than moving the information around on paper and can be just as secure. Internet tools and systems can also give you better control of your shipping logistics.

10.8 Getting paid

An e-business exporter can, of course, be paid by any of the traditional methods. Retail customers, though, tend to pay by credit card.

Sometimes credit card payment is not possible or advisable. In this situation, you might consider using the services of a company that, for a transaction fee, obtains the customer's payment and then remits it to you. These specialized businesses often integrate their payment systems with services such as:

- creation of online storefronts including catalogues, stock control and order processing;
- fraud protection;
- multilingual and multicurrency support;
- letters of credit; and
- online, real-time transaction processing.

10.9 Supporting your online customers

Support for your customers is crucial to ensuring repeat business. You can do this, of course, through traditional methods such as telephones, faxes and the postal system. But a good e-business customer support system can give you an edge in the export market through more efficient communications, faster responses to customer complaints (or compliments) and more effective ways of dealing with customer input.

Privacy is one of the major concerns of the people or companies who may become your online customers. You'll need to convince them that any electronic transactions they make with you are secure, and that their privacy and personal information will be protected. In this regard, Canada's *Personal Information Protection and Electronic Documents Act* (PIPEDA) sets the rules that a business must obey when it collects, uses or discloses personal information. You can obtain more information about privacy issues from the website of the Privacy Commissioner of Canada at **www.privcom.gc.ca**.

Appendix A: Your Exporting Checklist

Here's a checklist you can use to track the general progress of your exporting venture, or simply to get an overview of the whole process.

1. Planning and preparing

Whether you export goods or services, many of the following preparatory steps will be similar:

Research the market using techniques and resources such as described in this guide.

Visit or call the Regional Office of Foreign Affairs and International Trade Canada in your province for information on trade opportunities and market intelligence from around the world.

Ask the Canadian Trade Commissioner Service in your target market for help in assessing your market prospects and to provide you with a list of qualified contacts.

Visit cities in the region and talk to potential buyers and intermediaries.

Request a face-to-face briefing from an officer of the Canadian Trade Commissioner Service in the region to discuss the latest developments in the market.

Develop a network of contacts and potential partners. Find out who your competitors and potential allies are, and who are the most important importers, distributors and agents for your product or service.

If working through agents and distributors, make a short list of potential candidates and assess their qualifications and capabilities. Develop a profile of the ideal associate, then select the one whose skills and experience best 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.

Attend a regional trade fair, if possible. Do some preliminary promotion and establish contacts with potential buyers and associates.

Make arrangements with key export service providers such as freight forwarders, trading houses and customs brokers.

2. Making the deal

The following summarizes the way you arrange a deal and ship goods to your buyers. If you're a service exporter, of course, you won't have to deal with documentation, freight forwarding, shipping or customs clearance.

Check references of prospective customers

Whether you're dealing with end users, retailers or intermediaries, check their references. Using other Canadian exporters, commercial banks, people in the industry, or your Canadian Trade Commissioner, do the following:

- verify the prospect's credit rating;
- talk to other exporters who have had dealings with the prospect;
- ask the Canadian Trade Commissioner Service in your target market to provide you with information on the prospect; and
- verify the prospect's business profile.

Visit prospects

Visits to important prospects in your market(s) are strongly recommended because they let you gather insight into the prospects' needs. Before leaving Canada, though, ask the Canadian Trade Commissioner Service in the market you're visiting to provide you with advice on timing and organizing your trip.

Finalize the sale

Finalization normally begins when your sales department receives a purchase order from the buyer. You should respond with an acknowledgment of the order or a sales confirmation. Be sure to confirm the following details:

- quantity
- payment terms
- shipping/trade terms
- transportation method
- price

Prepare a letter of credit (L/C)

This works as follows:

- The buyer issues an instruction to his or her own bank.
- The buyer's bank sends your bank the L/C.
- Your bank sends the L/C to you.

