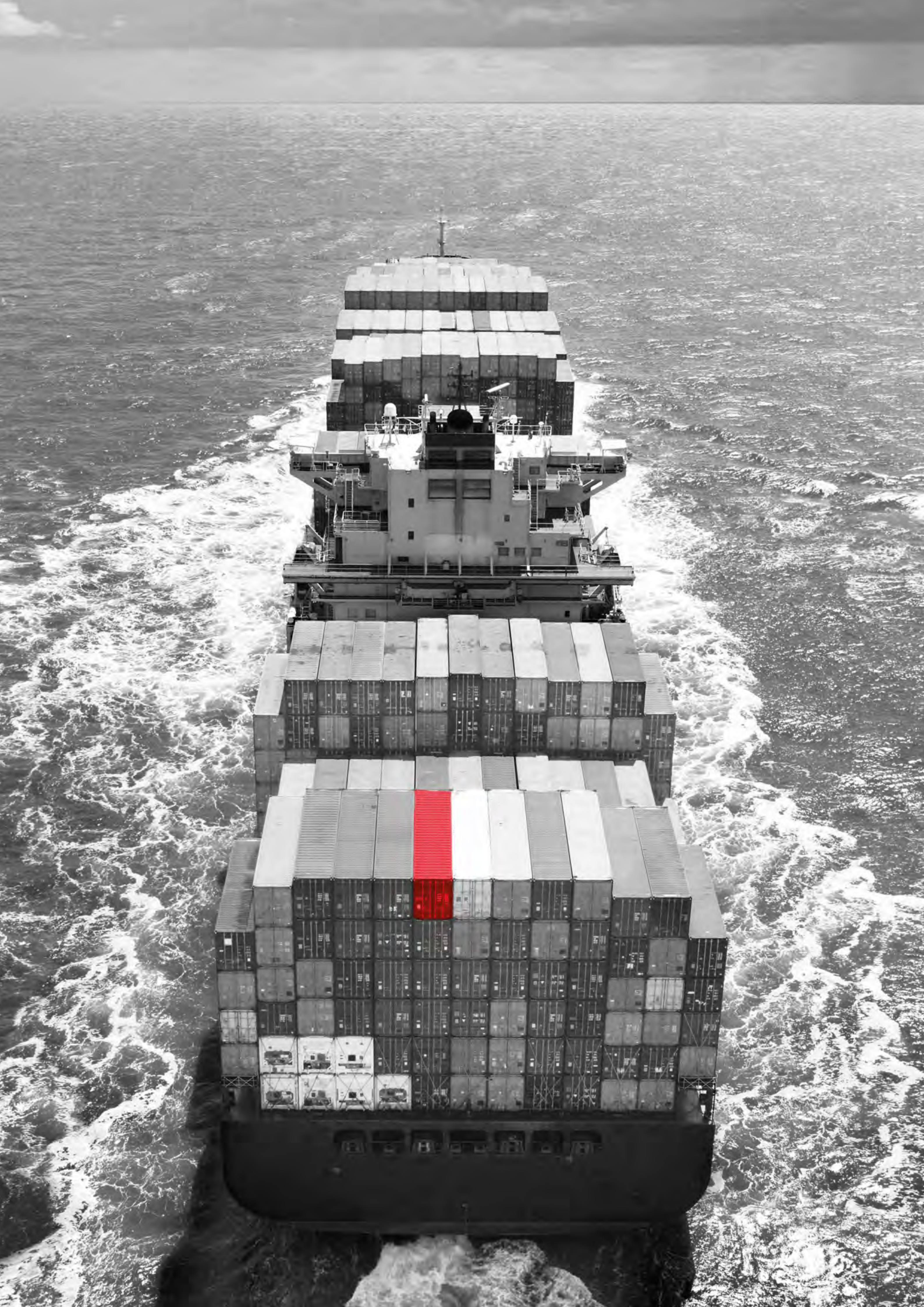
Atradius

Managing risk, enabling trade

Nothing ventured...

