

II. Making The Sale

A. Selling in Overseas Markets

Many successful exporters began selling overseas by responding to an inquiry from a foreign firm. The most successful firms know how to respond to inquiries, are aware of the business differences involved in international selling, and take the time to build a relationship with the client.

The following are key suggestions when conducting international business dealings:

Evaluating Foreign Representatives.

The selection of the right agent or distributor to represent your company's products / services overseas is crucial to your ultimate success. Therefore, it is imperative that this choice be based on comprehensive information that can be obtained only through extensive screening and in-depth personal interviews. This takes on the added significance when you consider the difficulties that may be encountered in some countries when attempting to terminate a relationship of this type. To protect their citizens, a number of countries have enacted very rigid laws governing the termination of agency agreements. This subject is discussed in greater detail on an individual, country-by-country basis in the U.S. Commerce market research, Country Commercial Guides, available on www.export.gov.

There is tendency to classify all agents in one category and all distributors in another. This couldn't be further from the truth. There is a wide variation in the manner in which firms operate within each category depending on product scope, size, country requirements, etc. Each manner of operation will have its own advantages or be necessary to meet local country requirements.

The screening process used to qualify foreign agents / distributors is not that much different from that used domestically. Initially, it should include

1. A general matching of the agent / distributor's sales territory with the area you wish to have covered;
2. A review of their product area (s) of specialization, if any, for compatibility with the products/ service to be offered; and
3. Discreet inquiries from unbiased sources to determine their reliability, general business reputation, and success in selling current product lines. Business profiles on foreign companies are available at a nominal cost from the U.S. Commerce (WTDR Service), as well as from a number of private credit reporting companies.

Because of the distance encountered when conducting international trade, most screening efforts will be conducted by mail or, in some instances, by telephone. The following FACTORS will assist you in this process.

Factors To Consider When Choosing A Foreign Representative Or Distributor

Each company should tailor the following checklist to its own needs. Key factors vary significantly with the products and countries involved.

Size of Sales Force

- How many field sales personnel does the representative or distributor have?

- What are its short and long range expansion plans, if any?
- Would it need to expand to accommodate your account properly? If so, would it be willing to do so?

Sales Record

- Has its sales growth been consistent? If not, why not?
- Has this growth been consistent with the industry average?
- What is its sales volume per outside salesperson?
- What are its sales objectives for next year? How were they determined?

Territorial Analysis

- What territory does it now cover?
- Is it consistent with the coverage you desire? If not, is it able and willing to expand?
- Does it have any branch offices in the territory to be covered?
- Is so, are they located where your sales prospects are greatest?
- Does it have any plans to open additional offices?

Product Mix

- How many product lines does it represent?
- Are they compatible with yours? Would there be any conflict of interest?
- Does it represent any other U.S firms? If so, which ones?
- If necessary, would it be willing to alter its present product mix to accommodate yours?
- What would be the minimum sales volume needed to justify its handling your lines?

Facilities and Equipment

- Does it have adequate warehouse facilities?
- What is its method of stock control?
- Does it use computers? Are they compatible with yours?
- What communications facilities does it have (fax, modem, telex, etc.)?
- It is equipped and qualified to service your products? If not, how much are training costs?

Marketing Policies

- How is its sales staff compensated?
- Does it have special incentives or motivation programs?
- Does it use product managers to coordinate sales efforts for specific product lines?
- How does it monitor its sales performance?
- How does it train its sales staff?
- Would it share expenses for sales personnel to attend factory-sponsored seminars?
- How does it plan to position your product in the marketplace?

Customer Profile

- What kinds of customers is it currently contacting?
- Are its interests compatible with your product line?
- Who are its key accounts?

- What percentage of its total gross receipts do these key accounts represent?

Principals Represented

- How many principals is its currently representing?
- Would you be its primary supplier?
- If not, what percentage of its total business would you represent? How does this percentage compare with suppliers?

Promotional Thrust

- Can it help you compile market research information to be used in making forecasts?
- What media does it use, if any, to promote sales?
- How much of its budget is allocated to advertising? How is it distributed among various principals?
- Will you be expected to contribute funds for promotional purposes? How will the amount be determined?
- If it uses direct mail, how many prospects are on its mailing list?
- What type of brochure does it use to describe its company and the products that it represents?
- If necessary, can it translate your advertising copy?

Methods of Payment

- How is the distributor paid by its end-users?
- Does it have access to capital? If so, how much?
- Does the distributor have access to hard currency?
- What sort of payment terms is it expecting from you? And what are your payment expectations regarding the distributor?
- Are you willing to be paid in a foreign currency?
- Does the distributor have good banking relationships?

Responding to inquiries.

A typical inquiry will ask for product specifications, information, and price. Some foreign firms want information on purchasing a product for internal use, while others plan to sell the product in their market. Regardless of the type of inquiry, a firm should establish a policy to deal with them. Some key points to remember:

- Reply to all correspondents, with the exception being those that obviously will not turn into customers.
- Reply promptly, completely and clearly.
- Set up a file for foreign letters.
- Enclose information on the firm's goods or services.