The letter of credit is an important document. Review it carefully, in company with your freight forwarder, banker and legal counsel. It must be consistent with your sales agreement, and you must comply with all of its provisions. Remember that the buyer's bank will look for any discrepancies in your documentation, and that it pays upon receipt of correct documents, not upon 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 be unable to collect.

Prepare other documentation

Your shipment must be accompanied by all relevant documentation, including:

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

Freight forwarder involvement

Your freight forwarder prepares the following documents and delivers copies to you, your buyer and your commercial bank:

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

Shipment

The shipment process works like this:

- Your freight forwarder sends the goods to the carrier.
- Your customer receives all relevant documentation, allowing the shipment to clear customs.
- The goods clear customs at the destination entry point.

Collection

After the shipment has been sent:

- The freight forwarder presents your bank with the L/C 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 lets you know when the funds will be transferred.
- Your bank transfers funds to your account.

Appendix B: Resources for Exporters

The Agri-Food Trade Service (ATS) of Agriculture and Agri-Food Canada provides a full range of market access, market development and investment services to Canadian agri-food companies; its website is at **http://ats-sea.agr.gc.ca**. The ATS also maintains regional offices across Canada that provide clients with access to all ATS programs and services; for contact information, refer to **http://ats-sea.agr.gc.ca/region**.

The Canada Business Network is a government information service for businesses and start-up entrepreneurs in Canada. It's intended to simplify access to various levels of government by serving as a single entry point for federal and provincial/territorial government services, programs and regulatory requirements for business. Refer to **www.canadabusiness.ca** or call 1 888 576-4444.

CanadExport, at **canadexport.gc.ca**, is a free, online magazine published by DFAIT (see above). It provides news about trade opportunities, export programs, trade fairs, business missions and more.

Canada's International Market Access Report provides an overview of the government's priorities for improving access to foreign markets, including the United States, for Canadian traders and investors. Refer to **www.international.gc.ca/trade-agreements-accords-commerciaux/cimar-rcami/index.aspx**.

The Canadian Commercial Corporation (CCC) provides international contracting services to Canadian exporters selling to foreign governments, as well as special market access to those targeting U.S. government procurement markets. Refer to **www.ccc.ca**.

The Canadian Trade Commissioner Service (TCS) provides services to Canadian businesses that have researched and selected their target markets aboard. These services can help a company prepare for the international market, assess market potential, identify qualified contacts and solve problems.

The Virtual Trade Commissioner, also available from the TCS, is a personalized, password-protected, online resource that will give you market information and business leads that match your international business interests. Register when you visit the TCS website at **www.infoexport.gc.ca.**

The regional offices of the TCS in Canada provide a full range of trade development services to Canadian small- and medium-sized businesses. There are 12 such offices; you'll find them at **www.infoexport.gc.ca/regions**.

Export Development Canada (EDC) offers innovative commercial solutions to help Canadian exporters and investors expand their international business. EDC's knowledge and partnerships are used by 6,400 Canadian companies and their global customers in up to 200 markets worldwide each year. Refer to **www.edc.ca**.

Foreign Affairs and International Trade Canada provides information related to foreign affairs, foreign policy, international trade and more. Refer to **www.international.gc.ca**.

Industry Canada provides general and specific information of use to exporters, including market reports and the Trade Data Online research tool. Refer to **www.ic.gc.ca**.

Statistics Canada is Canada's central statistical agency. It produces statistics and statistical reports on Canada's population, resources, economy, society and culture. Refer to **www.statcan.ca**.

The U.S. Commercial Service, at **www.trade.gov/cs**, has a range of useful research tools, including market reports and commercial guides related to world markets.

Appendix C: Glossary of International Trade Terms

Exporting is more complex than selling in a domestic market. You'll know better what's going on if you understand some key trade expressions, techniques and requirements. Among these are:

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

General terms

International trade carries its own particular terminology. The following are general trade expressions that new exporters will encounter in published sources and trade discussions.

Anti-dumping Duty: A special duty imposed to offset the price effect of dumping that has been determined to be materially harmful to domestic producers. (See also Dumping.)

