Export manual 2004

Export Planner

A comprehensive guide for prospective exporters in developing countries

Centre for the Promotion of
Imports from developing countries

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A comprehensive guide for prospective exporters in developing countries

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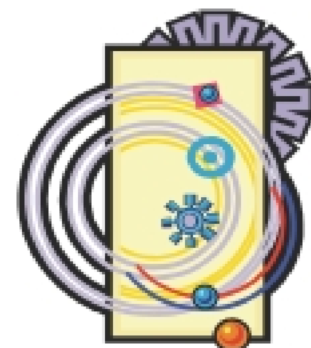
1 Management: goals, resources and tools

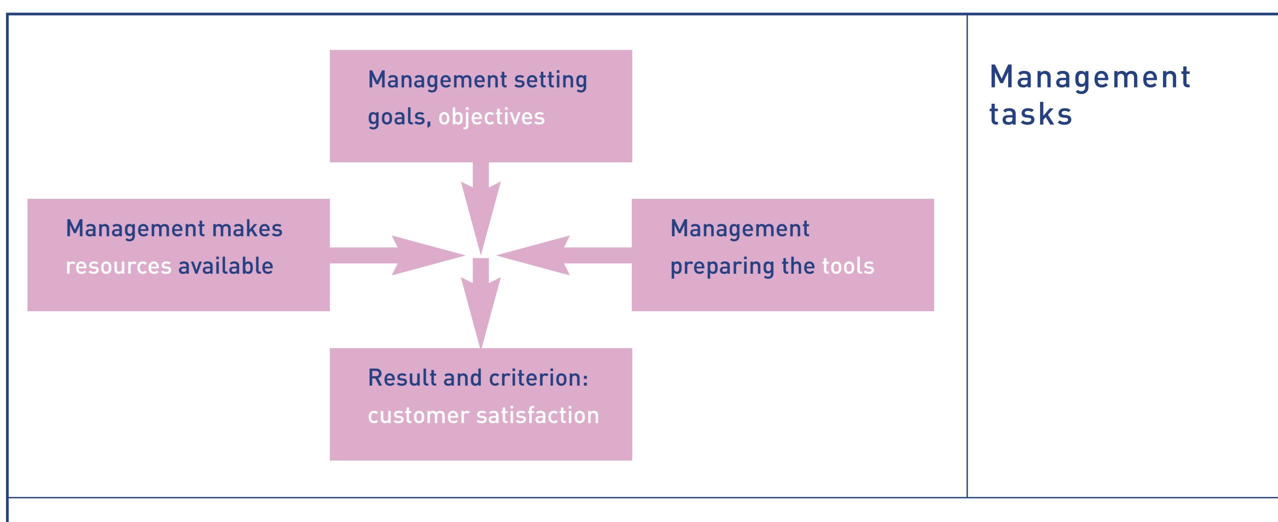


This CBI manual for export planning starts with your company management: the men and women that have established it, operate it, inspire the people - and eventually provide it with the profit that ensures continuity, growth and employment. If your company is ISO certified, you already understand the task of managers: setting objectives, making the resources available, realising (making) products or services, and assessing if they implemented these activities correctly. The criterion for success is whether the customer, the buyer, is satisfied.

There is nothing magical about running a company. It is all about making profit by adding value to your resources. That value should be realistic enough for your customer to decide to spend his money - particularly on your product because it offers more added value than your competitors' product.

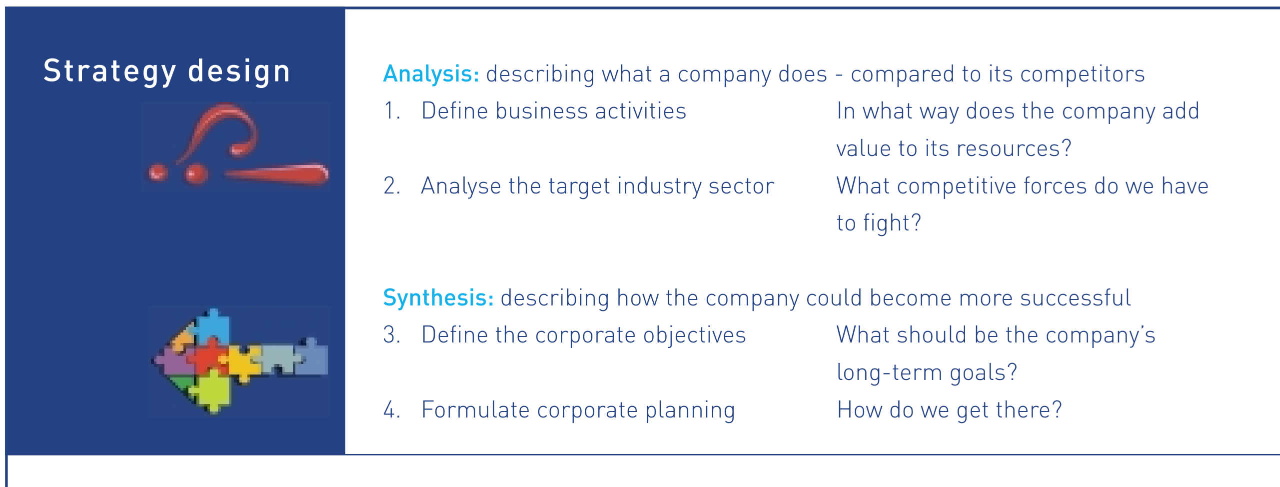
However, the management job certainly is not easy, particularly when it comes to selling to customers abroad. In theory, international business follows the same methods as domestically, but in practice it differs - simply because the customers are different from what you are used to. Their needs are different, the ways to promote your products or services differ, the methods to get your goods to the customer differ. Since your success is measured by the customer's satisfaction, you will find yourself changing your company, the products, your workers - and in the end, yourself, adapting continuously to the markets' wishes.

This fifth edition of the CBI Export Planner guides you along the relevant checkpoints, identifying those differences - and enabling to decide on actions which may lead to success. Since the best guarantee for success is the way you, as managers of your company, set course by setting objectives, this chapter will describe what goals, resources and tools you have at your disposal.



1.1. Setting goals requires strategy

Thinking ahead, trying to look deep into the uncertain future, setting the company's course, these are typically the manager's tasks. By using his (or her) ability to 'helicopter-view' his own situation, to look at the company for what it is really worth in comparison with its international competitors, to predict how the company could become successful, the manager is best equipped to design the corporate strategy. As such, strategic design comprises the assessment of the company's activities and competitiveness in order to ensure that the right direction is chosen to ensure the company's profitability, far into the future.



Strategic design - planning for the next ten years or so - always begins with analysis and ends with synthesis. The analysis serves the understanding of your corporate strengths and weaknesses: to know what the company can do, to recognize whatever barriers may stand between you and your goal. You must know your company inside out, not only now, but particularly how it may perform in the future. To achieve that, several methods for assessment are at your disposal. Chapter 2 will show you how you can analyze your **company**, focusing on your plans to go abroad. The company analysis is your first strategic task.

Building this understanding of your company and its performance relies on how well you know what your **product** means for the buyer. As long as that product - or service - appeals to your customer, your market presence will be justified. That topic will be explained later when discussing the Market Entry Strategy (chapter 4).

Before choosing, your customer compares your products with the **competitors**' (chapter 3). Therefore, your assessment of present and future markets has to include those. You must judge whether your product will be competitive, now, but also in the near future since it will take time to prepare expansion into foreign countries. Your second strategic task is to assess the 'five forces' that shape the market, as Michael Porter calls them.

In international business, distribution holds the key to your markets, which means that importers, wholesalers, retailers and other trade **intermediates** decide whether to allow your products to reach your (end) customers (chapters 4 and 5). Particularly

in the European Union the distributive intermediates dominate business. You must know who these intermediates are and how to approach them. To convince them to buy and resell your product requires superior talents of selling and of planning, in short: of marketing.

Marketing is the main managerial tool that you need for the synthesis, the stage of strategic planning in which you design - on the basis of your analysis of company and its environment - your master plan for future activities (refer to the EMP builder in CBI's website, and to chapter 6) and as such your fourth strategic task. Probably, you will wish to expand, to increase sales and profit by extending your operation into markets abroad. That is why you are reading this CBI Export Planner.

But before you do, ask yourself why. This is the moment to balance the blessings of operating on a market that you know well, against venturing into a world unknown - and usually unwelcoming.

1.1.1. Strategic reasons to expand abroad

One thing should be clear from the start: exporting is **not** easy. In fact, it is more complicated, more risky and more expensive than operating on the domestic market.

Most Small and Medium-sized Enterprises (SME), to which 9 out of 10 companies belong, are manufacturers rather than traders. As such, trading is secondary and usually restricted to the familiar home market. Selling to foreign customers, fighting with global competitors for a share of the market, could be more than you can handle. That is why you should think twice before deciding on export. You should take a moment to consider the options for internationalization, because you know that it will require a lot of money, time, talents and dedication, which could stress the corporate resources to their limits.

The responsibility for the use of - invariably scarce - resources lies with the top management of the company. Therefore, the decision to use those resources should find a good balance between their yields and their costs.

The final balance is not only an economical one, which calculates export feasibility (see Chapter 6). You are aware that your product can be sold, provided it matches good value with a low price. But you don't know whether you could make a profit selling it. You do know that profit may be less than normal because you may have to sacrifice some profit when paying for the costs of shipping your goods to the target markets. But you do not know if you could ask a higher price in far-away, more affluent markets. So, other strategic motives must also be weighed in the decision.

Many exporters have preceded you in trying their luck in foreign markets. Some of them had good reasons. Their motives were, for instance:

- higher sales, higher turnover, more profits, or:
- cooperating with trade partners in industrialised countries will stimulate the company's development, will give it access to new technology and make the organisation become more effective.

Others have motives of tactical nature, like:
- the local market is saturated, it does not allow for growth, or:
- avoiding the competition, or, on the contrary:
- following the competition in newly opened markets.

Others have opportunistic reasons to export:
- to sell over-production,
- to exploit spare capacity,
- to spread the costs of production and/or the costs of product development over more units sold (which decreases cost prices and increases competitiveness).

All these motives are **good**. However, there have been exporters who ventured into foreign markets for the **wrong** reasons. Their motives were personal ambition or corporate prestige. Or they were just looking for possibilities to travel abroad. Such motives for export are irrealistic and irresponsible and may lead to failure.

Preceding the four tasks of strategy design, the manager should **establish the reasons why his/her company should export.** These motives should be sound enough to justify the high investments in exporting. The pay-out period can be long (3 to 15 years!); the costs of exporting can be very high.

Ask the key people in your organization for their motives for internationalization. Ask them their personal opinion on the future of the organization and what should be done to improve it. Their views can be valuable. They, too, have the company's interests at heart and are willing to commit themselves to the continuity of the organization. It is your job - as a manager - to see to that.

The question you could ask them is: **'in what shape do you, in your personal opinion, think the company could be in five years from now?'** You could use the brain-storm technique for that. Later, when you arrive at the planning stage of strategy-building, you will make use of the ideas that are alive in your company (see 'Planning' in chapter 6).

1.1.2. National interest

A specific motive for exporting is the national interest. Although this motive is not company-driven but of macro-economic nature, it could be important to you. It may mean that your government could provide support, sufficient support to make your efforts worthwhile. In that case you can add this motive to your list. However, if this turns out to be your only motive for exporting, don't do it. Your company cannot thrive on subsidies alone.

The health and continuity of your company is better served by profit than by subsidies.

Many developing economies try to increase their exports. Their motive is to strengthen the industrial structure of a country. Your exports will contribute to that aim. That justifies government support. Exporters are usually paid in foreign currency, which in turn is necessary to buy goods and services that are not available at home: capital goods, advanced technology, specialized know-how.

Export earnings not only finance essential imports but also service debt payments (interest). Participation in international trade has proven to enhance to economic growth. When combined with a welcoming tax climate, that growth will attract foreign investments in your country. This may lead to more jobs and a higher level of income.

These are the basic reasons for developing nations to promote exports. Their governments' support for exporters will be in the form of tax reductions, export subsidies or information and even support and practical advice. Business Support Organizations (BSOs) have been established for that purpose. They are the ones to channel government incentives to you. They also play a role in the distribution of the trade privileges offered by import (promoting) countries. Other export associations (e.g. manufacturers' associations and chambers of commerce and industry) could be useful, too, since they have industry sector knowledge.

1.1.3. Total company involvement

In this early stage of export preparation, you may feel you must do everything all alone, because you think that to be the top manager's task. However, exporting is a complicated activity which affects everybody inside the company. So, before designing your strategy, you must assess the attitude of your people - or better: their ability for involvement in the export operations.

Modern management techniques put great emphasis on that general involvement. It is felt that for making a success of such a demanding job, the manager needs the input and the commitment of all his people.

> *There are many examples of unsuccessful exporters whose employees failed to understand their own role in the team effort. Shipping clerks sending the goods to the wrong address, administrative people invoicing the wrong customers with the wrong prices. Secretaries putting the phone down, unable to understand the foreign language of the customer. Such things happen but they damage business.*

If you want your people to be committed, you should inform and train them well. Effective managers give their people adequate instructions. They make them feel responsible. Do try to involve them in the team effort of doing business abroad. Their commitment will certainly pay off. Your workers are just as good as you make them.

When informing the people involved, you may also want to inform other parties about your plans. Inform your shareholders because you may need their consent in due time. Inform your BSO; you may need its support. Discuss your plans with your main suppliers - if only to find out if they will be able to increase supply when sales are picking up.

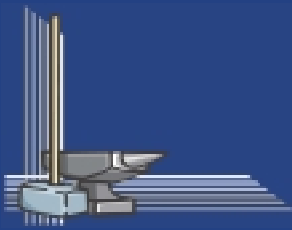
Secrecy can not always be maintained, nor will it be very helpful in this stage when you need to mobilise all your resources.

1.2 Resources: varied and scarce

When you are 'adding value', you are in the process of **making more out of less**. You are using your resources in such a way that at the end of the day, more money has come in than you have spent to earn it. That is the art of doing business: making a profit.

In the first stage of strategy-design, you will draw up a list of all your resources, if only to see if they could suffice when sales would be increasing, and to establish your dependency on them. Although the actual analysis is done in the next chapter 2, now is the moment to understand the nature, the number and the variety of the resources required.

Possible corporate resources



- A (profitable) product range; good turnover
- Information, expertise, know-how
- Skilled workers, experienced supervisors
- Good equipment, components
- Good planning systems
- Time (for preparation)
- Energy supply
- A quality assurance system
- A good management system
- Adequate production facilities
- Dedicated staff
- Constant supply of raw/half materials
- Money (or access to capital)
- Space (to build, enlarge facilities)
- Clean water, air

You can probably add more resources to your list. Do so. It is wise to see the corporate assets on which your present and your future performance will depend. In the end, you will notice that your needs usually fall short of your requirements: there are never enough resources. Here, too, you have to prove how good an entrepreneur you are: by finding ways to get what you need.

Therefore, you will have to rearrange your resources in order to recognize which ones are essential and in which ones you are **better than your competitors**. Your future endeavours, like exporting, will be based upon the corporate talents in which you excel. Check your corporate competences: would you rate them higher than your competitors' (also refer to chapter 2.5 where you will assess your company and its competitive strength in detail)?

Strategic competences

- Manufacturing (processes, assembly)
- Marketing, sales
- Inbound logistics (from buying to storing)
- Outbound logistics (order processing, shipping)
- Services - to customers
- Company infrastructure (finance, planning)
- Human Resource Management (people, salaries)
- Technology (design, testing, R&D)
- Procurement (raw materials, equipment)

According to Michael Porter 1984

These competences may serve you well; they will enable you to outline the direction in which you may conquer foreign markets - or at least acquire market share, however modest. They are your weapons in the battle with the competition. When used intelligently, they will support your market approach: the way in which you decide to manoeuvre your product amongst your competitors' into a defensible position.

According to (again) Michael Porter, there are only three strategic positions which have proven potentially strong and promising enough to defend.

Strategic options

• Cost leadership	• Product differentiation
	• Specialization

According to Michael Porter

'Cost leadership' means that you will be able to offer your products at the best price/quality value, because you have lowest cost price (of all your competitors). 'Product differentiation' means that your assortment is wider and deeper than that of your competitor. 'Specialization' speaks for itself; it indicates that you have succeeded in making products that are so special that no competitor finds opportunity or reason to imitate it. Since this position can give you maximum protection, it is a favoured one for many suppliers, including your colleagues in developing economies.

1.3. Tools for management

Next to your resources, you have tools available. Amongst the managerial tools are:

- Marketing,
- Planning,
- Staffing,
- Finance,
- Production control,
- Feed-back

Since your planning methodology - and specifically your marketing planning - plays a vital role in the process of internationalization, the better part of the CBI Export Planner is dedicated to this subject (chapters 4-6).

To guide you in your planning, go to CBI's Internetsite www.cbi.nl and then to the Export Marketing Plan Document Builder:
http://www.cbi.nl/show.php?file=show_document.html&id=143
In it, you will find a format that will help you compile such an 'EMP'. Do so after having read through this manual. All items mentioned are explained in the CBI Export Planner.

But before we get there, some general remarks on international marketing and on planning should come first. They should familiarize you with the concepts of marketing and help you in your strategy design.

1.3.1. Marketing

Concentrating your efforts on the customer

Marketing has developed into a universal system for commercialisation. As such, it has become one of the most effective management tools. Other tools are: financial management, personnel management, production management and so on. Marketing differs from such tools because it can generate money, not costs.

Marketing will also give you valuable support for export management because it helps you to mobilise your resources systematically with less waste of efforts.

The effects of marketing on your management are two-fold:

A. it inspires **all corporate activities** to be **concentrated** on the main goal: to satisfy the needs and wants of your customers. Your customer deserves all your attention since he (or she) is the source of your income. In this sense, marketing describes an **attitude** of all people involved;

B. the marketing concept also includes the **techniques and methods** required to 'bring the right product to the right consumer at the right time and place'. These techniques, traditionally indicated as 'the four Ps' enable your marketing manager to optimise his Product, the Pricing of that product, the distribution of that product to the consumer (= Place) and the Promotional activities needed to convince the consumer that your product will satisfy his wishes.

The best effect of those instruments, the 4 Ps, is obtained when the instruments are working together, directed at one goal: the customer's satisfaction. Integrated in this manner, the 'marketing mix' gets the best results from your marketing expenditure.

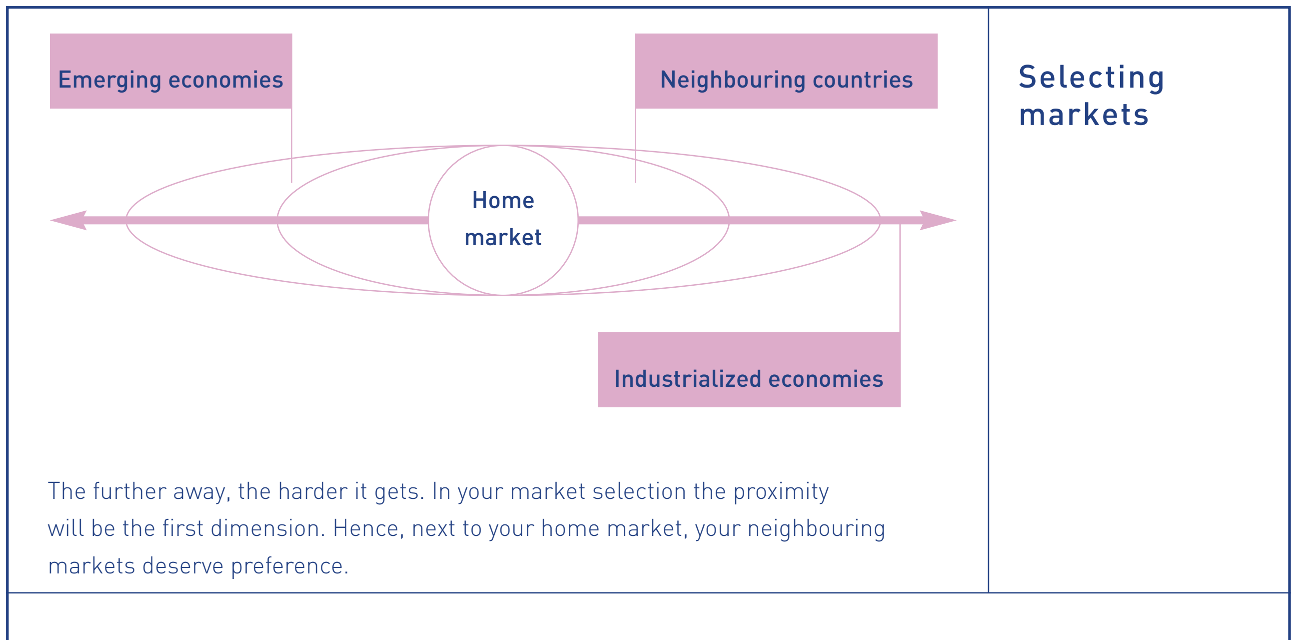
Occasionally, the conditions in your local market may not always require sophisticated marketing, particularly when the demand exceeds the production capacity. This is rarely the case in Western markets, many of which tend to saturation. When a market consumes less than the suppliers can offer, those suppliers can only grow by 'stealing away' marketshare from other suppliers. In a free-trade situation, this usually leads to competition. Most markets in industrialized countries like the EU experience fierce competition. In those countries, marketing is no longer a luxury anymore, but it has become a necessity.

For most managers like yourself, marketing is nothing new; all good business schools offer extensive marketing training. Yet, only few organisations (not excluding companies in industrialized countries) succeed in introducing marketing on all relevant company levels. Customer-orientation, the basic principle of marketing, is something all company employees should be concerned about, not just the top-management. The saying 'the customer is king' should be made the motto for everybody in the company, because at the end of the day your profit comes from the customer's purchase.

Your task is to make sure your employees acquire this marketing mentality. Even when you spend the better part of your time and dedication to your product ('product-driven management') you should always bear in mind who will pay for those costs at the end of the day: your customer, the market.

Markets differ

Markets abroad can be entirely different from what you are used to at home.
A rule-of-thumb claims: the further away a country, the greater the differences.



The further away, the harder it gets. In your market selection the proximity will be the first dimension. Hence, next to your home market, your neighbouring markets deserve preference.

These differences can be of a social, a religious or a cultural nature. Or they can be economic, political or technological (see chapter 3.1). Of all 210-plus countries in the world, at least 150 will look unfamiliar to you, to what you have seen or learnt.
The people are different; their **environment** differs. Their language, their way of addressing others, of living, of communicating, of consuming and buying will pose problems of understanding.

That explains why doing business abroad is far more difficult than domestic selling. Even though marketing is a universal management tool, similar for entrepreneurs around the world, the moment you put that instrument to work, its application will prove different. The target environment influences the manner in which you should use the marketing instruments.

First of all, it is your own responsibility as a manager to have an open mind for these different facts if you want to exploit them successfully. Moreover, you should **appreciate** these differences as such and not judge them according to your own feelings and norms. You should have a 'global vision', which is a vital asset for exporters.

Secondly, the fact that you can not physically interfere when problems arise, because of the large distances between you and the receiving markets, puts a strain on management and makes export a risky business. As such, you could look upon exporting as 'long-distance marketing', which weakens your managerial control over selling and operations.

Thirdly, you should understand that in Western markets competition can be fiercer than you ever experienced in your home market. That barrier can be overcome by the differences in the (low) costs of your labour, but that is a short-lived advantage when struggling against automation and robotization.

> *Markets differ. Markets are 'groups of people willing and able to buy' (Philip Kotler); people think, feel and act according to their own cultural background. Culture is learnt, culture distinguished one group of people from the other. By definition you will find a different culture in markets far-away. The greatest challenge in international bussiness is to understand different cultures - the only way to understand market needs.*

Target groups for export

B2B, B2C, P2P? Business-to-Business, Business-to-Consumer, Person-to-Person? You will often read such acronyms, typical marketing jargon, when marketeers try to explain their relation with their customers. To which target group do you relate?

By definition, your main target group is, of course, your end-consumer, because at the end of the production-consumption cycle, that is where your money will come from. Whatever manufacturers make, eventually the products - or the products which are manufactured through those products - will be used or absorbed by the end-consumer. Persons like you and me.

Yet, in the process from production to distribution, from exporter to the end-consumer there will be other buyers as well. All these intermediate buyers can be target groups of your commercial ventures too. Some examples:

A. the trading house that buys goods from you to distribute them abroad;
B. your importer or agent in foreign markets, who either buys from you or finds buyers for you;
C. the purchasing officer in retail chains that have centralized their procurement;
D. the manufacturer to whom you supply parts of his export product;
E. the manufacturer for whom you manufacture export products as a sub-contractor;
F. the supplier of raw, half-material and components from whom you buy for your own production.

In some cases the target groups do not have a buying function, but act as intermediaries or facilitators, providing services that are necessary for your export operation. They could be: government offices (providing licences), commercial banks, or local, regional or supranational development agencies, etc. As soon as you know what you want from them, and what they expect of you, you can organise your activities to obtain just that.

Always bear in mind what **their** motives are for co-operating with you. That is marketing, too. As for exporting, there are at least **two target groups**. The first - and foremost - is the end-consumer or -user of your product. The second one is usually your importer or trade partner.
When you manufacture 'consumer goods' (like food items, household goods or

garments) you will utilize **consumer marketing**, which is based on satisfying the needs of groups of (anonymous) people who share certain consumption habits. When you are a manufacturer of 'industrial goods' (like raw and half material, components, services for industries only), you aim all your activities at satisfying the more explicit needs of one or more customers whom you know by name, through their company, or even by specific requirements. This requires **industrial marketing**, whereby you supply products that in turn will be used for the products of your (industrial) customer. Actually, most SME are industrial suppliers, selling their products and services to other industries that in turn use them for **their** production. This is typical for economic development: functions with a high labour content and mass-production characteristics all gradually being relocated or outsourced to developing economies. Once independent, their suppliers will try to sell to the industries that outsourced these activities at an earlier stage of development.

Most suppliers use industrial marketing* for selling to their target group (whom they know by name and needs). Only the suppliers of finished products to end-consumers apply consumer marketing. When products are sold and supplied to the distributive trade (importers, wholesalers, retailers) industrial marketing is used.

Most stages of value addition require industrial marketing

*) This CBI Export Planner uses consumer marketing as a model for all marketing. However, if there are specific points that require the attention of industrial exporters, these are marked in a frame headed 'B2B' (business to business).

Each party in the production cycle is actually adding value. Most companies, yours included, make use of other suppliers' input. Actually, the proportion of goods bought for own production tends to rise, already exceeding the average of 60%. So more than half of the value that companies sell, has been purchased from third parties 'upstream' in the flow from production to consumption. Actually, more than two-third of Small and Medium-sized Enterprises supplies to other companies. They do their (industrial) marketing "Business-to-Business" (B2B).

You will find that development is strong in industrialized countries. It concerns the tendency to concentrate on one's '**core competence**', enabling manufacturers to focus on what they do best. They invest only in their core business, **out-sourcing** what they cannot produce better than others can. They limit their activities to adding value to other producers' products, maximizing the profit potential of their own special abilities. You see that happening around you as manufacturers from industrialized countries - profiting from low labour costs - buy components in developing countries or even relocate industries to those regions.

In that sense, the manufacturer adds value to the goods of the raw/half materials supplier, the shipper adds value to your product (by bringing it closer to its destination) and the shopkeeper adds the value of making the product available to the end-consumer.

Industrial marketing is what you need for approaching and selling to your customer. To identify his needs is simple, since you know who they are and what they want. Therefore, a large part of your actual work will be directed to convincing that very importer to buy your products. If you know the needs of your customer's customers, convincing will be even easier.

All your efforts come down to gaining knowledge about your immediate customer and your end-consumer - by using consumer marketing. You will use that know-how for product development, but also for convincing your counterpart that you are a knowledgeable exporter and an attractive partner to work with. As such, he reacts just like any industrial customer.

So in your exporting you will use two types of marketing: consumer marketing to your end-consumers (if you supply finished products or services) and industrial marketing to your intermediate buyers and trade partners.

1.3.2. Planning

Planning is a must

Managers are supposed to spend a large part of their time looking ahead, planning for the future. That is their prime responsibility. Planning has received major attention in the development of management science as an indispensable tool for management. Unfortunately, in practice most SME managers are usually kept too busy by the daily routine to spare the time for good planning. That is a global phenomenon.

Moreover, the ever-accelerating changes in the Western market environment make it almost impossible for a manager to look ahead and predict his company's future. Product preferences change rapidly, new technology takes over before the existing one is really outdated, new marketing channels develop, new trading blocks are being created.

> *Also on the CBI Internet site: 'Exporting to the European Union', a regularly updated manual with valuable information on EU countries and markets and all regulations for doing business there. Very interesting!*

In that environment, planning has become a risky basis for building business. Companies respond by applying *flexibility* to adapt more quickly to those changes. That can go a long way - even to the point where they decide to invest in 'software' only (people, know-how, skills) and hire the hardware (buildings, machines, vehicles) for limited periods, ready to discard them when the market requires different products. Such a strategic restructuring of corporate policy, of organization, of management attitude is also based on planning.

No export operation can lead to success without careful planning. The complexity, the high degree of risk, the large investments: all these elements of export increase the

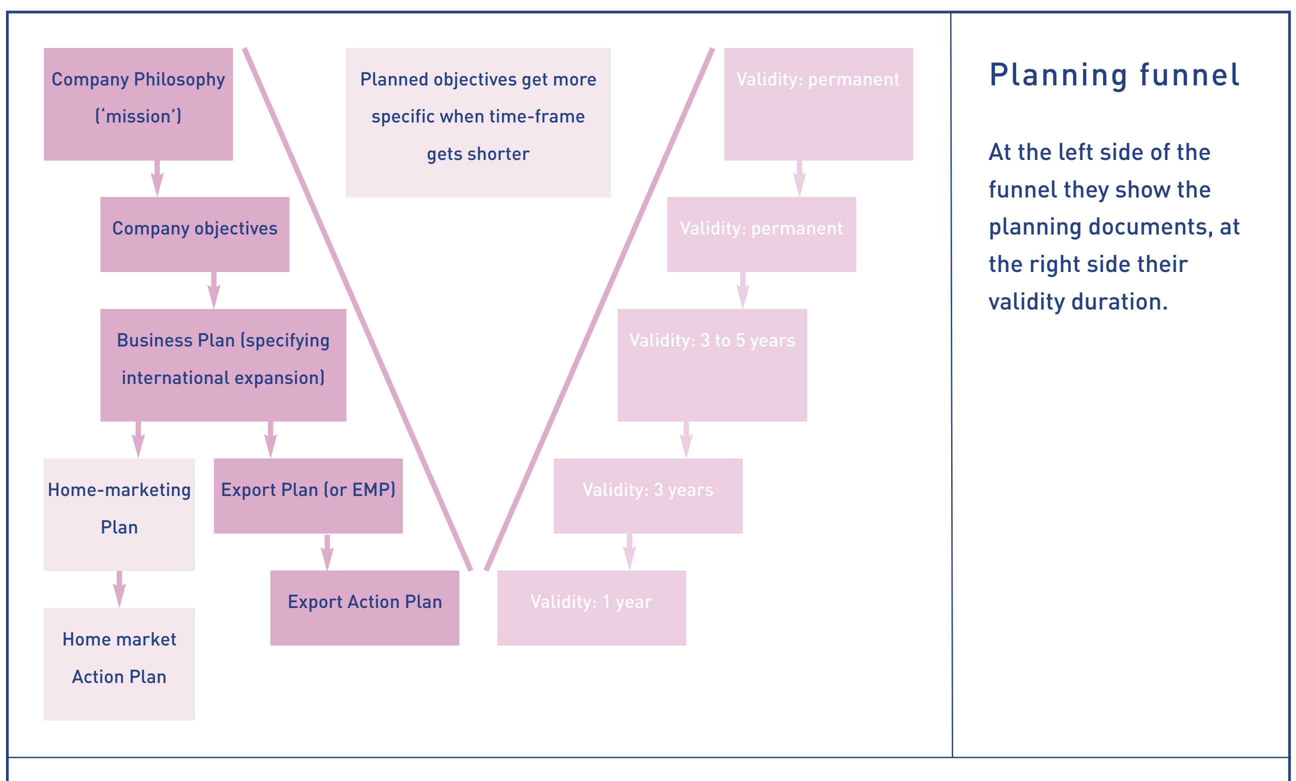
necessity of planning and organizing them well. Of course you, as a manager, know that whenever corporate resources are smaller than their objectives, systematic planning can assure their best use. Yet, you will be surprised to hear that lack of adequate planning is the prime cause of commercial failure.
In many cultures, however, planning is not a generally accepted aspect of professionalism. In some cultures, people plan ahead for the next two or three generations.
In other cultures people don't think further ahead than just a couple of months, or even days.
Planning is a must for exporting. As for the planning system required in your company, you will be the best judge. The same goes for the planning periods; you will know what planning schedules will work best in your organization.

