First steps to exporting

Exporting can boost your turnover and reduce your dependence on UK-based customers. Moving into export is a big step — it's important you consider whether your business is ready for the challenge.

This briefing tells you how to prepare for successful exporting. It covers:

- Assessing your export potential.
- Market research: finding out about your would-be markets.
- Selling, distributing and transporting your exports.
- Sorting out the paperwork and legalities.

1 Assess your export potential

Before committing resources to exporting, you should assess your business' exporting potential.

1.1 Assess the **suitability** of your goods and services for export.

- Consider whether your product or service offers enough of a profit margin to absorb the costs of being exported.
- Identify foreign laws and standards which will affect your products and services.
- You might need to modify your products to ensure they conform to the cultural norms of the target market.
- If you want intellectual property (IP) protection overseas, you should make an application in each country for which you want protection. Contact the UK Intellectual Property Office at www.ipo.gov.uk.
  You can apply for Europe-wide protection through the World Intellectual Property Organisation at www.wipo.int.

1.2 Analyse the **benefits** exporting could bring.

- Your turnover and profit can be increased.
- Overseas competition could give you a competitive edge over rivals at home.
- Falls in demand in your home market can be offset by overseas sales.

1.3 Identify the possible **pitfalls** of exporting.

- Taking your eye off your home market.
- Getting paid by overseas customers can be difficult. Get the terms of your sales right to make sure you get paid on time.
- You may have to travel abroad or spend months negotiating a deal, so allocate sufficient company time to exporting.
- Many would-be exporters fail because they are unaware of the language, culture and legal systems of the target country.

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If you need further information or help, ask the distributor of this briefing about the services available to you.

- Ensure responsibility for delivery and collection is clearly defined with your foreign customers (see **4.1**).
- Failing to maintain regular contact with your sales agent or import distributor.

1.4 Identify the **resources** you will need for trading abroad.

- Unless you appoint a sales agent, your sales staff will need to have the language skills of your target market.
- Identify the financial reserves needed to support exporting activity such as product development and marketing.
- Ensure your business has the administrative capacity to handle the documentary and legal obligations.
- Ensure your business has an adequate knowledge-pool of foreign regulations, standards and cultural preferences.
- Plan the expansion abroad within the framework of your business plan (see **3.1**).

UK Trade & Investment has a self-test to help assess your readiness to export.

Cultural considerations

You need to understand the culture of your would-be markets to establish a successful relationship with your customers.

Customisation of your product or service to the market is essential. Ensure your business observes local traditions, beliefs and customs.

Analyse local cultural meanings behind your product brands. For example, bicycles might be perceived as a leisure item in one country but as essential forms of transport elsewhere.

Evaluate your marketing strategies. The latest thing in the UK might already be old news elsewhere — or too new to take off yet.

Speaking the language of your potential customers can establish mutual confidence. It's a good idea to avoid colloquialisms and metaphors in promotional material — they could be embarrassing or offensive when translated into the local language.

For help with all such cultural issues, talk to a business adviser at your local Business Link (0845 600 9 006), call UK Trade & Investment on (020 7215 8000) or visit www.uktradeinvest.gov.uk.

2 Research export markets

2.1 Identify your target **markets**.

- Check which markets have demand for your product or service.
- Find out about difficulties you might face in certain countries — your professional or trade association may help with this.
- UK Trade & Investment, the government service which helps exporters, and the Institute of Export, can provide detailed country-specific advice.

2.2 **Explore** your market. You need to:

- Check levels of demand for your product or service and the strength of the economy in the target market.
- Identify a potential foreign supply-chain.
- Find growth areas in your target market.
- Examine the industry structure so you know whom you're competing against.
- Identify the best way to sell your product — you may sell direct in your home market but the preferred sales channel in your target market may be online or via a catalogue.
- Find out about any modifications required to make your product or service acceptable to different cultures.
- Research foreign laws and any quotas, duties or taxes that may be in place (see **5**).

2.3 Choose a research **method** which suits your business needs.

- Conducting research in house enables you to keep costs down. Be clear about the data you require and set a realistic budget.
- British embassies can provide fee-based information, visit www.fco.gov.uk.
- Use advice available from UK Trade & Investment on specific countries and markets (020 7215 8000).
- Help on technical regulations and standards can be obtained from BSI (020 8996 9001).
- Visits to trade exhibitions in your target market are ideal for building contacts.
- Join a trade mission abroad to meet contacts and gauge competition. Visit www.britishchambers.org.uk.
- To harvest detailed information on a specific market use a research agent. They have access to your customers and can observe competitors' weaknesses.
- Contact the British Market Research Association for advice on 020 7566 3636.

3 Choose your market route

3.1 Consider how you will **market** your product or service overseas.

- You need to tailor your market strategy according to your sales target.
  Will you sell direct to small businesses, to a wholesaler or distributor, or via a sales agent?
- If you are selling to another business, such as a distributor or agent which will sell your products in the target market, you might need to promote your product via your website or through advertising in trade publications.
- Whether you are selling direct or via a distributor, trade exhibitions abroad are an effective method — but they are costly.