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

Countervailing duties: Additional duties imposed by an importing country to offset government subsidies in an exporting country, when the subsidized imports cause material injury to domestic industry in the importing country.

Dumping: The sale of an imported commodity at a price lower than that at which it is sold within the exporting country. Dumping is considered an actionable trade practice when it disrupts markets and injures producers of competitive products in the importing country. Article VI of the General Agreement on Tariffs and Trade permits the imposition of special anti-dumping duties against dumped goods equal to the difference between their export price and their normal value.

Export Quotas: Specific restrictions or ceilings imposed by an exporting country on the value or volume of certain exports designed, for example, to protect domestic producers and consumers from temporary shortages of the goods affected or to bolster their prices in world markets.

Export Subsidies: Government payments or other financially quantifiable benefits provided to domestic producers or exporters contingent on the export of their goods and services. GDP/GNP (Gross Domestic/National Product): The total of goods and services produced by a country.

Subsidy: An economic benefit granted by a government to producers of goods, often to strengthen their competitive position. The subsidy may be direct (e.g. cash grant) or indirect (e.g. low-interest export credits guaranteed by a government agency).

Surcharge or Surtax: A tariff or tax on imports in addition to the existing tariff, often used as a safeguard measure.

Tariff: A duty (or tax) levied on goods transported from one customs area to another. Tariffs raise the prices of imported goods, thus making them less competitive within the market of the importing country. Under the North American Free Trade Agreement, most tariffs on Canadian goods and services to the United States and Mexico have been eliminated.

International commerce (INCO) terms

Shipping terms set the parameters for international shipments, specify points of origin and destination, outline conditions under which title is transferred from seller to buyer, and determine which party is responsible for shipping costs. They also indicate which party assumes the cost if merchandise is lost or damaged during transit. To provide a common terminology for international shipping, the following INCO terms have been developed under the auspices of the International Chamber of Commerce at **www.iccwbo.org/index_incoterms.asp**.

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

Cost, Insurance and Freight (CIF): 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 delivered ex works (see below), under which the seller assumes the least responsibility.

Delivered 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. 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 accoun*t, whereby the buyer assumes the responsibility.

Delivered 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.

Delivered 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.

Ex Works (EXW): The price quoted applies only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the period fixed. All other charges are for the account of the buyer.

Free Alongside Ship (FAS): The seller quotes a price for the goods that includes charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharfage, loading, ocean transportation, and insurance are left to the buyer.

Free Carrier...(named port): Recognizing the requirements of modern transport, including multi-modal transport, this principle is similar to Free on Board (see below), 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, sea, air, rail or a combination thereof.

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

Free on Board (FOB): 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.

Free on Board Airport (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.

Free on Rail and Free on Truck (FOR/FOT): Again, the same principles apply as in the case of ordinary FOB, except that the goods are transported by rail or road.

With Average (WA): This type of transportation insurance provides protection from partial losses at sea.

Transportation and delivery terms

The following are common terms used in packing, labelling, transporting and delivering goods to international markets. They are in addition to the above INCO terms.

Area Control List: A list of countries to which any export (except humanitarian items) requires an export permit.

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

Certificate of Origin: A document that certifies the country where the product was made (i.e. its origin). A common export document, a certificate of origin is needed when exporting to many foreign markets. It must be used for Canadian-made goods to qualify for preferential tariff treatment under the North American 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 the exporter. It should provide basic information about the transaction, including description of goods, address of 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 require Canadian exporters to first obtain consular invoices from their consulate in Canada. A fee is usually charged.

Customs Declaration: A document that traditionally accompanies exported goods bearing such information as the nature of the goods, their value, the consignee and their ultimate destination. Required for statistical purposes, it accompanies all controlled goods being exported under the appropriate permit.

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

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.)

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

Export Control List: A list of goods and technologies that require export permits to be exported from Canada, pursuant to the *Export and Import Permits Act*.

Export Permit: A legal document that is necessary for the export of goods controlled by the Government of Canada, specifically goods included on the Export Control List (see above) or goods destined for countries on the Area Control List (see page xx).