A guide to exporting for small and medium-sized enterprises (SMEs)



The opportunities are out there

The scope for exporting

Have confidence. You may think that international trade is only for large companies - and it's true that, until quite recently, this was an arena dominated by those who had the critical mass and extensive organisational reach needed to access foreign, often distant, markets.

But times are changing. The internet and the growth of international production networks now allow small and medium-sized enterprises (SMEs) to engage fully in international trade.

For instance, e-commerce has opened doors to exporting for SMEs by allowing them to connect with distant customers at relatively little cost, while international production networks mean that SMEs - those that might otherwise have difficulty competing in the market for finished goods or services - can trade profitably within a global value chain.

To underline both the opportunities and the benefits that SMEs can derive through exporting, a 2017 report from the Organisation for Economic Co-operation and Development (OECD) entitled 'Enhancing the contributions of SMEs in a global and digitalised economy' said this:

'Stronger participation by SMEs in global markets can help to strengthen their contributions to economic development and social well-being, by creating opportunities to scale up, accelerating innovation, facilitating spill-overs of technology and managerial know-how, broadening and deepening the skill-set, and enhancing productivity. In addition, greater flexibility and capacity to customise and differentiate products can give SMEs a competitive advantage in global markets relative to larger firms, as they are able to respond rapidly to changing market conditions and increasingly shorter product life cycles.'

That sums up concisely how SMEs can broaden their horizons by exporting.

If you're contemplating exporting for the first time, our aim at Atradius is to help your venture to be successful and to encourage your entrepreneurial spirit.

But, as this guide seeks to help you understand, there are many questions to be answered before you set out on this journey. And yes, international trade always involves an element of risk, so we want you to approach those risks in a measured and managed way.

The first step on your journey

Your motivation to export

At the outset, there must be a good reason for you to consider exporting your goods and services. Perhaps it's simply to achieve increased sales and, in the process, economies of scale.

Maybe your home market is becoming saturated, over-competitive, or subject to an economic downturn, so that exporting is your only viable option. Or, thanks to the instant information channels that we all enjoy in today's 'global village', perhaps you've already identified that your products and services aren't widely available in other countries, so that foreign demand could give you a ready-made competitive advantage.

You'll find early on that exporting is very different to doing business in your home market. For one thing, it's usually less profitable at first and it may take time to reach break-even and recover your initial costs. It will probably involve more red tape, and can be a real logistical challenge. And, of course, you'll be dealing with a foreign business culture, which can be very different to what you're used to.

Above all, getting paid by foreign customers can be a lot tougher – not least because you may have fewer legal rights overseas if you have problems getting an export customer to settle their bills.

Whatever the reason, there's one basic rule to follow if you're going to consider exporting – it must make business sense.

Do you have the resources to expand your business abroad? How much will you have to invest? Do your workers have the right skills or will you need to bring new people into the business? And importantly, do you have the capacity to meet the hoped-for increase in orders?

But don't let this deter you. As many others have found, none of these issues are insurmountable.

Do your homework

Choosing your export markets wisely

Two words: 'Market Research'. And it isn't just a case of checking that there's a demand for your products and services. It also means understanding the economic stability of your chosen export destination, its legal and regulatory framework and its business culture - and of course, the level of competition already there.

If the payment practices of the country are poor and there are few legal safeguards in place to ensure you get your money, then you have to ask yourself whether it's really worth the risk. To assist exporters,

At first, many new exporters choose to target countries that are similar to their home market: for instance in terms of language, standard of living and buying behaviour.

A useful source of information about world markets is the World Bank Group's 'Ease of Doing Business Index'. Updated annually, this extensive study assesses various aspects of conducting business with 185 world markets, in categories that include the cost and complexity of cross-border trade, enforcing contracts, resolving insolvency issues, and the transparency of business regulations.

While, like many others, you'll no doubt want to create a culture within your business that's customer-focused rather than competitor-focused, it's still a useful exercise to see where your competitors are exporting, as this may help you understand the level of demand and also whether there's room in the market for another provider.

Atradius regularly publishes on its website in-depth reports on the economic outlook and typical payment practices of the world's top export destinations. These are designed to help you weigh your options.