Planning system
Any planning system will do - as long as it allows you to analyse your company and its environment and to design the strategic goals and the master plan for implementation. It could look like this:

- Mission Statement (= company philosophy)
- Company Objectives
- Corporate Business Plan.

Then, specifying the export activities:

- Export Marketing Plan, which contains:
    - Export Objectives
    - Market Entry Strategy
    - Management Plan
    - Financial Plan
    - Action Plan.



Planning funnel

At the left side of the funnel they show the planning documents, at the right side their validity duration.

This systematic planning, step by step, of all activities for exporting gradually "zoom-in" on the customers and/or end-consumers and on your marketing activities to reach them. You will put your planning - or more precisely: its objectives - on paper, so as to inform and instruct all interested parties. Ideally such a planning follows a certain hierarchy: every next step goes more into specific details than the previous one. Time-wise, this system looks like a funnel.

Mission statement

Every planning starts with a 'Mission Statement' **(refer to CBI's website: EMP builder nr 1)**. This document contains the company philosophy: the reason why the company exists.

For first-time planners, this may look unfamiliar. "The company exists in order to make money", they will say. That may be an important reason for the company's existence, but it is not the only one. Other reasons could be:

- Providing jobs for the workers and staff and their families
- Providing job satisfaction (worldwide the strongest motivation for work)
- Stimulating the economy of the town, the region, the country, or simply:
- Becoming important, respectable in the community.

Registering the reasons for existence is relevant because it provides you with bench-marks. Every strategic decision you take must be compared with your mission. Every time, you will ask yourself whether that decision serves the original company goals. If so, do it. If not, ask yourself if the mission is still valid, or if it should be changed.

When formulating the Mission Statement, which requires the final consent of the owners and shareholders, you should write down:

- The critical factors for present success
- Your business concept (what you do)
- The motivation (why you do it)
- The marketing and planning horizon (when and where you do it)
- Your overall strategy (how you do it).

The Mission Statement is long-lived. Changes are sporadic; most statements last up to ten years and more. It is an important document. Don't be secretive about it. Print it in your annual report. Or on banners and signs throughout the factory. Everybody is allowed to know - and appreciate - the reasons for your ambition.

2 The exporting company

Preparations for export begin with assessing whether your company is strong enough to succeed - or simply to survive in the battle with the competition abroad. After all, your company holds all the resources that you have read about in the previous chapter. In Chapter 2, the CBI Export Planner guides you on your inspection tour through your own company and its competitive environment, highlighting the assets which are valuable for international trade, warning about the liabilities which could stand in your way.

A comprehensive method for analysis is proposed, distinguishing corporate assets and market requirements. It is called the 'Export Audit'. In order to evaluate your company's fitness for export, you can compare it with what the best companies have. This bench-mark is Total Quality Management.
So, before working your way through the Export Audit, you should understand what it needs to become a TQM supplier.

Example: For its Export Development Programmes, CBI first asks for the manager's opinion. It is a significant indication of his company ideas on export. Why don't you try it?

1. Why export?
What are your primary reasons to start developing export activities? Are they defensive: diminishing markets at home, or offensive: generating new markets and profits?

2. What products?
Are you planning to export a well defined line of products, or will you manufacture to specifications of customer (subcontracting)?

3. When?
Will you be able to supply foreign markets the whole year round, or are you dealing with specific periods such as crops or buying seasons? Will you be able to supply products for export in near future or does production capacity / quality need to be improved first?

4. Where?
Are you planning to export to a specific geographical market / country / region? Reason?

5. Who?
To which type of customer? Are your type of customers concentrated in specific areas?

6.1. How?
How will you be organizing your activities, e.g. establish your own office in the export market, regular visits, one or more export agents in the export market, via a distributor? Will you be joining an export consortium, a strategic alliance?

6.2. How?
How will you identify what your customer needs? How will you organize your

marketing? How do you calculate the price for export? Who will be responsible for the export activities? Who will decide what budgets are available? Who will coordinate the export activities on a daily basis?

2.1. How to become the best in the businesses

In this stage of strategic analysis you must find out if your company is good enough to be able to go exporting. That goes for all exporting: passive or active. Experience tells you that exporting usually improves the company's overall performance. The reverse is also true: bad companies will not succeed in export and will see their resources dwindle. So the main question is: how good should we be to be able to participate in international business? The answer is simple but ambitious: **your company should be the best in the business.**

Since international trade has been expanding spectacularly, fuelled by the technological possibilities of the ICT, many commercial barriers tend to fade away. Competition has become international, too. Multinationals expand strongly; new concerns of limitless power are being created, barely contained by legislation or anti-globalists. Only the best companies have a chance to survive in the continuous battle for market share and profits.

'The best' company is not just an indication. It is a well-defined concept, measurable by its assets. The definition comes from the notion that any manufacturer, who does his utmost to produce goods and services to make his customers happy, is capable of adhering to Total Quality Management. TQM has thereby become the criterion applied to benchmark. The ISO 9001:2000 certification is the first proof of that ambition.

Conditions for TQM

a. Know your customer
b. Know your competitors
c. Know the costs of non-conformance
d. Measure your performance against customer-driven parameters
e. Make sure every employee understands TQM and is committed to quality philosophy and goals
f. Management should be committed to continuous improvement of quality within the business
g. Define the purpose of each department and each activity
h. Enable employees to fulfil their commitment to quality
i. Replace inspection techniques for quality control by preventive action
j. Never accept non-conforming output
k. Plan effectively before acting.

According to Munro-Fauré

Eleven rules to become The Best! These goals sound so simple, but getting there is a major effort for any company, including the multinationals. Commonly, these TQM conditions are considered as guideline or benchmark, to give a sense of direction to the company striving to improve.

Most companies adopting TQM, usually through introducing and adhering to ISO procedures, find themselves confronted with more changes than are welcome. Some even had to **transform** their organisations entirely, starting with its very management.

The process of transformation for a company to reach TQM is as demanding as an up-hill marathon: it never seems to stop. The enormity of the task at hand requires a route planner for management. TQM expert Deming has provided one. Adapted by CBI consultant Klaas de Boer, it shows 14 issues that management could introduce in its policy and operations. These issues describe conceptual as well as practical measures to improve corporate management in its efforts to push the company towards TQM.

14 Points to understand corporate transformation to TQM

1. Create consistency of purpose to improve product & service
2. Accept responsibility to survive in the new economic age
3. Stop depending upon inspection to achieve quality
4. Stop awarding business on price alone
5. Improve system of production, productivity, cost decrease
6. Train on the job
7. Institute leadership
8. Eradicate fear as a stimulus to work
9. Break down the barriers between departments
10. Eliminate slogans, exhortations and numerical targets for the workforce
11. Eliminate quotas, working standards and management by objectives
12. Remove barriers that rob the people of their right to be proud of their workmanship
13. Institute a rigorous education and self-improvement programme
14. Put everybody in the company to work to accomplish the transformation.

According to E. Deming; from K.P.M. de Boer

At face value, the recommendations seem clear but far-fetched and typical Western-styled (it is not; the concept originates in Japan). But if you study them, you will recognize their value for your work. Apparently, the transformation to TQM requires a new set of rules, almost a new culture for management, implying greater emphasis on human resources, to result in a better product and a more satisfied customer. The actual implementation of TQM requires even more: new techniques to run your operation.

The TQM guidelines are general (not specific) by nature; you should **study** them, see how they would fit it your style of management and **find ways and methods to implement** them in your organization.

You can expect some help in the ISO Quality Management directives, which explain to you how to look at - and improve - the present procedures in your organisation: the ISO 9001:2000 instructions (go to **www.iso.ch**). They explain how to use the elements of strength in your company for the benefit of the customer's satisfaction. Those elements, called the 'Enablers', are graphically explained by the EFQM model.

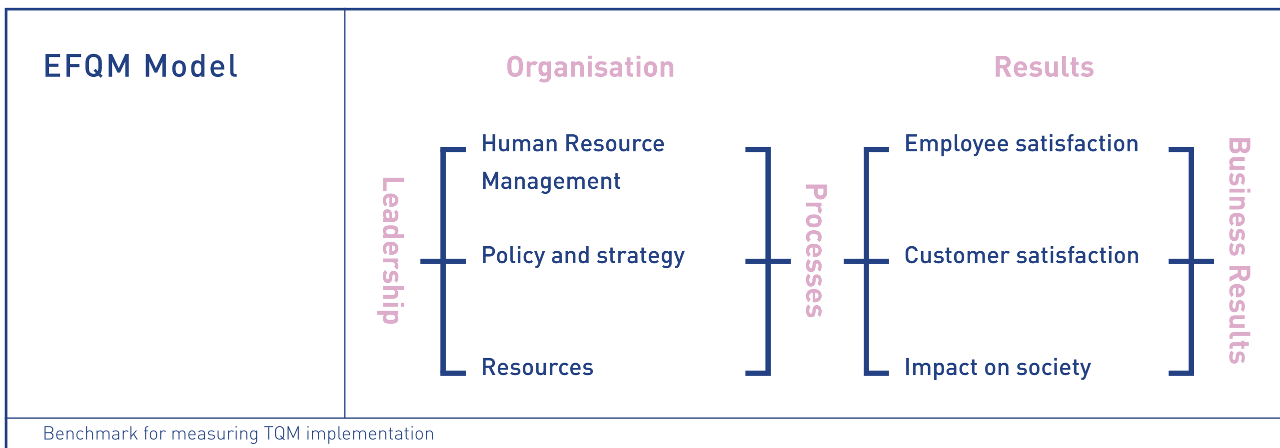
2.2. General Quality Assessment

The second aspect of company assessment for exports is to recognize the driving forces behind business - and how they strengthen each other.

However intensive your involvement, however you choose to earn your profit, a few fundamental facilities and skills must be available. You must be able to do your work correctly - up to the famous zero-defect level. You know that you can use the ISO methodology to reach that level.

ISO is the system to incorporate Total Quality Management in your company. The first method to assess your company is of general nature: the quality assessment, based on the EFQM (European Foundation of Quality Management, **www.efqm.org**) model.

The EFQM distinguishes **five Organisation Enablers:** Leadership, Human Resource Management, Policy & Strategy, Resources, and Processes. In the analysis they are in total valued at par with the four **Result Elements:** Employee Satisfaction, Customer Satisfaction, Impact on Society, and Business Results. All those Enablers and Result Elements are interdependent; one can strengthen the other.



Benchmark for measuring TQM implementation

For the factual analysis, each of the elements should be valued (given a score) so as to reflect the importance of them in your organisation. Then you answer a set of questions, each pertaining to an element. The questions could be formulated by you, provided they allow for an honest and realistic answer. The 'Rapid Quality Assessment' shows 12 categories of 4 questions each, totalling 48, which enable you a rapid insight in the quality status of your company. Refer to Appendix 4.

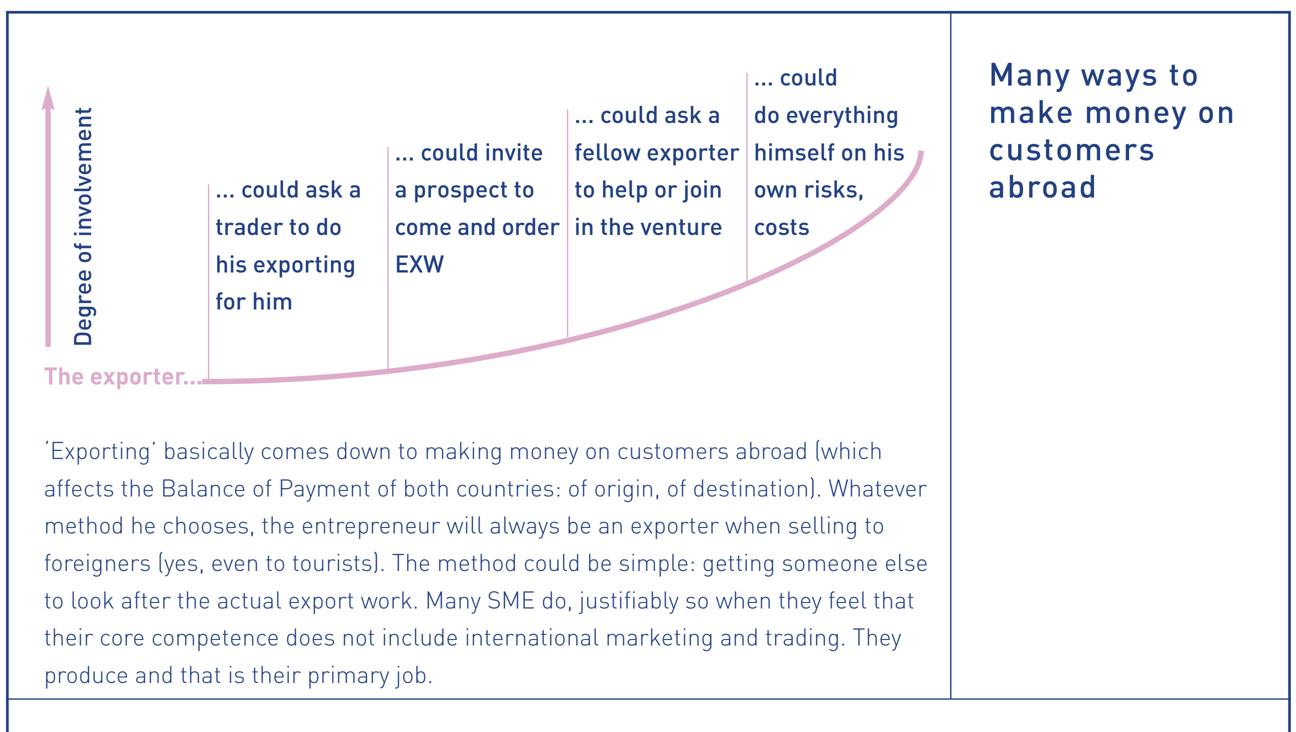
Recommended action: do the Rapid Quality Assessment and find out which issues need extra attention when executing the Export Audit.

2.3. Passive or active exporting

Five out of ten exporters do not export at all. They let **others** do their exporting.
As already mentioned when discussing strategy, many manufacturing SMEs (Small and Medium-sized Enterprises) leave the job of selling to others. They do not actively handle export themselves, simply because they believe they are better at manufacturing than at trading.

Such a decision can be a good one when their resources (like export experience and know-how) are not sufficient to be competitive in international trade. They have chosen to manufacture for customers abroad, but ask the help of others for finding customers and selling. This way the chances of failure can be reduced. However, the exporter will understand that 'outsourcing' the selling activities may mean lower profits.

So, the third question in understanding your own company has to do with the 'degree of involvement': how much you wish - and are able - to be involved in the actual work of exporting.



'Exporting' basically comes down to making money on customers abroad (which affects the Balance of Payment of both countries: of origin, of destination). Whatever method he chooses, the entrepreneur will always be an exporter when selling to foreigners (yes, even to tourists). The method could be simple: getting someone else to look after the actual export work. Many SME do, justifiably so when they feel that their core competence does not include international marketing and trading. They produce and that is their primary job.

Many ways to make money on customers abroad

There are many forms of exporting, each showing a different degree of involvement of the exporter in the actual export activities. Most exporters are only slightly involved: they are the subcontractors, the toll-packers, the Cut-Make &Trim garment manufacturers, all of whom produce according to their clients' specifications, preparing the goods for shipment, maybe bringing them to the nearest port - and with that their export work ends. Obviously, the requirements for low involvement are less than for high involvement.

Recommended action: Understand how far your involvement in exports could or should extend. That notion will affect the way you assess your company on international trading ability in the Export Audit.

2.4. Your position in the home market

The fourth consideration before analyzing your company on its export capability, is to assess its strength at home base. Here, you have to ask yourself whether you have exploited every opportunity on your home market well enough.

The reason for this is easy to understand. Exporting is risky business, mainly because you are not familiar with the needs of far-away markets. In comparison: doing business in your own country or region is relatively easier because you understand the customers and their needs (and their language) much better. Basically, you could earn your money more easily and quickly on the home markets.

Moreover, since exporting requires a substantial investment in money and time, you will need a constant flow of funds, mostly liquid funds (cash). Such moneys could come from a (profitable) home operation. That is why many experienced exporters protect and support their domestic marketing activities; they need them for their international expansion.

Analyzing your 'Current market position' requires yet another project task **(Refer to EMP-builder nr 2)**. It can be done by the manager who is responsible for selling to the home markets. Or by your market research people, if you have them.
Outside consultants could help you, too. The collection of data may be important, but more important is the conclusion reached from the questions: is my company strong enough in its domestic market to support export? Does it provide us with a steady influx of money? Does it support the development of new products? Does it increase our knowledge of management and marketing? This is where your insight and experience come in.

Recommended action: Assess your strength on the domestic market through the EMP-builder.

2.5. Export Auditing

2.5.1. Assessing export potential

Every commercial venture begins with assessing whether or not the company has the means to cope with the challenge. It is the same for export. Knowing what the hazards are is not sufficient. Management should know if the company is strong enough to fulfil the necessary tasks. You have reached this stage of strategic analysis, now.

Assessing the strengths and the weaknesses of an aspiring exporter can be done via an analytic method, called Export Auditing. This method should establish if a company could be considered fit for exporting.

Export Auditing is basically simple. It requires a Strengths/Weaknesses analysis according to the structural (= presently available) resources of the company, and the commercial instruments that the company uses and how effective they are. Those resources and instruments are categorized under the headings Men, Means, Methods, Machines and Measurables, the 'five Ms' for short. **(Refer to EMP builder nr 4)**.

After the internal Company Audit, the external Market Audit, covering Opportunities/ Threats, should follow. The answers are put in a four-quadrant matrix, called SWOT (after the first letters of Strengths, Weaknesses, Opportunities and Threats).
All items to be analysed should be compared with the (hypothetical) requirements of

exports. In short: ask yourself whether your company's resources and instruments could be considered strong enough to be used for export.

The Export Audit can be done by your own staff, provided they are able to conduct it an objective way. Management-wise, the auditing could be executed as a project, run by a special Project Manager with the help of the various key-people in the organisation.

2.5.2. First part of the Export Audit: the Company Audit **(Refer to EMP builder nr 4.1)**

The first part of Export Auditing should result in identifying the strong and weak points of your company. It is an internal evaluation (as opposed to the external analysis of the market). Now you understand why you needed to know how strong you are in your domestic operations. When identifying the items, answer the questions as being either as good or as bad for exports: do you recognize it as Strength of the company or as a Weakness? Use the 5-M system for completeness:

Men

This section of the Audit refers to your people and their skills.
Possible questions:

- Does the management have the required motivation, mentality and qualifications to lead corporate activities in(to) foreign markets?
- Is the know-how and experience for exporting/ internationalization available in the company?
- Is the know-how and talent available at staff level? Is there any previous experience in international business? Could the staff be expected to have time available when the export operation would require their support? Does anybody speak and/or write English?
- Could the workforce be expanded at short notice? Does loyalty exist amongst the workers?

Means

This section of the Audit concerns your company's financial means and performance.
Possible questions:

- How sound is the company's financial situation? What is the liquidity and the solvability? What is the relation foreign vs. own capital? Is the return on investment healthy? And the cash-flow? How much money would the company be able to reserve for export investments? Could bank credit be obtained easily?
- Is there money enough to provide for operational expenses for export?

Methods

This section covers the managerial methods and the professionalism of the organization as such. Possible questions:

- Is management committed to modern management techniques? Are there any programmes for (constant) innovation?
- How is the organization structured? Do suggestions and ideas from lower levels reach top management? How smoothly does the communication run through and reach all corporate levels? Is there a Management Information System (MIS) in place?

- How well does management exert control over operations: day-to-day or sporadically? How fast can management react to changes in demand? How often does the company benchmark against the competition?
- For which system of standards is the company certified? Does that include ISO 14000, SA8000?

Machines

This section applies to the company's machinery, equipment and technical infrastructure. Possible questions:

- To what degree is the production capacity utilized? How large is it now? Could it be expanded? Is skilled manpower available or should they be trained? How much would training - roughly - cost in time and money?
- How flexible is the production unit? Could expansion of the production be realized fairly quickly after the decision to start with export? Is it easy to switch from one product to another? Could production manufacture goods with constant quality, at stable measurements? To what degree is the equipment computerized? How 'accident-prove' is the machinery? Could it be quickly repaired?

Measurables

This Audit section collects quantifiable situations or results of your business. Possible questions:

- Does the company use ratios for measuring productivity, efficiency etc.? How do these ratios compare with the competition or the common standards?
- How are sales developing? Are they developing steadily or are there sudden up- or downturns? Are the profits per order reasonable? How many days of credit do you have to grant: more or less than the industry's average?
- Is there a cost-price calculation system in place? Are the costs higher, on par or lower than the usual standard? How about the costs for storage, for cooling, for energy: are they exceptionally high, normal or low?

2.5.3. Second part of the Export Audit: the Market Audit **(Refer to EMP builder nr 4.2)**

The second part of the Export Auditing should provide you with an overview of the conditions of your foreign markets*, your possible buyers for your products or services. In this case, the word 'market' is not really a good indication. What is really meant is: the **macro- or meso-economic conditions** for doing business with buyers abroad. This part of the analysis is external (as opposed to the internal Company Audit). It describes the effect of conditions that you cannot control. Here, too, your answers should indicate either good or bad for exports: do you consider the situation an Opportunity or a Threat?

The EMP-builder will show you what to look at. What you should do is to compare the present conditions in the market with what your present marketing instruments could do. Are you aiming at a growing market or at a market that shows no growth

**) In this stage of orientation you will provisionally select two or three countries (in the EU). In the next chapter 3 you will read more about the actual selection of markets by selecting the target countries first (where your markets are situated) and then 'zooming-in' on your prospective buyers.*

and looks saturated? Is your product comparable (or hopefully better) with the present ones on the market? Is its price competitive? Are the distribution methods known to you and could you use them, too? Or could you think of better ways?
How about your promotion - is that strong enough to reach the prospective buyers and convince them? Or will the competition overpower you?
To assess these external factors and compare them with your corporate strengths and weaknesses, you need to research the market conditions abroad. Theoretically, you could retrieve the majority of information required from Internet: by browsing with the help of a search-engine.

The market surveys, that CBI has composed and updates regularly, could give you ample sector ('meso-economic') information. So can the manual 'Exporting to the European Union', also available on CBI's website **www.cbi.nl**. Consult CBI's 'Your guide to market research'. One visit to this website will fill you in considerably.
Look at the CBI 'AccessGuide', when visiting..

Most of the market access information can be found these days on the Internet. Important market access issues such as tariff or non-tariff trade barriers are: tariffs, quota, import restrictions based on rules of origin and European regulations, including EU legislative requirements from governments as well as requirements from market parties such as buyers, retailers and pressure groups, i.e. non-tariff barriers.

In the Expanding Exports Helpdesk of the European Union **(http://export-help.cec.eu.int/)** you can find data on import tariffs, several customs documents, rules of origin based on the preferential agreements that exist (for instance GSP and ACP rules) and finally trade statistics. By using your product code, using the BTN or Harmonised System code of your product as data access tool, you can generate this information. Steel and textile quota of the EU can be found in the EU website call SIGL at **http://sigl.cec.eu.int**/.

The next category of barriers are the non-tariff barriers, which are requirements on products traded within the EU concerning consumer health and safety (i.e. food safety and product safety as CE marking), environmental issues (such as the use of hazardous substances, recycling etc.) as well as social issues (improvement of labour conditions). Requirements on chain management, for example the farm-to-fork legislation of the EU set requirements on the entire process of products.

The difficulty of understanding NTBs (Non-Tariff Barriers) is their scope. It is not enough to take all EU legislation into account when trading to the EU. Market requirements, although not mandatory, are of great importance on the EU market. Finding all information for one product sector is a complicated exercise. Not to speak about the understanding and interpretation of requirements, once they are been found. The AccessGuide database on European non-tariff trade barriers gives for main product sectors a full overview and analysis of EU requirements at **www.cbi.nl/accessguide**. This instrument is of help when looking for information on NTBs.

2.5.4. Competitor Analysis

Exporters can learn a lot about selling to foreign markets by examining how their competitors do it. Their product designs, their pricing, their choice of outlets, their promotional methods are based on market assessments done prior to yours. You could use them as benchmark. Particularly the large corporations often have this exemplary function. Why not make use of that?
To that end, this Export Planner recommends that you add a Competitor Analysis to the Export Auditing **(Refer to EMP builder nr 4.4)**. Recognizing your main competitors in your target markets is easy: their presence is evident - as the result of their advertising and promotion. Learning more about them and their marketing techniques can be done by visiting their websites and scrutinizing the information provided: on their customers, their product range, sometimes even their prices and above all, on the way they work to get customers. Look for that little extra that makes them successful (described as Critical Success Factors: CSFs).

Other sources of information can be: their customers (particularly for industrial products), their importers and agents, the Trade Registers in their home country and in the country of destination. Read the paragraph on Identifying the Competition in the next chapter.

If anything, the research for your competitors' data may convince you of one important fact: if they can succeed abroad, chances are that you can, too.

2.5.5. SWOT Conclusions

The Export Audit analyses usually take several weeks, sometimes months to complete. Collecting the information takes time, since you have to depend on outside sources which do not always work as fast as you do. However, the final analysis does not have to take long **(Refer to EMP builder nr 4.4)**.

After the Manager in charge of the analysis has provided the management with all the necessary data, evaluating the outcome is a matter of days. That Manager should prepare the evaluation, combined with his views as to whether or not exporting would be within the company's capabilities. Top management should discuss the results with the researchers involved.

Start with discussing the Strengths and Weaknesses of the Company. Present the (long) list of strong and weak issues found, to your staff, your heads of departments, your co-managers. Ask them to give scores to each issue, which is to tell you how serious they consider them to be. This way, you will be able to highlight the relevant issues and to 'weed out' the issues of lesser importance. Such a method of prioritization shows you the issues that you may not have thought about and also works wonders for your staff's commitment.

Basically, the analysis should show how corporate assets (or 'Strengths') could be exploited in the market's Opportunities. If the analysis has shown corporate Weaknesses, look for a method to solve these weaknesses, as they may bar your entry due to the Threats in the market.

For easy identification, you could list them in four squares, separated by a large cross, e.g. like this:

'SWOT' analysis

Strengths	**Weaknesses**
• well trained staff • ample production capacity	• weak financial structure • no export experience
Opportunities	**Threats**
• growing market segment • welcomes novelties	• strong local competition • import tax

Note: only mention the issues that are better or worse then your competitors.

As you can see, the Export Audit has provided the Strengths and Weaknesses data from the internal Company Audit, whilst the Opportunities and Threats can be found in the Market Audit.

In this simplified example, a typical 'newcomer' is attracted by a growing, possibly trend-conscious market. But so are others, local competitors, which have the advantage of being more familiar with the market. If the import tax will be too high, the prospective exporter will not have the resources - or the know-how - to fight his way in. If, on the other hand, the prospect's product is indeed a novelty for the target market, the chances are that a local importer, recognizing its merits, will help the exporter (with know-how and even money) to gain market entry.

Your final analysis would recommend "No" in the first case, "Yes" in the second.
In any case the shortage of money is always a formidable barrier.

As a rule of thumb, you could conclude from comparing the SWOT-elements that:
- If Strengths and Opportunities show the same basis, strengthening each other, this would be the your export priority.
- If the Threats would intensify the Weaknesses, you should not go there.
- If the Threats look, bad but could be countered with your Strengths, expect a hard fight for market entry.
- Weaknesses should be remedied, particularly if the market Opportunities look promising.

In this stage you may want to involve others, particularly key-people in your organisation. An (internal or external) marketing expert's advice will prove to be very valuable. The final analysis can be prepared jointly.

2.5.6. The final decision

The final decision belongs with the top management. To export or not to export, that is the issue. You must balance the strong points of the company against the weak points, which sometimes proves to be an introspective, if not painful moment.
You should consider the fact that exporting will put an extra strain on all people and other corporate resources. In fact, you are considering starting-up an additional

commercial operation, parallel to your domestic one.The main question should be: do you think the organisation is strong enough to cope with the extra challenge and workload of the exporting venture?

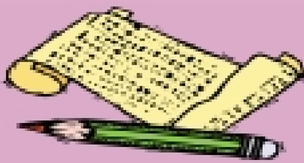
This is an extremely important decision, since the very existence of the company may be at stake. If you are not entirely certain, don't do it. The competition in Western markets is murderous; many entrepreneurs before you have tried to penetrate them and have failed.

Maybe you feel that the domestic market is large enough after all to sustain further growth and yield the adequate profits, even on a longer term. In that case, your decision not to start exporting is justified. The fruits in your back yard are easier to reach than the golden mountains on the horizon.

However, if you are convinced that your organisation is ready for The Big Jump into exporting, do take that step. This manual will help you along the path.

Use the EMP document builder, an on-line tool to help you put together your Export Marketing Plan; the CBI Export Planner can be used as support and clarification for that. There are also other manuals for specific marketing activities, like 'Your Guide to Market Research', 'Your Show Master' (for fair participation), 'Your Image Builder' (on establishing a corporate image) and many more. Visit CBI's website: *www.cbi.nl*.

The manager's notebook on planning (1)



Make an early start with planning. You may be tempted to start planning after your company assessment, since that has shown you how strong you are.

However, you will not yet have looked in depth at your selected markets. Your planning will greatly depend on what market opportunities you recognize for your products. So instead of formulating your plans now **(Refer to EMP builder nr 6: Export Objectives)**, wait for its completion until you know more. Note down what you think your company analysis has taught you, now, and be prepared to add to those notes later.