Freight Forwarder: A service company that handles all aspects of export shipping for a fee. Insurance Certificate: A document prepared by the exporter or freight forwarder to provide evidence that insurance against loss or damage has been obtained for the goods.

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.

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.

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.

Financial and insurance terms

The following are the most commonly used terms in international trade financing.

All Risk: This is the most comprehensive type of transportation insurance, providing protection against all physical loss or damage from external causes.

Bid Bond: When an exporter is bidding on a foreign contract, a bid bond guarantees that the exporter will take the contract if the bid succeeds. An exporter who refuses the contract must pay a penalty equal to the amount of the bond.

Cash in Advance (Advance Payment): 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.

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

Consignment: Delivery of merchandise to the buyer or 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.

Document of Title: A document that provides evidence of entitlement to ownership of goods, e.g. carrier's bill of lading.

Documentary Collection: The exporter ships the goods to the foreign buyer without a confirmed letter of credit or any other form of payment guarantee.

Documentary Credit (sight and term): A documentary credit calling for a sight draft means the exporter is entitled to receive payment on sight, i.e. upon presenting the draft to the bank. A term documentary credit may allow for payments to be made over terms of 30, 60, or 90 days, or at some specified future date.

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 term draft requires payment over a specified period.

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.

Letter of Credit: An instrument issued by a bank on behalf of an importer that guarantees an exporter payment for goods or services, provided the terms of the credit are met.

Letter of Credit (Confirmed): 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 all terms in the document have been met. An unconfirmed letter of credit does not guarantee payment so, if the foreign bank defaults, the Canadian exporter will not be paid. Canadian exporters should accept only confirmed letters of credit as a form of payment.

Letter of Credit (Irrevocable): A financial institution agrees to pay an exporter once all terms and conditions of the transaction are met. No terms or conditions can be modified without consent of all parties.

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

Partnership, alliance and market entry terms

The following expressions define the various types of partnership or alliance arrangements as well as methods of market entry common in international trade.

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.

Co-marketing: Carried out on the basis of a fee or percentage of sales, co-marketing is an effective way to take advantage of existing distribution networks and a partner's knowledge of local markets.

Co-production: This arrangement involves the joint production of goods, enabling firms to optimize their own skills and resources as well as take advantage of economies of scale.

Cross-licensing: In this form of partnership, each firm licenses products or services to the other. It is a relatively straightforward way for companies to share products or expertise.

Cross-manufacturing: This is a form of cross-licensing in which companies agree to manufacture each other's products. It can also be combined with co-marketing or co-promotion agreements.

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.

Franchise: This is a more specific form of licensing. The franchise is given the right to use a set of manufacturing or service delivery processes, along with established business systems or trademarks, and to control their use by contractual agreement.

Joint Venture: An independent business formed cooperatively by two or more parent firms. This type of partnership is often used to avoid restrictions on foreign ownership and for longer-term arrangements that require joint product development, manufacturing and marketing.

Licensing: Although not usually considered to be a form of partnership, licensing can lead to partnerships. In licensing arrangements, a firm sells the rights to use its products or services but retains some control.

Trading House: A company specializing in the exporting and importing of goods produced or provided by other companies.

Legal terms

The following are some of the more common legal terms encountered in international transactions.

Arbitration: The process of resolving a dispute or a grievance outside of the court system by presenting it to an impartial third party or panel for a decision that may or may not be binding.

Contract: A written or oral agreement which the law will enforce.

Copyright: Protection granted to the authors and creators of literary, artistic, dramatic and musical works, and sound recordings.

Intellectual Property: A collective term used to refer to new ideas, inventions, designs, writings, films, and so on, protected by copyright, patents and trademarks.

Patent: A right that entitles the patent holder, within the country which granted or recognizes the patent, to prevent all others for a set period of time, from using, making or selling the subject matter of the patent.

Trademark: A word, logo, shape or design, or type of lettering which reflects the goodwill or customer recognition that companies have in a particular product.