

Venturing Offshore for the First Time

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Are you ready to Export?

- Have you selected a team of qualified export advisors?
- Have you developed a master international marketing plan?
- Do you have long-term commitment by top management to overcome the initial difficulties and financial requirements of exporting?
- Have you carefully selected your foreign distribution channel?

Are you ready to export?

- Do you intend to treat your foreign distributors on an equal basis with their domestic counterparts?
- Have you considered the foreign market separately in designing your marketplace techniques?
- Are you willing to modify products to meet foreign regulations and or cultural preferences?
- Will you print service and sales messages in foreign languages?

Are you ready to Export

- Are you prepared to provide readily available after-sales service for your product?
- Do you understand foreign laws, culture and business practices?
- Are you prepared to file your patent and trademark applications in the foreign country?

Ten Common Exporter Mistakes

- **Failure to develop an international marketing plan prior to beginning to export.**
- **Insufficient commitment by top management to overcome the initial difficulties and financial requirements of exporting.**
- **Insufficient care in selecting overseas distributors.**
- **Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth.**

Ten Common Exporter Mistakes

- **Neglecting export business when domestic markets are healthy.**
- **Failure to treat international distributors on an equal basis with domestic counterparts.**
- **Unwillingness to modify products to meet regulations or cultural preferences of other countries.**
- **Failure to print services sales and warranty messages in locally understood languages**

Ten Common Exporter Mistakes

- **Failure to consider use of an export management company.**
- **Failure to consider licensing or joint-venture agreement**

Planning and Evaluation

- Identify and assemble team
 - Finance (Bank or Government Program)
 - Legal (U.S. and Foreign Country)
 - Transportation

Planning and Evaluation

- Market Accessibility
- U.S. Export Controls
- Host Country Import Controls
- Political Stability
- Legal Issues
- Qualified Distributors
- Infrastructure

Planning and Evaluation

- Market Assessment – (Macro level)
 - Economic
 - Demographic
 - Geographic
 - Socio-cultural
- Market Assessment – (Micro Level)
 - Production / Exports of similar product
 - Consumption / Imports – Competition
 - Operation - Usage

Market Entry Considerations

- Joint Venture
 - Equity Joint Venture
 - Commission Agent
 - Export Management Company
 - Export Trading Company
- Distribution Channels
 - Indirect Exporting
 - Direct Exporting

Indirect Exporting

- Commissioned Agents
- Export Management Companies
- Export Trading Companies
- Cooperatives
- Foreign Trading Companies
- Merchants and Agents
- Piggybacking

Benefits of Indirect Exporting

- Low cost, low risk entry strategy.
- No international experience required
- Management is not distracted
- Faster to international market
- Little to no increased financial commitment
- Piggyback marketing

Disadvantages of Indirect Exporting

- Poor control over program
- Potentially wrong market
- Potentially lower sales
- Inadequate market feedback

Direct Exporting

- Independent Distribution Channels
 - Foreign based sales representative
 - Foreign based agents
 - Foreign based distributors
 - Foreign Retailers
 - Direct Sales to End Users

Direct Exporting

- Dependent Distribution Channels
 - Foreign based sales branch
 - Foreign based sales subsidiary
 - Traveling sales persons
 - Storage or warehousing facilities
- Home country based department
 - Built in exporting department
 - Easy to establish
 - May have problems getting support from other units and in carrying out technical functions.

Direct Exporting

- Home country based department
 - Separate export department:
 - Little conflict in daily operations, but may be in competition for your resources.

Export Sales Subsidiary

- Provides unified control
- Profit Center
- Ease of financing
- Wider product line
- Tax advantages

Agents/Reps vs. Distributors

- Duties of Sales Rep. / Commercial agent
 - Development of market for your products
 - Assist in pre-qualification for bids
 - Identify potential customers
 - Provide support services
 - Serve as legal representative
 - Sales representative is your employee and subject to host country labor laws.
 - Commercial agent is an independent contractor.

Sales Rep. Commercial Agent

- They are both authorized to solicit orders in a designated area
- Receive a salary or commission based on sales
- Do not sell for their own accounts
- Usually do not bear credit risk
- Maintains no inventory

Distributors

- Authorized to sell goods provided by the supplier within a designated territory
- Takes title to goods and is compensated by the mark-up he receives upon sale
- Sells the supplier's goods to his own customers for his own account
- Has no authority to act on behalf of the supplier without special authorization
- Bears all commercial risk associated with sales

Distributors

- Maintains an inventory and physically distributes the goods
- Sells in original packaging with the producers labeling
- Should provide technical support, after sales service and participate in joint advertising and other marketing.