If the Export Audit (which mainly structures the issues to be analyzed) does not help you along, you could use the Marketing Assessment (Appendix 4). This method shows a chronological step-by-step method, leading you through a series of elements to be assessed and eventually gives you the same answer to your analysis.

3 The target market abroad

From the previous chapter you have learnt (in the Market Audit) that already in an early stage of export preparations you must know whether there are any markets for your products in your target countries. You have provisionally selected two or three markets to use as an example for your Export Auditing.

But how do you actually find those markets? After all, there are thousands of markets (= buyers) in the EU alone, who could be interested in your products. It is virtually impossible to look at a vast continent like Europe and identify buyers there. So you will use a practical method for the sake of simplicity: you will take the countries as your starting point for the identification of buyers.

Theoretically, this method is not ideal because the actual location of the buyers is not relevant; their function is. But if you do your selection carefully, it will surely work for you.

3.1. Selecting your target market

3.1.1. What is a "market"?

Talking about marketing you may have heard at least three definitions of the word "market":

- a market is: a group of customers or consumers who share the same needs, and who are willing and able to buy;
- a market is: a place where buyers and sellers come together;
- a market is: total sales (in value or in volume) of a specific product category.

This CBI Export Planner will predominantly use the first definition, which is the purest. You may have learned about the old adage: 'markets = people'. Note that the definition emphasizes that those people not only should be willing, but also able to buy, which presumes they have purchasing power.

This applies to industrial markets, as well. Although the B2B buyers purchase for their organisations, not for the end-consumers, they, too, are persons with an explicit need, who are willing and able to buy.	B2B

3.1.2. Target country selection method

Markets are (groups of) buyers, but if you are a first-time exporter, you will have a hard time finding them. Look for markets by selecting countries that look like your own. In these 'target countries' there will probably be buyers for your kind of products.

Several techniques for target country selection are at your disposal. Note, that there are *five checkpoints* to keep in mind.

Target country selection methods must:

1. be systematic
2. be effective
3. be based on measurable criteria
4. use sound screening methodology
5. lead to priority ranking

Such a technique should be primarily: **systematic**, secondly: **effective** and thirdly: based upon **criteria** that can be assessed and verified easily. The fourth checkpoint refers to the **screening methodology,** which implies the activity of selecting the countries you think appropriate, and eliminating those that show no export potential in the first analysis.

Since you, as an exporter, can not conquer the world in one stroke, you should plan the country to which you would like to do your marketing first. Even the most experienced and strongest exporting companies rarely succeed in reaching more than one foreign market each year. The investment simply is too big to do more than that. The same applies to the risk involved in each new unfamiliar market.

Therefore, your screening method should result in a certain **priority ranking**. After having applied the various screening factors to the countries of the world where you assume there are likely markets, your analysis should lead to a list, showing several countries with export-marketing potential. This is the fifth checkpoint of activity.

3.1.3. Target country selection criteria

Six selection criteria will help you to identify potential export markets. Some of these criteria refer to the environmental factors (formulated by the marketing guru Dr Philip Kotler, USA) each country can be described by. In the task of screening and selecting, we use the factors to establish **distances**: to what degree are the potential target markets distanced from our home market? **The greater the distance** (in concrete or abstract terms) **the harder it is to bridge them through your commercial efforts**. You will notice that even within the EU the 'distances' between the member states can be huge.

Six criteria for market selection

1. Proximity
2. Socio-political conditions
3. Economic conditions
4. Culture
5. Technological conditions
6. Geophysical, climatic conditions

The first and simplest way of selecting target countries is to apply the **geographical criterion**. In that selection method (physical) **proximity** is the key word. You may assume that there are markets close to your own, which could contain potential buyers of your present product. You probably have checked that already - or maybe even exporting to them. As a matter of fact, most nations have their largest trading volume with their neighbours, crossing only one common frontier. In these countries, you should build up your export experience before venturing to faraway countries like Europe. When aiming at the EU, look for countries that have economic and/or cultural relations with your country.

The second criterion pertains to **socio-political factors**. Having listed the potential markets within neighbouring countries, you start looking for potential markets further away. This may lead to listing the countries that have a common interest with yours, e.g. in an **economic community**, also indicated as a 'trading block'.

There are several such communities: the ASEAN in South-East Asia, the Enterprise Africa, the European Union in Western Europe, the Caribbean Based Initiative in the Caribbean, the NAFTA in North America, the Andecom and the Mercosur/Mercosul in South America, and so on.

Such communities are mainly based on a political agreement on the necessity of common (economic) interests. Politics have created a more or less stable trading environment for the member countries. They can for example be structured as "Customs unions", having eliminated internal Customs' tariffs in favour of a common external system of import tariffs. If your government has established such ties with other countries, you will probably find potential export markets there.

The same goes for countries where the **social structure** (relationships, family composition, age division, life-styles etc.) resembles yours. There are some basic requirements stemming from social situations that run parallel worldwide. The blue jeans is a universal clothing of the youth; young families spend more on their children than on themselves, newly weds spend a lot on housing, furniture, interior decorating.

In fact, when selecting markets this way, you use socio-political factors as criteria. You screen all countries that have social and/or political environments **comparable to your own**. And you select those countries that show **most similarities** - for the simple reason that fewer risks of misunderstanding may occur during business.

That excludes countries that are unfriendly to yours. Trade only flourishes in a stable, friendly climate, not in a hostile situation. The governments may wish to impede all influx from countries with different life-styles or political systems. That will stand in the way of exports.

The third criterion for screening has to do with **economic factors**. This refers to the target countries' economic possibilities. Or simply said: can the people there afford to buy your goods?
It will limit the number of potential export countries to those with a medium or high per capita income. This ratio (the Gross National Product GNP divided by the number

of inhabitants) has been calculated for all countries in the world (refer to information from the World-Bank, the WTO at **www.wto.org** or the OECD at **www.oecd.org**). Although the per capita income may prove a helpful screening factor, it can be deceptive. Firstly, it does not show the actual buying power per household. You get that figure by multiplying it by the number of persons in the average household. Secondly, even in the poor countries, there may be money to spend, for instance in certain large cities or regions. Or their governments may be able to buy your goods or services.

A better figure may be derived from the actual **productivity** per head. Productivity supports the balance of payment as well as the economic stability and growth.

The fourth and most intangible selection criterion has to do with **cultural differences**. Culture, the sociologists say, is the strongest determinant of human behaviour. In cultures that differ from yours, you will have to deal with different people. People with different ideas about what is good or appealing. Consumers with different preferences, with different buying habits. Industrial buyers with different needs, aims and networking methods.

Culture is evident in the life-style of the consumers, in the communication with business relations, in social life. Even in religion. Or in business ethics. It may be tempting to relate culture to the degree of civilisation. But don't let that consideration interfere with your commercial purpose. Your task is to recognize that there are cultural differences, and to estimate their effects on the communication and commercial operations.

However, you do not necessarily have to understand the cultures - even if you could. You should merely respect them. Similarly, your trade partner should respect your culture and customs. Mutual understanding is based upon respect.

The fifth criterion, **technological conditions**, tries to describe the relative degree of technological advancement in export countries. That factor will be evident when comparing the technological "state-of-the-art" in the target markets with yours.

You can safely assume that some of your country's products may seem old-fashioned in industrialized countries, having been made obsolete by their technological innovations. You can not sell an ox-drawn plough to Western farmers who use air-conditioned tractors and computerized robots on their farms.

Simple field research will quickly show the degree of technological development. Your trade promotion official in the target country could see to that. He can also collect some trade magazines and competitors' catalogues for the sector in which you are interested.

Characterizing countries by their **geophysical and climatic conditions** is the sixth and last criterion for screening. Indeed, the climate influences product preferences. So does the fact that a country is mountainous, swampy, rocky or blazing hot. Do not follow this as a rule; classic examples of exceptions include selling iceboxes to Eskimos, skates to Saudis, water to the Dutch (all of which proved possible).

Instead, identify conditions of climate and geophysics which may influence logistics (transport, storage). Selling ice-cream in the ASEAN started becoming big business only after the supplier installed a chain of open-top cooling display units. Exporting fresh produce from Kenya became a possibility after a direct air-link was established with a Dutch auction, enabling shipping whilst still fresh. A vast fertile country would seem ideal for agricultural business, whilst a densely populated country would be more interested in all kinds of services or space-saving hardware.

3.1.4. Research for target country selection

Country screening needs exploratory research that depends upon gathering "secondary data". These are data that have been compiled and published earlier, by someone else. Refer to CBI's 'Your guide to market research'.

Primary data refer to the information that you collect yourself - through so-called 'field research'. This kind of information is required when secondary data fall short of your needs, e.g. where researching your specific type of consumer about the acceptance of your specific product is concerned (in the third and fourth stage of your Export Planning).

Secondary data - the information that has been researched and compiled by someone else before you - can usually be found in public sources, like governmental databanks, libraries in the target country or in your own. You can collect such data virtually from behind your desk, hence the name 'desk research'.

Being a creative marketeer, you will start look for other ways to at least get a **notion** of the customer's preferences by reading (through Internet) the local newspapers and magazines, or trade press in your industry sector. Or talk with suppliers, with specialists, with colleagues, and even with competitors. The CBI manual 'Your Guide to Market Research' (in CBI's website) will tell you more. Make sure to exhaust all options that are inexpensive before commissioning primary research.

Having received the data, you will want to **list** all information about the target countries. That is tedious work; ask your assistant to do it. Then you apply the selection criteria as described above. You are already able to add some criteria which have relevance to your specific industry, or the manner in which your products are used.

Based on your evaluation of each and every factor, you can "judge" the attractiveness of the target country, e.g. by giving them a score ("about the same as in my own country / somewhat different / entirely different"). The larger the differences, the lower the score. The result of this screening exercise will be a tentative list of countries with assumed market potential, ranked according to your priority estimation. Now you will be able to fill in the **EMP builder's paragraph nr 5: Market Assumptions**.

3.2. Estimating market potential

By now you will have a list of countries in which you believe there may be markets for your product. According to the adage "Markets = people", you will want to dig deeper (than you did in the Market Audit), in search for the potential customer. **Your** future customer. But can you actually reach him? And is the demand large enough to justify the effort? What competition will you be faced with?

By nature, the screening method is based on the principle of elimination: you discard options which - hypothetically or even on face value - are not attractive or relevant to you. There are few directives to go by; the most important one is: limit your activities to a market that is not too big, not too small, but just right. For that you make use of segmentation techniques.

Assessing market size

Many markets have been researched before. There may be market surveys available. As mentioned elsewhere, the CBI has surveyed a multitude of markets in 35 sectors over the past years. They cover industrial (B2B) and consumer markets. A list is published in the CBI News Bulletin (for BSOs) and in 'Exporting to the EU'. Many of such surveys can be downloaded through Internet, by visiting CBI's website: **http://www.cbi.nl** - usually free of charge for exporters in countries on the CBI list.

The CBI surveys give relevant though condensed information on total market size (in volume as well as in value), market trends, growth patterns, identification of buyers, frequency of purchasing, market segments, distribution channels etc. Remember, there are many other databanks with meso- (= sector-related) economic databanks; an important source is the Economist Intelligence Unit (EIU).

There are **two ways of assessing** market size (refer to CBI's 'Guide to Market Research'):

a. assessing apparent sales by analyzing government statistics
b. assessing apparent consumption by totalizing customer demand.

Ad a: Apparent sales:

Theoretically, most markets can be quantified (in volume as well as in value of total units purchased) by adding local production to total imports per annum and deducting exports and unsold products in stock:

However, if you have ever worked your way through the official trade statistics, you will know that: 1) it is hard to recognize your specific product category, since the data seem too general, 2) some data are based on strange common denominators for volume or weight, so that you can only rely on the data indicating total value, and 3) data on domestic production are very hard to obtain. That goes even for the EU statistics (refer to **www.europages.com** or europa.eu.int/eurostat.html).

Therefore, your desk research should always include the analysis of customer demand, if only to verify your "educated guesswork".

Ad b: Apparent consumption:

Check all industry information you can find. Most industry sectors are represented by certain organizations. These organizations usually publish production figures as well as total consumption data, mainly in value (prices at wholesale level).

Occasionally, national governments publish data on some of their markets. You could retrieve them via official channels. Ask your local BSO or commercial attaché. Sector specific industry data can be obtained from the very sector organizations or found in trade or business magazines. Be careful when combining data from different sources; they could show unexplainable differences.

B2B

If you are a supplier of **industrial goods, components** or if you want to offer your production capacity on the basis of **subcontracting** or **licensing**, your (prospective) customer might know the market size. Ask him (see chapter 5).

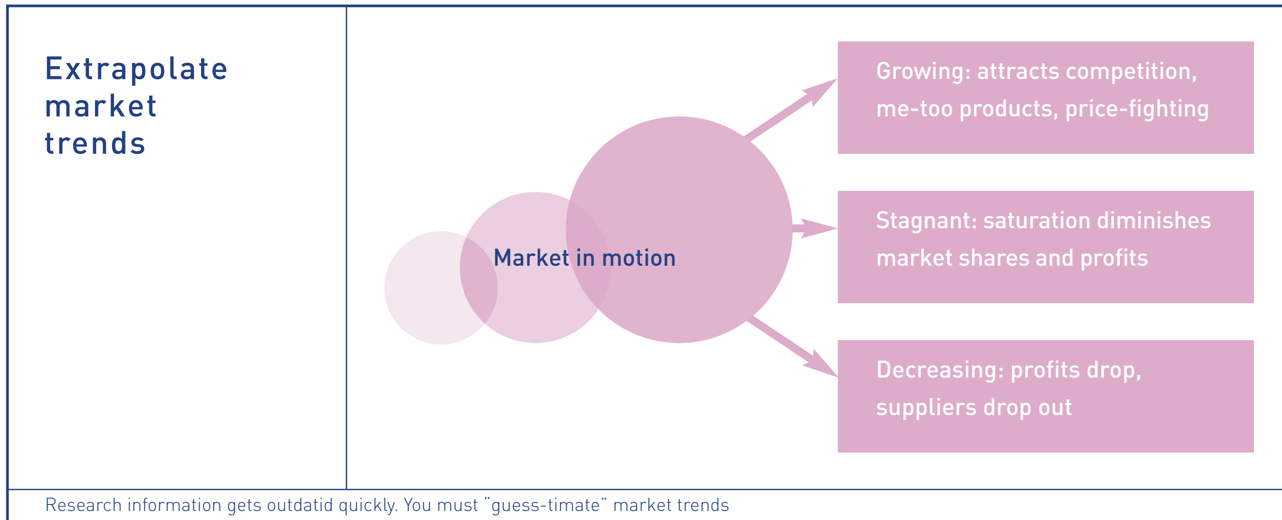
Industrial suppliers know that their market potential is often based upon "derived demand". This means that their customers need the suppliers' products for manufacturing their own products. The demand for the latter products determines the demand for industrial goods. So if you can establish the "original demand", you could estimate the derived demand for your goods.

Market trends and patterns

a. Trends

Knowing the size of the market is a vital piece of information. However, since you will need at least another six months of lengthy preparations before you can enter the market, you must know how large the market might be in the **future**. Knowing which way the trends of your markets develop is of vital importance for your planning. Refer to CBI's manual 'Your Guide to Market Research'.

Therefore, you will have to estimate the market size for the next three to five years. Using historical data, one could try to extrapolate the future trends: growth, stabilisation or decrease.



Research information gets outdatid quickly. You must "guess-timate" market trends

Growing markets offer great potential, but they will attract strong competition (See: 3.3), especially when the market is big. Price levels tend to decrease. Yet, there still can be room for you. Consider the possibilities of finding new segments by offering a competitive product advantage.

Stable markets probably indicate saturated demand. Many competitors are active, though some may have already withdrawn. Prices are under constant pressure. Promotion is heavy. Such a market is not easy to penetrate, unless you offer a competitive price. Most markets (in the sense of market demand in volume) in Europe are stable, because of saturation of the needs of a non-growing population.

Decreasing markets offer hardly any profit potential. It will cost you too much to maintain your position in the market and still earn money.

Note, that this is just a generalisation. Nevertheless it suggests that you should carefully assess the trend of the market in order to make the right decision: should I enter this market or not?

b. Patterns

Probably the most relevant pattern for your market selection is geographical. That is directly related to the physical distribution, the logistics of your export products. This refers to the actual **location of the demand**. Is your market concentrated in a certain area within the target country? Are your customers living - or buying - in a specific territory, easily distinguishable from other areas?

> *In a large country like Germany there are several concentrations of buyers, mainly in the heavy populated areas (Ruhr-area, Bavaria etc.). Industrial developments usually attract more people in the area, seeking work and a place to live. Sometimes, industrial buyers show a similar pattern, when most industries are*

situated in a commercially strategic area (like in Free Trade zones, Industrial areas etc.).
European industrial and consumptive concentration zones cover part of the South-east of England, the Benelux, Northern France, the French Grenoble area, Western and Southern Germany, North-East Spain and Northern Italy. EU membership by some of the Central-European states (Poland, Hungary, Czech Republic)means that the string of potential markets has extended Eastbound. Graphically, you could draw a line connecting those industrial hot spots and look at the new industrial highway of future Europe.

In smaller countries, like The Netherlands, you can safely assume your market covers the entire country (with a slight preference for the Western part, covering the three largest cities of Amsterdam, Rotterdam and The Hague, together forming the so-called Randstad). Refer to 'Exporting to the European Union', which gives ample information about the Dutch territory.

The reason to focus on this geographical pattern is that it is important to know in advance what physical distances you (and your products) will have to cover in order to reach your customers. Geographical concentration can be advantageous for your distribution. The main competitive battles in Europe are fought with the weapons of international coverage and logistics. The coverage has fuelled the creation of large (merging) companies, which run subsidiaries incorporated in European networks. Logistics is the weapon for small suppliers as well as the bigger ones, offering 'Just-in-Time' deliveries at the expense of slower, less customer-oriented competitors.

Industrial buyers, importers for the retail trade build warehouses or distribution centres out of town for easy delivery, but outlets are always in the middle of residential areas. Select markets which allow free, uninterrupted delivery, minimizing the time of transportation - which is the trend for efficiency-consciousness.

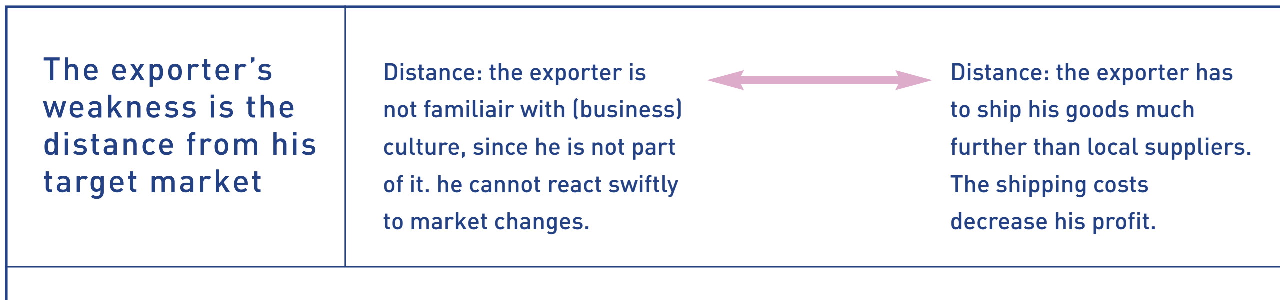
B2B

3.3. Identifying the competition

3.3.1. Fighting for the same customer's dollar

Competition is everywhere, a harsh fact of every businessman's life. The more lucrative the trade, the stronger the competition. If you are ambitious enough to aim at the far-away markets in Europe, competition is the first thing you will encounter. You could have expected that after having read the Treaty of Rome. Indeed, in spite of the numerous barriers still remaining, the European Union has progressed far in liberalizing trade and opening up its outside borders.

You will find a multitude of other suppliers (manufacturers, traders) competing for the favours of the same customers. Some 30 million suppliers are active in the EU, supplying to almost 450 million inhabitants, which is by far the highest supplier density in the world. Hence, in Europe you will stand face to face with the strongest, fiercest, biggest competition you have ever experienced.



Along the lines of economic integration in the European Union, several Central and Eastern European countries have shifted their commercial attention to Western Europe after becoming EU members. Their economic situation will remain tense for some years to come, industrial productivity has decreased considerably, but free enterprise inspires many business people to build trade relations with their Westerly neighbours. Countries like Poland and Hungary thank their growth to trading with them.
Exporters in developing countries will recognize that traders from the EU Accession Countries will pose a strong competitive threat to them, since they frequently aim at the same markets and have the advantage of proximity.

Obviously, the customer can only spend his money once. So he will make a selection from the wide range of products offered in the market place. To make sure that it is you who profits from that one purchase, you must not only know what the customer's purchasing motives are. You should also be able to satisfy his needs and wants **in a better way than your competitors** can.

The success of many suppliers to EU markets depends largely **on knowing what the competition does to win customer preference**. *They are not hunting for undetected 'holes in the market', they are fighting each other for their share of the market. Experience has taught them that a good competitive analysis is very effective to avoid a head-on collision with that competitor. That collision may lead to a showdown that 'runners-up' (who enter a market after their competitors) can never win.*

So exporters entering a market where competitors are already active will seek a different strategic position. They try, for instance, to be better, or faster and more successful in winning customer preference than their competitors. Therefore, they must know who the competitor is, how strong he is and to what degree he can threaten your market position.

3.3.2. Competitive marketing analysis

If you know your competitor, you can fight him. When high interests are at stake - as for the large European competitors - it pays to scrutinize your competitor. Some have specialized departments with 'Competition observers', keeping track of their activities on a daily basis, up to a point where the competitor's action can almost be predicted. They know their strategic goals, their management, their business culture thoroughly. Financially, that is probably out of your reach. Nevertheless, it pays to learn whatever you can about your competitors, domestic as well as foreign. You have tried to do so when making the Competitor Analysis **(EMP builder nr 4.4)**.

Part of your management task is to describe your competitor and his activities. You could do so by checking the way his products are presented: in retail outlets, or at the wholesaler, by simply visiting these outlets and following a systematic routine.

a. Start with looking at competing products; notice their strong points vs. yours
b. Register names/origin of these products. Collect data on suppliers
c. Register their prices, calculate top-down to possible ex-works pricing
d. Find out how the products are being sold/promoted (by asking outlet manager)
e. Register type of outlets, which indicates choice of distribution channels

Typical data for field research

First step to understanding your competitors: look at their products in the market place

a. What products compete with yours? Ask any distributor or retailer; he will specifically describe you the present competition in his area or store. He welcomes competition amongst his suppliers, as it brings prices down. But he, too, has to make a choice which product to distribute. His selling space is physically limited. Go to the shops or wholesalers and have a look yourself. And keep on doing that on a regular basis. Are these products better than yours? Or more unique?
Can you beat them on quality? Is your product more attractive?
You may want to imitate those products, although that is not always commercially wise. You will never be able to imitate their success since the first-come-first-serve leaders have already harvested on their success, leaving little to runners-up. Moreover, those products could even be protected by patents or trademarks, which makes imitation illegal and punishable.

b. Who are the suppliers or manufacturers of those products? In most EU countries the products must carry the name of the manufacturer or importer.
Register the names. What do you know about them? Are they small, independent or do they belong to a multinational? Are they manufacturing locally, or do they import their products (who, in that case, are your potential competitors)?
Such questions will reveal a lot about their ability to defend their market shares. The big ones will have the knowledge, experience and money to effectively fight your market entry or market presence.

c. Very important: what are the competitors' prices? Price is one of the main motives for buying - next to quality and uniqueness of market approach.
In most free economies in the Western world, you will find that your potential buyers will force you into price-fighting with competing suppliers. Consequently, your price-setting largely depends on the competitor's prices.
That goes for their (trade) discounts, too. And for their bonus system or commission rates. Try to find out.

d. How does the competition canvas, sell, advertise or promote their products? Do they employ sales representatives? Do they have special promotional material? Are they successful? Take their example - but always add something special: something that distinguishes you from the competitor.

Read newspapers, magazines, brochures, catalogues. They tell you a lot about the competition - and how they view their (and your potential) customers.

e. The same goes for the distribution methods of your competitors. Which channels have they selected to reach their buyers? Or do they supply them directly? Sometimes, you don't have the time or the means to find that out yourself. In that case the competitive channel selection can be a good guideline.

> *With the arrival of pan-European media like television, 'teleshopping' has been quick to follow. Cable-networks link households to television advertisers offering consumer goods (from consumer durables to fashion and jewellery). Direct-mail or mail order has become big business as La Rédoute in Paris, France, has proven.*
> *However, since the expansion of Internet, this medium seems to be taking over tele(vision) shopping fast. After several years of marginal operations, Internet selling is gaining popularity fast. So, search on Internet, looking for competitive offers under your product category heading. Such information can also be bought from Internet service agencies.*

Looking at your competitors' products is just the first step into understanding their strong points. Now you should try to understand their market position in order to predict how they will react on your market approach. Porter's model gives an indication how to assess that position.

3.3.3. Porter's Competitive analysis

Ever since Western marketeers have recognized the ever-increasing changes in customers' preferences, they use dynamic models to assess their own strength vis-à-vis their competitor's. The first practical model was formulated by Michael E. Porter (1980) and indicated **five competitive factors** which could influence competitive strength, measured by the expected decrease in profitability.

The factors are:

1. The **present rivalry** (or competitiveness) in the market. What would be the effects of an initiative which might distort present market shares? Is retaliation to be expected? Will that decrease profits for the new-comer supplier?
2. The **bargaining strength of the buyers**. Are the buyers so strong that they can dictate the terms of transaction (prices, delivery conditions etc.) to the suppliers? Or are the buyers competing amongst each other to be supplied by you?
3. The **bargaining power of the suppliers**. Same as above, but projected on the relative influence of your suppliers (of half-material, components etc.). If the suppliers are few, their power is great, reducing yours - and your profits.
4. The threat of **potential entrants** into your market will decrease your profitability. If market entry is easy, many competitors can be expected to fight for a share of the profits, reducing yours. But if entry barriers are high (e.g. large investments in equipment, in know-how), you will enjoy some protection.
5. The threat of product/service **substitutes** is more difficult to identify. Some products can come and take over the function of yours (e.g. desktop publishing took over the function of type-setters, the manufacturers of industrial glues pushed

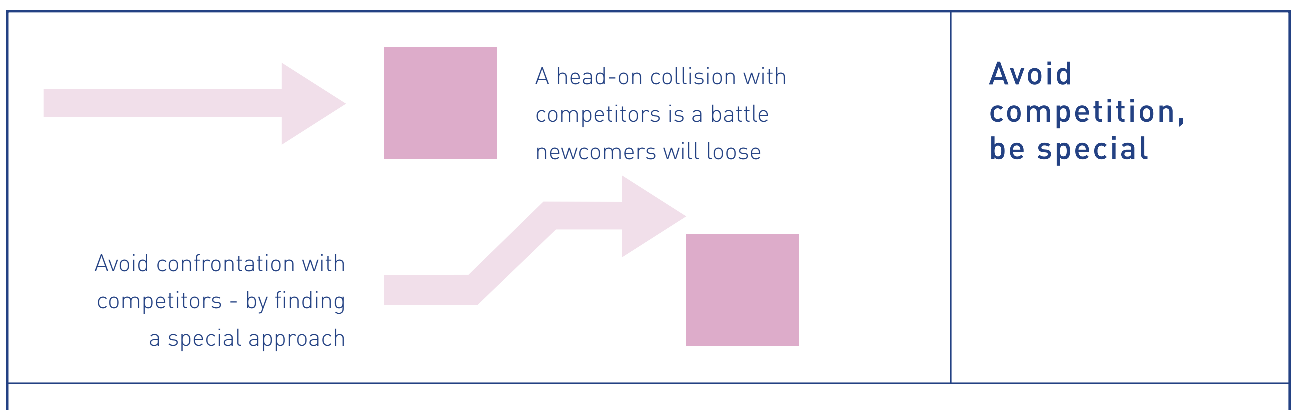
many nuts-and-bolts producers out of their markets). Identification of substitutes requires a 'helicopter view', the ability to look beyond the boundaries of one's own product area.

The Competitive Analysis seems complicated, but has proven valuable in assessing one's competitive strength. If you can analyse your competitors' present position, you could also assess your own position in the near future. A discussion with key-persons in your organisation ('brain-storm') could provide you with many answers in a short time.

3.3.4. Your position amongst the competitors

Knowing about your competitors' products allows you to (re)design your own range in a manner that strikes your prospects as special. You could add a USP (unique selling proposition). In doing so, you will avoid a **'head-on collision'** with competitors, which occurs when coming into the market with a similar product, with similar product benefits. In that case the competition will eventually take retaliate action, trying to discourage potential customers to buy from you.

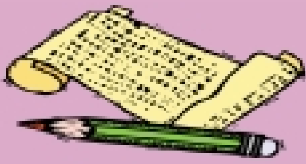
In competitive markets it is always best to choose a market approach through which you will not have to invest heavy promotional efforts to convince your prospects to change suppliers. Newcomers with a 'me-too' product invariably will have a hard time. Try to be **special**.



Avoid competition, be special

The bottom-line is: do not follow the competition blindly at all times. If you, as an entrepreneur, are convinced you are doing the right thing, then go along with it. Even - or especially - when the competitor follows a different path. You may end up well ahead of him!

The manager's notebook on planning (2)



Now that you have surveyed the target countries for your markets, you have a better impression of your opportunities there. You have selected your target country, you know roughly where to find your buyers (your markets), you have an idea about the barriers to trade and the threat from the competition.

This is the second moment in export preparations when you could add to and specify your planning. The first time was after having analyzed the strengths and weaknesses of your company in relation to the requirements of export.

If the information on the target markets has inspired you to add another chapter to your planning, make a note on that. Include your first impression on which countries show best potential. At the end of your preparations, you will have to put all your notes into a final plan.

4 Market entry strategy

You have finished the analytical work, now you should start with the constructive part - also called: synthesis - of the job. It requires a different mental attitude and that will complicate things. Some help may be advisable, so discuss your ideas and plans with your shareholders, your business family, your colleagues or your (BSO) consultants.

The next phase of export preparations is to design a 'market entry strategy'. Basically, this task means that you will design a method how to sell your products or services. The question "with what trade partner?" will be dealt with in chapter 5.

Selling is a familiar job; you do it all the time. But selling to the highly competitive markets in industrialized countries, like the EU, demands the best of your abilities (and maybe more). That justifies a sound planning, outlining what your 'toolbox' for international selling should contain. That toolbox, the instruments and methods for export marketing, is called 'marketing mix'.

Designing the marketing mix implies that all instruments and methods you need for exporting will be tailor-made for that purpose. Step by step you will go through all elements of the export marketing preparation:

Elements of export marketing preparation	**Refer to chapter paragraphs:**
• Establishing what (part or segment of the) market you will aim at	1. Market segmentation
• How to 'match' your product with the market's needs	2. The Export Product
• How to package your product	3. Packaging
• How to position that product - or even brand it	4. The identity of your company and your export product
• How to set its price in the target market	5. Export costing and pricing
• What channels of distribution to chose, and:	6. Channels of distribution, and chapter 5
• How to promote sales by informing your customer (and how he will respond)	7. Promoting your exports

Entry preparation

4.1. Market segmentation

A market, as defined earlier, is a group of people (potential buyers), sharing a common need for a certain kind of product or service; you read that in the first paragraph of chapter 3. As a common denominator, 'market' is usually too wide a focus from which to expect successful entry. When identifying your customer or consumer, you should try to 'zoom-in' on your target group.

