A Step by Step Guide for Irish Exporters

Your Local Enterprise Board

County & City Enterprise Boards | Boird Fiontar Contae agus Cathrach

EUROPEAN UNION

www.enterpriseboards.ie

County & City Enterprise Boards

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1 Background to the Irish Export Market

Since the 1990's, there has been a transition in the Irish economy from stagnant to high growth. This is largely due to exponential growth in the export sector. Export growth has accounted for the majority of economic growth over the past fifteen years. The increase in Irish exports has matched national income growth closely over this time period (See figure 1).

Ireland's rate of export growth has surpassed world trade growth by a factor of three since the 1990's, and the country's annual rate of real export growth in goods and services has, in the last number of years, ranked in the top five of the 30 member OECD countries. According to 2004 World Trade Organisation statistics, Ireland is the 23rd largest exporter in the world, and is one of the leading non-oil exporting countries on a per capita basis, along with Singapore and Belgium. Furthermore, Ireland's per capita exports are over seven times those of the USA, six times those of Japan and four times those of the UK.

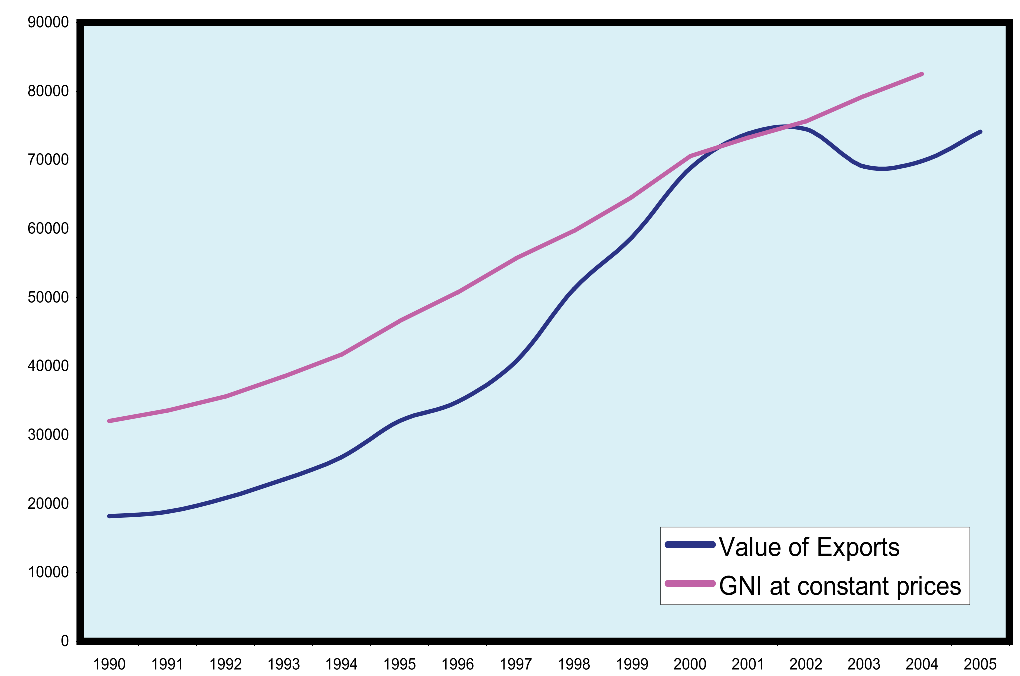


Figure 1 – Real value of Irish exports; real Irish economic growth (GNI over time) (Source CSO, 2006)

A large portion of growth in exports and in overall economic growth has been Foreign Direct Investment (FDI), particularly from investors residing in the United States. Today, the USA is a very significant export market for Ireland. This share has been driven by the operations of US owned businesses in Ireland. However, exports to the EU are increasing, and the EU non-members accounted for 46% of Irish exports in 2005, in comparison with 21% in 1973. It is anticipated that this positive trend in Irish exports will continue with the value of exports doubling by 2010.

In summary, the Irish export sector has played a pivotal role in the success of the Irish economy over the last number of years. The exporting of goods, notably machinery, chemicals, software and services remain at the forefront of Irish export performance, with agricultural exports lagging behind (see figure 2). Furthermore, the role of Foreign Direct Investment in the success of the Irish export sector cannot be emphasised enough. Foreign owned companies have had a greater tendency to export and have surpassed indigenously owned companies on export markets.

