EXPORTING

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MARKET POSITIONING, MARKET REPRESENTATION AND PRICE SETTING

Market positioning, market representation and price setting are among the most critical aspects of export management. If not well understood before starting negotiations and/or business in any market for any product or service, serious errors can be made which, at best, can be expensive to correct and, at worst, fatal to a company's exporting.

Selecting the route to market, setting product or service standards and prices and how to be represented in a market are critical decisions. The effect of price setting on securing sustainable sales and the profitability of such business is immense. It is a topic that tends to be overlooked by many exporters in the early stages of entering a market, often as a result of pressure to "get business going".

Distribution

The selection of the most suitable route to market for your product or service needs to be well researched before entering into any serious discussions with any potential operator. Decisions on whether to market directly to end users, through existing distributors of like products or services, totally new distribution methods or through your own distribution company in the market you are entering must be considered.

Once you have decided on the route to market then a thorough study of potential candidates must be undertaken. It is best to draw up criteria for the selection process and to spread the net wide. Always resist the temptation to make quick decisions and consider whether you are prepared to offer exclusive distribution or not.

Market Representation

How you intend to be represented in a market must be considered as part of the process of deciding on your distribution method. Representation will be your ears and eyes in the market, so you will be dependent on it. Will you use your own staff based in the market? Can you operate by visiting frequently or would it be best to appoint a local sales agent? If a local sales agent is appointed consider what representation specification you include and how the agent's performance will be measured and remunerated.

For both distribution and sales representation/agents it is important to find a suitable fit with potential customers and your company. This may involve company and country training. The teaching of product/service knowledge and capability of production and supply chain processes is most important. To succeed in export markets all staff in the supply chain must be authorised to make decisions within certain boundaries so customers know they are dealing with a responsive organisation with competent staff and efficient decision-making processes.

Price Setting

The role of price setting and its validity period are critical factors in being competitive. Knowing the level of margin your company can secure from a given market for a particular product or service must be clear before making significant commitments to any organisation involved.

Too often pricing is determined on a cost-plus basis without determining the value a customer places on your product or service. By finding the value a customer places on your product or service (supply offer) it is possible to maximise margins and or force cost reductions in the total cost structure to enable profitable business to be secured. Ideally both maximisation of price and minimisation of costs are considered right from the start of a market study.

The initial offer price needs to reflect your cost structure. To determine this, key information needs to be derived from several sources including:

- Detailed product and/or service specification
- Packing specifications
- Exact delivery requirements to the point where the customer becomes responsible for picking up the costs in the supply chain
- Terms of trade, FOB, C&F, CIF, DDP, FIS, etc
- Payment terms including: currency of sale, time of payment, method of payment, (letter of credit. sight draft, open account, telegraphic transfer, other methods)
- Validity of price offer

- Is price based on any indicative or contractually agreed value, volume, time line?
- Agreed performance measures for both seller and buyer
- Any provision for after-sales service
- Promotional allowances, if any, included in the price level. For example, there may be provision to supply product samples up to a certain level included in the price
- Is the price fixed or is it subject to review if costs escalate or currency values change?
- Who is making what from the supply chain transaction (Who is clipping the ticket and are they adding value to the transaction)?

It is important to determine from as many sources as possible the above information about the value customers see in your offer and any competitor's offers before you make a product supply offer including a price. Often by seeking such information from a wide range of sources it is possible to get such information to gel, thus giving you confidence your supply offer will be competitive.

Of course, when making a product or service supply offer it is important you fully explain to the potential customer what is being offered. Often customers do not fully understand a supply offer unless it is clearly spelt out to them. Sometimes they are surprised to discover they have been incurring costs on purchasing competitor's products or services they did not know about. If your supply offer includes some of these costs it is critical you explain this.

When setting a price offer it pays to remember the old woodworkers saying: "You can always take it off but you can't put it on". In other words, it is difficult to raise a price once you have given an indication of price – even if it was given informally. Loose price talk often will come back to haunt you. So do not talk price until you are very sure of your supply and price position.

Strategic Planning

Sound planning reduces doubts and allows greater control over future events. Strategic planning for the shorter term must inevitably be more precise than long-term planning which must adapt and be more flexible. Fluctuations in exchange rates, changing technology, increasing competition, changing regulations, new ways of transacting business and new paperwork are some of the many challenges you will have to face.

Successful management strategies include:

- Risk evaluation based on professional research
- Developing people skills that are sensitive to different cultures
- Training staff before exposing them to overseas customers
- Timing activities to suit the market
- Being flexible and open to competition and opportunity.

New international traders need to be aware of competitive forces in overseas markets. These range from efficient, innovative competitors to companies with low labour costs and subsidised cost structures. Many markets still have tariff and non-tariff barriers complicating access and increasing costs. Changing currency values can also increase prices or erode profitability. Former customers can imitate, then replicate your product.

Make sure you have sufficient working capital for your first international foray in hand or have suitable finance arranged with your registered bank. Before your first trip overseas, check with your financial advisor. Increasing production usually means higher variable costs but a relatively smaller increase in fixed costs. Increasing production volume can therefore decrease unit costs of production, adding to profitability. Gradually you can invest more in new product development, improved designs and more features. Your domestic market potential will also benefit.

Shipping

The loss of goodwill for the failure of a shipment to comply with the customer's requirements can be beyond calculation. Export documentation depends on the source document, the order confirmation and the letter of credit (L/C). Get these wrong and your goods may not get delivered, much less paid for. (If payment is by L/C, documentation must absolutely comply with the terms of the L/C or payment is jeopardised). If you cannot complete your export documentation yourself, a freight forwarder can do it well, on time and at reasonable cost. With new port security requirements, initial documentation must be completed before the container is delivered to the loading wharf.