But wherever you decide to export, make sure that your market research encompasses the potential size of your target audience, as well as their tastes and purchasing power, as this will indicate if and how you'll need to adapt your products and your pricing for that market.

With your initial market research complete, you'll need to develop an export plan that covers all of these topics and sets objectives for expected volume, revenue growth and profitability, marketing and logistics. Not just for your own product planning but also to assist in seeking any additional financing that you may need.

When in Rome...

Understanding the business culture of your export markets

In a world of fast travel and even faster communications, it's easy to think of the 'global village' as if it's a marketplace in which everyone behaves in the same way, has the same business manners and the same outlook.

How you conduct yourself during customer meetings is just as important in securing a deal as the cost of your products, and understanding the business culture of the country you are targeting cannot be overstated.

The truth however is that, although we certainly do live in a world that offers vast opportunities for trade, the cultures of trading nations remain steadfastly different.

And of course this can cause problems for business people trying to break into new and often unknown markets.

- How should you approach new prospects?
- How do business people speak to each other at meetings in this or that country?
- Are you expected to be formal or informal?
- What behaviour or topics of conversation might cause offence?

There are many sources of advice – online and offline - on the business cultures of different countries and it's well worth studying these and, even better, visiting your chosen export markets, perhaps as a member of an organised trade mission, to see first-hand how business is conducted there.

Having a local partner to attend business meetings with you can also help to smooth the way to a successful deal. As we'll cover next, local representation may also be vital to making your presence felt in your export markets.

Establish a foothold

Creating a presence in the market

There are two key aspects to consider here: the logistics of delivery to your chosen markets and the local representation that you may require.

The route that you use for your home market may not be suitable for your export markets. In addition, selling direct may involve more set-up costs and local knowledge on your part. But, on the other hand, the upside of going it alone is that you won't have to share your profits.

However, even if your export market is geographically nearby, it may not be efficient for you to serve it from your headquarters, and therefore it's likely that you'll need some kind of local representation: someone with a good understanding of business practices and networks in the market, as well as language, customs and trading laws.

In simple terms, an agent is effectively an extension of your company, while a distributor takes ownership of your products. But the differences – and the 'pros and cons' - are far more detailed than can be covered in this guide, so dig deeper. And, once you've made your decision, seek legal assistance in drawing up your partnership agreement.

You could also 'piggy back' with a non-competitive local firm or one in your home country already doing business in your chosen export market. This can provide you with inside knowledge and, if your line of business complements that of your partner, you may have a ready-made customer base too.

It's worth considering all these options and perhaps starting cautiously via a third party until you get to grips with the nature and the potential of the market.

This is particularly vital in markets where business people put a great deal of value in personal relationships.

Do some careful research before choosing a partner to ensure that they're a reputable firm, with a proven track record, adequate geographical coverage, and an experienced team to handle sales and after-sales servicing.

It's also vital to weigh the relative advantages and disadvantages of engaging either an agent or distributor in a foreign market.

Most important of all you need to visit the country to get a feel for the market, your potential customers and to meet any possible partners.

Make a name for yourself

Marketing your products and service

As touched upon earlier, the internet has made it far easier for SMEs to promote, and indeed sell, their products in foreign markets with little outlay.

Many SMEs now market their products and services abroad through their own websites. In doing so they can bypass more traditional and often expensive marketing methods, and connect with new customers quickly and inexpensively.

To maximize the benefits of this form of marketing it's worthwhile hiring web designers in your export markets to create localised versions of your website, not just in terms of language, but also a 'look and feel' that suits each market. So suffixes like .de, .fr, and .co.uk, together with carefully chosen imagery, will help you create a local appearance and give confidence to potential customers in different markets.

What's more, online retail platforms like Amazon and Alibaba can make e-commerce even simpler for SMEs, providing a package of business-to-consumer and business-to-business sales portals combined with electronic payment services.

And, as already mentioned, your local representative can advise you on your foreign customers' preferences, buying habits and cultural influences, to help you adapt your promotional messages to suit the market.
For instance, customers in some countries may prefer a formal approach and in others a more relaxed style. Be careful how you craft your brand image to suit each market and of course ensure that you comply with local laws on advertising. And, when creating promotional material in local languages, use professional translators to avoid any potentially embarrassing mistakes.