Category	**% Total Exports (2006)**
Food and live animals	7.55%
Beverages and tobacco	1.14%
Crude materials, inedible, except fuels	1.56%
Mineral fuels, lubricants and related materials	0.65%
Animal and vegetable oils, fats and waxes	0.02%
Chemicals and related products	46.83%
Manufactured goods class by material	1.86%
Machinery and transport equipment	25.22%
Miscellaneous manufactured articles	11.35%
Commodities & transactions not classified	2.58%
Unclassified estimates	1.24%

Figure 2– Breakdown of value contribution to total goods exports by broad category (Source CSO 2006)

2 Why Should I Export?

There are an abundance of reasons for an SME to export. These are as follows:

- Exporting can increase profitability and utilise production capacity to the full
- It can assist in developing a company's strengths and abilities, and make it more innovative
- Exporting can open doors that might never have been discovered if limited to the domestic market
- Exporting enables learning of new skills, technology and marketing techniques using international approaches
- It allows the transfer of knowledge and skills from international markets to Irish SMEs

Can Exporting Benefit my Business?

When a business makes an active decision to look at exporting to foreign markets, it is vital to consider the huge implications that it will have, as well as additional constraints it will put on time, staff and financial resources. With this in mind, it is a decision that should be made with extreme caution, as not all companies may have the resources available at a particular time for success through exporting. When a business decides to export to foreign markets, it must ensure that sufficient funds are available for planned expenditures, as well as unexpected costs that may incur, such as fluctuations in exchange rates, late or non-payment by an overseas customer, as well as delays in transportation.

Minimum Requirements

There are some basic requirements that businesses must meet, which are fundamental to the successes of exporting. These are as follows:

- An exportable product
- Readily available financial resources, as well as credit facilities if required
- Competitive advantage
- A skilled staff, in terms of foreign languages and management competencies
- Support systems, including advisers, accountants etc.
- Total commitment to the success of the export venture

In order to successfully penetrate the export market, a company must be willing to invest in overseas marketing expenses and overheads, product design and adaptation, manufacturing and additional work-in-progress, stocks, credit and customer servicing.

A key question that a business should ask itself when considering entering the overseas market is:

"Have we fully exploited opportunities in the home market?"

This is because a strong domestic market provides a business with the knowledge of how to market itself. Furthermore, it provides a business with the cashflow and financial credibility with which to enter the overseas market. If a business is only at start-up phase, it is generally recommended to commence with the more straight forward task of marketing itself on a domestic level, and to consider exporting only when experience and a good knowledge of the domestic market has been acquired.

So therefore, before a business tries to sell in Paris, it should ensure it is not overlooking business that it could get with far less effort in Cork!

Getting Started

To ensure success when expanding into overseas markets, businesses can seek professional advice on these markets and export techniques from organisations such as the Irish Exporters Association *(http://www.irishexporters.ie)*, the Department of Enterprise, Trade and Employment *(http://www.entemp.ie)* and Enterprise Ireland *(www.enterprise-ireland.com)*.

Enterprise Ireland's wide range of services is focused on assisting Irish companies to achieve international success. Additionally, a business can approach their local Enterprise Board to consult with an expert adviser who may have expertise or contacts in the respective market.

3 | Identifying Export Sales Opportunities

It is essential for a business to research overseas markets before embarking on marketing, promoting and selling a product or service within them. In order to be successful in the overseas market, a business needs to find the most appropriate market and the best method to approach it. Furthermore, a clear understanding of the market or markets and how the product/service will fit within them will also increase chances of success. Entering an overseas market without this information could lead to very costly oversights.

When a business is planning to export, it is essential to carry out extensive market research to assess the customers who will buy the product, the competition and the overall market situation. This is achieved through:

1. Secondary Research
2. Primary Research

Knowing where to look for export information can be a daunting task for a business, particularly when they are not 'au fait' with the research process. However, there is a variety of different export market information resources available from specialist overseas advice to specific country information. *(Visit www.enterprise-ireland.com for more specific Export Market information).*

Carrying out Market Research on Overseas Markets

As mentioned above, market research consists of secondary and primary.

1. Secondary Research

Once a business has recognised that opportunities exist for them in the overseas market, these opportunities must be identified and quantified.

Comprehensive secondary research (or desk research) is essential and will narrow the interest of a business down to a manageable number of markets. When exporting for the first time, it is advisable to concentrate on the traditional export markets which are the UK, EU and the USA, as they present fewer risks than other dissimilar countries.