Determining whether or not an inquiry is legitimate

A U.S. company can obtain information about a foreign firm by checking with the following sources:

- Business libraries. Several publications list and qualify international firms, including Jane's *Major Companies of Europe*, Dun and Bradstreet's *Principal International Business*, and many regional and county directories.
- International Banks. Bankers have access to vast amounts of information on foreign firms and are usually very willing to assist corporate customers.
- Foreign Embassies. Foreign embassies are located in Washington, D.C. and some have consulates in other major cities.
- The U.S. Department of Commerce. International Company Profile. Background reports on financial and trade records of potential foreign partners. The cost of ICP is \$100 per company checked. Orders are initiated with the Commercial Service.
- Sources of credit information. Credit reports on foreign companies are available from many private sector sources.

SCDEC Mentors:

Bob Britt

David Cloer

Jim Cox

Cecilia Shepherd

Robert Whitaker

Dorette Coetsee

Allan Copp

Charles Kerekes

Ann Watts

B. Pricing the Product, Quotations, & Terms

Proper pricing, complete and accurate quotations, terms of sale, and payment are four critical elements in selling a product or service internationally. Of the four, pricing is the most problematic.

Pricing Considerations. It is essential that a firm's market research include an evaluation of all of the variables that may affect the price range of a good or service. The traditional components for determining proper pricing are costs, market demand, and competition. An in-depth analysis of each component from an export perspective often results in export prices that differ from domestic prices. Also take into consideration the customer's costs when pricing goods or services. The exporter must take care not to price himself out of the market.

- Foreign Market Objectives. An important aspect of a company's pricing analysis is determining market objectives. Many firms view the foreign market as a secondary market and consequently have lower expectations with regard to market share and sales volume. Naturally, pricing decisions are affected by this view.
- Costs. The computation of the actual cost of producing a product and bringing it to market or providing a service is the core element in determining whether exporting is financially viable. A recommended method of pricing for market entry is what is termed marginal cost pricing. This method considers the direct, out-of-pocket expenses of producing and selling products for export as a floor beneath which prices cannot be set without incurring a loss.

- **Market Demand.** As in the domestic market, demand in the foreign market is a key to setting prices: What will the market bear for a specific product or service? For most consumer goods, per capita income is a good gauge of a market's ability to pay, but there are variables that affect it, such as currency valuations, target customers' income, etc.
- **Competition.** If a particular foreign market is being serviced by many competitors, the exporter may have little choice but to match the going price or even go below it to establish a market share. If the exporter's product or service is new to a particular foreign market, it may actually be possible to set a higher price than is normally charged domestically.

Quotations and Pro Forma Invoices. Many export transactions, particularly first-time export transactions, begin with the receipt of an inquiry from abroad, followed by a request for a quotation or pro forma invoice. The quotation describes the product, states a price for it, sets the time of shipment, and specifies the terms of sale and terms of payment.

Terms of Sale. In any sales agreement, it is important that a common understanding exist regarding the delivery terms. The terms in international business transactions often sound similar to those used in domestic business but they frequently have different meanings. Confusion over terms of sale can result in a lost sale or a loss on a sale. A complete list of important terms and their definitions is contained in Incoterms, a booklet issued by ICC Publishing Corporation, Inc., tel: 212-206-1150.

SCDEC Mentors:

David Cloer

Ann Watts

Robert Whitaker

C. Complying with Export Regulations

Export Regulations. Although export licensing is a basic part of exporting, it is one of the most widely misunderstood aspects of government regulations for exporting. While the export licensing procedure may appear complex at first, in most cases it is a very straightforward process. Violations of the Export Administration Regulations (EAR) carry civil as well as criminal penalties. Export controls are administered by the Bureau of Industry and Security (BIS) in the U.S. Department of Commerce. If there is ever any doubt about export regulations compliance, Department of Commerce officials or qualified professional consultants should be contacted at: BIS (202) 482-4811

Antitrust Laws; Foreign Corrupt Practices Act. The U.S. antitrust laws reflect this nation's commitment to an economy based on competition. They are intended to foster the efficient allocation of resources by providing goods and services at the lowest price that efficient business operations can profitably offer. Various foreign countries also have their own antitrust laws that U.S. firms must comply with when exporting to such nations. Also affecting export practices is the Foreign Corrupt Practices Act that makes it unlawful for any person or firm to offer, pay, or promise to pay money or anything of value to any foreign official for the purpose of obtaining or retaining business. The Department of Justice enforces the criminal provisions of the FCPA and certain civil provisions; the Securities and Exchange Commission is responsible for civil enforcement against "issuers".

Import Regulations of Foreign Governments. Import documentation requirements and other regulations imposed by foreign governments vary from country to country. Check with the U.S. Department of Commerce Commercial Service office for *Country Commercial Guides* from the Market Research menu on www.export.gov.

SCDEC Mentors:

David Dubberly

Ann Watts