Your after-sales service is just as important as your initial marketing and sales process in building and retaining customer loyalty - yet another reason to have local representation: someone who can deal promptly with problems or complaints.

In the end, as we said earlier, there's no better way to ensure that you're keeping up with buying trends in your export markets than making regular visits, meeting both your local representatives and your customers.

Coupling this form of marketing with some form of local representation will only enhance your appeal.

Get it right first time

Paperwork, procedures and contracts

Once you've decided how you'll get a foothold in your new export market and promote your goods and services, you'll need to establish administrative processes designed to ensure trouble-free sales.

Through your market research, you'll already have established that there's no law in place prohibiting the import of your products into the market, but you'll still need to check whether they can be freely imported or fall into a category of goods that need a special licence. Making sure that you follow the correct procedures will avoid delays in delivery and payment, so get advice from reliable sources such as government websites and trade associations.

Factors that will determine whether any special documentation is required include the type of product to be sold, its commodity code, the country of origin and the product's final destination if different from that of your customer's country. Always ask yourself: "is an export – or import - licence required?"

When it comes to the contract of sale, getting the basics right can itself go a long way to a successful transaction. Too often, a sale goes wrong for no other reason than that of basic mistakes in billing: for instance, the terms of payment aren't clearly stated on the invoice, or the shipping documents don't satisfy customs regulations. If your mistakes cause extra hassle for your customers, where will they go next time they want to order these goods? To a competitor who gets it right.

Make sure you have your business customer's correct name on the invoice. This can be a problem in many countries where different companies have very similar names, or even two names: one in their own language and another in English.

Itemise the products on the invoice, so your customer knows exactly what they're paying for and ensure the payment currency, due date and method of payment are all shown. It's worth checking on what's considered the normal credit period for your kind of industry in each export market. Atradius' 'Payment Practices Barometer' reports, published online, may prove useful as they examine both credit terms and payment practices in many countries.

Issues such as the point of delivery are important too, because you may be shipping your goods a long way – so you don't want to get embroiled in a dispute if the goods are damaged in transit.

An arbitration clause in the contract can ease the way to settling any disputes that may arise. As an additional safeguard, wherever possible include retention of title so that you retain ownership of the goods until payment is made.

With the right to reclaim unused goods from your debtor's administrator you can at least recover your capital cost. It can also give you added bargaining power as an unsecured creditor if the administrator requires your delivered goods to continue trading. There isn't a standard form of words for retention of title clauses and not every market recognises them, so seeking legal advice to draft a condition that meets your requirements is a must.

A well-drafted retention of title clause in your contract of sale can avert major problems if a customer goes insolvent leaving you with unpaid invoices for the goods you've delivered.

Stipulate which national law applies to the contract, in case you have to revert to legal means to recover payment. And be careful in your choice of governing law so that, if a dispute does arise, you aren't left at a disadvantage because the laws of the destination country are biased towards the customer.

Be competitive

Balancing risk and reward

Your payment terms can be the crucial factor in winning – or losing – a sale. What terms of payment should you stipulate? What payment security should you set, if any? Reward rarely comes without some risk: it's the extent of that risk that should determine the level of security.

With stiff competition, very likely based in the customer's country, you'll want to make terms as attractive as possible to the customer. But at the same time you'll need to assess the risks inherent in open account credit term, and maybe add something to mitigate those risks.

Let's look at some of the options.

At one end of the scale is total security – cash in advance. But it's credit that makes the business world go round and, in a competitive international market, buyers - particularly business-to-business buyers - demand credit. In turn, they may have to offer credit, perhaps using your products and services to enhance their own.

A widely used form of security to accompany credit sales is the letter of credit: effectively a bank guarantee of payment, subject to the correct presentation of documents by the vendor. There are several kinds so, if you intend to go down this route, ask your bank for advice on what kind of letter of credit would be suitable.

But remember the pitfalls. Letters of credit are dependent on absolutely consistent documentation. The slightest variation between invoice, bill of lading and the letter of credit stipulations that you've agreed – even something as minor as a misspelled word - will release the bank from its commitment to pay.