Secondary research may also be conducted to assist a business in gathering information under some or all of the following information categories. These include recent import statistics, size of local market for products, local economic data, competitors' products and prices, import license, quota regulations and administration and tariffs to name but a few.

Secondary research can be gathered from the following information sources:

1. Libraries and information services
2. Internet
3. International organisations
4. Government Departments (Irish and foreign)
5. Chambers of Commerce
6. The Irish Exporters Association
7. Banks
8. Embassies

2. Primary Research

It may also be necessary to conduct primary research (field research) within the potential market. This is particularly useful in assessing customer needs, wants and requirements. Primary research offers the benefit of direct contact, through a survey or interview, with certain markets and/or customer groups, and can be tailored to meet the needs of an organization and provide specific and detailed information.

Exporters need to assess potential target countries and the purchasing behaviour of customers within them.

The following areas should also be examined:

1. Market Issues
2. Export Operations
3. Infrastructure
4. Legislation

1. Market Issues

In order to understand market issues, it is essential to fully understand local cultural influences. A product or service may be viewed as a basic commodity at home; however, this may not be the case in the overseas market.

Another important factor to remember is that of language barriers. A business may need the local language in order to market the product effectively; otherwise access to professional translators may be necessary.

2. Practical Research for Export Operations

A business that plans to export overseas must undertake research to assess how the export operation should be executed in the overseas market.

Distribution channels available for selling between different markets will vary, and a business may need to locate local distributors. The most suitable skilled staff will also need to be sourced, with this in mind, it is critical to research whether they are available in the particular overseas market.

3. Infrastructure

A further area of consideration for a potential exporter is the access the potential target market has to a communications infrastructure, including, telephone, fax and internet.

The quality of air, sea, road and rail transport available may also need to be examined, particularly for a business that may have special requirements, such as, temperature, fragility and sell by deadlines.

4. Legislation

Legislation varies greatly in markets overseas, which will subsequently affect how a business sells into them. An exporter may need to adjust a product or operational set up in order to comply with local laws. The following areas should be investigated:

1. Local export legislation and technical regulations
2. Certification and testing requirements
3. Local standards affecting existing and future products
4. Patents and trademarks
5. Staff qualifications

In order to investigate whether there is a niche in the overseas market for a particular product or service, a business should ask the following questions in relation to the countries and the customers:

Questions to ask in relation to the target Countries

- What size is the potential market
- What is the political situation? – Is there an unstable political climate in the country?
- Economic climate – is it favourable?
- Culture – Are there barriers to the products success? Will the product have the same value here as in the domestic market?

Questions to ask in relation to the potential Customers

- Who will buy the product?
- What influences customers purchasing decisions?
- What role will the product fulfill for the target market?
- How much is the potential market willing to spend on the product?
- How will I sell and promote the product?

By answering these questions, a business should be able to tell whether they can successfully sell into a particular overseas market.

Useful tips when selecting export markets

- Do not examine too many export markets at one time – refine your search!
- Remember smaller markets can be as profitable as larger ones, so do not overlook them
- Select a market that will offer sufficient potential to justify your efforts
- Select a market that offers a degree of competitive advantage
- Plan on investing time and money in visiting the market before committing to exports
- Avoid markets in which import restrictions may restrict scope
- Do not take on business that you are unable to handle

4 Developing an Export Plan

When a company has decided to sell goods in overseas markets, they must develop an export plan. Just as the development of a business plan is critical to the success of a business domestically, so is an export plan important to your efforts overseas.

A critical first step in planning is to develop a broad consensus among key management on the following:

1. Company goals
2. Company objectives
3. Company capabilities
4. Company constraints

The purposes of the export plan are to:

a. Assemble facts, constraints and goals
b. Create an action statement that takes all of these into account

This statement should include specific objectives and time lines for implementation. The plan marks milestones so that the degree of success can be measured and assist in motivating staff.

The following 10 questions should be addressed when developing an export plan:

1. Which products are selected for export development? What modifications, if any, must be made to adapt them for overseas markets?
2. Which countries are targeted for sales development?
3. In each country, what is the basic customer profile? What marketing and distribution channels should be used to reach customers?
4. What special challenges are relevant to each market (competition, cultural differences, import controls, etc.), and what strategy will be used to address them?
5. How will the product's export sale price be determined?
6. What specific operational steps must be taken and when?
7. What will be the time frame for implementing each element of the plan?
8. What personnel and company resources will be dedicated to exporting?
9. What will be the cost in time and money for each element?
10. How will results be evaluated and used to modify the plan?

