WHITE PAPER

Six Steps to Export Success

Canada

Realize a World of Opportunity

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MAKING THE JUMP TO EXPORTING

If your company has a top-class product or service, going into international trade may be one of the smartest business decisions you'll ever make. Better yet, you don't need to be a large company to do this, since size isn't closely related to success abroad. Most Canadian exporters are small and medium-sized businesses from every sector of our economy, operating in scores of foreign markets from the United States to South Korea.

Of course, succeeding in international trade means dealing with many new financial, marketing and logistical challenges. This will take thorough preparation and planning, together with a long-term commitment to establishing an international presence. But the payoff for diversifying into foreign markets can be substantial and, in an era when the world's trade is becoming ever more integrated, it can be essential to survival.

SIX STEPS TO EXPORT SUCCESS

Here are six basic steps that will help you get started in foreign trade, from identifying your best market prospects to delivering to your customers.

STEP ONE: FINDING YOUR TARGET MARKET

Once you've decided to go international, the next thing to do is identify a market where people will want to buy your product and where you can reasonably expect to turn a profit. Your first list will probably have several countries on it, so you'll need to narrow it down to one or two markets that offer the most potential for success.

To do this, analyze the following characteristics of each market and try to determine whether they increase or decrease the market's potential:

Market size and growth

- How many potential customers are there likely to be?
- How much is spent annually on products like yours?
- Are there a lot of products already in the market that will compete with yours?
- Can you match or beat the prices your competitors are charging?
- Is the demand for your type of product likely to grow or shrink?
- Are there cultural factors that may affect the marketability of your product?
- Is the market industrializing rapidly? If so, can you develop new products to take advantage of this?

Market accessibility

- Are there high tariff and/or non-tariff barriers for products such as yours?
- Are there already many suppliers of your type of product?
- Will shipping your products to the market be expensive and/or logistically complicated?

Business and political environment

- Is the economy stable and growing?
- Are governments at the national and sub-national levels friendly to foreign companies and investors?
- Are there any issues with currency exchange, transfer or convertibility?
- Is the political system stable?
- If you place assets in the country or invest there, are there risks of political upheavals that could threaten these assets and investments?
- How strong are the local legal and governmental institutions?
- Is there widespread corruption?

Once you've examined these questions in some depth, you'll be in a better position to identify which market offers you the best opportunities for success. A single market is often the optimum number, although you could choose two if they both seem highly promising. But more than two is an overstretch – because of the costs involved in entering foreign markets, it makes no sense at this stage to try for more.

Once you've decided where you're going to go, it's time to create the export strategy that will give you the best chance of success in your chosen market.

STEP TWO: DEVELOPING YOUR EXPORT STRATEGY

If you're new to international trade, developing your export strategy begins with a careful examination of your firm's capabilities with respect to the market you've chosen. Your products should be competitively priced and be unique in one or more ways for that market. You should also have a domestic business plan of proven effectiveness and enough human, financial and production resources to support some level of business activity outside Canada. Having strong domestic sales can also be an advantage, although – depending on your company's type of business – this may not be a prerequisite for success.

Once you know you have the capabilities you need, your export planning can become more precise. It should cover elements such as export objectives, staffing plans, financing arrangements, major competitors and market risks, competitive advantages and disadvantages, pricing, product adaptation and the method of market entry.

Your market entry strategy

The last issue mentioned above – how to actually enter your market – can be a particular puzzle, since it raises questions of logistics, distribution, in-market sales approaches and whether to use local representation. In the following sections, we'll examine the foreign-market entry methods most commonly used by Canadian businesses.

Direct exports to foreign consumers

With this approach, you make your products or services known to consumers abroad and market them in a way that will appeal to the needs, tastes and values of the foreign culture. Direct exporting has several advantages: you enjoy higher profits because there are no middlemen, you have end–to–end control of every transaction, and you have increased operational flexibility in the foreign market.

On the downside, adapting your product and your business methods to fit an overseas consumer market can require a level of effort and expense that may severely strain your company's resources. Whether it will work for you depends largely on the nature of your business, the appeal of your product and the abilities of your management and sales force.

Direct exports to foreign businesses

In this form of market entry, you sell directly to a foreign business that uses your product for its own purposes, perhaps in manufacturing goods of its own. The advantages of this approach resemble those of selling directly to consumers, with the added benefit that you are dealing with a much smaller number of customers. Business customers can also be much easier to identify than consumer-level customers, since they often attend trade shows where you can meet them.