Then there's the cost: letters of credit aren't cheap to set up.

- Does the risk justify the means?
- Are the bank fees out of proportion to the contract value and your profit margin?
- And are your competitors offering more attractive terms?

At the other extreme is open account, with an attractive credit period. But is that wise with a first contract? Again, it depends on what you know about the customer and what you assess the risk to be.

You could add a degree of security by stipulating payment by bill or exchange: a binding agreement on the customer to pay a fixed amount at a predetermined date or on demand.

Whatever your terms of payment, the unforeseen can always happen – so if you are offering open account terms, maybe you need to protect your cash flow in some other way, and that's what we'll turn to next.


16

Protect your bottom line

Preparing for the worst

What about selling the invoice - or factoring? You could do so to get some of your invoice value upfront while still offering credit. On the downside there is a cost involved. The factor may expect you to place all your invoices with them at a commission rate, even if you aren't seeking finance for all of them. And your customer will then be dealing directly with the factor and not with you when it comes to payment.

In fact, any such move may send the message to your customer that you don't trust them to pay - and that's not conducive to establishing a good long-term business relationship.

You could make provision for possible debt in your balance sheet. But what you'd then be doing is setting aside money that could be employed usefully in, say, research and development or financing future business.

The ultimate safety net for protecting your export sales is credit insurance. Quite simply, it shifts the risk of non-payment to the insurer, leaving you free to expand your customer base and grow your business.

But it does much more, and addresses many of the questions that have arisen throughout this document.

A credible credit insurer like Atradius will vet your prospects and customers to ensure that their financial status can justify the amount of credit you plan to afford them – or, if not, recommend a more realistic level of credit.

If you're entering a new territory, better credit insurers like Atradius will have people 'on the ground' who understand the economic, political and legal lie of the land, and can help with your initial approach to a prospective client.

And, of course, your credit insurance really comes into play if the worst happens and your customer can't or won't pay. You'll be reassured that your cash flow and profits won't suffer and if, like Atradius, your credit insurer has a global network of debt collection and legal experts, they'll also seek to negotiate a repayment programme, and wherever possible help the debtor to recover so that you can retain your working relationship.