B2B or B2C? Customer or consumer?

Most Small and Medium-sized Enterprises in developing countries export components or half-material. Their target markets are the industrial buyers, who use the products for their own production. Those buyers are relatively easy to find, since they publish (and promote) their activities and their needs. Some exporters ship consumer products, however, consumers are very hard to identify; exporters do not know their names or addresses. Although the exporters must know their needs and preferences (to design the best possible product for them), the consumers stay anonymous. To enter that market, the exporters will use importers or middlemen, whom they approach with the same marketing methods as the industrial exporters use. These methods are sometimes specified as 'trade marketing'.

A sub-division can be made within that group, splitting-up the group into smaller groups which share the need for a particular product. Such a sub-divided group is called a market segment. Segments, in turn, can be sub-divided in even smaller parts, called 'niches'. In the present competitive times, most suppliers aim at such niches (assuming they can actually identify one) to penetrate foreign markets. Start small, is the motto.

In the early fifties European housewives generally washed their laundry in tubs. They used solid bars of soap, lathering heavily. When the washing machines were introduced, the housewives needed a different type of soap: low-lathering detergent, which was offered in powder-form for easier administration. They formed a segment in the soap market. A new (sub-)segment of the market was formed.

Nowadays, other segments develop: housewives who want strong detergents with enzymes to wash at lower temperatures (using less electricity), and housewives who want non-phosphate detergents (to protect the natural environment). Or detergents, to wash their modern textiles with. Nowadays, P&G is selling detergents that facilitate a certain in-home 'dry-cleaning'. Such segments will always come up (and eventually vanish again). The manufacturers are quick to recognize new segments as they constitute new market potential. One of the most challenging and creative tasks for the marketeer is to identify such segments. That is called "segmentation".

The "trick" of segmentation is finding a balance between competitiveness and profitability. So you will not only be looking for markets, you will also have to identify relevant market segments and niches. 'Relevant' means: fit for your specific product(s). Also refer to **EMP builder 7.2: Markets & Segments**.

You will find your buyer (usually the importer or purchasing manager) in these segments. Try to describe him in as much detail as you can, highlighting the possible reasons why he would spend his money on your products.

4.2. The export product

4.2.1. What is a product?

In theory, you can find a market in industrialized countries like the EU for almost every product. In times of affluence the end-consumer increases purchasing and so will the manufacturers who need your (half-material) products for theirs.

The product is the company's pride and wealth. Rightfully so, because it is the result of many years of development and optimalization, adapting the products to the needs of the customer and to the most efficient way of manufacturing it. This sequence is a repetitive series of "Adoption, Adaptation and Improvement", striving to make it the best in the market.

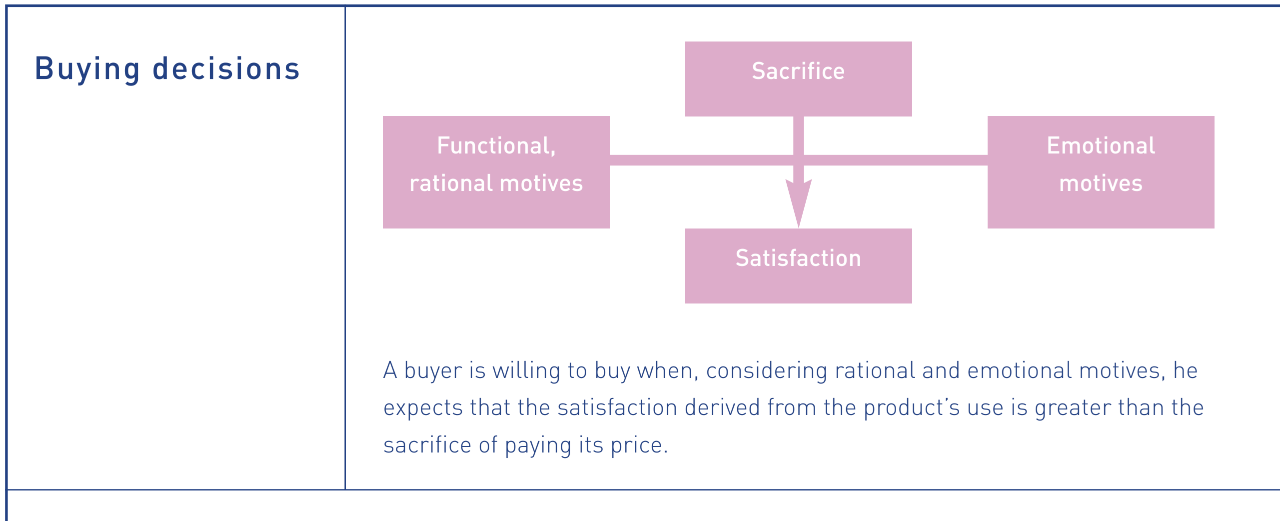
But what is a product?

According to the marketing theory, a product is something that "fulfils the needs and desires of the buyer". That buyer, customer or consumer, is prepared to pay money for that fulfilment if he (or she) expects that your product will justify the expense. Having bought it, the customer will - hopefully - experience a certain satisfaction that will outweigh the sacrifice of its price. That feeling is what it is all about. And that is why marketers are constantly busy with achieving **satisfaction**. If realised, your customer will be inclined to buy your product over and over again. Re-purchasing is very important for a company - purely for economic reasons.

The customer's first purchase is essential for success. The supplying company will spend a lot of money on achieving that initial purchase by means of advertising and promotion. Therefore, that first purchase turns out to be quite expensive for the supplier. Only when re-purchases occur, the supplier will start earning money. Re-purchasing is the basic reason why companies strive for continuity. You will do so on your domestic markets, too.
An exception may apply to the suppliers of capital goods, very large items with high value, which are only purchased once. That one transaction has to earn back all the money the supplier invested.

Obviously, you will also worry about finding buyers, customers, or consumers. Basically, for all your products, original or adapted, there is a market in industrialized countries. Finding buyers requires a research process that starts with the complete understanding of your very product and the reasons why those customers would choose to buy it.

4.2.2. A product is what it means to the buyer



A buyer is willing to buy when, considering rational and emotional motives, he expects that the satisfaction derived from the product's use is greater than the sacrifice of paying its price.

The buyer is looking for satisfaction (the product makes him happy), which he gets when the product gives him more than his sacrifice (his payment) has cost him. He weighs the advantages and disadvantages of having to sacrifice purchasing power, comparing them on two 'dimensions': a functional one ('will the product perform as expected') and an emotional one ('will the product make me feel good').

Functional criteria for the buyer's choice are usually rational. He asks himself whether the purchase will solve a problem, will make his life easier, richer or more productive. That goes for industrial buyers and consumers alike. The product itself should make this plain, by giving ample explanation on product or packaging, in a manual or directions for use, in the advertising that supports its promotion.

Emotional motives are harder to identify. Products made to increase beauty (cosmetics, fashion, custom jewellery) or the sense of well-being (food, heating, aircon, furniture, home decoration, gift items) by nature have a large emotional component. Most consumers react to this emotional appeal, whilst for industrial buyers in the business-to-business area the emotional motives are less relevant.

B2B	In industrial supply, the buyers judge the exporting organization as well as its products. When buying half-material or components, not only the quality of the delivered goods is important but also the ability of the exporter to maintain a reliable flow of supply at stable prices. Only well-organized, professional suppliers can do that. Buyers judge the capability and reliability of their suppliers, next to their products.

Sometimes it is hard to see which motives dominate. When buying a radio or a cellular telephone the prospect will first judge the functional aspects of the product (does it work as promised, does it have a guarantee against non-performance etc.),

secondly the design. When buying detergent, the housewife is led by emotional motives (caring for her family), secondly by hygienic motives (the laundry much be effectively cleaned).
The purchasing decision is rarely made on one set of motives only. A wise marketer always takes both types of motives into account. **He should look at his product- and at his own organization - through the eyes of the buyer.**
These considerations are important, in (re)designing your products for industrialized markets. The markets are not only highly competitive in such countries, but they are also buyers' markets, which means that it is the consumer who selects what to buy, not the seller who decides what the consumer is allowed to buy.

4.2.3. Your product or service should be special

When looking at your product to decide if it will be a good export product, your second task will be to assess its competitiveness. In most foreign markets, your kind of product is already available; it is offered by your competitors, whom you have to fight in order to gain market share. This is when looking through the eyes of the buyer truly pays off: can you make your product look different, better than your competitors'?

You know that your product should primarily be of the quality promised. Particularly in EU export markets you will find the customers critical and demanding. They can afford to be so. They have the money to buy what they need. And the easy access to all products makes the well-informed European consumer aware of the quality that his money can buy.

A multitude of suppliers serves these wealthy markets, attracted by the huge potential of the European Single Market and its 450 million inhabitants. The competition - some 30 million suppliers from within Europe, from Japan, from the USA and from developing countries - is fierce. Therefore your product should perform precisely as you promised - in your product description, in your brochure, in your advertising. It should fulfil that promise. It should last long or endure rough treatment. It should not break down. Or rot or rust. Or be stained or lose colours. It should be in impeccable shape when offered to the market.

Moreover, that quality should be consistent. No ill-manufactured products may be permitted to slip through the net of your quality control system. Most modern manufacturers have taken their quality control deeper in their production process. 'Upstream', all the way up to the very moment that their subcontractors deliver components, half-materials. That way, they identify possible 'quality leaks' at an early stage and can remedy them at lower costs. They save money at the same time, since that control prevents bad products from being distributed - and then returned at their cost. Thus they limit the loss of productivity. Their pricing is usually more competitive than most.

Remember that your performance as a supplier is usually judged by your worst product, rarely by your best. To that end, we recommend you to embrace the ISO procedures, since this quality system ensures you - and the buyer - that your product has been manufactured by a top quality producer. But that does not always makes

your product better or special enough to be noticed as such by the buyer. The product must ideally have a **unique selling proposition** ('USP').

What makes your product special? What gives your product that special identity? The answer is: almost anything, as long as the customer or consumer recognizes it as such. Always comparing it with competitive products, this could be:

For consumer products:

- a better flavour or taste, design, colour or shape
- a better performance (it works better)
- a lower price
- a longer durability or easier maintenance
- easier handling, more practical or faster
- a better or more attractive packaging
- a better availability (a Just-in-Time delivery, sufficient stocks in the store)
- a better service, etc. etc.

For industrial products:

- a better performance
- longer durability, zero defects
- easier handling, installing, maintenance
- minimal tolerance in specifications
- continuous innovations
- an extensive range of product options
- flawless delivery, always on time
- free and fast repairs
- 24 hrs communication etc. etc.

In short: a better buy than the competitor's product. **Your chances in the export market greatly increase when your product or your overall proposition has a USP. You could make it special by adding a special value.** To find out how you could improve your product or make it more special, you should check all possibilities along

B2B: OSP?

If you are an industrial supplier of half-materials - or raw materials - it is almost impossible to make your product unique. On the contrary: it is bought because it is a standard product. Deviations that could make it unique are not even allowed by the buyer.
In that case you have to look for a method to make your organization unique.
How? By highlighting the strong points of your company as a supplier.
By developing special systems that make you the most reliable link in the supply chain. By emphasizing your methods for fast and flawless delivery, for holding just the right amount of stock that will enable your buyer uninterrupted production, by assuring price stability etc.
Make sure that you promote such an organizational uniqueness as a selling point ("OSP") and that you provide proof to make your claim credible.

the lines of the product benefits. Product benefits are, as you know by now, the product characteristics that respond best to the buying motives of the customer. They are the reasons why the consumer buys your product in the first place.

4.2.4. Product adaptation

The needs and wants of markets abroad differ from your home customers. That means that you may have to change your product (or service) to adapt it to the foreign customers' wishes. In marketing terms: you have to make your **product match with the market**.

Possible reasons for product adaptation

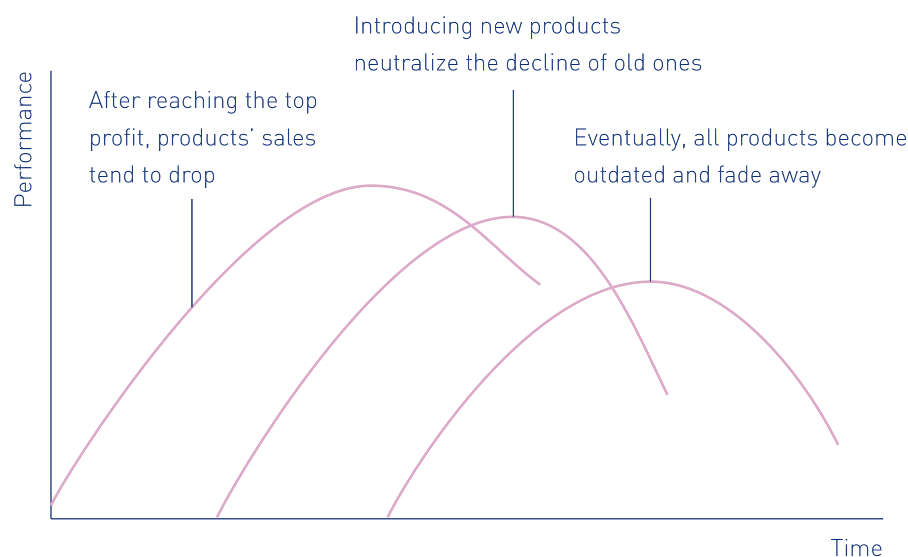
- to make your product **just as good as** the competitors'. This is called "imitation", a "loco", or "me-too". It leaves only your price as an instrument to beat the competition with (and the lawyers to fight over patent rights)
- to make your product **better or more special** than your competitors'. This way you create a unique selling proposition (USP). That makes comparing your product with the competition more difficult for the buyer. He may think that your product has so much more 'added value' that he accepts to pay a higher price for it. He will also stay loyal to it longer.
- to conform to local **rules and regulations**. There are many of such regulations: on consumer health and safety, on standardization of size and weight. In Europe you know them by their acronyms: CE marking, CEN/CENELEC, ETSI norms etc.
- to make the product better and more easily **transportable**. Packing your product efficiently may save money on the shipping bill, or keep your product from being damaged
- to "fit" into lower **import rates**
- last, but not least: because your customer explicitly wants you to change the product, in order to suit his particular needs. This occurs for industrial and consumer products alike, where buyers may have their own technical specifications. Increasingly, those suppliers may involve you in the designing process, using your know-how to improve product and production. Such opportunities for innovation are important, because they could mean adding value that the buyer could not do or has not thought about.

4.2.5. Innovation

Most products have a limited life span. They become old-fashioned or outdated. The underlying reason is that the **consumers' preferences are constantly evolving and changing**. Industrial suppliers experience the same: new production techniques are introduced, enabling cheaper or faster manufacturing. Or new raw materials are found, improving the quality of your (buyer's) products.

For some exceptional products, the "Product Life Cycle" (PLC = the profitable "life span" of your product) is quite long. Think about soft-drinks and cigarettes. Think about industrial equipment or chemical formulae. For others, the PLC can be very short. In industrialized markets the average PLC for a consumer product will be somewhere between 1 and 5 years. Fashion can be outdated within 3 months!

In affluent countries, market needs shift quickly.



Particularly in Western countries, markets' needs shift quickly.
Products should continuously be updated or renewed.

The professional (export) marketers are aware of that. They constantly monitor the customer and consumer preferences, in order to keep in touch with the developments in taste, fashion, life-styles, technology, processes and even laws and regulations in the target market. They are able to anticipate which product is "growing old" and in what direction new developments may go.

Every international supplier finds himself active in the ever-lasting spiral of 'adopt, adapt, improve'. When resources fall short of requirements, he tends to focus on his best products or capabilities. Even the large multinationals retreat to their 'core competence' (the activity they do best), out-sourcing the production of half-materials, components, packaging materials and even designing to others who perform better and cheaper.

> *Obviously, you need to find out if your product will be bought. Research is the key to your markets. In business-to-business, the buyer won't even allow you in if you do not know the basics of his market. Understanding the preferences of end-consumers is far more difficult, since it requires qualitative research, probing for the consumers' motives and habits. Researching is a specialized profession - as 'Your Guide to Market Research' will tell you.*

4.2.6. Is your product fit for export now?

Check on the importability of your product in foreign markets again. Usually, a maze of tariff and non-tariff barriers stands between you and your target. As entrepreneurs have a natural distaste for rules and regulations, they may miss one - and be stopped at the border. From your Export Auditing (in chapter 2.5.3), you will know what barriers you have to overcome for market entry.

The good thing is that government regulations are published, so they can be accessed. Simply check the import regulations, using the BTN or Harmonised System code of your product as data access tool. As pointed out, you can find such data in the Expanding Exports Helpdesk of the European Union (**http://export-help.cec.eu.int/**). Steel and textile quota of the EU can be found in the EU website call SIGL at **http://sigl.cec.eu.int/**.

Harder to find is the information on the non-tariff barriers, which are requirements on products traded within the EU concerning consumer health and safety (i.e. food safety and product safety as CE marking), environmental issues (such as the use of hazardous substances, recycling etc.) as well as social issues (improvement of labour conditions). The difficulty of understanding NTB's is their scope. It is not enough to take all EU legislation into account when trading to the EU. The AccessGuide database on European non-tariff trade barriers includes for main product sectors a full overview and analysis of EU requirements at **www.cbi.nl/accessguide**.

But always - and even for products or services that are not formally regulated - the main 'import barrier' will be the current market situation, or rather: the space that is left over for you by the present competitive suppliers. This is not a technical import barrier, but it can be a commercial one. You can use that knowledge to your own benefit.

4.2.7. Product strategy

Now that you have studied all elements that contribute to your choice of exportable products and services, you have to describe them for your Export Marketing Plan. The **EMP builder nr 7.5** tells you to include:

- Features / benefits analysis
- Unique selling proposition
- Product development (and innovation), and:
- Product packaging, about which you can read the next paragraph 3 of this chapter.

4.3. Packaging

The packaging of your export products deserves extra attention.

Three functions of packaging

1. it protects your product during transportation,
2. it breaks down your product to sellable units (e.g. transforming staple goods into consumer units), or it simply makes the product accessible to consumers,
3. it conveys a message to the buyer/consumer (e.g. advertisement or instructions for use etc.).

No one can overstress the importance of good packaging. Some (food) manufacturers go as far as declaring that they are not in the food producing business but in the food packaging business. However important, some exporters neglect the issue. They just do not give enough attention to it, thereby forgetting what good packaging can do for them. It can actually help selling!

When you export to countries with a high standard of living, your packaging should be impeccable. Use the best material available and economically feasible. No drab paper, but strong carton or metal, excellent printing and perfect art work. It is always worth the investment; the buyer recognizes the care with which you packaged the product and will appreciate the fact that you want to protect the high quality of the product.

Green dots protect environment against waste packaging pollution
In some countries there are strict regulations on packaging and labelling, particularly for nutritional, perishable or dangerous goods. In the EU the trends in packaging go a long way in protecting the environment. In principal, all suppliers of packed products should be ready and able to take back their packaging material in order to avoid it being thrown away and pollute the environment. PVC packaging is prohibited; the use of plastics is not encouraged, anyhow, unless that material can be destroyed at low costs. Bio-degradable materials, that can be absorbed by nature without spoiling it, or that even can be used again (recycling) will get preference. Your trade partner (importer, buyer) will have to bring you up todate and take action (destruction or take-back) on your behalf. For a growing number of EU countries, he will help you obtain the so-called 'Green dot', identifying that you have a contract with a third party that will look after destruction or environmentally-friendly recycling of your packaging for you.

Standard weights and measurements (like the E-norm) are sometimes prescribed, enabling the consumer to compare competitive products.

B2B

Industrial suppliers will find that their packaging is usually specified in the contract - up to its dimensions, material and even shipping modes.
They are wise to follow those instructions to the letter. Their contract demands it.

Protection applies to transportation too. Containers can give good protection for efficient long-haul shipping. Containers are large (mostly metal) boxes used for sea-, land- and even air transportation. They have standardized measurements, expressed in footage (20 or 40 feet); the airlift containers are shaped to the size of a plane's loading bay below decks.

Apart from standard lengths, there are also **maximum-weight norms** for the loading of such containers. Using containers normally enables lower freight tariffs than when shipping in the conventional way. Your concern as an exporter is always to find a cheap way of transportation without endangering the protective function. Ask your forwarder.

A special remark on packaging concerns its value as an **information medium**, that is as a bearer for a message to the buyer. For products like medicines, this not only makes sense but is also obligatory in most export markets. For food products, local laws sometimes explicitly require that the contents (e.g. net minimum weight) and

the composition (list of ingredients) of the product are spelled out. As a rule, the package should bear the name of the supplier (you) and in some cases also of the importer.

Other packing regulations may demand the mentioning of the "last consumption date", which should protect your consumers from buying over-aged goods. For house ware goods, your may want to print directions for use on the packaging.

All these technical regulations can be found in the laws and regulations of the target country. These are accessible to the public, so that applies to you too. Remember that neglecting these regulations may result in you being denied an import license, or even in getting punished by fines and having the goods destroyed officially. This is a matter of serious concern!

In the end, it is the customer to whom your way of packaging should appeal. It may be a decisive moment for your buyer, so make the packaging look good. When a traditional food-brand like Heinz changes the label of its tomato ketchup for the first time since 1886, that should tell you something about the importance of label appeal.

Be honest with the customer. Don't fool him by showing a much better quality than the pack contains. Don't show pink shrimps on your pack when the actual colour is grey. The consumer may buy it once, but certainly not a second time. Many products imported from developing countries into Western Europe could do with a better packaging. That would increase their market opportunities considerably. Give it due attention.

Packaging will prove to be expensive, sometimes more expensive than the product inside. Your task is to design (or have designed) an export packaging that looks good, facilitates product use and costs little. That is not an easy task, but it is an essential one. Describe your packaging fully in your plan. **Read the EMP builder nr 7.5**.

4.4. The 'identity' of your company and your export product

For business people with a good commercial sense, there is a variety of methods for entering foreign markets. Which one you choose depends on what your ultimate goals are. The extreme options are:

- You want to enter the markets with a minimum of fuss, money and time investments. You therefore will solicit a foreign buyer to come to you and buy directly from your factory or warehouse. You can manufacture for him at his specifications through sub-contracting or licensing. Your product will have the identity the buyer chooses, or:
- you are more ambitious than that. You want to bring your own product into the market and you will invest in customer loyalty, banking on future returns rather than on a 'fast buck', a quick return, however modest. The product will have the identity you, as the exporter, will shape for it.

In the latter option you will justify that your product should be recognized by the customer as something special. For that purpose you will try to shape your product conforming to the expectations and wishes of the target market (or segment).

In marketing terms that is called 'positioning' and requires a joint effort of all your marketing activities, contributing to acquiring product identity, which is the way customers recognize your product.

Some exporters give their product a **brand name** and a label, hoping this will contribute to the product's identity and create a certain loyalty with their customers. True, that does help, but only for exporters who can afford to support that brand with ample promotional activities. The brand should become 'a person' and that requires a massive advertising effort to make the person known to the target group. Usually, the budgets of any SME exporting company do not allow such an effort.

However, labelling your product, especially when you are ISO-certified, can be a good thing. Whatever name you use for labelling, be sure it is free from copyrights in your target markets. Check the name on possible negative connotations when you are not familiar with the language or culture of the markets you aim at.

B2B

By nature, the B2B suppliers manufacture for other producers, who use their own brand for their (consumer) products. In this case, product branding is subject to the buyer's wishes. However, you may want to position yourself as a professional and reliable supplier in the eyes of your buyer. Develop such a concept, using just a few but convincing reasons why the buyer will be happy with you. Once the positioning has been chosen, be consistent in using it. Changes in the concept confuse the buyer and make him jittery.

Positioning (**Refer to EMP builder nr 7.3**) is a delicate task, towards the end-consumer, to the industrial buyer and to the trade partner alike. You should understand the needs of your target groups fully before describing how they should perceive you. The best way to build a positioning is by starting small and modestly: claim only the aspects of your product or your organization which are clear and irrefutable. Eventually, you can develop a more sophisticated positioning, using your knowledge of the buyer, of the markets, of the competitors' concept and of the commercial and cultural conditions in the target country.

The same goes for your Branding Strategy (**Refer to EMP builder nr 7.4**). Both elements of your Market Entry Strategy should be included in your EMP. Their importance is clear: you have to design your (product's) 'face' and make it visible to the most important parties of your export venture, the buyers. That is why positioning and branding are called 'strategic'.

Many industries consider designing and promoting a corporate image so important that they appoint specialist managers to that task. You could refer to CBI's manual 'Your Image Builder'.

4.5. Export costing and pricing

The Pricing Strategy (Refer to EMP builder nr 7.6) is a crucial element of your Market Entry Strategy. It concerns management decisions like the determination of your selling-price (= price-setting), calculating the cost-price of (all) your products (= costing) and changing prices when the markets compel you to. This paragraph will provide you with the means and methods to do so and with the decisions you must take to get there.

Caught between two extremes, the exporter often finds himself doubting whether to charge high prices to wealthy customers or to accept rock-bottom prices in order to penetrate the markets at all. Although he is right to consider pricing of utmost importance, he should handle it as he does all other tools: as a marketing instrument to achieve export success.

For exporters, three financial aspects require management attention

1. Setting market prices, particularly for first-time market entry
2. How to react to price-changes after you have entered the market
3. Keeping the cost-price as low as possible to stay competitive.

4.5.1. Will the customer pay your price?

The easiest way to set a price for your export product is to take the cost-price and add 15% margin, or so. Technically, this means that you determine the "Ex Works"-price, which covers the cost-price plus a certain percentage for profit, and offer it on "FOB"-basis* to an importer abroad. This method, called **Cost-Plus Method**, is common practice. It may be the easiest method, but it is far from the best.

Reason 1: your price into the target market may be too low, enabling the importer to make a huge profit without sharing it with you;

Reason 2: your price may be too high, which prevents you from obtaining a market share since nobody wants to buy your product.

The Cost-Plus method is not suited as an instrument for export-marketing, because you can not influence the customer to buy your product and you depend too much upon others (e.g. the importer). It is better to find out yourself what the customer is willing to pay for your product. It is an important **buying motive** as it represents the sacrifice (paying money) he/she is willing to make in order to obtain satisfaction (the function of the product).

\) FOB stands for Free on Board, which implies that the importer will pay for transport, insurance, import duties etc. This is a so-called Term of Delivery, universally accepted in the Incoterms 2000 (see Appendix 2).

All customers constantly make buying decisions, comparing the sacrifice with the expected satisfaction. He/she compares prices of competitive products (e.g. different kinds of bread), but also their different qualities (which product brand gives best nutritional value). Thirdly, the customer compares products that can substitute each other (e.g. rice and bread). The main criterion used is price.

4.5.2. The procedure for setting the price

The procedure for price-setting is based on a simple calculation model. You can start calculating from the cost-price up: by adding the costs of getting your product to the customer - which should give you the (final) selling-price. You can also calculate from the selling-price, or market-price, down: by deducting all costs from that price until you have arrived at the cost-price. Both the selling-price and the cost-price are your **check-points**, requiring your managerial decisions.

Exporters in developing countries will usually be **price-followers**, not price-setters. Their products will rarely be so unique in the target markets, that they can actually dictate the price level in that market.

B2B

When supplying to other manufacturers, the buyers usually dictate the price at which they are allowed to sell. "Produce this at the price of € 2.- a piece, or else I will go to the competition". In such cases you better do what the buyer asks (provided you don't lose money on the deal) and try to find your USP in another instrument of the marketing mix. In delivery reliability, for instance, since that asset weighs heavily on the buyer's conscience.

For price-followers the **pricing decisions** to be taken by management are:

1. establish the current market pricing for comparative and/or substitutive products in the target market;
2. establish all the elements of the market price, like VAT, margins for the trade and the importer, import duties, freight and insurance costs etc.;
3. make a top-down calculation, deducting all the elements of the expected market price of your product(s) in order to arrive at the price "Ex Works" (traditionally called "Ex Factory") or ex warehouse;
4. see if you can meet this price;
5. if not, re-calculate your own cost price by finding ways to decrease costs in your own factory or organisation. Or decrease your marketing budget, which also burdens your export-market price;
6. estimate total sales over a three-year period, add total planned expenses, including those of your export department, travelling and canvassing efforts;
7. make a bottom-up calculation per product item, dividing the supporting budgets over the total number of items to be sold;
8. set the final market prices;
9. test the price (through market research).

Nine decisions to arrive at your final price in the market - or to check whether your cost-price is right. The process may seem complicated, but it really comes down to simple adding or deducting - plus some intelligent thinking.

This paragraph will give you two examples of such calculations:

1. a "top-down" calculation, enabling you to establish if you can meet your competitors' market prices on the basis of your present cost-price,
2. a "bottom-up" calculation to help you in setting your final selling-price in the target market.

Example 1: Top-down calculation

Consumer Price:	1,180	
VAT*):	180	+ 18%**)
Market price minus VAT:	1,000	
Margin retailer:	250	= 25% **)
Selling-price to retailer:	750	
Margin wholesaler:	90	+ 12%**)
Selling-price to wholesaler:	660	
Margin importer:	33	+ 5%**)
Landed-cost price:	627	
Import duties:	188	+ 30%**)
Other costs (storage, banking)	15	**)
CIF (port of destination)	424	
Transportation costs:	120	**)
Insurance costs:	4	**)
FOB (port of shipment):	300	
Transportation costs factory to port:	5	**)
Export price Ex Works (EXW):	295	
Factory cost price:	255	**)
Export Profit (per unit):	40	

*) Note that VAT is calculated as a percentage of the price without VAT. Trade margins are usually calculated as a percentage of the trade selling price (see Example 2). For some sectors, the trade margins are calculated as a percentage of trade buying prices. Also note that VAT rates differ from country to country, even inside the European Union (refer to the CBI guide 'Exporting to the European Union').

**) assumptions - to be confirmed through research.

The outcome of this calculation will be that you could export your product, provided it will not cost more than the hypothetical factory cost price (255); if yours is lower, your chances grow.

In this calculation example for consumer goods, the price Ex Works (295) = 25% of the consumer price (1,118). The Multiplier is: 4. This 'multiplier' is a calculation aid (typically for consumer goods' prices), cutting short lengthy calculations when price alternatives are considered. It may vary from sector to sector. When using the multiplier, keep in mind that it may cause slight calculation deviations.

The next step is the reverse of the first: you will be calculating 'bottom-up'. You can use this method:

a. to establish the possible market prices when you have no other way of knowing them
b. to double-check if your efforts to bring down the cost-price, will effectively bring the market-price down.

Bottom-up calculation

Steps

1. Estimate total sales in the plan year in numbers of units.
2. Set factory cost price* per unit and multiply with total number of units to be sold,
3. Gives total cost price for planned sales volume.
4. Add: targeted profit (or feasible profit indicated by top-down calculation); also add: total budget for export marketing support, or export promotion.
5. Add: total transportation costs factory to port of shipment (plus possible costs in port),
6. Gives total (planned) turnover at FOB level.
7. Add: total transportation costs to port of destination, also add insurance costs,
8. Gives total turnover at CIF-destination level.
9. Add: import duties and handling costs in port of destination,
10. Gives total (planned) value of sales at LCP level (Landed Cost price).