Exporting via intermediaries

In markets where there are language barriers, cultural differences and unfamiliar ways of doing business, using an intermediary can be a very desirable alternative to direct selling. Good intermediaries will be familiar with local conditions and can help you find customers, arrange distribution channels, handle documentation, clear your goods though customs and provide after-sales service. In some countries, moreover, it's mandatory to use an intermediary if you want to do business there.

The three most common types of intermediaries are agents, distributors and export management/trading companies:

- An agent is an individual or firm you employ, usually on commission, to sell your product or service.
- A distributor is a firm you choose for its distribution channels. It buys your product outright and then on-sells it.
- Export management/trading companies are full-service businesses that handle multiple aspects of exporting such as market research, transportation and advertising. Some firms buy your product outright, while others may act as agents on commission.

Partnering with a larger Canadian exporter

Many smaller Canadian companies have succeeded abroad by working with larger Canadian companies that are already operating in foreign markets. Such partnerships can take many forms, from contributing to a supply chain to providing a custom product tailored to the larger partner's needs. While there may be some loss of control for your company, this is usually far outweighed by the opportunity for sales growth and diversification outside Canada.

To persuade a larger company that such an arrangement is in its interest, you need to attract the attention of its decision makers, typically by networking with industry associations, chambers of commerce and boards of trade. Once at the table, you must demonstrate that you can add significant value to the larger company's business over the long term. The key here is to offer unique contributions, such as a tailored service or product, or an ability to add flexibility and value to the larger firm's operations.

Following your Canadian customer

Doors can open for you if your Canadian customers have affiliates in other countries and these affiliates need your products. If you sell electronic components to a Halifax company, for example, and this company owns a Mexican business, you may be able to sell directly to the Mexican firm as well as the Halifax-based parent.

Finding such a ready-made foreign customer, whose parent company is familiar to you and with whom you have an established relationship, can eliminate much of the risk associated with entering a new market abroad. A second advantage is that your business with the affiliate will help you learn about the local market and give you a presence there, which will make it easier to find other customers.

Following a customer abroad may also be necessary to protect your sales if the customer shifts some or all of its production to a foreign location. You may also find an opportunity to increase your sales if your customer's move abroad causes it to expand production.

If you're a services business rather than a manufacturer, following a client abroad can provide excellent opportunities for overseas expansion – you get to operate in a new foreign market, at relatively low risk, by servicing a familiar customer. This enhances your visibility in the market and can make it easier to attract new local clients as you become more experienced with the foreign business culture.

Partnering with a foreign company

You can also look beyond Canadian partners and work with local companies already operating in the foreign market. Local partners can provide on-the-ground knowledge and contacts, which is immensely valuable when entering a market abroad. They can also provide gateways for expansion into additional countries. A partnership with a large Brazilian company, for example, may provide access not only to Brazilian customers but also to customers in other emerging South American markets, and possibly beyond.

Foreign direct investment

Foreign direct investment (FDI) is another way of entering markets abroad. It is usually undertaken by firms that have some experience in international trade and have set aside enough resources to support such an investment. The major forms of FDI are:

- setting up a foreign sales and marketing office (sometimes called a branch office) in the target market;

- setting up an affiliate company (also known as a subsidiary) in the target market;
- acquiring or merging with a local company to form an affiliate in the target market;
- licensing products or processes to a local company in the target market;
- establishing a franchise in the target market;
- working with a contract manufacturer located in the target market; and
- establishing strategic alliances or joint ventures with other companies to operate in the target market.

FDI can be an attractive strategy for some Canadian exporters because it can help a company to:

- increase sales;
- expand market share;
- access foreign markets more effectively;
- serve customers better;
- join a global or regional supply chain;
- enhance competitiveness within a supply chain;
- secure sources of supply;
- gain access to new technology; and
- follow customers who have invested abroad.

FINANCING OVERSEAS SUCCESS: ENDURANCE WIND POWER

Endurance Wind Power was founded in Surrey, BC in 2007. When it started out, the firm had a market vision, test facilities and an expert team, but needed financing to acquire its foundational turbine technology.

To meet the challenge, Endurance secured an EDC-guaranteed line of credit from its bank, which allowed the company to purchase the technology it required. But there was a second problem: Endurance's key markets were in the UK and Italy, and the BC-based company needed a manufacturing plant that was much closer to its customers. Again, EDC partnered with the company and its bank to finance a UK production facility.