Intelligence, intelligence, intelligence

Understanding your markets and your customers

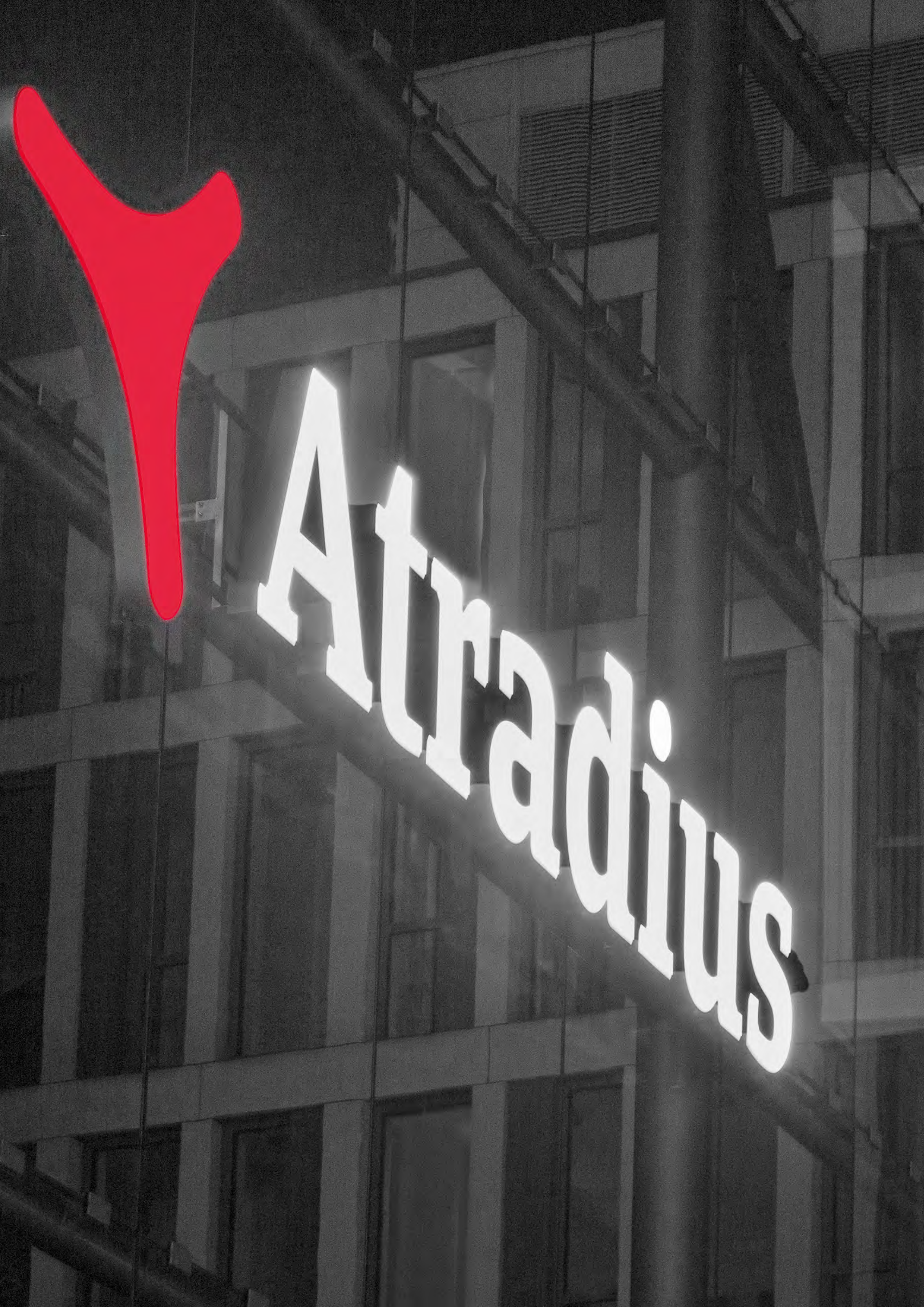
Someone once said that 'Knowledge is power', and it's true. Understanding the opportunities and risks of international trade is vital if your export venture is to be successful.

The European Commission's 'Enterprise Europe Network' provides support and information for SMEs that want to grow their business internationally, including advice on the all-important issue of how to protect your intellectual property rights when trading abroad.

And there are many sources of information to help you, and to keep you up-to-date with the economic and political trends in export markets.

Chambers of Commerce and specialist trade associations based in your own country and in your target markets can provide you with valuable advice and also organise trade missions to help you promote your business abroad and identify potential customer and business partners.

Atradius' websites contain a wealth of regularly updated intelligence, including trading briefs on export practice, industry performance reports and forecasts on a wide range of countries, and analysis of payment trends in key markets.


Atradius

About Atradius

As a world leader in business-to-business credit management, Atradius serves companies of all sizes and sectors – from the growing one-man business to the multinational corporate.

Our wide range of credit management services – particularly our credit insurance and international debt collection – helps businesses grow, develop new markets, improve cash flow and increase profitability.

Atradius has a long and impressive history in shaping innovative financial solutions to meet business needs:

- We operate through 160 offices in 50 countries around the world
- Our multinational, multilingual team of people number 3,700
- Our total income is in excess of €1.8 billion
- We provide our clients with access to information on over 240 million companies worldwide
- Our financial strength rating has been affirmed by ratings agencies A.M. Best as A (excellent) with a stable outlook and Moody's as A2, also with a stable outlook.

Our strength lies in our expertise, developed over more than 90 years, in all aspects of financial analysis and risk assessment, our active presence across five continents, and our global intelligence network, giving us access to data on 240 million companies worldwide.

For more information and help protecting your export sales, visit www.atradius.com

Connect with Atradius

atradius @atradius atradiusgroup

Contact us
Atradius.com

Atradius
David Ricardostraat 1
PO Box 8982, 1006 JD Amsterdam
The Netherlands

www.atradius.com

ATRNV_GRP_001