A company's export plan should closely resemble that of a business plan. It should include an executive summary, an export policy commitment statement, background analysis, a marketing component, action steps, export budget, implementation schedule and background information on target countries and market (See Appendix 1 for sample Export Plan).

The plan should be kept simple when first developed. As the exporter learns more about the exporting and the company's competitive position, the export plan will become more detailed and complete. The objectives in the export plan should be compared with actual results, in order to measure the success of various strategies. The plan can be modified and more specific information added as the company gains more information and experience.

Companies who plan on exporting directly require a detailed export plan; however, those who plan on exporting indirectly require a simple export plan.
Formulating an export strategy based on good information and accurate assessment increases the opportunities for the company. The export plan increases the chances that the best options will be chosen, that resources will be used effectively, and that efforts will be carried through to success.

5 Choosing a Distribution Channel

Once a business has identified the market/markets to export to, the next step is to establish who will sell the product/service to potential customers and how it will be sold and distributed.

How a business organises their sales presence in export markets is one of the key decisions to be made by an exporter. The choice of selling method will be influenced by the nature of the product/service. It is important to assess the usual local distribution practice with regard to similar products.

There are 2 main ways of exporting to overseas markets, these are:

1. Direct Exporting

- Selling Direct from the exporter's location

2. Indirect Exporting

- Opening Operations in Overseas Markets
- Using a Commission Agent
- Using an Overseas Distributor

1. Direct Exporting - Selling Direct from Ireland

Some larger companies prefer to purchase directly from the manufacturer without the services of a middleman. This typically involves making frequent sales visits to the particular country, as well as telephone sales or accepting of overseas orders on an e-commerce website. This can be a straightforward, cost effective way of entering overseas markets; however, it can have implications. It may leave the exporter remote from customers, and unable to share the exporting workload with partners or intermediaries.

Advantages of Direct Selling	Disadvantages of Direct Selling
• Existing resources can be used to start exporting into the overseas market • Enables a business to maintain full and direct control over the process • It is a strategy that can be easily reversed • Profit does not have to be shared with partners or intermediaries	• A good knowledge of the overseas market is essential in order to locate buyers and establish business relationships • The exporter will be responsible for logistics, unless the business commissions a specialist freight forwarder to handle this • The exporter is often remote from customers • The exporter is unable to share exporting workload with partners

2. Indirect Exporting - Opening Operations in Overseas Markets

This is generally the most costly and time consuming method to enter an overseas market, however, it can be the most rewarding.

A business can set up an overseas operation by:

- Opening a local office, using existing employees as staff
- Setting up a new business in the overseas market – a locally registered subsidiary company. This is subject to local regulations and legislation
- Partnering with a local business in the form of a joint venture, to set up the new business with shared ownership

Very few companies will be in a position to immediately set up their own office with resident personnel; however, this is often the long term objective in the key overseas markets. Furthermore, there are vital legal and financial implications involved in setting up in an overseas market. A company should seek legal advice from a solicitor and an accountant business adviser when considering this option.

Advantages of Opening Operations in Overseas Markets	Disadvantages of Opening Operations in Overseas Markets
• Enables exporter to plan long term sales • Customers take a product more seriously when it is locally based, especially when after sales service is required • A joint venture enables the company to share the risk	• An in depth knowledge of local employment and tax law is a necessity • If things go wrong, this could lead to very high costs • Multiple financial implications involved

3. Indirect Exporting - Using a Commission Agent

An overseas agent represents the exporter in the overseas market, sells the exporter's product or service to the overseas customer and routes orders back to the domestic market. Once the goods are paid for by the customer, the overseas agent receives commission from the exporter. The commission varies from 2% to 15%, depending on the nature of the goods being handled. Commission should be included in the price quoted to the customer. It is essential to recruit a commission agent that has extensive experience in the particular business context, as well as relationships with potential buyers.