Since then, Endurance has grown from a company of 10 to an international team of more than 100 and has more than 700 turbines in operation around the world.

At the most rudimentary level of FDI, you could set up a sales office and operate it merely as a marketing facility. A considerably more ambitious strategy would be to set up a joint venture or a partnership with a foreign business. This would allow you to take advantage of the other firm's assets and experience, thus increasing your competitiveness in the local market, improving your control of local production and distribution networks, and eliminating the need to build a business presence from the ground up.

Alternatively, you could become a participant in a foreign market by establishing a wholly owned affiliate there. This strategy gives you full control of your local business operations, with all the advantages that this implies, and it can be a very effective strategy for goods manufacturers. For Canadian service industries, setting up foreign affiliates has become an especially important method of market entry and is often preferred to exporting the same services from Canada.

For more information on FDI and the other entry strategies described in this chapter, please refer to EDC's ***Diversifying into Foreign Markets: A Guide to Entry Strategies***.

STEP THREE: FINDING CUSTOMERS, INTERMEDIARIES AND PARTNERS

To succeed abroad, you'll need to find new customers, intermediaries and partners. The key to this success can be expressed in one word: networking. All companies use their networks to extend their reach both domestically and, in the case of firms doing business internationally, into markets abroad. Networking is, in fact, the most common method that exporters use to create business-to-business relationships with foreign companies. It typically draws on trade shows, recommendations from other businesses, connections with industry organizations and associations, and in-market visits to establish personal contacts with local decision makers.

Trade shows

Participating in international trade shows can be an effective means of exploring a new market, identifying sales prospects and gaining useful contacts and feedback. By exhibiting at the right show, you can:

- get attention in your new market;
- introduce your company and its products to many potential customers in just a few days;
- show your sales prospects how they can benefit from your product or service;
- find customers, intermediaries or partners;
- see what's happening in your industry as a whole;
- demonstrate your long-term commitment to the market; and
- learn how other companies compete in the market.

There are several major types of trade shows:

- **Major trade shows for a specialized audience**
  These are devoted to a specific industrial sector (such as automobiles) or a market (such as health care). Many are international and draw large numbers of senior executives who can make important sales decisions.

- **Major trade shows for a general audience**
  These large shows may be international, national or regional. They showcase all kinds of goods and services for the public and for businesses. Because they attract a general audience, they may be less suitable for your company than more specialized shows.

- **Secondary trade shows**
  Less prominent than the major shows, these can still be important to their particular sectors or markets at both the national and international levels. They are often highly specialized and are usually open to business participants only. For companies that aren't quite ready for one of the major shows, these events can be a good investment.

- **Consumer trade shows**
  As the name suggests, these shows are for the public at large. Some are general, while others are devoted to particular audience interests, such as home shows or sports shows. Companies that concentrate on selling directly to retail consumers may find these shows useful; otherwise, one of the other three types is likely a better bet.

Finding the most suitable trade show(s) in your target market will be easier if you check with the Canadian Trade Commissioner Service (TCS) office in that market, or the EDC representative there. You should also contact your industry's trade associations, since many of them keep track of the year's shows and can provide information about them.

Trade publications for your sector can also be useful, as can chambers of commerce, convention centres and visitors' bureaus. The TCS's online **CanadExport** magazine lists upcoming trade events.

Recommendations from other businesses

Most company managers agree that third-party recommendations can be very helpful when you're searching for business partners or customers. Such recommendations suggest that the firm in question is trustworthy, serious, and of high potential. When looking for a distributor, for example, you could check with your suppliers to find out if they are aware of, and can recommend, reputable distribution firms in your target market.

Conversely, foreign firms may recommend your company to others in their local markets. Since customers often prefer to stick to familiar sources and suppliers, a recommendation can help make your company less of a stranger to a potential customer. You should always follow up such recommendations if this is at all possible.

Industry organizations and associations

If there's a single good reason to belong to an industry organization in your sector, it's that your membership can provide you with many valuable networking opportunities. These organizations can have a global reach since they are frequently connected to equivalent associations abroad. Association members are often quite willing to help each other out since they also may need assistance at some future time. The shared market knowledge within your industry can be a valuable resource when you're trying to create new business relationships abroad.