From here on, the calculations are done on unit basis, i.e. broken down to smaller sales units: boxes for the distributive trade, or items for the consumer price setting.

11. Calculate sales price of the importer (assume his margin 5% of his sales price).
12. Calculate sales price of wholesaler (assume his margin 12% of his sales price).
13. Calculate net sales-price (excl. VAT) of the retailer (assume his margin 25%).
14. Calculate consumer price, or retail price including VAT (assume VAT is 18%) unit.
15. Compare with general market pricing. Adjust (sales target, profit target or promotion budget) if necessary.

*) Don't forget the costs of currency and credit and the agent's commission.

To illustrate the steps listed above, we shall do the calculation using hypothetical figures:

Example 2: Bottom-up calculation

Steps	Results	Method
1	1,000 units	unit
2	255	x (unit currency)
3	255,000	= turnover (T/O)
4	40,000	16% of T/O
	55,000	estimate
5	5,000	1,000 x 5
6	355,000	added-up Turnover ... level
7	124,000	1,000 x 124
8	479,000	added-up Turnover of CIF
9	143,700	assumption: 30% of CIF
	8,000	assumed handling costs
10	630,700	added-up total value of sales CCP
Box	6,307	assumed : 100 units/box
11	6,639	(100 : 95) x 6,307
12	7,544	(100 : 88) x 6,639
13	10,059	(100 : 75) x 7,544
Package	ass.: 10 in box	
14	1,187	(1,18 x 10,059) : 10
15	If the market price = 1,100, then deduct (255 : 1,187) x 255 = 54,78 from factory cost price, bringing it to 200	

As step 15 shows, you can use this bottom-up method to calculate market prices in foreign countries. The information you need for price calculations is:

- your export cost price per unit product
- your objectives for sales and profit
- the transportation costs from factory to port
- the costs of long-haul shipping to your target market
- the costs of insurance, of documentation, of credit / payment terms
- the mark-ups of the distributive trade in your target market *
- the VAT or sales tax rate there.

Actually, you can use the same top-down/bottom-up method for feasibility calculations (Chapter 6). In this case, the period is usually longer (up to 3 years) since the exporter will have to invest in a market position.

*\) *Of all the data you need for this calculation, the trade margins are the most difficult to determine. Occasionally, sector surveys (like those of CBI) will tell you. You could ask a sector expert or a purchasing manager about them. Another way to find out is to discuss prices with your customer or prospect; some of your exporting colleagues have done so - which not only provided them with the data required but also made them look professional in the eyes of their buyers.*

B2B

The calculations for industrial goods are less complicated, since there are fewer intermediate levels between supplier and customer; frequently there are none at all when supplying directly. That does not mean you should refrain from calculating, mainly because you should have insight in the market pricing so as to strengthen your position during negotiations. Never allow a customer to catch you on lack of market know-how as that weakens your bargaining power. When making industrial quotations VAT can be left out, too.

4.5.3. Methods for market-pricing

Having dealt with the procedures of calculating selling- and cost-prices, now you arrive at the second level of decisions: how to **fine-tune your (selling-) price-setting.** Your primary aim in the target market is to offer your products at a price level that does not exceed that of your competitors. Your importer or buyer will be the first one to tell you that. So, you could apply **'competitive pricing'**.
But preferably, you should try to price slightly lower, particularly when entering the market. This is called **Penetration Pricing**: trying to gain the customer's preference because your price is irresistibly low compared to your product quality.

The reverse policy is called **Skimming**, but that will only be used when offering a unique product with obvious customer benefits - and unfortunately only few exporters can offer this. Most first-time exporters will probably try to apply the Penetration Pricing method. The Japanese car makers used it very successfully. Be careful: don't price it too low, otherwise you create suspicion in the minds of the prospective buyers.

What is more: you may raise the suspicion that you are 'dumping', i.e. offering your goods below cost price. That is not only foolish but also illegal, invariably leading to 'retaliation action' from your competitors (and penalties from the EU) who will be quick to notify governmental tax inspectors.

Try to find a balance between the quality and the price of your product. In fact you should try to price it at the "perceived value level". Market research will tell you what consumers perceive that level to be. A penetration price will probably lie somewhere between 5 and 20% below the current price.

Strategically, a low-price policy is by definition short-lived. Firstly, you cannot keep your prices at too low a level without endangering your profit, secondly, a low-price policy does not give you a 'competitive edge'. There is always a supplier in this world who can outbid you.

Never confuse the buyers. Try to create **stability and reliability in your pricing** as well. Your importer will judge your performance by it. Having gained a certain foothold in the target market, you may gradually want to increase your profit by increasing your price. That is logical, as long as the customer accepts it. That goes for your trading partner too. He has a vital task in your price-setting policy.

How do you know if the customer will accept that price increase? For industrial products, that is easy: your buyer will tell you what he is willing to pay. For consumers it is difficult, unless the importing buyer knows the "Price elasticity of the demand". Essentially, price elasticity describes how much the price can be changed before customers begin to react by buying less when the price is increased, or by buying more if the price is decreased.

Convenience goods (like many packaged staple foods) do not meet much reaction when prices increase moderately. Consumers will buy anyway. Shopping goods (more expensive consumer items) receive a stronger reaction, because the buyers start comparing the product with other brands or substitutes to satisfy their needs. Industrial goods meet even less reaction, unless the buyers can choose from a multitude of suppliers - and drop you when they can buy it a dime cheaper.

You can actually calculate the price elasticity of the demand by using the following formula:

$$\frac{\text{\% change in the quantity demand}}{\text{\% change in price}} \quad \text{When} > 1\text{, then demand is elastic}$$

Example: in a split-run research (simultaneous survey on comparable target groups) you have found out that a price increase of 5% resulted in 10% less sales, whilst a decrease of 10% resulted in 20% higher sales. The quotient in both cases is: 2, which implies your products meet an elastic demand. If so, you must avoid drastic price increases, or use price decreases only when (temporary) turnover targets are set higher.

4.5.4. React to changes in market pricing

Your pricing is one of the strongest instruments in your marketing mix. It certainly is the best instrument to evoke swift market reaction. So you must constantly 'play' with this instrument, like an angler keeping a tight line to the fish.
There are many reasons which may induce you to change your price, having gained market presence. Most of these reasons are usually external forces, which make the market prices go up or down.

a. Market prices go down

Reasons:

- Supply increases (any dumping?)
- Effects of currency diversifications
- Price leader decreases price (to become more competitive)
- Distribution channel decreases price (policy)
- Product range gets old-fashioned
- New competitors enter the market with penetration pricing

Possible reactions:

- Follow the decrease
- Add new product
- Sleeping status or withdrawal from the market
- Change quality, contents
- Increase % margins for the trade
- Appeal to buyers via promotional campaign

b. Market prices go up

Reasons:

- General cost increase
- Supply decreases
- Effects of currency fluctuations
- Price leader increases prices
- Some supplier is 'skimming'

Possible reactions:

- Follow price increase
- - same, but with temporary decrease (discount)
- Promote your 'low price"
- Increase supply
- Appeal to consumeristic organization or government.

Whatever your (forced or voluntary) changes in your prices may be, always make sure that your customer and your trading partner understand the reasons for it. Those reasons should be made acceptable, justifiable in their minds.

4.5.5. Currency decisions

The choice of currency in which you want to be paid will eventually prove more academic than realistic. Since the buyer has the money - and since he can choose from scores of suppliers - he will dictate the terms. In nine out of ten contracts he will decide on his country's currency, just because he does not like the headaches of buying foreign money when he could use his own. However, for the sake of completeness, let us look at the deliberations.

Your **advantages** when invoicing and getting paid in your currency are:

- you know what you get in terms of value for money
- you do not have to organize complicated and expensive currency transactions (usually with your bank).

The **disadvantages** are:

- your buyer may refuse paying in your currency - or at least charge you for the costs of currency exchange
- your currency may not be available on the money markets in the EU
- during the transaction period your currency may lose value quicker than the other party's currency; your buyer will profit from that more than you
- you will have to pay twice for currency exchange if /when you buy materials and machines for production from the EU.

If you plan exports to Europe, do not shy away from quoting in Euros, particularly if your exports become substantial. Next to the US dollar, most buyers use the Euro - in their budgeting, in their financial statements. As the Euro (€) is on its way to become one of the world's main exchange currencies, your exporting should profit from that instrument of stability. For other countries, the dollar will be a sound choice.

4.5.6. The permanent pressure on your cost-price

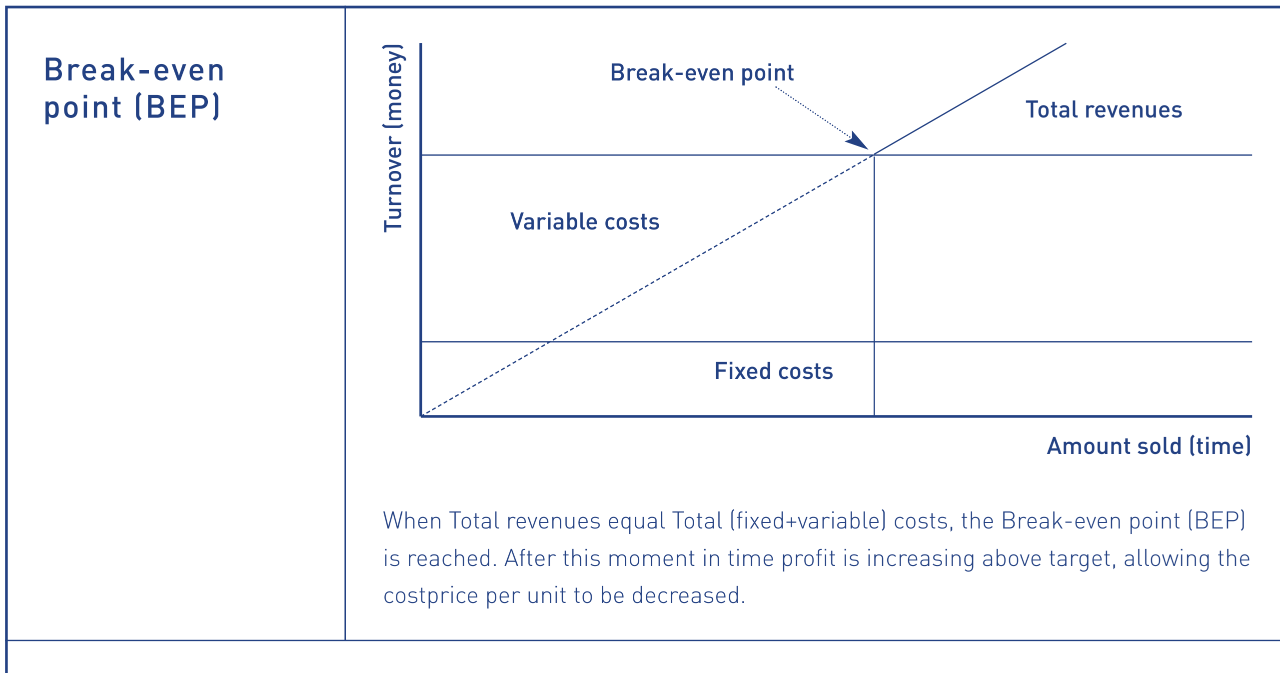
In most industrialized markets, particularly where demand meets saturation, there is fierce competition. In the EU, on the whole prices have actually fallen with some 6% as a result of the liberalisation of the circulation of goods throughout its territory. That trend is worldwide, since purchasing is becoming global at high speed.
In order to survive, the suppliers to such markets should dedicate a lot of effort to decreasing costs and prices.

a. The level of your cost-price is very important to your market price. Adding one dollar to your cost-price means that your market-price (in the calculation example) will increase with 4 dollars! The multiplying factor can be established via your "top-down calculation".
   Therefore, you should always try to keep your **cost-price as low as possible**. Your ISO methods will help you there. Management should continuously look for ways to decrease their costs. Just claiming low labour costs, is usually not sufficient for price-matching; don't forget that in industrialized countries labour has largely been replaced by automation, so in that respect their production costs are as low as yours. The technique of **'benchmarking'** (comparing your performance with those of your nearest or strongest competitor with the help of TQM) could give you that insight.

b. **Cost-cutting** is nowadays an integrated element of (quality) production management, trying to make the most with fewer resources. Areas for possible improvement of cost efficiency are:
   - reducing the costs of raw and half-material and of components
   - reducing the costs of energy, preventing black-outs
   - increasing overall production efficiency, decrease waste, etc.

   Spreading production costs over a larger number of units produced, improves the economy of scale. This also leads to cost-efficiency. Actually, since the enlarging of the sales areas within Europe allows for such scale-economizing, many manufacturers seek alliances to realize larger production runs, spreading the costs of Research and Development, procurement, maintenance and skilled labour over more units produced.

Break-even point (BEP)



When Total revenues equal Total (fixed+variable) costs, the Break-even point (BEP) is reached. After this moment in time profit is increasing above target, allowing the costprice per unit to be decreased.

To that end, other measures should be pursued:

- the number of items produced could be increased (particularly when the spare capacity is large);
- the assortment could be made smaller, so that larger production runs could be made;
- new methods for improving production efficiency could be introduced;
- the costs of internal and external transport could be decreased;
- etc.

On average, a Western industrial manufacturer will purchase almost two thirds of his production output (at ex-works value) from outside parties. This trend, resulting from the outsourcing of non-core activities, requires careful purchasing management.
It shows that industrial suppliers tend to specialize more on the process of **value addition** by utilizing their own particular strengths. In doing so, they concentrate their talents and investments on the areas they master best and, thus, competitively.
They themselves will never manufacture any service or component outside that specialisation; they simply buy it elsewhere. Other sub-suppliers or sub-contractors may be better equipped for that job. That supplier could be you.

Probably, one of your most effective methods for cost-price reduction is therefore to increase cost-efficiency, sourcing less expensive components instead of producing them yourselves, negotiating with several possible sub-suppliers all over the world to obtain best possible prices.

c. Sometimes the situation will require deviation from standard ex-works' cost-pricing. You may have to go **below** that price. This is allowed in only one situation; when your planned sales volume sold is already covering you fixed costs.
When you do, you will apply the 'marginal costing' method, which excludes the fixed costs from the factory cost-price and sets the sales-price at a level which is barely higher than the variable costs that you must cover anyhow.

You may need such a pricing method when participating in tenders (large orders, usually from governments).

Warning:
Marginal costing should be applied cautiously. It can only be used (e.g. for tendering in a new market) when it is (almost) certain that your regular sales will cover your fixed costs. In that sense it is a risky short-term solution.

d. If your organisation does not (yet) have a good financial information system on the elements which constitute your cost-price, you should develop such a system immediately. Without it, you will never be able to do a good exporting job.

4.6. Distribution strategy

The sixth element of your Market Entry Strategy concerns the channels of distribution (Refer to the EMP builder nr 7.7). Distribution is the mechanism through which your goods eventually reach the buyer. The channel members are instrumental in your market entry.

4.6.1. Channels of distribution

Distribution can be distinguished in the physical and well as the non-physical sense. **Physical distribution** describes the actual transportation of the goods from your factory or warehouse via the intermediaries to the users' storeroom or the retailer's shelf. In that respect transportation costs, packaging and carriers are relevant.
This physical distribution is the downstream element of the art of **logistics**, which describes the flow of goods from its natural sources through the processing stage in your factory all the way up to the end-consumer. Most of these aspects have already been explained. The selection of transportation media (the "carriers") is something to leave to the professionals (e.g. your freight forwarder, your trade partner). They will tell you the best and cheapest way for your products to reach their destination.
In this paragraph the **non-physical** distribution is described, explaining which channels to choose. The distribution channels for consumer goods follow a clear pattern: from exporters to importers, wholesalers, retailers, department stores, supermarkets etc. B2B suppliers usually follow shorter channels: from producers to buyer, occasionally with the help of an agent to find buyers for them. Who (or where) those buyers are, depends on their position in the supply chain; there are usually several sub-suppliers for industrial products before their final assembly.

4.6.2. What can distribution channels do for you?

Distribution channels bring your products (closer) to your buyers. They not only take care of the physical transportation, they also support selling by means of promotion or simply by making the goods available. You can not do without the help of the distribution channels; they are your inroads to the customers.
For these services, that are essential for the efficient, uninterrupted flow of goods from supplier to buyer, the channel member charges a trade margin on top of his buying price (as explained in the last paragraph). So in the end, the end-consumer or buyer pays for the distributive services. Those costs add up to the final **'availability price'**.

Functions of the distributive channels for consumer goods	• Interpreting and anticipating customers' demand • storing the goods required and distributing the goods locally to the (= your) consumers • providing low-cost storage and delivery • offering credit and capital to finance inventories • buying large quantities (from you) and breaking them up for other intermediaries • (personal) selling to other channels • advertising, promoting sales and displaying your products at the point of purchase (also called: point of sale) • handling guarantees, repairs, complaints, maintenance, instructions for use etc. on behalf of the supplier.

4.6.3. Selecting your entry method

Nine out of ten exporters need intermediaries when trading with faraway markets. The reasons are clear: the multitude of markets and their complexity, the numerous and tedious tasks of exporting, the regulations and risks involved, all such aspects make exporting too difficult to do it all by yourself.
Particularly when exporting to industrialized markets, the exporter in a developing economy will usually decide to ask for the assistance of a third party. This will apply to the **B2B** exporter as well as **B2C** (Business to Consumer) exporter. He believes that the work in the target country can be carried out - far better - by a local representative than by the (foreign) exporter. That is when your most important ally in export comes in: the **market entry method** and the type of trade partner who will help you.

The intermediary, who is to become your **trade partner**, may have a simple task of just getting the goods to the other side of the border and into the chain of distribution. But he also may have a demanding job: finding buyers for you and making sure those prospects will be happy with your products. In practice, your success will largely depend on him.

This paragraph will show you the various methods to enter your target markets and the type of trade partner required for such. Chapter 5 will highlight the way how to select that trade partner and how to make the best of your trade partnership.

4.6.3.1. Direct market entry

Of course, you could try to export directly to the country where your customer is situated. Several exporters do. Such companies can afford this luxury of **bypassing intermediaries**.

Suppliers can export directly if they:

- are purely B2B suppliers who manufacture on specified ordering
- are large (often multinationals) and have a long-time experience, or:
- have previously established a sales office or a (fully or partly owned) subsidiary in that country, who must do the job of importing and distributing for them, or:
- deliver their goods into the hands of another company that will do the actual exporting for them, or;
- export (large) technical, industrial goods or capital goods to only a few customers, whom they know by name, location and buying habits, or:
- sell to trading houses in their own country and don't bother about destination or about following-up, or:
- manufacture on specifications of a visiting buyer, usually under control of this foreign customer, having decided manufacturing is what they can do better than exporting.

All these companies use a method of **direct market** entry, not asking for anyone's help except from their own organisation. However, the majority of exporters, in industrialized and developing countries alike, use the indirect method of exporting used to build a presence in the market abroad with continuity as their main goal. They do need the help of a third party for market entry.

4.6.3.2. Indirect market entry

When you plan to export to a target market, you will need to know all about the country in which that market is located, particularly regarding markets far away or very different from yours (like those in the EU). That is where you will need a third party to assist you. He will make his knowledge and experience in that country available for you. He probably knows the target market already. He will be able to guide your products to the right customers, via the right channels of distribution - on which subject you will read more in the next paragraph.

You, with your knowledge of the product, and your Trade Partner, with his knowledge of the market, will form a strong team. And with such team-work your export operation will have better chances of success. Since the two of you share the same target customer, both will have the same interests at heart. There is no room for competition, animosity or even distrust; it can be a true partnership. Your trade partner will serve as your representative in the target country. Therefore, it is wise to consider indirect market entry (i.e. with the help of a trade partner) very seriously.

4.6.3.3. Reasons for choosing indirect market entry

International business is very complicated and takes many forms. Different markets require different entry techniques. Obviously, there is no such thing as "the ideal form of market entry". The difficulty of the choice of a trade partner is to anticipate **what you may need him for**. There are five general tasks for which a trade partner could be essential. Check them in order to see if they are valid for you. If you find any one of them relevant, your choice is the indirect entry method.

You will need a third party:	1. to take care of the actual importing into the target country, 2. just to find buyers for your products (and leave the exporting to you), 3. to give you access to a specific channel of distribution in the target country, 4. to relieve you of some of the financial worries and risks and do the (entire) exporting for you, 5. to give you the same facilitating services that your competitor gets there.

Your second check should probe deeper into your business situation, both internally and externally. The first checklist compels you to realise again what the strengths and weaknesses of your own company are (See the Company Audit in chapter 2).

Checklist 1: Reasons relating to your company	• Is your company financially and organisationally strong? Do you have good and experienced people to do the job? This could mean that you could do most of the exporting job yourself, leaving only the necessary importing tasks to your trade partner - and have better control on and a better yield from the export operation • Is your financial position weak? Do you have insufficient manpower? Then leave the worry and the risk to your trade partner and concentrate on satisfying his needs and wishes. • Do you want to concentrate on manufacturing as your 'core competence' and not on trading? In that case you will out-source the exporting operation to better qualified people who make that their core business • Does your product need a lot of instructing, (after-) sales service, maintenance and repairs? In that case, choose a partnership that does the importing for you but also allows you to follow the flow of goods into the market closely.

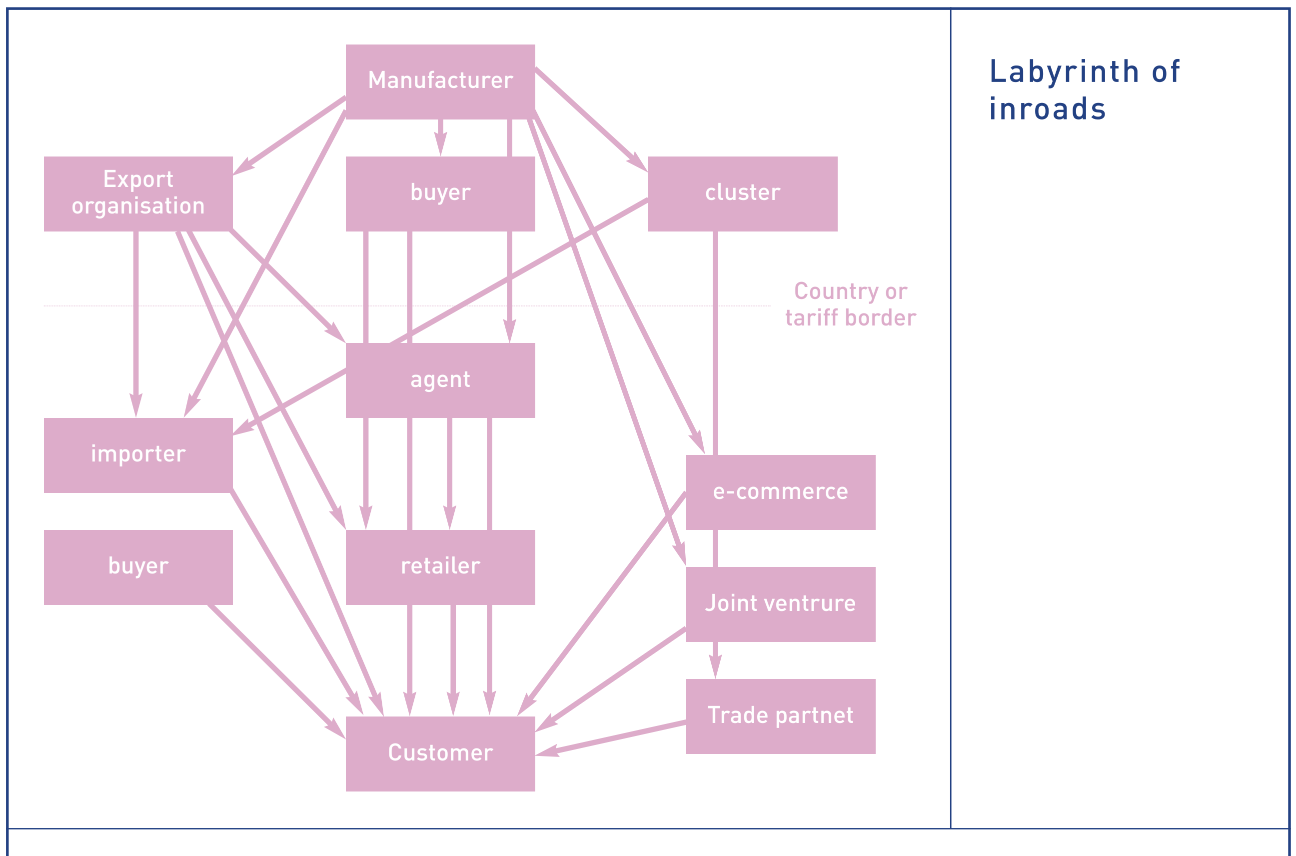
Next to your company's requirements, your market will also influence your choice of trade partner. That market may be situated in faraway countries, industrialized or emerging, rich or poor, strongly regulated or hardly organised. The second checklist makes you ask yourself a few questions about the market.

Checklist 2: Reasons relating to the market situation	• Is your market very far away? Is it hard to reach and difficult to communicate with? Is there a certain degree of protectionism? Then you should have a strong partner who can work independently, knows the market well and can find his way to the main buyers. • What do the laws of the target country prescribe? What about currency regulations? Are there any tax advantages involved when choosing certain partners? • What is common practice in the target country and in the industry sector? • What alternatives will you have when all the good trade partners are already committed to your competitors? Could you find a better system of market entry than your competitors?

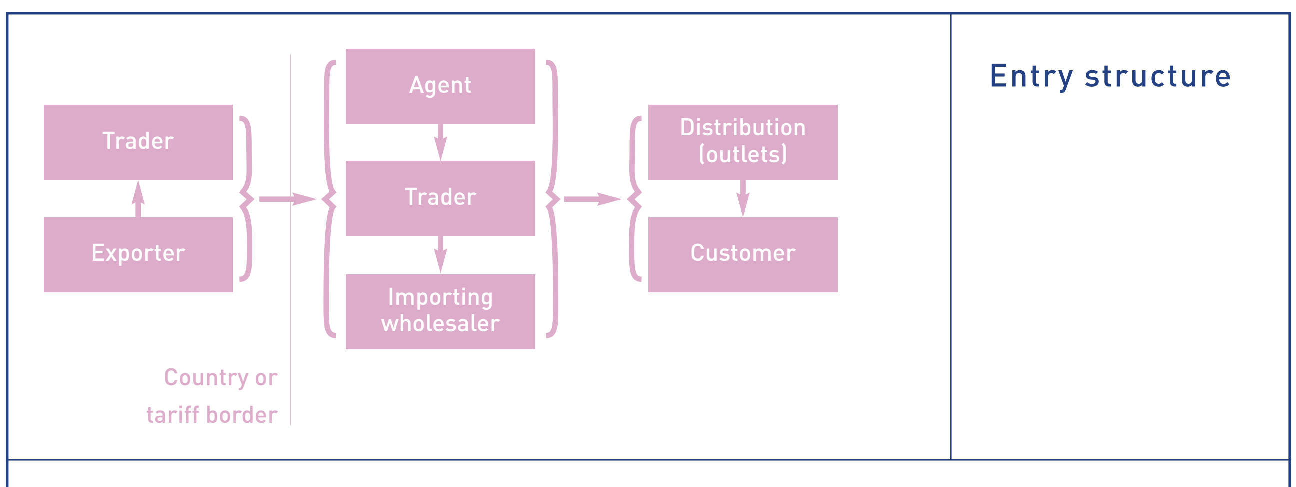
List the answers to direct your future decision.

4.6.3.4. Main forms of indirect market entry

There are numerous ways to enter the market. The diagramme below shows a labyrinth of inroads:



When simplified, the entry structure looks like this:



Both diagrams show the structure of intermediaries giving access to any market. Positioned between supplier and buyer they try to close the functional (cross-border) gap through matching the two. Most industrial goods flow from supplier through the importer (/wholesaler) straight to the buyer. For consumer goods the flow follows a more intricate system of distribution and re-distribution through retail channels until they have reached the end-consumers in the far corners of the area served.

Yet, markets change and so does their structure, changing the traditional functions according to the shift in market dominance. Intermediaries can integrate their functions vertically (along the flow of goods) or horizontally (covering more than one assortment or sector). Sometimes (like in the garment trade) that integration changes the activities and functions of the intermediaries as it evolves: importers becoming manufacturers, or exporters themselves, agents becoming importers, retailers becoming wholesalers and so on.

From the above diagram it will be clear that you can find your trade partner both in the target country and in your own. Small, inexperienced exporters or entrepreneurs who merely manufacture as their core business, may prefer to deal with a **domestic partner** for their exporting. They can understand him well, the transportation problems are few and sometimes these partners actually buy directly from them, virtually eliminating risks of non-payment or currency problems. However, you should realize that in such situations your compatriot trade partner will claim a bigger share of the profits and will leave you with piecemeal.

If you can plan, organize and manage your own exporting all the way to the customers, your profits can be larger. At the same time, you will have **better control** of the operation. So, if you feel strong enough, you should choose a trade partner in the **foreign** market itself. That could be an importer, who buys from you and in turn tries to find local buyers. It could also be an agent, who finds (importing) buyers for you in your name and therefore is no more (and no less) than an intermediary, a scout, acting as your 'long arm in the market abroad'.

Most importers have immediate access to the market or the distribution channels. Commonly, they combine their importing work with wholesaling, being capable of order-taking and delivering, breaking bulk imports into smaller quantities, holding stock in (own) warehouses etc. They sometimes have their own sales force, too, canvassing the market, the buyers, the retailers or the sub-wholesalers for orders.

These organizations are called importing wholesalers. They could prove to be valuable for you whenever you are looking for an independent, knowledgeable trade partner. And whenever you wish to have someone else with whom to share the financial burden.

- The (straight) importer, buying from you and selling to a distributing wholesaler
- The importing wholesaler, distributing commodities and popular industrial goods, or specialties
- The trading house or independent trader, buying and selling to businesses in a certain sector
- The broker, usually active for branded consumables and commodities, and:
- The agent, whose main task is to find buyers for you.

Main trade partners for indirect market entry

Summing up, there are several types of trade partners you can choose from:

- The (commission) agent, an independent person or company, merely intermediating (bringing the exporter/seller and the importer/buyer together). His services are paid (usually by the exporter) in the form of a commission, which is a percentage of the (CIF) value of the goods imported.
- The importer, an independent company, specialized in importing a certain range of goods from abroad. Such an organization buys directly from the exporter and thus becomes the rightful owner ('takes title' to) of the goods. In turn, he will try to sell it to wholesalers or, in the case of industrial goods, to the customers.
- The importing wholesaler, which is a company that not only imports but also operates facilities to forward the goods into the distribution channels by means of promotional support.
- The trading house, which is an independent company that specialises in trading certain range(s) of goods. Usually it covers a wide field of goods, sometimes even competing. A trading house or company buys and sells for its own account and risk. It decides on its own export assortment; if your product happens to be well-known and outstanding, they will not wait for you but come and look you up on their own initiative. Trading houses usually have a strong commercial acumen and professionalism. Sometimes they lack a strong after-sales performance, necessary for most technical and industrial products. Trading companies can be located in your own country or in the target country. Some of the larger companies even have international networks in several countries abroad.
- The broker, who, not unlike the agent, brings buyer and seller together and gets paid by the party who hired him. The broker holds neither title, nor stock. Occasionally, he can provide consultancy services, based on his sector knowledge. Brokers operate in several European markets, mainly in food, some commodities, branded consumer goods, real-estate and insurance.