Advantages of Using a Commission Agent	Disadvantages of Using a Commission Agent
• Recruitment, training and payroll costs of using your own employees to enter the overseas market are avoided • The commission agent is well placed to identify and exploit opportunities • More control over price and brand image are maintained when using an agent – compared with using a distributor	• The exporter is still responsible for trade logistics such as shipping • There can be a problem with after sales service when selling through an intermediary • After sales service can be difficult when selling through an intermediary

4. Indirect Exporting - Using an Overseas Distributor

A distributor buys the goods from the exporter, and then takes responsibility for selling them on to a third party. The role of a distributor is to find customers for the exporter's goods. Distributors bridge the gap between the exporter and the end-user customers. It is imperative to seek legal advice before concluding a distributorship agreement.

Advantages of Using a Distributor	Disadvantages of Using a Distributor
• Using a distributor enables a business to access international markets, and avoid logistics issues and risks associated with trade	• Distributors often demand significant discounts and liberal credit terms from exporters, in return for taking on trade related risks and burden
• It is a lot more straight forward for an established distributor to introduce a new brand into the market than it would be for the exporter	• There is a risk of losing control of the way goods are marketed and priced
• Distributors normally invest in the marketing of the goods in order to boost their sales	• Distributors frequently demand long periods of exclusivity, so therefore it is essential that the distributor has identified a potential market and has extensive experience in selling the particular goods
• Many distributors buy in bulk, to ensure they carry a stock of the goods they are selling; they also look after warehousing and inventory control	• Whilst a commission structure can be employed to motivate a sales agent, this is not the case with a distributor

Useful tips when choosing an agent or distributor

- The agent or distributor should be selling to the same companies which interest you
- Agents and distributors must have relationships with potential customers
- Do not give the agent exclusivity for too large an area – ensure that the area allocated can be covered effectively
- Consult your lawyer in relation to the type of agreement you intend to enter into with a potential agent, and do not sign any agreement without approval from your lawyer
- Verify your distributors financial standing to ensure he/she is financially sound
- Agreements made with agents and distributors should be formalised in a clear written contract!

Key points that should be included in a contract with overseas agents and distributors: Checklist

- Names and addresses of the businesses involved and the nature of the relationship
- A clear description of goods
- The geographic location in which the company goods will be sold
- The price received from distributors for goods and the price an agent will charge customers
- The commission an agent is to receive
- Due date of payment, currency and exchange rate
- Termination date for the contract agreement
- Confidentiality clause
- Intellectual property – identify the rights the agent or distributor has regarding the use of company titles, brands, logos, etc.
- Exclusivity – what rights the agent or distributor has to the goods
- Jurisdiction – Identify which country's laws apply to contract

6 Selling and Promoting in Overseas Markets

There are many practical factors to consider when promoting a product in an overseas market.

There are a number of means to reach potential customers, including:

1. Advertising
2. Direct Mail
3. Trade Shows

It is essential for the exporter to investigate how established competitors promote their products in the potential target market.

1. Using Advertising in Overseas Markets

Advertising is one of the most common methods employed to communicate directly with a potential overseas market.

Depending on the market plan and budgets, an exporter should consider various advertising media:

- Newspaper and magazines, including trade magazines
- Directories, such as classified telephone directories
- Radio and television
- The internet, using specialist trade portals and websites to direct traffic to the exporter's website
- Outdoor advertising, including billboards and transport media

An exporter should use local knowledge, gathered from research, trade visits or local partners, when planning on advertising overseas.

When employing the assistance of an agent or distributor, advertising plans should be discussed with them. In some cases, an agent or a distributor may part fund advertising of a product.

Advertising content must be tailored to the respective market, and the key sales message must be appropriate for the chosen medium.

2. Direct Mail

Sending promotional material directly to potential customers can assist in building awareness of the products or service. This is another widely used method of communicating directly with potential overseas markets.

Agents and distributors will often have a list of potential customers that can be used, and they may offer to carry out a direct mail campaign on behalf of the exporter.

Exporters may also purchase a customer database from a direct mail agency. However, it is essential to ensure the right agency is chosen that will provide high-quality databases.

3. Trade Shows

Exhibiting at overseas tradeshows can be a very cost effective means of selling and promoting overseas business. Visitors could include potential customers, agents and distributors, and the event may yield business opportunities and contacts.

To exhibit at a trade show can be extremely costly, so therefore it is essential to find the right event. The exporter should define what he or she wants to achieve before entering a trade show. Specific goals need to be set, in terms of opportunities generated or new contacts made.