Market visits

Once you've identified your most promising target market, it will be time for an on-the-ground visit. During this visit, you'll verify that this market is the one you want to enter and, assuming it is, you can start connecting with potential customers there.

Making these connections is more likely to happen if you contact the **Trade Commissioner office** in the target country before leaving Canada. In-market Trade Commissioners can assist you with information about market prospects and local companies, and can help with visits to the country, contact searches and face-to-face briefings.

For example, a Trade Commissioner might introduce you to members of the local chamber of commerce or a local trade association; you could then open discussions with these contacts and perhaps make your first sale. If you've already identified a company as a potential customer, a Trade Commissioner can tell you more about the firm and how it fits into the local business culture.

Here are some tips that can help make your market visit a success:

- Well before leaving Canada, arrange to meet Trade Commissioners or EDC representatives (if available) in the target market.
- Make sure your visit won't coincide with local holidays or holiday seasons.
- Arrange interpreters, if necessary, before you go.
- At least two people from your company should travel to the market. Your party should include senior executives with decision-making powers.
- If your product is complex, you may want to bring technical staff to answer questions from potential customers.
- Before going, learn about the local business culture and its attitudes to things such as punctuality, formality and styles of negotiation.
- Allow time during your visit to build business and social relationships with potential customers.
- Make sure you can answer detailed questions about matters such as price, production capacity and delivery times.

Always follow up with the business contacts you make, ideally within 24 to 48 hours. Thank them for meeting you, provide follow-up information and promise to get back to them by a specific time if they have requested more information.

EDC ABROAD

EDC has **overseas offices** in Brazil, Chile, China, Colombia, Germany, India, Mexico, Peru, Russia, Singapore, Turkey, the United States and the United Arab Emirates.

STEP FOUR: CHECKING CUSTOMERS AND MANAGING RISK

Always check a customer's creditworthiness and financial history before committing to a deal. There are several ways to do this; for example, you may be able to get credit information from your financial institution if they have a relationship with your potential customer's bank. You can also approach banks in the customer's country to request credit information about the company, but bear in mind that in some cultures it is poor etiquette to speak badly of local businesses. In those countries, it is in your best interests to use information from other sources to verify reports.

If you're willing to spend money, there are consulting firms and credit reporting agencies both in Canada and abroad that will help you check out a customer. This can be expensive, but may be worthwhile if it uncovers risks for your company.

Insuring against non-payment

Non-payment is usually the most serious risk of doing business abroad. If the future of your company hangs on being paid by a particular customer, his failure to do so can become a nightmare. Even in less dire situations, the impact of non-payment may be severe and lasting.

EDC offers a suite of products designed to protect exporters against non-payment by a customer:

- **Accounts Receivable Insurance** is designed for Canadian companies that wish to insure all of their U.S. and international sales.
- **Trade Protect** is an online credit insurance solution that covers unlimited export sales, for up to five U.S. or international customers, for a period of 90 days.
- **Contract Frustration Insurance** insures you for up to 90 per cent of your eligible losses resulting from various political and commercial risks.

Protecting your intellectual property

Your company's intellectual property (IP), such as patents, copyrights or proprietary technology, can be as valuable as your actual products or services and must be protected when you venture into a foreign market. Countering the risk of IP theft by customers, or even by partners or agents, may require elaborate legal and operational protections. Always consult a local professional when setting these up.

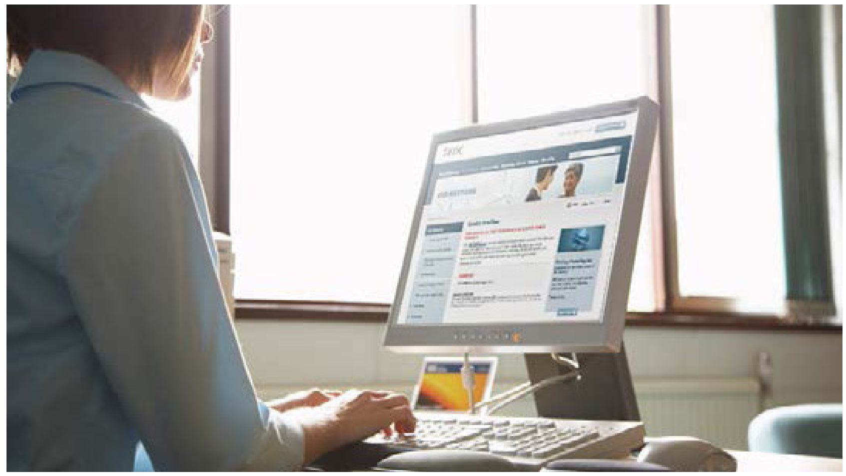
INSURING FOR OVERSEAS SUCCESS: CLEARWATER SEAFOODS

When Halifax-based Clearwater Seafoods started out in 1976, its owners quickly recognized the value in exporting high-quality shellfish to foreign markets. But as an entrepreneurial company, Clearwater needed support to help the business expand internationally.

