

International Trade Financial Solutions

MINIMISING COMMERCIAL RISKS WHEN TRADING ABROAD

email: info@intradefinsolns.co.uk

www.intradefinsolns.co.uk

What Representation Overseas?

One area that needs careful consideration by Exporters is how to place their goods in a foreign market in order to achieve the optimum results. There are several options available and all have benefits, but you do need to weigh these up according to your own specific needs. At times, local laws and regulations may restrict you in your choice and it is always important to understand whether there are restrictions before you commit to any new Country.

There are 5 main options that are typically available and these are:

1. Agency. An agent works on your behalf. You are responsible for their actions and the contract for any sales is between you and the ultimate buyer.
2. Distributor. A distributor buys your goods and then sells them. Here, there are 2 separate contracts – the sale from you to the distributor and the subsequent sale from the distributor to the end user. You have no control over these sales and it is no longer possible to restrict a distributor's sales area.
3. Representative Office. You maintain a local physical presence. This may be staffed by local staff, expatriates or a mixture.
4. Joint Venture. Here, you enter into a market jointly [usually] with a local business. In some Countries, this is the expected norm.
5. Wholly Owned Subsidiary Company. You form a separate legal entity in the foreign Country that is 100% owned by you.

Which to Choose?

The following is not comprehensive, but a guide only. Where there are choices, the correct option will depend on several factors specific to your line of business.

- Do you need to stock Products locally? *No – Agent; Yes – Distributor.*
- Do you need after sales service? *No – Agent; Yes – Distributor.*
- Do you need to undertake Sales & Marketing activity? *No – Agent or Distributor; Yes – Representative Office.*
- Is local manufacturing better/needed? *No – Agent, Distributor or Representative Office; Yes – Joint Venture or Wholly Owned Subsidiary Company.*
- Are there separate arrangements for Sales/Service/Marketing? *No – Agent, Distributor or Representative Office; Yes – Joint Venture or Wholly Owned Subsidiary Company.*

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For the last 2 above, it is possible to have a combination of JV and WOS Co. Also, your own situation may result in your deciding to adopt a different approach, but the table above is a good place to start.

Consider also the following options that may be available and/or applicable to you:

- Third Party Sales
- Partnership
- Franchise
- Internet Only.

Third Party Sales are where you have no direct presence, but sell by, for example, catalogues, with all shipments from the UK. Another example could be where you sell to another UK company who then exports your goods with theirs. In this scenario, you are not exporting directly but still penetrating a foreign market.

Partnership. You form a partnership [usually as opposed to a Joint Venture] with someone in your target country.

Franchise. This concept is now widely understood in the UK and is becoming more common in many countries across the world.

Internet Only. This may be best for marketing only. You must investigate fully whether e-commerce is widely accepted in your target country. Also, you need to consider secure payment methods and how goods are to be released. Where widely used, e-commerce is considered a fast medium, and you will probably need to hold stocks locally. Therefore, you may still need the likes of a [local] Distributor.

In summary, there is no simple answer to what route you choose to go into a foreign market. However, the foregoing will give you some areas that you must consider. Always remember, however, that the starting point, once you have identified your market, must be local customs, culture and legal regulations. These may restrict your options.

Ray Stannard, International Trade Financial Solutions. Tel/Fax 01708 370838, Mobile 07768 903258, e-mail: info@intradefinsolns.co.uk. www.intradefinsolns.co.uk.

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