These are just the main forms of indirect market entry, i.e. via a representative. The agent is the most popular form since he works fast and has to be paid only after his efforts have proven successful. He will, however, 'go after the fast buck', not invest in your future market position. Moreover, a good agent is hard to find; most are active for others (i.e. your competitors).

You could also make use of your agents for other tasks, such as collecting market data, screening competitive products, but in that case you must pay him for his time. The importer will prove a solid alternative for inexperienced exporters since he will

pay you directly as if he were your customer. A disadvantage is that no importer will have to justify his market activities to you. Because he bought the goods from you, he can do with your products what he likes (even re-export them or market them in disagreement with your marketing design).

> *The economic integration and further expansion of the EU will change the function of the EU-based importer, emphasizing the distributive function. A free flow of goods, as the Roman Treaty stipulated, implies that importers can not claim exclusivity for a certain EU country anymore. Legally, your Portuguese importer could bring your goods, which you may have priced lower in view of the local spending power, as far as Denmark or the Czech Republic, frustrating your efforts for market differentiation. Exclusivity may only be possible by voluntary restriction of activities or because the nature of the goods recommend a regional marketing approach. In some sectors (e.g. the automotive sector) exclusivity will be tolerated by the European Commission for a limited period. This is thought necessary to span the time until all prices and conditions in the member states have been harmonized.*

As long as trade opportunities exist, trade partners can be found - even if that means that they have to reshape their organization for the purpose.

The agent, who usually is rewarded commission on sales, could be paid an additional cost compensation in order to keep them looking for customers when market conditions slow down his work. Importers may be made more eager by promising them a certain additional commission (bonus), just like an agent. In short: you can shape the trade partner into what both of you need.

Other forms of indirect entry have developed along the same lines. **Internet-shopping** (also known as E-Commerce) has created a virtual form of distribution, complemented by intelligent logistics (transportation and payment). Satisfying the need of large organizations, for instance, has led to the creation of importing wholesalers that specialize in bulk purchasing. This applies to hotels, restaurants, hospitals etc., all of which buy from wholesalers that have extensive knowledge of their specific requirements. As such, specialization is the trend for fashionable consumer goods, too. True to their nature the distribution follows new trends and patterns and proves very flexible and dynamic.

Even the armed forces buy from **specialized procurement agencies**, mostly government owned. They, too, could be buying from you. Local and national governments buy via such agencies. For large-scale orders their purchasing potential can be phenomenal; the total market of this kind of "tendering" is estimated at a staggering US$ 80 billion world-wide.

4.6.3.5. Collective exporting

Collective exporting with equal partners	Collective exporting with larger partners	Collective exporting
Recommendable, if partners trust each other and are non-competing	Cheaper but risky, since your products will never get maximum attention	

In view of the complicated and demanding nature of exporting, you may believe your company is simply not strong enough to stand the task alone. If selling to trading houses is not the best option, you may want to consider joining other (potential or established) exporters.

No doubt, the representatives of your national Business Support Organization or Embassy have already discussed the possibilities of joining with other exporters to work together. These exporters will mostly come from the same sector, be of roughly the same size, and manufacture a variety of non-competing, usually **complementary** products.

B2B

For suppliers of industrial goods and components, collective exporting may offer good opportunities. You could team up with other suppliers in the value chain, offering your products together (or put together) which would save the chain leader time and effort. This way, the two of you could be stronger - by joining forces.

Many developing countries organize collective events, like fair and exhibition participations. They share the cost and the burden of the export operation or promotion. Often, their government stimulate them in doing so by granting subsidies.

It is wise to consider the advantages of collective exporting. Western markets are so difficult to export to that it is only by joining forces with compatriots that you may stand a chance of succeeding. Always ask for the help of your BSO or Embassy in such matters.

For the same reasons you could consider joining with larger, well-established companies. Ask them to incorporate your products in their export assortment, so that both product ranges eventually will be brought to the customer - managed by the larger partner. Obviously, this is a tricky situation. This construction of collective exporting, sometimes nicknamed: “Hitch-Hiking” (or Piggy Back), may give you market access, but does not promise great profits. Your products will always have a secondary position; the salesman will first try to sell his “own” goods, and only then - if his time allows - he may offer yours. Even though you pay a fee for the services, you are an easy victim of the whims of your “carrier”. Always make a watertight contract.

The best basis for such a partnership is when you actually know - and trust - the management of the larger company.

4.6.3.6. Which entry method should you choose?

If you are looking for your best method to enter your markets, don't be discouraged if the answers come slowly. As a matter of fact, the task of finding an appropriate trade partner normally scores highest in the list of Main Export Problems. You will read about that in the next chapter 5.

Before selecting your trade partner, now is the time to decide on the actual entry method. You should be making two decisions:

1. assuming that you prefer not to go exporting alone, you first should decide on the **type of trade partner**. Consider what the market necessitates and what your company needs;
2. Next you should consider **joining** other exporters if you feel you will do a better performance at lower (shared) costs.

Whichever trade partner you choose, his help should not keep you from getting to know and understand your own market, even though it is in **his** country. You must also have that knowledge. It may prove the only instrument of controlling your future partner. Chapter 5 will tell you more.

4.7. Selecting channels of distribution

4.7.1. Which retail channel is best for you?

In most EU countries, the distributive system is highly developed, though rather complex, even differing from one European state to another. Many different types of stores cater for consumers' needs, wherever these live and however rich or poor they are. Thousands of stores, or "outlets" as the marketer calls them, are scattered over the country, trying to close in on the potential customers. **Specialization** is the key-word for channel selection: most products tend to find their way to specialized outlets.

Foreign suppliers of **consumer** goods will find that the job of selecting the right channels involves too much know-how, time and footwork. They tend to leave that important decision to their trade partner, who knows the market better. On the whole, that may prove sensible. Your trade partner is your representative and should be capable of finding the best retail channels for you (See chapter 5). Nevertheless, you must know enough about the local distribution system to justify, or at least understand, your partner's proposals.

Getting to know the distributive system is not always difficult. It depends upon your kind of export product. If it concerns a **specialty product**, for which the buyer is prepared to pay a premium price, there will be specialty stores to distribute it. If your (consumer) product is just a normal "run-of-the-mill" product, you will select a **convenience store** or a supermarket as outlet. If (your low) price is your biggest asset, you could consider selecting **discount stores**, that buy larger quantities and sell cheaply. Your BSO, your consultant or your trade partner will be able to find a list of distribution outlets and their specific function, reputation or character.

There are also specialized wholesalers that usually supply to such outlets. Examples are available in sectors such as building materials, furniture, hospital supplies, electronics, household appliances, fresh food and catering, textiles / garments etc. Some of the larger outlets (mainly in food and garments) have their own wholesaler. Here, "vertical integration" (channel members adopting the functions of up-/downstream distribution outlets to be able to control the supply flows better) is common practice. In such cases their trade margins are somewhat lower.
The biggest of them all even do their own importing or come and visit you in your home country to buy directly from you. Some have procurement (= buying) offices in your country or hire traders to source the goods from various suppliers.

B2B

For industrial suppliers, the selection of distributive outlets is easier. The channel of distribution is shorter. That can be explained by the number of buyers: there are far fewer industrial buyers than consumers, so that the supply system can be more direct. In fact, there are no retail outlets for some industrial products; the buyers buy from wholesaler-type of stores. You, as a supplier of industrial goods, half-material or components, supply directly to those importers. Or you sell to OEM (Original Equipment Manufacturers) or to sub-suppliers, if the supply chain has intermediate links.

Examples of channel selection*

Examples of products from developing countries	Examples of outlets (and channels of distribution)
Body wear	Specialty shops (lingerie) through specialized importer
Car parts (B2B)	OEM (Original Equipment Manufacturers), importing repair shops
Castings & forgings (B2B)	Industry, equipment manufacturers
Chemicals (B2B)	Pharmaceutical industries, producers of chemicals
Computer software & IT services (B2B)	Software houses, organizations, companies, retailers
Cut flowers & foliage (B2B, B2C)	Flower shops through importers or flower auction
Domestic furniture	Furniture stores through specialized importers
Engineering products (B2B)	Importers, manufacturers
Electronic components (B2B)	Manufacturers of electronic products
Jewellery	Jewellery shops through specialized importers
Fasteners & building hardware (B2B, B2C)	Building constructors, DIY outlets, hypermarkets (through importers)
Fishery products (B2B, B2C)	Restaurants, fishery stalls, food

Examples of channel selection*

Examples of products from developing countries	Examples of outlets (and channels of distribution)
	producers (through importers)
Fresh fruit & vegetables	Supermarkets, greengrocers, restaurants (through importers)
Footwear	Shoe shops, department stores, hypermarkets (through importers)
Gifts & decorative items	Gift shops, department stores, fair trade shops (through importers)
Medical devices and -disposables	Hospitals, medical centres, general practitioners (through importers)
Natural ingredients (B2B)	Pharmaceutical and cosmetic industries (through importers)
Outerwear (garments)	Fashion boutiques, department stores, clothing multiples (through importers)
Pipe and pipe related equipment (B2B)	Constructors, builders, pipe-laying companies, industries (through importers)
Plants and young plant material	Nurseries, garden centres, flower shops (through importers)
Preserved food & vegetables (B2B)	Food industry (through importers or directly)
Stationery items	Office supply retailers (through specialized importers)
Timber & timber products (B2B, B2C)	Constructing companies, DIY markets, timber sellers (through importers)
Tourism	Travel agents, holiday brokers, intermediates

*) Products from the list of some 40 CBI supported categories. Of course, many more types of products and services are exported by manufacturers in developing economies.

4.7.2. Sell through, not to your channels

The retail channels have become very large and powerful in EU countries. Often they have organized their purchasing on a cross-border basis, together with colleagues abroad, totalling procurement budgets of over € 20 billion. Thus, they can buy larger quantities at better prices. They know you can not do without them and they fight for their own margins - even when they have to fight you.

Though not as big as the American Wal-Mart chain (the largest company in the world, selling for some $ 130 billion through more than 4,000 outlets) European distribution chains are huge. Names like Tesco, Metro, Ahold, Coop, Casino, Aldi are well-known in food distribution. In some countries, like The Netherlands, Belgium and Germany such distributing organizations cater for more than 45% of the goods to be distributed. In Scandinavian countries it can be as high as 80%! The large retail outlets there virtually dominate the trade, which is a significant trend in Europe.

Wise suppliers therefore dedicate a lot of attention on the distribution channels, particularly to the large retailers. They enable them to do the best possible distribution job. They adapt their own packaging and their pricing to the distributor's requirements, they plan their deliveries according to the distributor's wishes (supplying them 'JIT', Just-in-Time). Sometimes they even prepare special promotions for them (with tailor-made in-store advertising and display).

That attitude has developed into a certain kind of "trade marketing". Large manufacturers have trained sales people as **special** - or **key account managers**, whose only job it is to look after individual distributors. Trade marketing uses methods similar to industrial marketing.

What is Trade Marketing?

Trade Marketing can be defined as marketing to the retail customers instead of the end users. Trade Marketing sees the retailer or trade partner as its customer. Where traditionally the retailers solely "passed on the goods", these retailers today are full and competent discussion partners. Trade Marketing is often referred to as Key Account Management, but involves all aspects of marketing.
The quintessence of Trade Marketing is finding out how the retailer thinks and discovering what motivates him. Just like consumer marketing targets the consumer, mapping the consumer's behaviour. Manufacturers and Trade Marketers that do research on retailers consider 6 important areas of information: assortment, presentation, logistics, cooperation, the consumer and promotions. Trade marketing wants to establish the retailer approach on these matters and his motivation in the cooperation with the manufacturer.
Cooperation with major retailers is a process which can be directed by the manufacturer and trade marketing.

Source: P.J. Bierman - FMCG, Robert H. Smith School of Business, University of Maryland, USA

From the next chapter 5 you will learn why you should treat the trade channel members as your business partners. They have the **same objectives** as you: selling to the customers who need your product. Therefore, your job is not just to sell to the distribution, but to facilitate him in **selling to your customers**. That explains why it is important to get to know your customer's customer.

In practice, that means that you will be asked (by your trade partner) to prepare sales promotion instruments for your distribution. That can be either of simple nature like affixing special price tags or printing the UPC "bar-codes" on the packs (pictorial with number of vertical narrow and wide stripes, which can be translated by computer optics into item particulars such as price, required stock level, name of supplier).

Many retail chains have introduced a credit card exclusively for purchases in their shops. They extend credit to their clients whilst they (automatically) collect information from their clients at the checkout. That way the retailers can build up a clients' profile, registering the product and brand preferences, the frequency and timing of shopping, the (average) amount of money spent etc. Through this **Customer Response Management** they are able to fine-tune their assortment to their clients'

wishes - up to sending them promotional messages that closely follow the individual clients' preferences.

Your channel members also could ask you for some difficult and expensive assistance, like changing your brand-name into the ("private") brand of the chain store, altering the packing size, preparing a display box, providing a budget for co-operative advertising (jointly paying for such expenses).
Do not refuse such requests right away, even though they are expensive and seem too much burden on the profit. Discuss them with your trade partner and evaluate the expenditure against the privilege of having a nice place in the shops. Your attitude may decide the fate of your products "To Be in the Market or Not To Be in the market".

4.8. Promoting your exports

In your own markets selling comes naturally. But promoting export sales is difficult because the buyers and their needs are unfamiliar. That is why your Export Builder invites you to prepare a Promotional Strategy (**Refer to EMP builder nr 7.8**). Do include CBI's 'Your image builder' in your readings.

Although this paragraph will cover the promotional strategy in the widest sense of the word, you will find yourself limited in the execution, simply because you don't have the funds or the opportunity to cover everything. Your trade partner or buyer will probably look after the promotion to his customer. But at least you could help and inspire him in that task.

4.8.1. Customer information

However intelligently you may have prepared your proposition to buyers, your products will not sell without sales promotion. In short: you should **communicate** with them to make sure they know about it and buy it, and use it to their satisfaction.

Commercial communication

Commercial communication basically serves two purposes:
1. it informs the customer about the benefits and availability of the product, and
2. it instructs him/her about the proper use of the product in order to ensure maximum satisfaction.

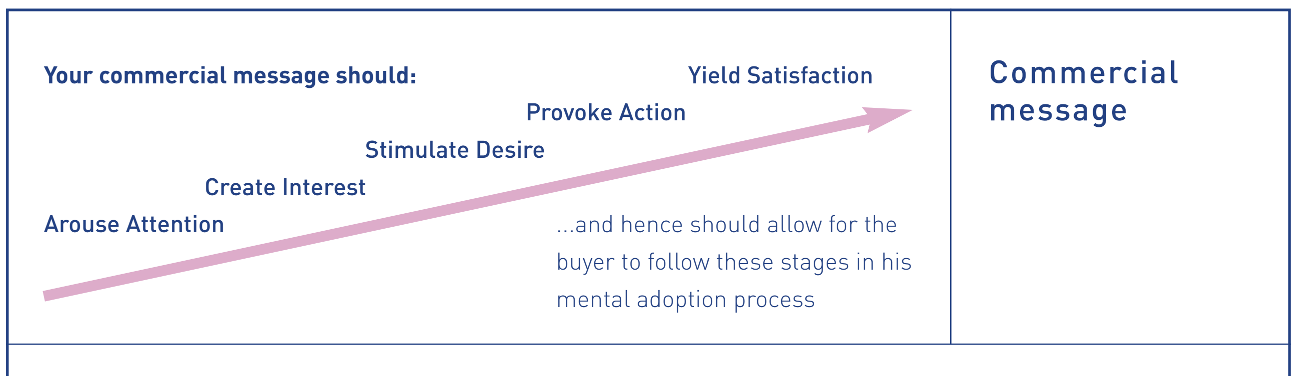
For this communication you must know:
a) which form your message should have,
b) which medium (message carrier) you should use,
c) how to organize the communication.

4.8.2. Formulate your message

The customer hardly pays attention to all the commercial messages aimed at him or her. That would be humanly impossible. People are virtually bombarded with all kinds of advertising. In industrialized countries more than 2,000 such messages are estimated to reach the end-consumer every day!

Understandably, the consumer has become selective in what he wants to see and what not. That is called **"selective perception"**. Your product message should be so interesting and so well-tuned to what he/she wants to hear, that the consumer will inevitably pay attention.

Psychologists have simplified the mental process that is triggered by advertising. They identify the stages of perception as: arouse Attention, create Interest, stimulate Desire and provoke Action (the "AIDA" sequence). Sometimes, the S of Satisfaction is added: AIDAS.



In order to "arouse attention", your message should be striking. To "create interest", your message should be informative, giving facts. To "stimulate desire", your message must be appealing to intelligence as well as emotions. To "provoke the action" of purchasing, your message should be convincing. And to secure repeat orders, your after-sales service should be reliable.

You already have one great advantage: you know the preferences and buying motives of your potential customers in export markets. That's what chapter 3 on 'The Target Market Abroad' was all about.

But you do **not** know the manner you should use to approach him. You don't know his language, or his cultural and social habits. In "talking" to him almost face-to-face, you will feel a vast distance between you and him, which is hard to bridge. This is, in fact, what makes international marketing so difficult.

Fortunately, your trade partner (see chapter 5) is going to help you. He has market knowledge - or knows which market research will get that - he knows his compatriots and can judge the right approach. Together with your trade partner abroad, you are going to find the right form of your message. The right words, the right tone of voice, the strongest arguments for sale, the correct psychological approach. The right instruments to draw attention and to penetrate the customer's scope of interest.

4.8.3. Selection of media

"Media" are the actual message carriers. These (advertising) media can be papers or magazines ("print"), radio, television, brochures, instruction manuals, direct mailings, E-mailings etc. Even point-of-purchase materials like posters, display boxes or your own packaging can be message carriers.

Which medium should you use to bring your message across? That depends on: a. your type of product, b. your target group, c. the availability and the costs of media. All three elements will be dealt with, in order to enable you to take your decisions.

B2B

If you sell a product to industrial buyers, your media selection is easier. You actually know who your buyers are, by name, by address, by their needs. You have that advantage over suppliers of consumer goods for whom the market is basically a group of anonymous buyers, known only by the fact they share the same needs and wants.
So you will be able to concentrate your communication efforts to individual buyers whom you know where to find. You can choose any medium which relates to these buyers. This can be Internet, or direct mail or professional magazines. Or product brochures and manuals to point out the advantages and benefits of your product.

On the whole, the **most effective promotional tools** for exporters are:

- Personal (B2B) selling
- E-commerce (incl. E-catalogues, DVDs, CDs)
- Trade intermediates' promotion
- Fairs
- Missions
- Catalogues on website
- Sampling Discounts

Consumers *can do their shopping 'online', now. Two-thirds of them would be willing to do so in the future, as more women (housewives) take part-time or regular jobs and routine shopping is thought 'boring'. As in America ('Peapod'), European food retail chains, like TESCO, Metro, Ahold, have built Internet sites showing virtual shops, enabling the consumer to order - just by clicking the icon showing the products. Payment is immediate (through credit card), delivery follows soon.*

Industrial buyers *and similar* **customers** *start their procurement scouting on Internet. Large buyers, like Ford, DaimlerChrysler, General Motors, have built a kind of virtual market to find, negotiate with and contract suppliers, with whom they only communicate through Internet. As borders are irrelevant for Internet, suppliers from all over the world - including developing economies - build their own website under their (protected) 'domain name' showing catalogues, designs, specifications, price-lists, company profile - plus an electronic ordering option. Yours could be amongst them!*

If you market a consumer product, the ideal medium is the one that covers your large target group best at the lowest costs per target consumer reached. Apart from Internet, television and radio are such media. Consumers in Europe watch TV almost 2.5 hours per day (!), listen to the radio for about the same time and 'browse' on Internet for almost an hour. Such information, including names and addresses, can

be found in the (extensive and informative) manuals on European media. It will take the expertise of a (local) advertising agency to decide which media selection is best for you. Your trade partner will guide you.

However, this kind of media is usually very expensive, exceeding your budget by far. Commercials for TV cost roughly € 50,000 to make, € 1 million to broadcast. In that case you could decide to direct your efforts solely at the immediate buyers: the importer, the distribution channels. They will be the buyers at supermarket chains or department stores. Or wholesalers, who in turn may advertise your products to their customers, the retailers.

Many exporters in developing countries have been successfully communicating with their customers by using **fairs and exhibitions**. BSOs can be helpful in organizing national fairs, bringing exporters from one country or one industry sector together in a combined (or 'clustered') trade fair stand. The CBI has vast experience on such matters and actively supports exporters this way (refer to '**Your Show Master', the CBI manual for fair participation**). In Europe you can buy almost any media support conceivable.

Selecting promotional media

Select your promotional media by balancing:

1. the degree to which you not only reach the target customer but also effectively catch his attention in favour of your product (= the 'medium benefit')
2. the costs of the medium/media - for which you should ask for (written) quotations or a pro forma contract.

4.8.4. Organizing communication

- You have designed and formulated your message to the customer.
- You have adapted that to the specific requirements of the media you considered best publication value for your money.
- Now you should consider the organizational aspect of communicating with your customers.

Organizing communication implies **planning** and **timing**.

a. **Planning** is required because communication with your customer is an essential part of your total export-marketing activities. You are, so to speak, telling your customer that the product he needs, is actually on sale and where he can get it.

That task is just part of the total promotion job; in turn your communication plan should be a logical and integral part of your entire Export Marketing Plan.
The costs for promotion will be considerable. You will never be able to measure its results accurately. You have to plan them carefully before spending the money.
The expenditure will decrease your income and the operational feasibility.
Many professionals will be involved in the communication efforts: your partners, the advertising agency, the media, the design studios, the film-makers, the printers and

so on. As most professionals in the service industry are being paid by the hour, their work should be organized smoothly to save time and utilize their talents efficiently.

b. **Timing** is important, too. You should never advertise before being sure that your goods are actually available for sale or ready for delivery at the buyer's warehouse.

Most media require a certain period (from 2 to 20 weeks) before publishing your advertisements. The same goes for the printers of your brochures. Make sure you know how long the periods of preparation are. They can seldom be altered.
However, they are of particular importance since you will want to concentrate your publicity efforts on a certain moment. Most people can be approached by more than one medium. In fact, this multi-medium effect will strengthen your message considerably. If possible, try to synchronize all your publicity efforts. That goes for consumer as well as for industrial publicity.

> *Manufacturers of consumer goods usually plan their publicity campaigns as a combined effort of several media. They advertise in print, run a TV-commercial and organize in-store promotions simultaneously. This increases the effect of the individual media. If your publicity budget is low, you should use your promotional money by sustaining 'exposure': just keep up the pressure and try to use frequency of messages as opposed to a one-shot impact. Industrial marketers can also utilize that multi-media approach, supporting their sales visits by advertising in trade magazines (e.g. by emphasizing the supplier's reputation), by direct mailing, by using the bell-sell methods (telephone approach).*

A word of caution refers to local laws. In some countries, consumer advertising is curbed. TV-advertising for cigarettes is such an example; in most European countries commercial television for smoking is prohibited. Other limitations are inspired by consumerism; there are laws on privacy prohibiting a direct consumer approach, regulations that compel you to indicate clearly what the composition, weight and origin is of most consumer goods. As a rule, the consumer is being protected by law against dishonest advertising.
Whatever product you advertise, make sure you never claim product benefits that are not true. You may be liable for punishment. And more important: your customer will start distrusting you.

4.8.5. Customer response

Communication suggests a two-way exchange of messages. You tell your customer about the benefits and availability of the product. But what is the answer of the customer! Is the consumer "talking back" to you? Of course he is! The industrial marketer knows that; he talks to his customer face-to-face, combining market research, promotion and the actual selling in a few conversations.
But for exporters of consumer products it is usually hard to receive feed-back messages from his market, because they are few and sometimes disguised.
The clearest message is: yes, I like the product. The purchases made will tell you that. And your importer will send you repeat orders. On the other hand negative reactions (either explicitly or implicitly, e.g. when sales decrease) are also important

to recognise. They may indicate that you are doing something wrong. Such information enables you to redress and improve the situation. Usually, you learn more from mistakes, because they mean that you can still improve your performance. Therefore, you always should pay attention to the market's response.

A. Who will respond?

You can expect three target groups to respond:

1. your end-customers/-consumers
2. the intermediaries (importers, distributors, brokers etcs)
3. the "publics" (i.e. the people, organisations, associations etc. who are not your immediate customers but who influence the buying decisions of your customers. Examples are: the government, consumerist movements, the Advertising Review Board, or even your colleagues and competitors).

B. What will the response be about?

The reactions may touch upon various subjects:

1. your product and its composition
2. the effectiveness of your product or your quality testing methods
3. the (un-) timely arrival or availability of your product
4. the price of your product or your invoicing
5. the communication with you, the promotion etc.

C. What will the response contain?

1. The customer response to industrial exporters is usually straightforward - unless he is stalling you with "Don't call us, we'll call you". Then you better try again - and keep trying.
2. The most common response is the negative kind: complaints. Complaints about your product when it is broken, torn, rotten or spoilt. Complaints about using it when it does not perform according to your promises. Complaints from the customer that the exact specifications have not been followed. Complaints about the price (it's always "too expensive" and the buyers want "their money back").
3. Rarely the consumer's response is positive. But is does happen that buyers want to ventilate their enthusiasm. That is nice to hear. Thank them for it. The contented buyer may tell his friends about it.

D. What should you do?

First you should **make it possible for your customers to react**. In most Western cultures it is quite normal that customers tell the suppliers what they think about their products and services. They know that they are important to the suppliers. And they want to be taken seriously.

So, always make yourself known, either by leaving your business card, or by printing your name on the product or packaging, or even mentioning your address and telephone number on the product or packaging, sometimes adding your fax number and/or E-mail address.

Many Western manufacturers of consumer products have organised a "Customer Service Department" to enable the customers to contact them and to react swiftly and effectively to their complaints and suggestions. Most retailers distribute 'customer's cards', to be used (as credit cards) for payment at the check-out .At that moment the purchases are centrally registered, allowing the retailers to collect data on buying behaviour. These are the basis for a system called 'Efficient Customer Response' (ECR), which should streamline the processes of logistics, automation, product selection. Find out if your customer has such a system - and how you could contribute to his handling of customers' complaints (e.g. by providing your own 24-hrs 'helpdesk' or by issuing a take-back-and-repay guarantee).

Secondly, you should **do something** about the reaction, not just hear them out. When the reactions are positive, industrial customers like to be acknowledged for that. And reacting consumers will like to be thanked. When criticized, you will recognise that as a **warning signal**: something may be wrong and should be put right fast. Take the criticism seriously, thank the consumer for his reaction and find a way to solve the problem. Try to get back to the critic and "pacify" him e.g. by sending a new product, by repairing it at no costs, by returning his money. Never forget the saying: "behind every complaint there are 100 other dissatisfied customers".

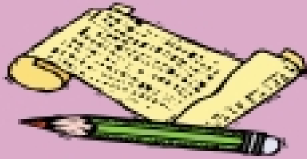
B2B

An unhappy customer means a near-disaster for industrial suppliers. The margin of error in industrial supplying is very small; one mistake and the buyer may leave you for your competitor, however loyal he may try to be.
Effective communication will be your ally: always keep on 'talking' to your buyer, before you make an offer or a promise, during the time you prepare the order (e.g. through on-line monitoring of the order status), when shipping the order and after receipt ("Are you satisfied, Mr Buyer? Anything else we can do for you?").
Always remember that your best future buyer is your present buyer. Keep him happy at all costs.

Thirdly, make sure that you make use of this kind of **feedback**. Find out what the actual reason for dissatisfaction is. You know that the customer is always right. In many cases he indeed is right. Check the problem in your organisation and redress the failure or improve the situation at your home-base. That will improve the quality of your organisation as a supplier.

Generally it will be your agent or importer who will deal with this kind of customer response. Frequently, he will not know what to do and will relay the problem to you. Give him the means to handle the problem. This way he feels supported by you, not only physically but also morally. Thus you make him a powerful ally.

The Manager's notebook on planning (3)



Working your way through the longest chapter of this CBI Export Planner, you have learnt about your toolkit - or 'marketing mix' - for exporting. That toolkit has four main instruments: the Product (in relation to the buyer's needs, called: Product/Market Match), its Price, the Place where it will be sold (the distribution channels) and the way to Promote it. The 'four Ps' are at your disposal.
In your mind you have already started adopting them for your company. But the complexity of instruments is baffling you. You should systemize them, plan them. For that, refer to chapter 6.

5 Selecting trade partners

In the previous chapter, you have identified which distribution channel and which market entry method would be the best for you. That decision is based on your ideas about how your type of products could be channelled to the foreign markets in the most effective way.

In this chapter 5 you will read about how to select the very persons or organizations to become your trade partner, what to look for, how to go about the selection activities, how to come to an agreement by understanding what both parties' needs are, and how to maintain the partnership.

This part of export preparations is probably the most difficult of all. A good trade partner can make your market entry smooth and efficient, whilst a bad one could frustrate it. It is a critical stage in your work; exporters from all over the world agree that this task is as critical as it is delicate, because you have to come to terms with a third party, not only on your mutual business interests but also on each others' needs for trust and reliability.

5.1. Selecting a trade partner

The selection process is always longer and more tedious than you had expected. Take one step at a time.

Selecting a trade partner

The process distinguishes 6 steps:

Step	
1. List criteria for your future partner	What partner assets do you find indispensable
2. The actual partner search	Hire someone else to do the actual searching
3. Screen the shortlist	Talk with prospects, exchange data, create interest
4. Select from the shortlist	Rationally. Also consider 'the human chemistry'
5. Reach agreement on market approach	Plan together. Agree on terms. Draft the contract
6. Confirm the partnership	Create trust. Agree on trials.

5.1.1. What to look for

You have to select a trade partner who has or can give you access to the buyers, or to the distribution channels, where your customers usually buy. Having researched your target market, you already know which channel is best for you. Maybe, you also have got a general idea which form and type of trade partnership (sometimes indicated as "representation") is preferable.

Start with drawing up a **list of criteria** you want your future partner to meet. Merely as an **example**, this list could show:

- "partner should be well-established, reputable and trustworthy
- "partner should be medium-sized, financially healthy and well-managed
- "partner should have at least five years of experience in the sector, but should not have competing accounts

- "partner should have an adequate office, storage facilities, a sales force of at least 10 people, telephone, fax, E-mail and a computerised administration
- "partner should employ at least one professional who has experience in your industry sector; he/she should become the 'account manager', liaising with you."

Many colleagues before have used such a criteria list to invite their BSO or Embassy in the target country to draw up a short-list of potential partners. Sometimes that worked; however, most of the time it did not. Asking consultants (at a fee) is somewhat more successful, but also foreign trade associations, interested in finding new suppliers, may be of assistance. Or IPOs (Import Promotion Organizations), like the CBI, provided you are an EDP participant. Trying to get the names of possible trade partners is always an uphill struggle and you will need all your creativity and perseverance to succeed (see below). But at least you will recognize a good partner by comparing him with your criteria list.