"EDC has helped us grow abroad," says the company's Chairman and CEO, Colin MacDonald. "We've used EDC's accounts receivable insurance in our foreign markets since the late 1970s. Having the insurance has not only protected our bottom line, but has also assured our lenders of our financial health and has ensured that we've had the cash flow to grow."

The result: Clearwater has become one of the world's leading seafood companies, renowned for its harvesting, processing and distribution of scallops, premium lobsters and other shellfish. Nearly 100 per cent of its high-quality products are sold abroad, in markets ranging from the United States to Asia, the Middle East and Europe.

It is especially important to register all your IP in the foreign market itself, as well as in Canada. You will usually have to use the local courts to pursue a violator, and a Canadian registration will not help you do that.



Dealing with licensing risks

A licence is a grant of rights you issue to a company. It allows the company to legally use your company's proprietary technology and/or IP for the purposes specified in the licensing contract. A licence usually doesn't involve all the rights you could grant, but rather a selection of them.

A licensing contract must be extremely precise about the licensee's rights and the boundaries of their validity. Vagueness in this area can create serious problems; for example, if the licensee is free to use your technology to create other technologies, even though this was not your intent, the value of your original technology can be eroded. You must also be precise about the territory where the licence is valid. Otherwise, your licensee may begin selling your product in a market that you intended to licence to somebody else.

STEP FIVE: NEGOTIATING A CONTRACT

No matter whether you or an intermediary does the negotiating, you'll reduce your risks if the contract's terms and conditions are clear and precise. At the minimum, they should describe:

- the legal entities entering into the contract;
- the contract's validity conditions;
- the goods or services to be provided, together with their purchase price and the specific details of payment, inspection and delivery terms;
- any warranty and/or maintenance terms and conditions;
- the entity responsible for obtaining any import/export licences;
- any contract performance security requirements, such as bank letters of guarantee or surety bonds;
- the remedies available if the customer defaults or cancels;
- the provisions for independent mediation or arbitration to resolve disputes, and the jurisdiction where this would take place;

- which country's laws apply to the contract; and
- the contract completion date.

In Canada, signing a contract ends the negotiations. But in some countries, this merely means that you and the customer have agreed to do business. Serious negotiations begin after signing. If you find yourself in this situation, be careful not to make more initial concessions to your customer than necessary. If you do, and your customer later requests more negotiations, you may have to concede more than you can really afford.

Negotiating through an intermediary

A reputable local intermediary can help you avoid many contractual issues. However, you should always carefully review any contract an intermediary brings you. If it appears too one-sided or lacks crucial information, it may affect your ability to fulfill the contract and receive payment.

If you need to give power of attorney to an intermediary, consult a lawyer and be sure to place strict limits on the intermediary's authority. You should also ensure that the customer who is actually responsible for payment signs the contract – if only you and the intermediary sign it, you have no written evidence that the customer owes you the money, and you might have trouble getting paid.

Establishing payment terms

You'll do better in contract negotiations if you know what payment terms your customer wants, versus what you are prepared to provide. Arrangements can range from open account to letters of credit, each with varying risks for customer and seller. When deciding on the terms you'll offer or accept, consider factors such as your experience (if any) with the customer, your experience with the market and your cash flow requirements.

Be aware that cultural differences can affect attitudes to payment – in some markets, it's an affront to demand payment when payment is due. To get around this, make it clear from the start that you expect to be paid on the due date, in the right account and in the right currency. Otherwise, be prepared to allow some additional time for payment.

Contract performance security

Foreign customers often expect exporters to provide financial security to ensure that they'll honour their contractual commitments. This security can be an on-demand bank letter of guarantee, a standby letter of credit or a surety performance bond.