Separate the tasks of packing for shipment from the packaging for resale. While the factory must contain and pack the goods, marketing must have authority over the finished packaging specification. The labelling laws in

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DATE: NOVEMBER 2014

each country vary greatly and must be complied with. For example many markets require that products be labelled in the local language(s) – for Canada, both English and French – and include details such as ingredients, processes and/or recycling/disposal.

Export Regulations
Exporters must familiarise themselves with any restrictions that could limit their ability to develop markets. Governments may legislate to limit the importation or exportation of certain goods, although under WTO rules they must have good reason to do so. Products with military application, for example, usually cannot be exported without prior approval.

Most New Zealand primary produce (food and agricultural products) may not be exported without appropriate permits. Exporters should check with the New Zealand Food Safety Authority or the Ministry of Agriculture and Forestry (www.maf.govt.nz). Other goods of strategic, historical or cultural significance may also be subject to export restrictions. The full list is available from the New Zealand Customs Service www.customs.govt.nz.

Regulations differ from country to country. Many countries have regulations to protect public health or safety or the environment. Failure to comply can be very expensive so it is wise to check early in the process what, if any, regulations apply to your product in your target market.

Passing Risk
Goods that pass over international borders face greater risks than domestic trade. The use of recognised trade terms will enable you to identify clearly where the ownership and risk passes. Within New Zealand, the Sale of Goods Act 1908 states that, unless otherwise agreed, risk passes when property passes, regardless of whether delivery has been made.

Export law differs. The transfer of the property and the passing of the risk are separated, either by express agreement, or by the accepted definition of the trade terms used. The International Chamber of Commerce publication 'Incoterms' is the internationally recognised source of this information and is available from your local chamber of commerce. It provides simple and reliable terminology that is recognised and used internationally.

Security
Increased terrorist activity and trans-national crime has resulted in greater concern over security in international trade. The US government has imposed requirements on trade entering the US and other countries are expected to follow suit. Food products, in particular, are now subject to careful screening on a "chain of custody" basis to ensure there is no tampering or contamination of product between the manufacturer or processor and the final destination. Exporters should familiarise themselves with the regulations in their target markets.

The New Zealand Government requires information about all goods being exported, both for security screening and for statistical purposes. Exporters are legally obliged to lodge an export entry with the New Zealand Customs Service. Information on how to do this is available from the Customs website www.customs.govt.nz.

Protectionism
World Trade Organisation (WTO) rules require that member countries do not provide support to their exporters in a way distorting fair trade. Tariffs (duties) are being progressively lowered and anti-competitive measures, such as subsidies, are being phased out, although some countries are slow to implement these rules. The WTO also requires that countries do not discriminate against imported products, for example, any regulations must apply equally to imported and domestically produced products.

If you find that your product or service is facing technical barriers that are not applied to the same product produced locally, contact the trade negotiations division of the Ministry of Foreign Affairs and Trade.

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International trade is extremely complex due to the compliance requirements of exporting and importing countries. Understanding the correct use of documents, customs compliance and the management of payment and delivery risks is of paramount importance.

A number of key areas that need to be covered in international trade include packing, labelling, sea/air freight, marine insurance cover, financial payment methods, government regulations and Inco terms. Obtaining the necessary permits for import/export can take weeks.

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According to the United Nations Conference on Trade and Development, the average international transaction involves 27-30 different parties, 40 documents, 200 data elements (30 of which are repeated at least 30 times) and the re-keying of 60-70% of data at least once.

One of the main setbacks for exporters includes document preparation. There is an endless list of compliance documents that are required depending on the exporter's terms of trade and forms of payment. These include export entries, health certificates, letters of credit, certificate of origin, commercial invoices, bill of lading etc. Completing, sending/receiving these documents manually can cause many discrepancies. Exporters may often find that their goods have been delayed or even rejected due to inadequately prepared documents.

Organisations generally adopt one of the following methods to manage their international trade:

- Outsourcing documentation and compliance to a third party.
- Modifying their existing Enterprise Resource Planning (ERP) software.
- Purchasing a dedicated system to manage the whole process.

Outsourcing export management and compliance to a third party can prove to have many disadvantages. These include:

1. The exporter's loss of control due to the process being independently managed by a third party.
2. Manually re-entering the data allows greater room for error.
3. Prolonged turn around time on documents including customs clearances, Pre receival Advice (PRAs) and health certificates.

Companies looking to export need not be deterred as there are many ways to help simplify the process. Export software solutions with different levels of capability may be purchased to assist with managing the international trade process.

Things to look for when purchasing a solution:

- An organisation that thoroughly understands international trade and holds extensive industry experience.
- Modular software that can be tailored to your unique business circumstance if necessary.
- The software is able to interface with any ERP system.
- The provider is able to deliver the export management solution with a high level of service and support.

Tips to help make the export process easier

- Keep up to date with Government agencies including Customs, chambers of commerce, financial institutions and industry associations.
- First time exporters may benefit from outsourcing the export process to an agent whilst transactions are low. Once transactions start to increase it is advisable to manage the export process in house with fully trained staff. Appropriate training can take place with relevant bodies.
- High volume exporters should look at integrating their existing ERP solution with a global trade solution to ensure internal processes are accurate, productive and cost effective.

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