5.1.2. How to look

Then your actual search starts. This requires a lot of footwork. Start with browsing through Internet, short-listing possible partners. You should travel around, pick up information, compare and select. And later on, you should visit the prospective trade partners (agents, importers, trading companies etc.) to meet with the people in person.

You could ask a trusted and experienced employee to do the job. Alternative solutions are to hire a consultant, who knows his way around, or to participate in a trade fair hoping a prospective partner will show up. Or spread the word through local organizations. But in the end, you should be present personally to make the final choice. Nobody can replace you in such a delicate matter; as personal judgement is important when assessing people, you should do it yourself.
Fortunately, in most Western countries it is not difficult to trace trade representatives. Most of them advertise in trade journals and trade directories. But it certainly is difficult to find good ones, or simply available ones.

Trade directories

Trade directories (like the Kompass - **www.kompass.nl** - or the ABC- **www.abc-d.nl**) are widely available, also on database and CD-Rom. Don't buy them; most public libraries will lend them to you. Usually, the library of the Ministry of Foreign Trade, or the Chambers of Commerce and Industry have copies. If you can't get the directories, go to the European Directories per sector (**www.euromonitor.com**) as a last resort you could try the Europages (**www.europages.com**) or, like in your own country, the Yellow Pages of the telephone directories. But don't judge their importance by the size of their advertisements. Trade associations, commercial banks or maybe even shippers and forwarders will prove a good source of information. Sometimes databanks can be consulted (refer to 'Exporting to the European Union').

The short list that you compiled should be discussed with your managing director or your export manager.

5.1.3. Talk with all prospects

Arrange for personal meetings with all the companies on your short-list. The reason is simple: you should not only get an impression of the companies' actual facilities, but also of the people who run them.

Most agents and importers can generally receive you at short notice: one to three days in advance. Fax them, then call them by telephone; make sure you meet the right man or woman - and be on time. Westerners usually stick to time quite strictly. Being late is not only impolite but also considered a waste (of time, that is).

The Western manner is very direct; they discuss business openly. The word "No" is seldom considered an insult. Their voices can be loud, harsh or excited, but that does not mean they are angry. In your discussions, you can come to the point quite quickly. Don't compare their degree of cultivation with yours; their culture is entirely different. And do not be afraid about their business ethics which are usually straightforward, clear and easy to understand.

In these discussions you not only gather additional information on the prospective partner. You also give factual information about yourself and your company (and your export products). So try to arouse his commercial interest in you.

Gather information about the potential partner

- What industries is he active in? What sales territory does he cover? Is he used to operating on an exclusivity basis? What distribution channels does he serve?
- Who are his customers (ask for names for future reference)?
- How is he organized? Is he member of a sector association? Does he have special strong points, like selling, marketing, after-sales services etc.?
- Is he financially healthy? Who is his banker? Does he pay his bills in time?
- Who will be responsible for your account, if agreement will be reached?

It is always wise to double-check the information. Check with his customers, banker, the government - and maybe even his competitors. There are organisations that specialise in providing this kind of information (like Dun & Bradstreet).

Provide information about yourself

- Explain about your company, its reputation, the strength in the local market, the product, the export markets you already deal with;
- indicate if you already have dealt with customers in his country before;
- give your company's sales figures; give him a balance sheet;
- explain the specific strong points of your organization;
- explain how your company is organized; show him brochures on product and company;
- tell him about your plans and your strategies.

At this stage of the selection process it is good to remember that the theory differs from the practice. In real life you won't have much choice: more often than not it will be the partner who does the selection (of his principal), not you selecting the partner. The reason is twofold: a. there are simply not enough trade partners available, meaning they **will** do the choosing and b. only few trade partners would dare to go into business with a newcomer from a developing economy, uncertain of his reliability. That is certainly something to keep in mind. It means that you have to do some selling - of yourself.

Create interest

- Ask his opinion about your target market
- Ask for the trends in the markets, the pricing levels, the usual distribution methods, his ideas about the effects of the market integration in Europe etc.
- It may be that you already have sufficient information about the target market. If so, show it, though with modesty. He will be impressed by your sound preparation and be more willing to accept you as a good and reliable partner, who knows his job. If you don't know about the market, your (future) partner could do some research for you. That serves also his interest.
- Ask his opinion about the products you hope to sell to his market - or to himself.
- Ask him how he thinks the marketing (pricing, distribution, promotion) should be done. That will spur his imagination.
- Stay polite, don't boast (however enthusiastic you are), but do show conviction. Discuss the manner in which he wants to be treated, informed, communicated with.

Part of the information can be gathered later, by letter or E-mail.

5.1.4. Select the prospective partner

Your selection should not be done on the above information alone. The future partnership deserves your judgement of personalities. If you have formed an opinion on which organization would suit your export purpose best, you should do the same about the **people** involved. The co-operation between your company and the partner-organization may look good on paper, but largely depends upon the capability of its employees to work together. There should be a high degree of understanding and trust between you and your partner. That trust will prove beneficial when the co-operation is organized smoothly. However, if there are frictions, misunderstandings or just bad times, you need that mutual trust to keep the partnership intact. Friends are more willing than enemies to forgive you your occasional mistakes.

This is the time to find out whether you are also able to have a good **personal relationship** with the people in charge of your account. Do you find them agreeable and pleasant to work with? Do you actually like them? If you don't, the partnership will never be a complete success.
Some of the prospective partners may prove difficult to approach, or reluctant to give information. Don't rule those out at first sight. They may be just cautious, unwilling to spend time on rash, inexperienced exporters. Mind you, they get similar requests almost every week!

This applies especially to the successful agents and importers. They can afford to be selective. Maybe they already have a good account in your market, which prevents them from working for competitors. Or maybe they feel they are already at the maximum of their capacity. As said, convincing those people to take you as a partner, would be one of the best "sales" you will ever make.

Don't let yourself be blinded by the size of the organization. A small agent can be more motivated and productive than a large trading company, which has to spread his attention over many other lines to cover his heavy overheads. But on the other hand a small import partner could lack the financial resources to buy and keep stock.

In the end, make your final selection and approach him for final discussions on the terms of the contract. Do not (yet) write the others off, in case the selected partner turns you down.

5.1.5. Coming to terms with your partner

Since it concerns a commercial venture, the best terms of agreement lie in the planned marketing activities and their financial results. That means planning of potential sales, of the required marketing support and their costs and of the profit derived from the joint effort.

Make such a plan together. It should cover more than one year, particularly when the product is new in the market. In that case, the first year after introduction will probably not show profit, so you must calculate over a longer period of time, at least 3 years (**See chapter 6.5.4: Financial consequences**).

Your partner's input in the plan will be the estimation of potential sales. He will come to this estimate by comparing your product strengths with the market needs and estimate the possible market share.

If your partner is an importer/wholesaler, calculate with his importer's margin. If it is an agent, he will mainly be interested in his commission (% of sales realized). In both cases he will be interested in the market performance of the product.

At this stage you will have to decide on additional support, either in money (promotional support, discounts etc.) or in kind (training of operators, of sales people, providing free samples, making goods available on consignment etc.). You must know in advance how much that will cost. You also should know your bottom line: how much money you are willing and able to spend before endangering your own profits. Even more important is to reach **agreement on the terms of delivery and payment** (both shown in the Appendixes of this CBI Export Planner). In exporting, the distance that the goods - and their payment - have to cover, increases the risks for **both parties**, buyer and seller alike. If you have selected an importer, he will be your primary customer, buying from you. But even when you have selected an agent, who does not buy but only intermediates on your behalf, he needs to be fully informed.

After a good number of years, the trade partnership will have matured into trust, allowing for shipments and payments to be executed without the added security of

legal documents, of proof of payment. The trust could imply that the exporter is willing to ship without prior payment, whilst the importer is willing to accept the supplier's verbal promise that money has been transferred on **'open account'**. That status is ideal, since it involves a minimum of cost and delay. But even then, not all risks have been covered.
Shipping accidents, political unrest, weather conditions and suchlike could hamper the shipment - with none of the partners to be blamed. Therefore, the exporter should first try to assess the risks.

Export risk analysis

- what can go wrong in the chain of activities between production and delivery of the export goods, and how realistic are such conditions?
- how much could the (maximum) damage be (value-wise)?
- who should pay for if the damage occurs?

This risk analysis will show that there are two kinds of risk factors: the one that can be **controlled** or avoided, and the one that concerns factors **beyond** human **control**. The first kind will be covered by the terms of the very transaction, whilst the second category includes dangers that can only be covered via outside insurance (natural disasters, political unrest, revolutions, currency fluctuations etc.).

The terms of transaction describe the extent to which the buyer and the seller have divided the costs and the risks of the transaction between them. The seller's task is to make the goods available; the **'terms of delivery'** pertain to that task. The buyer should pay, which will be specified in the **'terms of payment'**.

Sales contract

The terms of payment arrange when the money for the shipment should be received by the supplier

- at what moment are the agreed conditions met?

The terms of delivery determine when/where the goods should come into the buyer's possession

- at what moment does the 'title' changes hands?

These export terms are interlinked; they depend on each other and complement each other.

The terms of delivery describe in detail at what moment the legal possession ('title') of the goods changes hands and at what moment the risk burden shifts to the buyer. These terms are universally accepted and indicated as 'INCOTERMS 2000' (see Appendix 2).
The terms of payment describe how and when the money is transferred to the seller. Commercial banks around the world use the same nomenclature for the various options for securing payment (see Appendix 1).

When studying the terms of payment and delivery, you will recognize that they cater for a wide variety of security conditions which on the one end of the scale favour the buyers and, at the other extreme, favour the sellers. The best buying condition is

'DDP on consignment'; that implies the goods, that must be Delivered on his doorstep with the import Duties Paid, will be paid for after the buyer has sold them. The best condition for a seller would be 'advance payment EXW': the buyer pays before the supplier makes the goods available at the gates of his factory or warehouse (EXW = Ex Works). This happens rarely, e.g. when the order is tailor-made.

During the negotiations, buyer and seller have to agree upon the conditions, which will reflect the bargaining power of either party. Usually, they will meet somewhere halfway where costs and risks - and the rights and duties of buyer and seller - are more or less equal. They will find a balance which will satisfy them both.

Whenever **damage** occurs, either buyer or seller should be responsible (or the forwarder, who plays a role in the transportation) or a third party, usually the insurance company which is paid to cover non-controllable risks.
If buyer and seller disagree about the blame, they can have the dispute solved by **arbitration** or a **regular court**. Often, an inspection of a third party (surveyors) will provide proof of the status of the goods at various points of the distribution chain.

5.1.6. Confirm the partnership

Written settlement of agreement is common practice in most Western countries. Many partners would be satisfied with a simple letter of agreement, some even with verbal arrangements (which are legally binding for the parties). But the safest way is to write a contract. That will avoid misunderstandings which could trouble the co-operation. In writing a contract, pay particular attention to the official protection that his country's laws provide for the trade partner. Although the European Union tries to harmonize regulation on this aspect, some differences still exist.

Most Chambers of Commerce and Industry have a standard format for agency or importers' contract. So will the International Chamber of Commerce (ICC) in Paris, France. Ask your (prospective) trade partner to provide you with a copy or download one from ICC's Internet-site(: **www.iccwbo.org**). Always have the final draft of the contract checked by your partner's, and your, legal advisers. As it binds the company, the managing director should approve it. He may ask you - as a company representative - to sign it.

Contents of an agreement for export representation

- the geographic area at which the sales activities will be aimed at (e.g. a country, a region). Most trade partners strive for exclusivity, meaning that they want to be the only party that is allowed to trade your goods in their market. This exclusivity, as pointed out before, can not always be effectuated legally. Particularly in the EU such exclusivity goes against the Rome Treaty which allows a free flow of goods throughout the Single Market. Sometimes, the trade partners voluntarily restrict their activities, sometimes the nature of the product requires it (fresh perishables cannot be transported widely).

Contents of an agreement for export representation

- the trade partner's activities, specifying products, partner's tasks, activities of selling, canvassing, sales objectives (*), communication with customers and government, setting/maintaining prices, formulating terms of delivery, order-taking, physical distribution, holding (minimal) stock, payment conditions to creditors (including you, as the exporter), handling complaints, servicing, gathering (market) information etc.;
- prices and payment conditions: your prices, the currencies involved, insurance, commission, margin, financial and promotional support from you etc;
- guaranteeing: not only product warrant (which should be channelled to the exporter), but also for instance guaranteeing willingness and ability for tender participation;
- sampling: how many samples to be distributed, who pays for them, for what purpose will they be used;
- feed-back and control: arranging the communication between partner and you; regular reporting on the partner's activities and performance, your right to ask information and check;
- duration of the contract;
- measures for contract termination: when and why *), returning goods and promotional means and instruments to the exporter, how to calculate a closing balance, establishing indemnification etc.
- "competition clause", keeping the trade partner from taking competitive accounts;
- arbitration: which law is applicable (make it your national law system!), whether or not conflicts will be settled in court or via arbitration etc.

*) In several Western countries it is very difficult to get rid of a trade partner who is not fully satisfying your needs. Ask your national representative or your BSO to check the laws of the country involved. The best motive to terminate a trade partnership is by proving that the partner has not met the sales targets. This is called the 'performance clause'. It is an easy-to-prove criterion that no judge could misinterpret.

When your partner and you agree upon the arrangements, the co-operation between you and your new trade partner can be sealed. Sign the contract - have it confirmed by a notary, if you wish. This is a happy moment: the beginning of a promising and lasting relationship. Inform your staff, workers, shareholders and BSO about the first step into a new foreign market. Write a letter to the prospective partners which have not been selected, thanking them for their efforts.

Sometimes, your brand-new trade partner may insist on a certain **trial period** to find out how successful your product will be on his market. Since that may be a sign of seriousness from the part of your partner, do take that option into consideration. It may prove to be in both parties' interest.

Immediately arrange the **follow-up**. Your partner will place a (trial) order. Your task is to have your product adapted to his wishes (translating labels and instructions for use, rearranging contents, providing manuals etc.). You will also send samples and promotional material. Maybe some advance payments are requested by facilitators (e.g. when advertising, or for legal registrations of company, patents, brand names etc.).

B2B

In Business-to-Business your trade partner is exactly that: he buys from you - which makes him a trading partner. Mind you, he will stay your partner as long as he needs you and your products. Make sure that you know his (future) needs and do your utmost to show that you think along the same lines as he does. He will welcome a partner who is always trying to solve his problems - and maybe even anticipates on them. This way you make yourself indispensable for him: a real partner.
Obviously, the selection process of a B2B trade partner will follow a similar path as outlined above, though shorter. Here, it comes down to identifying prospective buyers by the products they make, distribute or sell and sending them a business proposition or an open offer. But you must be prepared to provide and ask information about yourself and the partner to show that you wish to do business in a professional and prudent way.

5.2. Making the most of your trade partnership

Having signed the contract of partnership and having returned home, your "marriage" with your trade partner should not fade away. You should make an effort to keep it alive and functioning. The trick is to make him feel supported and backed-up at all times.

Start with appointing an "area manager" or a specific employee who will be responsible for the management of this market's operations. He should have full knowledge of your trade partner. There are several topics where your area (or account) manager could organize partner support.

- Always **answer** his letters, faxes and E-mail messages **promptly** (E-mails within 24 hours or less!). Even when answering his questions may take time, tell him you are working on it. Make your correspondence adequate, complete and fast.
- Be painfully precise and strict in your **deliveries and shipments**. Not only your success but also his profit will depend on that. Don't ship the wrong goods. Ship in time. Avoid damage because of poor packing. If delays are unavoidable, inform your trade partner about them immediately.
- **Pay him promptly** - as you would like to be paid promptly yourself.
- Invite him to visit your factory (you will pay the costs he makes in your country, he will pay the travel costs). Give him (periodical) **training** on the product or equipment and inform him about the product merits as well as product weaknesses. Trust him to sort out the sales motives himself.
- Give him all the **information** you have on the product and the manufacturing country. He should never be without promotional material. Supply it to him free of charge or arrange for a joint promotional budget (for which he - for instance - will pay the translation costs).
- **Visit him** regularly, at least every six months or so. Let him inform you how your products are performing. Join his sales people in their trips to buyers. Talk with those buyers; they will appreciate that and you will find out more about what they think of your product.

Your trade partner can only function well if you allow him to. Much will depend on your ability to be a reliable supplier. If he is good he will treat you the same way. Communication is the key word. In that faraway market, he is working for you.

Silence is the enemy of all partnerships!

The partnership is all about joining forces and using synergetic potential. Both partners will contribute since both parties will eventually share in the success. Between the two there is a balance, which partners can only explain as a 'win-win situation'.

Selling products will need an occasional commercial stimulus in every market: a sales campaign, a strong advertising drive, a promotional activity, a new-product introduction. Your product deserves that additional boost, too. As such activities are outside of the ordinary sales routine, you will have to pay for them additionally. It may cost you extra money or samples, it will certainly cost you time.

Fairs and exhibitions are an excellent method to generate extra customer attention and to boost sales, provided it serves a tailor-made purpose. Maybe you have taken part in a fair before; your national BSO may have organised a collective national participation to an important European fair.
This time it will probably be your trade partner who will propose participation. Discuss such opportunities with him; he will expect you to join forces with him. Organize it together with him. He will know how to do it, or he will ask specialists. You will offer product knowledge; he will make it effective by bringing in the customers.

That is what partnership is all about: you will have an extra set of ears and eyes - as well as hands - in your target market. He will help you in effectuating sales. You should see to it that both he and you profit from that equally.

5.3. Overcoming cultural differences

Sometimes a foreign trade partner may surprise you. When that surprise is a bad one, you may feel offended. Try not to be; there is no room for such emotions in business. Instead, try to understand his reasons. It could be that they are influenced by his culture and that he does not understand yours.

In international business, there is one hidden barrier that no one can take away. That is the fact that culture influences people - also in trade.

Culture influences:

Culture influences:
- the way you feel
- the way you think
- the way you act

and that explains why your partner from abroad sometimes seems incomprehensible.

Your trade partner lives in a different environment. It is different from yours in many aspects:

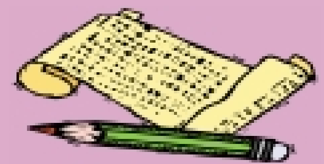
- social structure, business organization, family life;
- economically: income, spending power, wealth;
- political structure; government influence, laws;
- climatic conditions;
- state of technological advancement, etc.

Since his culture is so vastly different from your own, it may sometimes prove difficult to understand his words, his feelings, his actions. Your experience (and your colleagues) may tell you more about the ways Western businessmen react. But there is no manual on "bridging the cultural gap".

On this subject too, your trade partner may come to your assistance. He could help you to understand foreigners and to deal with them successfully. But he can only do that if you allow him, in turn, to understand your culture and your habits. Invite him to your environment, to your culture, to your home and friends.

So, in dealing with foreigners, let your partner do the delicate negotiations. And ask him to explain them to you - just as you explain your thoughts, reactions and feelings to him. Being a true partner, he will do his best to understand. But remember: the customer is the king!

The manager's notebook on planning (4)



By now, you have worked your way through all aspects of export marketing planning. In theory, you could try to forecast Export Objectives (**Refer to EMP builder nr 6**) and write down your EMP (**Refer to EMP builder nr 7.1**: **Strategy summary**). For the sake of completeness, however, do consult the last chapter on how to formalize and specify the plans.

6 Management planning

You have worked your way through all steps of export preparation. Numerous aspects of planning all your managerial instruments have been analyzed, redesigned into effective tools for selling your products abroad. Now it is time to bring them all together. That activity means fine-tuning to the market needs and to the capacity of the exporting company. In this process of planning, the task of combining the marketing tools into the 'export marketing mix' will determine your selling power.

As outlined in the first chapter of this manual, your export performance will improve by systematically planning your activities before you embark on implementing them. You will put the planned activities on paper, ensuring that all people involved in the implementation will know what to do and by which standards their performance will be judged. This way you make the best use of your resources: your money, your product, your people and your time - with the highest chances of success.

Your plans on exporting will be written down in an Export Marketing Plan (EMP), your instructions for the use of (human and other) resources and their general tasks in your Management Plan, specifying them in an short-term Action Plan, and the use of financial resources in a Financial Plan.

6.1. The manager's planning (5)

Many (top) managers collect their ideas and thoughts on how to run their company. Some write them down in a little notebook, anxious not to forget their best ideas and insights. In your notebook on planning you may have written down valuable remarks on planning. This is the moment to gather your notes and start bringing them together to compile your Export Marketing Plan.

Export Marketing Plan

The Export Marketing Plan describes export objectives + instruments (marketing mix) Part of your EMP will be dedicated to: Resource Requirements:

Management Plan	Organizational instructions, using export fitness, guiding market entry efforts (refer to EMP builder nr 8)
Action Plan	Specifying all tasks involved, organizing them in time
Financial consequences	Estimating all (operational) costs involved in exporting, calculating results (feasibility)

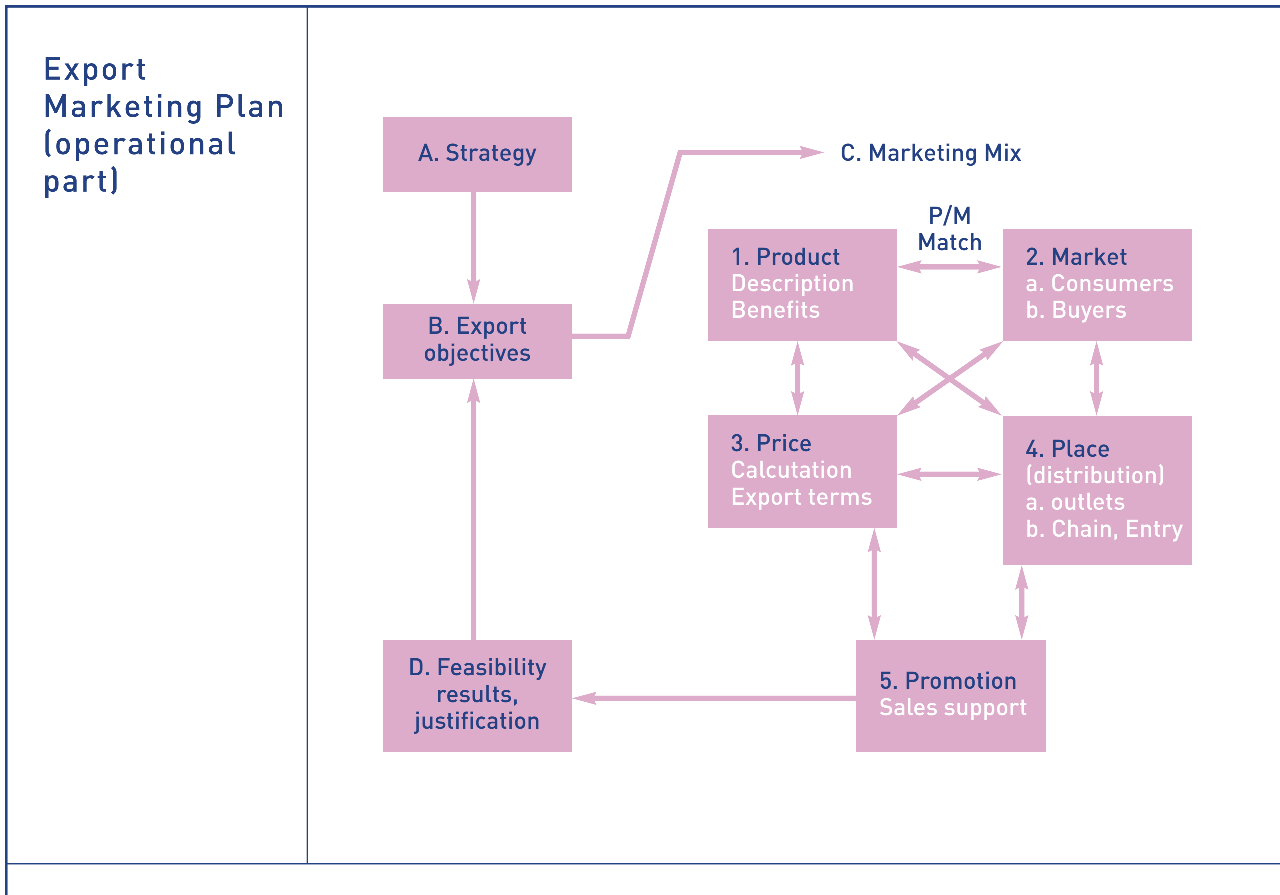
Whilst the Management Plan serves overall managerial organization (to make sure the company has all resources available), the EMP is instrumental. It describes a set task and the instruments to achieve it. Its goals are described in the Export Objectives (**Refer to EMP builder nr 6**). Those objectives must be 'SMART': Specific, Measurable, Achievable, Realistic and Time-defined, and cover short-, medium- and long-term goals.

Three plans to support your EMP! You will be writing plans all day! Yes, it may look that way. But remember that planning is the manager's primary task. Besides, you could delegate the biggest chunk of work to your staff and assistants, to your heads of department, even to outside advisors. Then you are left with judging their work,

estimating the effects of their plans and putting all plans together. Planning helps you to anticipate future developments and to have all tools ready to use. The final decision is yours.

6.2. Purpose, function and form of an Export Marketing Plan

Export Marketing Plan (operational part)



Together with the on-line EMP document builder, this CBI Export Planner helps you designing an Export Marketing Plan. It is the most elaborate plan you will ever make - next to the marketing plan for your domestic market.

Purpose

The purpose of the Export Marketing Plan (EMP) is:

- to bring all relevant marketing instruments together in a productive "mix";
- give direction to all your planned activities for optimal effect. That direction is outlined in the objectives;
- estimate when the activities should take place. This timing will clarify the logical sequence. The same applies to the very moment results can be expected. That facilitates good management and sound decision-making;
- estimate how much the activities are going to cost, in order to make the money available whenever necessary;
- estimate the feasibility, deducting all costs from the profit to establish if the results justify those costs.

The function of the plan is:

- to inform all people involved about the objectives of the export operation;
- to reach consensus with the key members of your company;
- to give them specific instructions as to what their contributions to the export activities will be;
- to provide a certain justification for the money that will be spent in the export process. This justification is meant to convince the directors and owners of the company.

Function

The form of the plan is:

- the Export Marketing Plan should be in written form (although some advanced Western exporters incorporate export planning in their computer-driven corporate planning). Parts of the EMP can - selectively - be distributed within your company and your BSO;
- the plan should be short, factual, precise and complete. Basically, it is a set of instructions, backed up by logical analyses and considerations.

Form

The EMP document builder shows the following outline:

1. Introduction & Mission
2. Current Market Position
3. Market and Industry Trends
4. Export Audit
    a. Company Audit
    b. Market Audit
    c. SWOT conclusions
    d. Competitor Analysis
5. Market Assumptions
6. Export Objectives
7. Market Entry Strategy
    a. Strategy Summary
    b. Markets & Segments
    c. Positioning Strategy
    d. Branding Strategy
    e. Product Strategy
    f. Pricing Strategy
    g. Distribution Strategy
    h. Promotional Strategy
8. Management Plan, Action Plan, Financial consequences.

A similar format is used in CBI's Export Development Programmes. It is inspired by the format of the Chartered Institute of Marketing (London, GB).

6.3. Action plan (operational year 0 to 3)

First-time exporters will find their staff and workers unable to work effectively on export operations without being briefed extensively. That is what the Action Plan should do. It is the typical work of a planner (under your supervision). It should spell out what specific activities must be done at what moment in time, by which member in the organization and at what costs ('what, when, by whom, how much').

The **EMP builder nr 8** shows a format of such an Action Plan, using Excel or Microsoft's Project Planner.

6.4. Financial consequences

You will want to know if export is running according to plan. That presupposes that you actually made such a plan. Then you plan (or budget) the expenses - hopefully in line with your expectations. Lastly, the 'acid test' of export preparations: the assessment of economic feasibility. What are the financial consequences of your EMP? Will the expenditure yield profit? Will export be worth the investment?

Basically, that comes down to a simple calculation: turnover minus costs should equal profit target. Unfortunately, the mathematical simplicity disguises the fact that such a calculation is subject to interpretations and therefore just as valid as those estimates. Reality shows that planning can go terribly wrong - and so can feasibility assessment.

Calculating feasibility depends upon the value of planning its elements: market acceptance, projected sales, pricing decisions, margin and bonus decisions, marketing cost estimates, currency and credit costs etc. Again that shows that good planning is essential (**Refer to EMP builder 8**).

Some aspects deserve your attention:

- The export feasibility should **only** be concerned with export activities. Corporate accountants love to charge overheads to (profitable) export departments. Make sure your calculation shows how effective your export marketing investments have been. You can do so by introducing different 'levels of contribution'. Contribution is a better word than profit because it defines how much money will be available to pay for (other) overheads.
- Calculate over (at least) three consecutive years, starting with 'Plan year 0', which is the period preceding market entry. You will probably spend money in entry preparation; you should show that as well. Calculate **cumulatively**, thereby adding up the results of all plan years together. The first year will show losses, which is hard to defend to the shareholders if the ultimate feasibility is not known.
- Focus on the first operational year. Make that planning as accurate as you can; the following years allow some margin of error.
- The **operational costs** are most important since they show how much your marketing instruments (- mix) cost. These instruments should generate profit. Overheads and other indirect costs never will.
- If during the operational year the targeted results should appear too optimistic, you can always decide to **cut on costs**. As your main (or even sole) responsibility concerns the marketing budget, you can only cut marketing costs (by eliminating

certain activities). This will show immediate improvement but will have negative results in the long term.

6.4.1. Planning export sales

The first planning requires an estimate of sales: units sold (= invoiced) minus units returned. This planning serves to demonstrate whether your selling activities follow the projections (and when to change course if they don't). You could add the EXW or FOB prices of the units, totalling 'turnover'. Plan sales month-by-month and introduce these figures in your Management Information System (MIS). Make sure you allow your department heads to see them.

6.4.2. Planning export expenditure

In order to manage your liquidity, you should also plan the expenses made for exports. Probably, you will follow the format that you are already using. In the **EMP builder nr 8** you can find such an example. If you enter the costs in your own currency, make sure that the sales are in the same.