In all these cases, make sure the contract clearly stipulates your performance obligations, as well as the conditions under which your customer can "call your bond." "Calling a bond" means that the customer demands the payout of the bond on the grounds that you have failed to perform according to the contract. If this occurs, your bank must immediately pay the cash to the customer.

Sometimes, however, a customer may call a bond without a good reason to do so. If you think this might happen, you should consider using EDC's **Performance Security Insurance.** It covers up to 95 per cent of your losses if your customer demands payment on a bank-issued guarantee without a valid reason.

STEP SIX: COPING WITH LOGISTICS AND CUSTOMS

Delivering your goods to a foreign customer is much more complicated than delivering them domestically. Even if you don't manage the process yourself, you should know how it works so you can build the appropriate expenses into your final quote to the customer.

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. For more information, refer to the **ICC** web site.

Using freight forwarders

Freight forwarders specialize in moving goods around the world, and using one may save you a good deal of trouble and expense. You can hire these agencies merely to negotiate a rate with a carrier or, at the other end of the scale, have them do everything from arranging insurance to finding a reputable customs broker. Some forwarders specialize in shipments to certain countries, while others concentrate on particular types of goods. For more information, refer to the **Canadian International Freight Forwarders Association** web site.

Using customs brokers

Most Canadian exporters use customs brokers based in Canada. These firms will work directly with a broker in the customer's country, who will clear your goods through customs. In most countries, a local, registered broker is the only person authorized to do this.

Providing documentation

Providing complete, accurate documentation of your shipment is vital. If anything is incorrect or lacking, your goods will not be allowed into the country until the deficiency is corrected.

The basic documents, required almost everywhere, include the following:

- commercial invoice
- packing list
- certificate of origin
- certificate of insurance
- bill of lading (for sea or land transport) or an air waybill
- certificates of inspection, if required
- import licences, if required

Other documents may also be necessary, depending on the goods and local customs regulations. Your customs broker and/or the customer will give you the details.

Problem-free customs clearance

Following the general rules below will help your exports reach your customer as quickly and easily as possible:

- Complete all customs requirements before you ship the goods. Don't wait until they're at the border to discover that you've overlooked some vital document.
- Make sure the customs documents are consistent with each other and complete in terms of quantities, descriptions and so on.
- Make sure the customs documents exactly match what's in the shipment. Undocumented items can cause problems for your customer, such as lengthy delays at the local port of entry.
- Be sure your goods comply with the standards, regulations and entry procedures of the target market. If they don't, your customer may not be able to bring them into the country.
- Carry out due diligence before selecting a customs broker. If possible, choose a broker who deals with your type of product.

GETTING HELP

There are many sources of assistance for companies getting started in international trade. The following list will give you a good start.

- **Export Development Canada** (EDC) is Canada's export credit agency. Its job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities.

  EDC's **About Exporting** page leads to a wealth of export-oriented resources and information. Among these are several guides, including ***Diversifying into Foreign Markets: A Guide to Entry Strategies*** and ***Introduction to Exporting: How to Sell to International Markets.***

- **Foreign Affairs, Trade and Development Canada** (DFATD) provides information about foreign affairs, foreign policy, the Canadian economy, international trade, travel assistance and passport services.

- The **Canadian Trade Commissioner Service** (TCS) is part of DFATD and has Trade Commissioners in more than 160 cities worldwide and in regional offices across Canada.

The TCS provides a broad range of services to Canadian businesses in Canada and abroad. Trade Commissioners can help you prepare for international markets, assess market potential, find qualified contacts and advise on market access problems. The TCS also offers market research and country-specific trade and economic reports.

- **Canada Business** is a collaborative network of federal and provincial government services that help Canadian entrepreneurs and exporters build their companies.

- **CanadExport** is the official magazine of the TCS. It provides news about trade opportunities, export programs, trade fairs, business missions and more.

- **Industry Canada** offers market reports as well as the extremely useful **Trade Data Online** statistical research tool.

Ready to take the next step?

EDC can help you every step of the way.

- Looking for trade and market expertise to help guide you? We can provide it.
- Need to manage risks abroad? We can help you control them.
- Want to protect your foreign assets and receivables? We can help you secure them.

To find out more, call our Solutions toll-free number at 1-800-229-0575, or go online and **submit a question.** We'll answer your inquiries within one business day, weekdays between 9 am – 5 pm EST.

For more information, please visit **edc.ca**

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