

International Trade Financial Solutions

BUYING AND SELLING OVERSEAS

– Getting started, the SME perspective

RAY STANNARD looks at the issues facing many SMEs when thinking about that first move into markets overseas.

MORE and more businesses are now considering both to source raw materials and goods from overseas as well as looking abroad for potential new markets for their products and services. As communications and logistics become ever easier, this is, perhaps, an inevitable step if the UK is not to lose its position of importance in the world economy. For many large organisations, overseas trade is part and parcel of their daily routine. Often they will have local subsidiaries to attend to this and much trade will be conducted at arms' length from the viewpoint of the UK entity.

But what about the smaller business, who cannot benefit from these economies of scale and lack the resource to establish such arrangements? For some, the thought of having to deal with overseas customers is such a daunting prospect that it can reduce their ability to grow their business – even to the point that some refuse point blank to become involved with the import/export market. For others, they may fail to appreciate that the way business is conducted abroad can be different to that in the UK and, as a result, they do not achieve the desired effects for their business.

However, it needn't be so. Many businesses do successfully take the step and don't look back. How do they manage this?

The bad news is that there's no simple answer – unfortunately, you can't pull an all encompassing A-Z off the shelf. The good news, however, is that there is a lot of help and advice available to all businesses to allow them to gain that first foothold in International Trade. And, what's even better, it doesn't stop there – if you know where to look, you can obtain ongoing assistance from experts in this field who can tailor their advice to your specific needs and circumstances. So, what are you waiting for??

Well, first things first. Treat it like any new venture – plan and research thoroughly. Although some of this can be done with the help of outside assistance, you have to start it off – after all, it's your business and your product or service that we're talking about here. Also, the basics of a well thought out and presented plan will help to impress anyone outside your business whose

assistance you are seeking. Don't expect to have covered everything, and treat the whole process as a learning exercise for you and your staff. As you continue to expand and find new markets, what you have learned this time round will undoubtedly benefit you in the future. Like most things, the first time is the most difficult.

Advice is available from many sources – use the Essex Chambers of Commerce and local Business Links/UKTI consultants to help you complete much of your business plan and help with the ongoing market research, whilst your bank can assist on the financial side, although for small businesses, this is rarely in sufficient depth. Consider also the many alternative providers of foreign exchange, who are often more competitive than the banks on smaller sized deals. For a more personal and detailed financial discussion on your new overseas venture, or even to review existing arrangements, use an independent consultant, such as International Trade Financial Solutions, who can both help you to identify what issues your project will need to consider and undertake a general overview the financial side of your plans – including any current banking facilities – often making constructive suggestions on reducing further your overheads, giving you a direct positive effect on your bottom line.

The actual steps that you need to take as you plan and research will vary considerably according to your own position; for example, are you importing or exporting? Do you deal in raw materials or finished goods? Are you looking for a permanent supplier/market, or seasonal one? I would suggest, however, that most, if not all, of the following should appear in practically every plan.

1. A short summary rationale as to why you are looking to trade overseas – e.g. source cheaper goods, find new markets.
2. Is this on-going or seasonal?
3. If known at this stage, the Country/Countries that you want to trade with, again, with a rationale as to why these Countries and not others.
4. Again, if known at this stage, how you intend to control the overseas part –

“ Minimising Commercial Risks When Trading Abroad ”

local representation, agents, joint venture?

5. How do you intend to research the chosen Country/Area? Fact finding missions and trade fairs are but 2 possibilities. Can any other business who has been down this road before assist you?
6. The legal status of any agreements to your new suppliers/buyers. Formal contracts? UK or local [foreign] law? Obtain suitable legal advice preferably before you commit to anything.
7. Trade terms. You may not know at this stage, but part of any agreement/contract that involves the shipment of physical goods will include what are known as INCOTERMS. These define which party is responsible for the goods at each stage of their movement from supplier to buyer. If you are involved in a service related trade, you need to consider at what point the service has been delivered and, therefore, payment is due.
8. Consider whether there are any import/export restrictions and/or tariffs/quotas on your goods/services – both from the perspective of the UK and the foreign Country. The UKTI website is a good source of information here.
9. For physical shipments, do you need to consider how they will get from A to B? Do you currently have a Freight Forwarder?
10. An acknowledgement of the fact that local business protocol may be very different from that seen in the UK. You need to understand this before you embark on any visits/negotiations, even those at a distance, e.g. telephone/internet.
11. Is there a language issue to consider? English may be the language of business, but it's not universal!
12. Impact on cashflow. DO NOT OVERLOOK!! This is a complex and critical area, covering many aspects and much thought [and, usually, help] is needed here – again, preferably before you commit yourself to anything. Doing business overseas can make the

usual payment cycle longer if you're selling, or shorter if you're buying. Either way, these can have an unexpected and unwelcome effect on your cashflow. Areas to consider include:

12.1. Item price. It needs to be fixed based on the local going price, not the UK one.

12.2. Currency. It may be more convenient for you to price in Sterling, but often the local currency is better and will give better results. For some countries, e.g. China, Africa and much of S America, a 3rd currency [typically US Dollars] may be appropriate.

12.3. Foreign Exchange Risk. If trading in a foreign currency, you need to consider what approach you are considering re exchange rate movements.

12.4. Terms of Payment. Not just what credit [if any] are you giving/being given, but how are contracts to be settled. Putting a cheque in the post is not recommended, not least as it's very insecure.

13. (If you're importing), quality control of the goods. How is this to be managed? A similar issue may arise for exports, but your usual concern here is getting paid!

14. Consider the need for any specialised legal assistance – e.g. around Intellectual Property Rights.

The list above looks daunting but, once you start working on it, you'll find that many of the categories are closely related and completion of 1 will answer another, so don't be put off. Other, specific issues may apply to you, so do not treat the above as a comprehensive plan. However, as I have already said, many are crucial if you are looking to succeed in your new venture. It's also not too late to review any existing overseas business by drawing up a relevant list. This may help to identify potential problem areas.

Trading overseas can be a minefield – it can equally be one of the most rewarding moves – in all senses – that your business ever makes. Make sure that you choose the latter... and Good Luck!

Ray Stannard runs his own consultancy, International Trade Financial Solutions.

For more information:

Tel/fax: 01708 370838

Mobile: 07768 903258

E-mail: ray@intrtrade finsolns.co.uk

www.intrtrade finsolns.co.uk