3.2 Choose your foreign **sales presence**.

- An export agent will find buyers for your products or service and receive a commission on sales.
  Maintain regular contact with the agent and keep them informed of new product developments.
- A sales distributor will buy your products from you and sell them on your behalf. They can be used to conduct activities such as research.
- A joint venture with a local business will give your business access to established markets. However, the costs of running an overseas branch or office can be high.
- Selling via the Internet is a low-cost option. Make sure you can fulfil orders quickly and efficiently.

4 Getting paid

4.1 Discuss your **cash position** with your bank manager before exporting.

Plan your entry to market

After completing your market research, it's worth developing an export plan which defines how you will enter the new market.

An export plan should outline:

- Potential export customers.
- Projected costs and revenues.
- Export pricing strategy.
- Legal requirements.
- Transportation methods.
- Foreign investment capabilities.

Your export plan should include dates for the completion of key tasks. You should also communicate progress within your business.

- The possible time lag between shipment of goods and payment affects your cashflow.
- When arranging your sales, ensure payment terms are defined. Use the internationally recognised rules, Incoterms 2000. Visit the International Chamber of Commerce website: www.iccwbo.org.

4.2 Minimise foreign **currency** risks.

- If you sell in local currency, exchange-rate fluctuations between the date you agree a sale price and the date your customer pays can mean you receive less than expected.
- Although trading in sterling transfers the risk to your customer, this can make you uncompetitive in the market.
- You can protect against exchange risk using foreign exchange contracts and currency options. Ask your bank for advice.

4.3 Explore ways of extending **credit**.

- Before giving credit to new customers assess their creditworthiness through an application process.
- Minimise the risks of late payment from new customers by initially granting a low credit limit.
  Take into account that this may restrict your sales growth.
- Credit payment terms vary across the world. Foreign firms often insist on large discounts for early settlement.
- Structured trade finance, such as bridging loans, can plug the cashflow shortfall while you await payment.
  Carefully consider the risks of bridging finance. If your customer does not pay, can you afford to shoulder the burden of non-payment?

4.4 You'll probably be selling your products to a wholesaler, but if you are selling direct to the consumer of your product use a **factoring company** to help collect debts.

- Factors are expert in the techniques of international debt collection.
- High street banks offer factoring services but they do not operate in every country.
  For a small fee they will pay around 80 per cent of the value of your invoices.
- Factors assume responsibility for collecting remaining monies.

4.5 Purchase **trade credit insurance** to cover yourself against non-payment.

- Commercial insurers can help with credit insurance.
  Contact the British Insurance Brokers'

Association at www.biba.org.uk or on 0901 814 0015.

- Your bank can offer advice on insurance.

5 Know your legal obligations

Make sure you have the administrative capacity to fulfil any legal obligations (see **1.4**).

5.1 Complete relevant **paperwork** to ensure exporting goes smoothly. You must complete several documents, including:

- A numbered export invoice, which includes a description of your goods.
- A standard shipping note, which tells the destination port how to handle and store your goods.
- A dangerous goods note, which must be attached if the goods are hazardous.
- An export licence, which might be needed for some types of goods (see **5.3**).
- VAT returns for exports within the European Union (EU) (see **5.2**).

For help on documentation, contact HM Revenue & Customs on 0845 010 9000.

5.2 Comply with Value Added Tax (VAT) rules.

- If you sell to VAT-registered businesses in the EU, you must submit details of the transactions to HM Revenue & Customs on a quarterly return.
- If the value of your exports within the EU is below £270,000 a year, you need only complete a standard VAT return.
- If it exceeds £270,000 a year, you need to submit a Supplementary Declaration.
- If you export goods to a customer outside the EU, goods are zero-rated for VAT.

5.3 Certain goods may only be exported following the issue of an **export licence**.

- Goods subject to licensing control include fine art, most food and drink, and chemicals.
- All licences issued by BERR's Export Control Organisation are now processed electronically via SPIRE, the new online application system.
- Help is available from the Export Control Organisation via email on ECO.Help@berr.gsi.gov.uk or visit www.berr.gov.uk/europeandtrade/strategic-export-control

6 Get your products to market

6.1 Identify the most suitable **mode of transport** for your goods.

- Assess the cost of each option.
- Consider the climatic conditions of the countries the goods pass through.
- Examine how special goods, such as perishables, will be accommodated.
- How crucial is speed of delivery? Some manufacturers will want supplies just before they use them.
- Familiarise yourself with HM Revenue & Customs rules on transportation, such as dangerous goods (see **5.3**).

6.2 Freight **forwarders** can transport goods.

- Forwarders will save you money on transport costs because they consolidate your goods with other consignments. This is useful when you can only provide a part-container load.
- A forwarder assumes responsibility for documentation and books air, rail, shipping and road transport.

To find a freight forwarder contact the British International Freight Association on 020 8844 2266 or visit www.bifa.org.

6.3 Ensure your products' **transport packaging and labelling** conforms to international requirements.

- Establish the packaging requirements for deliveries to specific countries.
- As your sales grow, ensure your business can cope with the requirements.

Get online advice from the Packaging Society by visiting www.iop.co.uk.

6.4 Define **responsibility** for your products with your freight forwarder.

- You might be responsible for the goods until delivery to your customer.
- Use Incoterms 2000 in your contracts.

6.5 Purchase **cargo insurance** to cover damage to goods or late or non-delivery.

- Marine cargo insurance will cover your goods while at sea, and usually for the parts of the journey over land.
- Cover typically costs around 1 per cent of the value of the consignments.

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