Qualifications for the Distributor or Agent

- Experience in the Market with your product
- Knowledge of the Industry
- Size
- Track Record
- Maturity and strength of sales force
- Facilities and Warehouse / Transportation
- Long Term Commitment

Set your own criteria

- Communication (no language barrier)
- Technical Knowledge
- Proven track record with the customers you want to reach
- Reputation (TRUST)
- Facilities and people who fit your product and desired image.
- Ability to cover the territory you wish to cover.

Where to find a Distributor or Agent

- U.S. Department of Commerce contact programs: U.S. Foreign Commercial Service in Minneapolis 612-348-1638
- Libraries
- Foreign Embassies, Consulates and Trade Offices
- Trade Associations
- Trade Shows

Benefits of Direct Exporting

- Direct Control
- Excellent Feedback
- Greater potential for sales and profits

Disadvantages

- Greater investment required on your part
- Longer time to market
- Higher risk

Joint Ventures

- Review
 - Choosing a business partner to share
 - Ownership
 - Risk
 - Control
 - Management
 - PROFITS

Joint Ventures

- Determine early the function and spectrum of the Joint Venture
 - Sales and Service
 - Manufacturing
 - Management
 - Licensing
 - Subsidiary

Joint Ventures

- What does your business model indicate for the type of partner you need?
- Do you have a current or prior relationship with your prospective partner?
- How will the partner be compensated?
 - Equity
 - Cash
 - Combination
 - Incentive Pay

Key Issues

- Background check on all unknown partners
- Communication issues
 - Time
 - Language
- Break-up or Buy-out in relationship sours
- Ownership percentages
- Capitalization
- Transferability of interests

Other Key Issues

- Dispute resolution
- Term and Termination
- Officers
- Provisions for additional capital contribution
- Decision making authority/operational independence

Pricing Strategies

- Decide early on your Pricing Objectives
 - Profit maximization, increase market share ROI
- Decide on pricing policies
 - One price worldwide
 - Dual price
 - One for domestic, one for international
 - Market driven price
 - One for each individual market
 - Full Cost Pricing
 - Marginal Cost Pricing

Export Costs

- When quoting a price for export consider the following:
- Forwarding
 - Container loading
 - Documentation
 - Transportation
 - Legalization
 - Letter of Credit costs
 - Terminal Handling Charges
 - Bank Fees
 - Insurance
 - Communications
 - Other

Quoting a Price

- What is the Pro-Forma Invoice
 - A Pro-Forma is your quotation for the goods you are offering to ship, subject to the importer's (buyer's) approval.
- Spelling out the specifics
 - Cover all the relevant details
 - Goods
 - Price
 - Terms

Transfer Pricing

- Transfer Pricing or intra-corporate pricing refers to goods sold within the corporate family, that is from division to division or to a foreign subsidiary.

Transfer Pricing Methods

- Transfer at manufacturing costs
- Transfer at “Arm’s Length” (preferred by the IRS)
- Charge the same price to any buyer outside the firm (unrelated party pays)
- Transfer at cost plus

Benefits

- Reducing income taxes
- Minimizing import duties
- Facilitating dividend repatriation
- Distorting or “Dressing up” the financial performance of a foreign base subsidiary

The Internal Revenue Service

- Scrutinizes transfer prices that may result in the transfer of taxable income to other countries
- Unreasonably low transfer prices
- Penalties can be as high as 40% of underreported amounts
- To avoid penalties, enter an Advanced Pricing Agreement (APA) with the IRS. Valid up to 5 years.

Foreign Tax and Customs

- Both wish to maximize taxable income
- Tax authorities watch for unreasonably high transfer prices
- Customs on guard against duty avoidance as a result of too low a price
- Antidumping duties are possible as a result of low transfer prices (Dumping)
- Tax war between foreign country and U.S.

Getting it there

- Transportation is usually the last thing considered in any transaction, however is the most important.

Considerations

- Parties involved
- Shipper/Beneficial Cargo Owner
- Truckers
- Warehouse
- NVOCC
- GSA
- Carrier
- Airline

Basic Function of Air Forwarder

- Provide Capacity
- Provide Documentation
- Value Added Service
- Handle banking and insurance issues
- Consultant
- Make all necessary arrangements

Ocean Freight

- One of the oldest forms of transportation
- Low cost alternative to Air freight
- Special considerations needed in packaging, labeling, documentation and time.

Shipping Terms and Conditions

- Forwarders are not necessarily liable for your freight.
- Agent with no responsibility for physical state of cargo
- Travel agent for your freight
- NVOCC's Liability is limited to \$500 per customary freight unit.

Keys to Export Success

- Develop a global mind set
- Top management commitment
- Market Focus
- Quality product/service
- Willingness to adapt
- Long term view
- Education and Training

Thank you