6.4.3. Calculating export feasibility

Export feasibility forecast

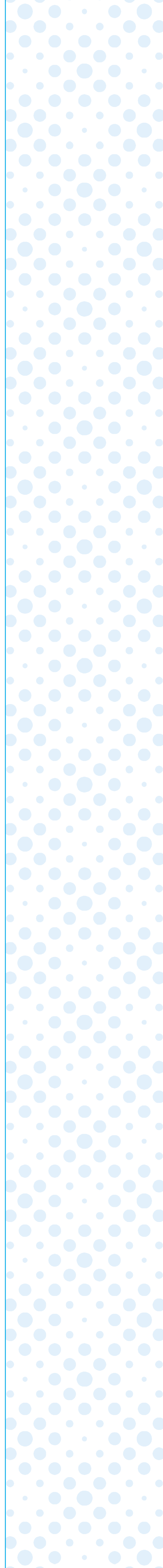
Country/market:				
Plan year	**0**	**1**	**2**	**3**
Market size	100	102	104.0	107.2%
change/annum	+2	+2	+3	
Market share (%)	0	1.5	4	5
Gross Turnover				
1. at market prices				
2. at EXW prices				
-/- commissions				
-/- bonuses				
-/- claims, returns				
Net sales	0			
-/- Export marketing costs (see EMP)	0			
Contribution to export dept.				
-/- indirect costs export dept.(travelling etc.)				
Contribution to export overheads				
-/- overheads export dept.(salaries, rent etc.)				
Contribution to corporate overheads				
(actual export profit)				
Same, cumulative	0			
-/- corporate overheads				
(corp. salaries, R&D, warehousing, admin, provision dubious debtors etc.)				
Gross profit (before taxes)				

(in units/€ x 1,000)

6.5. Optional: contingency plans

A prudent manager will ask himself what to do if conditions change so much that his plan loses its basis. Examples: the price of raw materials rises unexpectedly, or: the competition suddenly drops its prices strongly, or: a newcomer is entering the market with a much better proposition, pushing you out of a profitable account. Most managers can foresee such calamities and decide beforehand what to do if they actually happen, mostly through saving costs, making additional budgets available or introducing a new product variety. Foreseeing implies planning; such plans are called **contingency** plans ('what happens if...'). You may want to add such a plan, simply stating possible changes (in the market or its environment, or even in your own supplier's position) and adding the measures you believe would counter-effect them. You could write that down in a page or two.

Appendices



Appendix 1: Terms of payment

1.1. Terms of payment primarily cover risk of non-payment

Commercial (exporting) risks can be covered by:

- insuring them via an insurance broker
- dividing the (non-) delivery risks between buyer and seller by specifying tasks (Appendix 4)
- dividing the (non-) payment risks in the same manner.

These three elements of risks coverage are usually combined in the terms of transaction.

1.2. Short-term and long-term credit

The first element of risk coverage defines the duration of credit, granted by the supplier to the buyer. The credit term, if relevant, is combined with the various forms of payment, e.g. "L/C 60 days". The payment should be promised by a letter from the bank, payment being due after 60 days after the L/C is presented. There are:

- Short-term credit: the payment term covers a period no longer than 12 months, i.e. the time between the delivery of the goods and the realization of payment is not longer than 12 months. This short term credit usually applies to consumables, raw materials and semi-manufactured goods.
- Long-term credit: payment is effected more than 12 months after delivery of the goods or after completion of the project/assignment.

1.3. Terms of payment determine degree of security

The various forms of payment, customary in international trade, reflect the required or desired measure of security which the stronger partner in the negotiations has succeeded to lay down in the contract conditions.

Open account

Payment after delivery of the goods or before delivery of the goods. There is no security that payment / delivery of the goods will take place.

Cheque

A kind of I.O.U. ("I owe you", the abbreviation for stating one's financial obligation towards a 'receiving' person or organization) in the form of an order of payment to the bank.

Collections

The exporter will keep the ownership of the goods until the buyer has paid the collection amount ('Cash against Documents') or has accepted a draft ('Documents against Payment'). However, there is no obligation for the buyer to accept or collect the documents; in the worst case the collections will remain unpaid or unaccepted.
A distinction must be made between Clean Collections and Documentary Collection. In the case of Clean Collections there are only financial documents involved; in the case of Documentary Collections there are also other documents, like shipping documents, involved.

Documentary credit (l/c)

A documentary credit (also indicated as Letter of Credit) is an obligation of a bank

towards a third party (the beneficiary / the exporter) to pay a certain amount of money against presentation of certain documents. If the beneficiary satisfies all the conditions of the credit (contract) and he presents the correct documents in time, he will be paid - with virtually 100% guarantee of payment. He also keeps the ownership of the goods until they are paid or until a draft is accepted.

1.4. Payment conditions specified

Open account/account current

The seller allows credit to the buyer for a certain period of time after the delivery of the goods, most often this is a short period; the buyer will usually effect payment through a bank transfer. Prerequisites for this type of payment are:

- a good relationship between buyer and seller
- standard merchandise that can be identified along the lines of the delivery circuit
- no political risks or drawbacks in international trade.

Payment by cheque

The cheque is an unconditional order to a bank to pay - on first presentation of the document - the amount shown on the cheque. Payment should be done to named person, or to his order or to bearer.

Due to the fact that the issuing bank will pay the amount concerned only if the customer's account shows a sufficient balance, this method of payment does not give much more security than the open account. Note that in many countries, the issue of an uncovered cheque is a criminal offence.

Cheques issued by a bank are usually guaranteed by that bank and they can as such be negotiated with the bank of the beneficiary party. However, in some politically unstable countries the banks cannot fully be trusted on payment of cheques.

Cash against documents or documents against payment (c.A.D. or d/p.)

In international trade shipping documents, such as bills of lading, airway bills and certain consignment notes (C.M.R.), represent the shipped cargo, i.e. the merchandise can only be accepted ('taken delivery of') against presentation of such shipping documents. Payment against documents is a payment method that is based on the representative value of those bills of lading.

The supplier presents the documents to his bank (e.g. bills of lading, insurance policies, certificates of origin, and inspection certificates) with the instruction to send them to the customer for collection of payment.

Bound by the agreed terms in the selling contract, the customer exchanges the documents against actual payment of the invoice amount or against a draft (bill of exchange), being a promise to pay the amount on agreed date of "maturity".

Bills of Exchange can be considered as guaranteed payment if they are countersigned ("for aval") by a bank.

Documents against acceptance (D/A)

Same as Cash against Documents, but in this case the buyer has to accept a draft (bill of exchange), which is his promise to pay the amount on the agreed date of maturity.

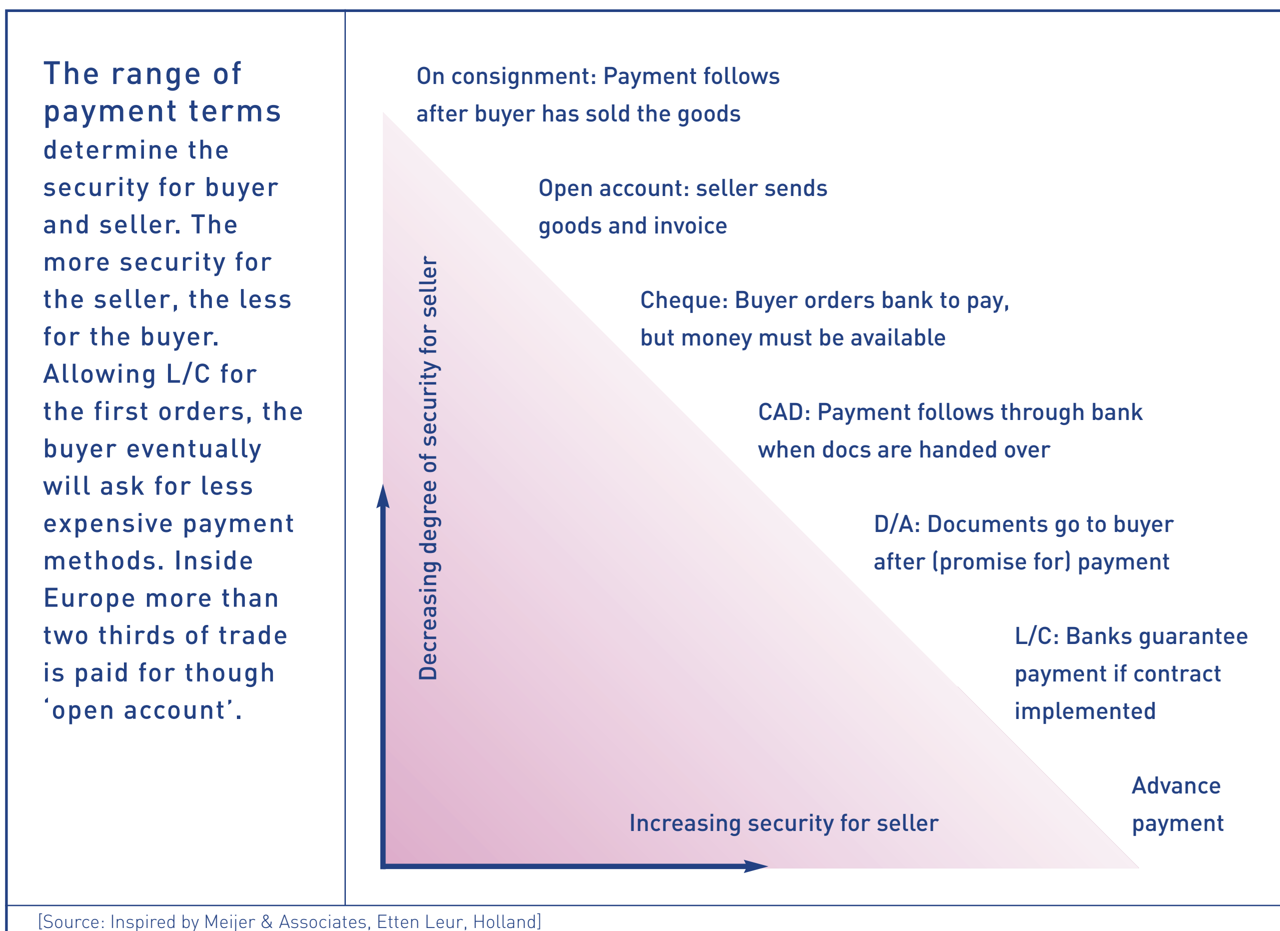
Bills of exchange can be considered as guaranteed payment of they are countersigned ("for aval") by a bank.

Documentary credit (l/c)

The bank of the buyer issues the documentary credit and is always obliged to pay if the exporter has satisfied all terms of the contract. Contrary to the 'Collections', a Documentary Credit will be checked by the banks of both seller and buyer.
The seller also has the possibility to ask his own bank to confirm the credit.
This means that the bank of the seller will take over the obligation to pay from the bank of the buyer. The bank of the seller will not automatically confirm every L/C, but will look at them on a case-by-case basis. If the credit lines with the bank of the buyer are not big enough - or if they are already fully used - the bank of the buyer will not give confirmation. Another reason could be that the political situation in the country of the bank of the buyer is not stable enough (country risk).

Advantages / disadvantages:

- The exporter has a high degree of security that he will be paid (if he satisfies the credit terms, which are specified in the sales contract)
- The buyer's bank must pay (and that adds to the reliability of payment)
- An L/C is used when buyer and seller do not know each other well enough, because it provides a high degree of security on payment and on the delivery of the goods.
- An L/C is an relatively expensive form of payment. Moreover, it prevents the buyer from using the money invoiced, since that is blocked on his current account.



[Source: Inspired by Meijer & Associates, Etten Leur, Holland]

Apendix 2: Terms of delivery (Incoterms 2000)

The universal Incoterms 2000 (the number 2000 refers to the year of the most recent version) are grouped in four categories. The first group (E) has only one trade term: EXW, formerly 'ex factory'. The second F-group indicates the obligation of the seller to hand over the goods to a carrier Free of risk and expense to the buyer. The third C-group include terms that indicate the seller's obligation to bear certain Costs after main carriage, which is a critical point in the sales contract: the obligation to bear risks and costs change from one party to the other. The fourth D-group includes the terms that prescribe that the goods must have arrived at a specified Destination.

Group	Term	Description
Group E Departure	**EXW**	Ex Works
Group F Main carriage unpaid	**FCA**	Free Carrier
	FAS	Free alongside ship
	FOB	Free on board
Group C Main carriage paid	**CFR**	Cost and Freight
	CIF	Cost, Insurance, Freight
	CPT	Carriage Paid to
	CIP	Carriage and Insurance Paid to
Group D Arrival	**DAF**	Delivered at Frontier
	DES	Delivered Ex Ship
	DEQ	Delivered Ex Quay
	DDU	Delivered Duty Unpaid
	DDP	Delivered Duty Paid

(Note, that when the Incoterms indicate a certain point or "…", the point of destination or origin must be mentioned)

2.1. The Incoterms divide costs and risks

The Incoterms of trade have been designed to clarify obligations of both parties, the buyer and the seller. Principally, these are:

The seller must:	The buyer must:
provide the goods according to the contract	pay the price as agreed upon

In order to finalize the transaction, both parties will have to perform certain tasks, like:

Seller	Buyer
• Arrange for licences, authorisations and formalities	• arrange for licences, authorisation and formalities
• arrange for shipment	• arrange for shipment
• arrange for delivery	• accept delivery
• bear the risks for his activities	• bear the risks involved in his contractual activities.

As such, the actions and the risks and costs involved in their contractual obligations can be divided between the partners. The Incoterms 2000 give iron-clad descriptions of which risks and costs should be borne.

Cost of goods plus cost of:	**code**	**Explanation**
Export packing & marking	EXW (...named place)	'Ex works' means that the seller delivers when he places the goods at the disposal of the buyer at the seller's premises or another named place (i.e. works,factory, warehouse etc.) not cleared for export and not loaded on any collecting vehicle.
Getting goods to railway station or truck for transportation to port	FCA (...named place)	'Free Carrier' means that the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the named place. It should be noted that the chosen place of delivery has an impact on the obligations of loading and unloading the goods at that place. If delivery occurs at any other place, the seller is not responsible for unloading.
Transport to port and getting goods alongside ship	FAS (... named port of shipment)	'Free Alongside Ship' means that the seller delivers when the goods are placed alongside the vessel at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods as from that moment.
Getting goods on board and preparing shipping documents	FOB (... named port of shipment)	'Free on Board' means that the seller delivers when the goods pass the ship's rail at the named port of shipment. This means that the buyer has to bear all costs and risks of loss of or damage to the goods for export. This term can be used only for sea or inland waterway transport. If the parties do not intend to deliver the goods across the ship's rail, the FAS term should be used.

Cost of goods plus cost of:	code	Explanation
Freight cost (port to port)	CFR (… named port of destination)	'Cost and Freight' means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer.
Marine insurance	CIF (… named port of destination)	'Cost, Insurance and Freight' means that the seller delivers when the goods pass the ship's rail in the port of shipment. The seller must pay the costs and freight necessary to bring the goods to the named port of destination BUT the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time of delivery, are transferred from the seller to the buyer. However, in CIF the seller also has to procure marine insurance against the buyer's risk of loss of or damage to the goods during the carriage.
Putting goods at disposal of customer on board vessel at port of destination	DES (…named port of destination)	'Delivered Ex Ship' means that the seller delivers when the goods are placed at the disposal of the buyer on board the ship not cleared for import at the named port of destination. The seller has to bear all the costs and risks involved in bringing the goods to the named port of destination before discharging. If the parties wish the seller to bear the costs and risks of discharging the goods, then the DEQ term should be used.

Cost of goods plus cost of:	code	Explanation
Unloading charges at port of destination	DEQ (…named port of destination)	'Delivered Ex Quay' means that the seller wants the goods made available for the buyer not cleared for import on the quay (wharf) at the named port of destination. The seller has to bear costs and risks involved in bringing the goods to the named port of destination and discharging the goods on the quay (wharf). The DEQ term requires the buyer to clear the goods for import and to pay for all formalities, duties, taxes and other charges upon import.
	DAF (…name place)	'Delivered at Frontier' means that the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the named point and place at the frontier, but before the Customs border of the adjoining country. The term 'frontier' may be used for any frontier including that of the country of export. Therefore, it is of vital importance that the frontier in question be defined precisely by always naming the point and place in the term.
Payment of duties and transport to customer	DDP (…named place of destination)	'Delivered Duty Paid' means that the seller delivers the goods to the buyer, cleared for import, and not unloaded from any arriving means of transport at the named place of destination. The seller has to bear all the costs and risks involved in bringing the goods thereto including, where applicable, any 'duty' (which term includes the responsibility for and the risk of the carrying out of customs formalities and the payment of formalities, custom duties, taxes and other charges) for import in the country of destination.

Refer to Guide to Incoterms 2000, ICC Publishing S.A. 1999, International Chamber of Commerce, 38, Cours d'Albert 1er, 75008 Paris, France, fax +33 1 49 53 29 02; **www.iccwb.org**

2.2. Incoterms 2000 - an example

A customer in Hannover, Germany, asks for a quotation for 3,000 pairs of shoes, to be delivered DDP at his warehouse. You have decided on a unit price of $ 2, giving a total price of $ 6,000 for the goods as such. What are the additional costs of getting the goods from your factory in (e.g.) Lahore, Pakistan, to the customer? How (*) is your quotation affected by the terms of delivery?

If you quote:	**your price should include:**	**Additional costs:**	**Your total price is:**
EXW	Ex-works Lahore.Export packing, marking crates with shipping marks	300	6300
FCA	Free on Carrier at Lahore station. Carriage and insurance for delivery to rail-way station by road transport including insurance	100	6400
FAS	Free alongside ship at Karachi port. Rail transport to port (including insurance) and getting goods on the quay alongside ship	310	6710
FOB	Free on board Karachi. Dock dues, loading goods on board ship. Preparing shipping documents	100	6810
CFR	Cost and Freight. Sea freight to Hamburg (nearest port to Hanover)	875	7685
CIF	Cost, insurance, freight. Sea freight + marine insurance (port to port)	100	7785
DES	Delivered ex-ship at Hamburg. Landing charges at Hamburg port.	90	7875
DDP	Delivery duty Paid at customer's warehouse in Hannover. Import duties for 3,000 pairs of shoes	1200	9075
	Transport by rail Hamburg to Frankfurt	150	9225
		________ +	
		1350	9225

*) In this calculation example, all costs are hypothetical.

Appendix 3: CBI Rapid Quality Assessment

(by courtesy of CBI consultant Mr. K.P.W. de Boer)

Using twelve elements of corporate structure and culture the company's quality can be (roughly) assessed. Give your evaluating scores to each of the elements listed; use one score per element, only.

1. The management of our organization:
   A. Actively helps in solving problems
   B. Promotes and facilitates self-development
   C. Delegates operational problems successfully
   D. Has been trained in Quality Issues

2. The culture within our organization is based upon:
   A. Helping each other, also between departments
   B. Continuous improvement of the services rendered
   C. Professionalism and commitment
   D. Satisfying the customer, regardless the efforts needed

3. In our organization we invest time and funds for:
   A. Training to improve the general professional level
   B. Registration of the needs and appreciation of our clients
   C. Acquiring knowledge and skill with regard to improvement techniques
   D. Exchanging our know-how and experience with other organizations

4. Our personnel:
   A. Seems to be pleased with the organization's performance
   B. Always likes to come to work
   C. Has to be reminded of its tasks all the time
   D. Can hardly be motivated

5. The financial results of our organization:
   A. Are always around break-even
   B. Are always very positive
   C. Have been mainly positive during the last few years
   D. Have been mainly negative during the last few years

6. The improvement of our organization's performance is based upon:
   A. Customer complaints
   B. Problems with our service quality, reappearing regularly
   C. Trend analysis and meeting improvement targets
   D. Benchmarking with other organizations and customer needs

7. Our human resource policy includes:
   A. Investment in the skill of our personnel
   B. Objective selection of employees
   C. The influence of the individual on his salary, training and career
   D. Systematic assessment of employee satisfaction

8. In our organization the targets are:
    A. Agreed upon with our staff and the organizations with whom we work
    B. Defined by the Management and adopted and implemented in each department
    C. Defined and agreed with the employees involved
    D. Set by the management

9. Our customers value our products/services:
    A. Low, but they do not have other alternative options
    B. Average, but there is a urgent call for improvement
    C. Good, but of course there is room for improvement
    D. Excellent, the best there is

10. In our organization, relevant information for the improvement of quality is:
    A. Registered and analysed by means of a management information system
    B. Hardly registered
    C. Collected systematically and analysed on the basis of gaining knowledge
    D. Collected through open interviews with our clients, followed by registration and analysis

11. Our suppliers are being assessed on:
    A. Reliability
    B. Price and comparison with other vendors
    C. Realisation of targets, developed together with us in order to solve our problems
    D. Meeting the performance milestones on the basis of long term planning

12. Our operational procedures and management functions have been:
    A. Described in an organisation diagram
    B. Translated into schemes and procedures
    C. Brought in relationship with our environment
    D. Communicated verbally only

Scoring table

Question/ Answer	A	B	C	D	Your score
1	20	40	10	30	
2	30	20	10	40	
3	10	30	20	40	
4	30	40	20	10	
5	20	40	30	10	
6	10	20	30	40	
7	20	10	40	30	
8	40	20	30	10	
9	10	20	30	40	
10	30	10	20	40	
11	20	10	40	30	
12	20	30	40	10	

Score lower than 200 points: The attention is on independent activities and lack of process coordination. Too much damage control. Start with describing tasks and functions. Do not create a bureaucracy however. Start making (small) investments in your personnel and make performances measurable. Use simple methods to map your problems and their causes. Maybe ISO 9000 might be a good start for your quality policy.

Score between 200 and 300 points: The attention is on primary process in relation to the service output and the management thereof. Also describe the supporting activities in your organisation and assess their performance in relation to the critical points of your services. It will create common understanding and directs the way to improve process management. Start with simple customer satisfaction assessments and visualise costs of errors. The general lack of information has a negative impact on your results.

Score between 300 and 400 points: Management is in control of the total organisation, including the supporting activities. The organisation is client centred and has a preventive approach to problems. Next comes the linking of several sources of information. A computerised assessment methodology might be of great help.

Score of more than 400 points: You are part of the TQM elite. You use all available know-how and skills. In an open atmosphere you are relating to customers, vendors and all other parties, while striving for the most effective and efficient way of working. Integrate Quality permanently in the organisation and search for the best sparring partners, f.i. through competitive benchmarking.

Appendix 4: Marketing Assessment

(an alternative for the Export Audit)

Would your present selling tools also work for markets abroad? If you want to know, here follows a separate analytical method which focuses on the use of your marketing methods that you are using now, projected in a export operation.

The problem with starting exports is that you do not know how to tackle that. You have been selling on your domestic market, using methods that you found effective.
By now, you know that it is uncertain whether those methods will also work for markets abroad.

Offering high quality for a low price: will that work? Well, yes, but only minimally. Most of your competitors claim - and offer - the same. That does not set you apart from the competition and does not make your offer more attractive to buyers. What other selling tools can you use to become more successful? If you could use some of the tools you already know well, then it would be easier to learn a few new tricks. You don't want to start from scratch; you would not even know where and how to begin.

For that purpose this CBI Export Planner provides you with an additional tool for analysis: the Marketing Assessment. This assessment, which is basically an extra chapter of the Export Audit, is designed to predict the effectiveness of your present selling tools in a foreign market place. The method requires some assumptions (to be set by management), which makes it difficult. On the other hand, the method follows a step-by-step checking process, which makes it easy.

This method asks for a global orientation of your target markets, provisionally selected as the most attractive. For this orientation the marketing auditor should describe a profile of (present) customers and try to establish if such customers can be expected to be found in target markets as well. For instance: for food items that will be easy: there will probably be consumers for them in foreign markets too.

For your provisional selection of target markets, you should stick to markets that look familiar in comparison to your home markets. The definite market selection will take place at a later stage. The steps in the analysis process of the Marketing Assessment are:

Step 1.
Give a global description of the provisionally selected target markets (limit yourself to three), showing the probability of consumers there who have the same consumption or buying habits as those back ome.

Collect some basic data on the countries/market, like: GNP, number of inhabitants, demographic break-down (age groups and household status), income per head, degree of inflation, economical trends, degree of industrialisation, economic structure. This information is readily available from public sources and can be easily found on the Internet.

The 5-M division aid to memory does, by definition, not work for this external analysis. For systemization, use the 'STEEP' method. STEEP forms the first letters of the elements that you should pay attention to: Socio-cultural factors, Technological

factors, Economic factors, Environmental factors and Political factors related to trade. By interpreting these data, you should be able to conclude if there are customers for your kind of product - and if these customers can actually be reached. Sometimes, the fact that your competitor is successful in the very markets will give you sufficient indications.

Step 2.

The next step is to find out if these customers would - with some probability - **buy your specific product**. This is more difficult, since you don't know enough about them. So you must go deeper into the details.
Start this exercise by analyzing the **strengths and weaknesses** of your product, as seen through the eyes of the customers you described under step 1. This is a creative process, asking you to "think like the consumer", to assimilate with the consumer and his or her needs. Try to find out possible motives why the customer would buy (or not buy) your products.

B2B

Exporters of industrial goods which could be sold to other industries for their production, should do a similar exercise. As they will have fewer customers, who they eventually will know by name, address and requirements, the assessment will probably be easier to make.

At that time, if you believe your products would need some alterations or adaptations, make a note of that too. This will help you in estimating the costs of such alterations; the higher the costs, the more difficult it will become to export.

Step 3.

The third step is to check the target market on the **importability**: can your products legally be imported into the target market? This is an easy job. A mere check via the import classification (Harmonized System, SITC) would give you that answer. Your own Ministry of Trade, or your (or the target country's) embassy could give you that information. You could also link-up with the Eurostat databanks in Brussels through Internet. Make sure you know exactly what your product's classification category number is.

Part of the import regulations concerns the **non-tariff trade barriers** (health & safety and social- and environmental compatibility of your Products). Check these as well. At the same time, note down possible **import duties** or levies. Or other regulations in the framework of preferential trading facilities, if applicable.

Step 4.

The fourth item to check is the **"transport-ability"**. Obviously, very large and heavy goods will be expensive to transport over large distances. That will have its effect on the pricing in the target market. Your product should not become too expensive there.

Small items are less expensive to transport - particularly when the relation between weight/volume and price favours the latter. But in both cases you should have a closer look at the **packaging**. Is that strong enough to withstand rough treatment or the hazards of transportation, however long? Will it (or your product inside) rust or rot during shipping and storage? Does your product need special treatment (like cold storage), packaging from environmental point of view and regulations on the target market which will make the final price very high?

By now, you, as the aspiring exporter, will have some notion about potential customers in your target markets. You will also know whether your product could be shipped there - and roughly at what (additional) costs. This is good enough for now; at a later stage you will fill in the details for your marketing plan.

Step 5.
The fifth item to check is the **pricing**. This is a critical factor. Much depends on it. Start with the market pricing, i.e. the selling prices to the end-customers. That is easy for most consumer goods: just do a couple of store checks in the target country and note down prices of **competing products** in your line. You may have to pay a fact-finding visit to that market or ask your embassy or BSO to arrange for such. It will be more difficult for industrial products. Obtaining that information will require the national trade statistics or the help of market researchers. Often, the buyers dictate the prices. Ask them.

In the extremely rare event that the competition has not yet found the market, you should do some educated guesswork. Try to find a product which could compete "by substitution" e.g. compare your plywood with hardboard, or your wicker furniture with the steek- and plastic type of furniture offered in the market. Research agencies, or your own BSO, could assist you.

Of course, knowing the market prices does not mean that you are sure your pricing would be competitive. A multiplier of 3 to 10 often exists between your Ex Works- (EXW)price and the market price. The market price includes the total set of margins, costs and duties that multiply your EXW-price several times over.

To make that rough calculation, refer to chapter 4.5 for that calculation method. If your prices should come out higher, your product should be (much) better than the present types available. You should ideally be able to match or underbid the current market price. If your prices (and hence your production costs) are far too high, forget about the operation entirely or find a different product to export.

Step 6.
The next step in the Marketing Asessment is to compare your present **distribution methods** with those required for the pre-selected markets. If these methods are similar to yours, then you can assume you have the knowledge to compete successfully.
If not, try to find the main differences and assess if your company is strong and/or creative enough to comply with the local situation. Look for outside help, if needed.

As you know, distribution systems in industrialized countries can vary considerably. In Western countries consumer goods are mainly sold via large scale stores, organised in (buying) chains, The minority of goods is sold via small shops and street markets. Read Chapter 4.6 for more details.

B2B

For industrial products, like technical components the system will be more or less similar: they will find the fastest way to the user, following specialized importer - wholesaler links. For capital goods the distribution system will be direct, as you know it at home. But in that case you may not know the important buying decision-makers, which may prove a setback that takes time to overcome.

Step 7.

With regard to the **promotional methods**, the job is about the same as with the distribution. Note, that "promotion" includes all activities needed to support and promote the actual selling in the target market abroad.

Therefore, the marketing auditor should not only compare his present marketing communication (advertising, printed instructions and information brochures etc.) with the market's habits or requirements - starting for example with translating them into the appropriate language.

He could also analyse the ways a sales organization could become more effective - and what the competition does in this field. That could provide him with a better understanding of what it takes to become successful. If that information is too difficult to obtain, leave it for your future trading partner to find out.

As you see, auditing requires a wealth of information. Gathering information can be time-consuming, particularly when the researcher strives for perfection. Possibly, you as the manager can find the data faster, but you lack the time. Knowledge may be power - but time is money.

Appendix 5: References

Elements of EMP	**"EMP Builder"**
Relevant websites	**Throughout the text**
Other CBI manuals	At relevant chapters

Key words	**Page numbers**
Agent	14,67,**71-**74,86,90,91,93
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CBI: Your european partner for the european market

The CBI (Centre for the Promotion of Imports from developing countries) is an agency of the Dutch Ministry of Foreign Affairs. The CBI was established in 1971. The CBI's mission is to contribute to the economic development of developing countries by strengthening the competitiveness of companies from these countries on the EU market. The CBI considers social values and compliance with the most relevant environmental requirements to be an integral part of its policy and activities. CBI offers various programmes and services to its target groups:

Market information

A wide variety of tools to keep exporters and Business Support Organisations (BSOs) in developing countries in step with the very latest development on the EU market. These include market surveys and strategic marketing guides for more than 40 product groups, manuals on export planning and other topics, fashion and interior forecasts and the CBI News Bulletin, a bi-monthly magazine. This information can also be obtained from out website at **www.cbi.nl**
For all information on non-tariff trade barriers in the EU CBI has a special database, AccessGuide, at **www.cbi.nl/accessguide.** And finally CBI' s Business Centre is offering free office facilities, including telephones, computers, internet and copiers for eligible exporters and BSOs. Market reports, international trade magazines, cd-roms and much more can be consulted in the information section of the business centre.

Company matching

The company matching programme links well-versed suppliers in developing countries to reliable importing companies in the EU and vice versa. The online matching database contains profiles of hundreds of CBI-audited and assisted exporters in developing countries that are ready to enter into various forms of business relationships with companies in the EU, as well as many EU companies interested in importing or other forms of partnerships such as subcontracting or private labelling.

Export development programmes (EDPs)

EDPs are designed to assist entrepreneurs in developing countries in entering and succeeding on the EU market and/or in consolidating or expanding their existing market share.
Selected participants receive individual support over a number of years by means of on site consultancy, training schemes, trade fair participation, business-to-business activities and general export market entry support. Key elements usually include technical assistance in fields such as product adaptation, improving production, implementing regulations and standards and export marketing and management assistance.

Training programmes

Training programmes for exporters and BSOs on, among others, general export marketing and management; trade promotion; management of international trade fair participations and developing client-oriented market information systems. The duration of the training programmes vary between two days and two weeks and are organized in Rotterdam or on location in developing countries.

BSO development programme

Institutional support for capacity building for selected business support organisations.
The programme is tailored to the specific needs of participating BSOs and can include train-the-trainer assistance, market information systems support and staff training. CBI's role is advisory and facilitative.

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