Questions to ask when looking for the right event to suit the particular product or service:

- How many people are likely to attend?
- Are they likely to match the target audience?
- What other products or services will be on display?
- Will the business obtain sufficient leads from attending the trade show to cover the exhibiting costs?
- How long has the exhibition been running and what is its reputation?

Remember! English may be the language of choice, however, the exporter must not assume that all visitors will be fluent in English - the services of an interpreter may be required.

7 Transporting Goods to Overseas Markets

A series of steps must be taken to ensure export goods are packed and shipped properly, in good condition and at a reasonable cost to their destination. When exporting goods, the correct documentation and packaging are critical to the export process (see Appendix 3 – Export Documentation). Providing proper documentation with the goods is essential, if the goods are to arrive safely and on time.

Although the paperwork involved can be arduous and quite costly, this should not act as a deterrent. However, it is worthwhile to spend time choosing the most efficient method of dispatching goods to overseas markets.

Methods of Transporting Goods Overseas

There are three main ways of transporting goods from Ireland to overseas markets, these are as follows:

1. Air Freight
2. Sea Freight
3. Express Trailers

1. Air Freight

This is the most costly transport method of all. There are also length and weight restrictions for air freight, nevertheless, the higher costs may be offset by faster delivery, lower insurance and warehousing costs, as well as better inventory control. This method of transport is used for transporting perishable goods, fashion products, fragiles and urgent goods. Dimensions are of particular importance for air freight consignments, as the maximum permitted sizes differ from one aircraft to another.

2. Sea Freight

Large items, bulk items and items that do not require fast delivery can be shipped economically by sea. Today, goods are generally shipped in containerised units, i.e. goods are loaded onto special standard containers which are placed on board a carrier ship. If a company is exporting sufficient goods to fill the container, the shipping line will bring the container to the business premises for loading. In the case where the consignment is not large enough to warrant the sole use of the container, it will be placed with other export consignments to fill the load.

Checklist for sea freight consignments

- Obtain a quotation from carrying line or forwarding agent
- Book shipping space with line or agent
- Arrange delivery of goods to docks or to the shipping company's receiving depot
- Hand over relevant documents to the line or agent

3. Express Trailers

These are driver accompanied trucks which are loaded in appointed locations around the country, or at the business premises. They are then unloaded in the respective destination or premises of the customer. This system is one of the most widely used methods of transporting Irish exports.

Other options for transporting goods are parcel post, which is suitable for small consignments, and international couriers.

The factors that influence the exporter's mode of transportation are as follows:

- Location
- Availability of services
- Physical characteristics of the goods

The Freight Forwarder

The freight forwarder acts as an agent for the exporter in moving cargo to the overseas destination. These agents are familiar with the import/export rules and regulations of foreign countries, methods of shipping, Irish government regulations and documents connected with foreign trade.

Freight forwarders can assist with an order from the start by advising the exporter of the freight costs, port charges, documentation and insurance costs, as well as handling fees. They can also recommend the best type of packaging for protecting goods in transit.

The costs that a freight forwarder charge for the service is a legitimate export cost that should be factored into the price charged to the customer. A company will often save money by employing the service of a freight forwarder as a result of its expertise and capacity to recommend the most appropriate process and route.

Transit Insurance

Transit Insurance covers loss or damage to goods while they are being transported. Exporters must ensure that all export consignments are fully covered by insurance from the time they leave the manufacturer until they arrive at the location of the buyer.

8 International Payment Methods & Managing Risk When Exporting

Payment Methods

There are a number of options that an exporter has in relation to payment that can be agreed with the buyer. These are as follows:

1. Advanced Payment Methods
2. Letters of Credit
3. Documentary Collection
4. Open Account System

1. Advanced Payment Methods

There are two key Advance Payment Methods, these are:

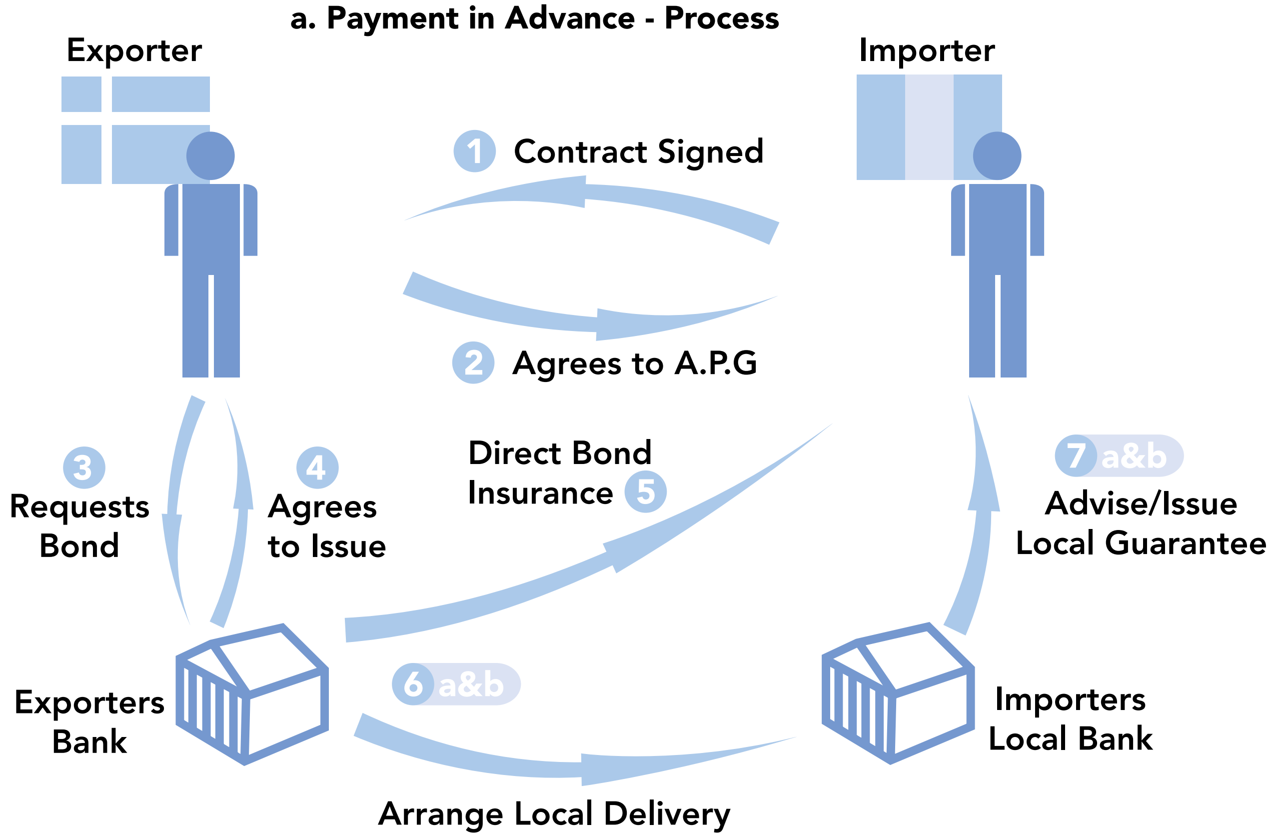
a. Payment in Advance

b. Bid/Bond Guarantee

a. Payment in Advance

This is when the buyer agrees to pay the exporter a percentage of the total cost prior to the goods being shipped. A wire transfer is commonly used and has the advantage of being almost immediate. Funds can also be sent by cheque or bank draft. The exporter should only ship the goods when the funds have cleared in their account.

An Advanced Payment Guarantee enhances the performance reputation as well as the credit standing of the exporter.



Step 1: A contract is signed by the exporter and buyer. In the contract the buyer agrees to supply a percentage of the contract value as a down payment to the exporter.

Step 2: An Advance Payment Guarantee is agreed by the exporter as a guarantee on the return of the Advance Payment if the contract is not completed

Step 3: Assistance is provided by the exporter by his/her bank on request. The guarantee commences only when funds are remitted to the exporter's bank by the buyer

Step 4: The bank checks the exporter's credit history and agrees to issue the guarantee

Step 5: The Advanced Payment Guarantee (if acceptable) is issued by the bank directly to the buyer

Step 6: The exporter uses the buyer's bank to:

a. Advise exporters bank guarantee to importer

b. Issue local bank's guarantee to buyer

Step 7: The buyer receives advice of the export bank and local bank guarantee

Step 8: The buyer forwards payment to the exporter's bank directly or through the local bank

Step 9: The contract is completed by the exporter, and the exporter requests release from the Advanced Payment Guarantee

Step 10: The buyer requests the relative bank to release the guarantee, once he/she is satisfied

b. Bid/Bond Guarantee

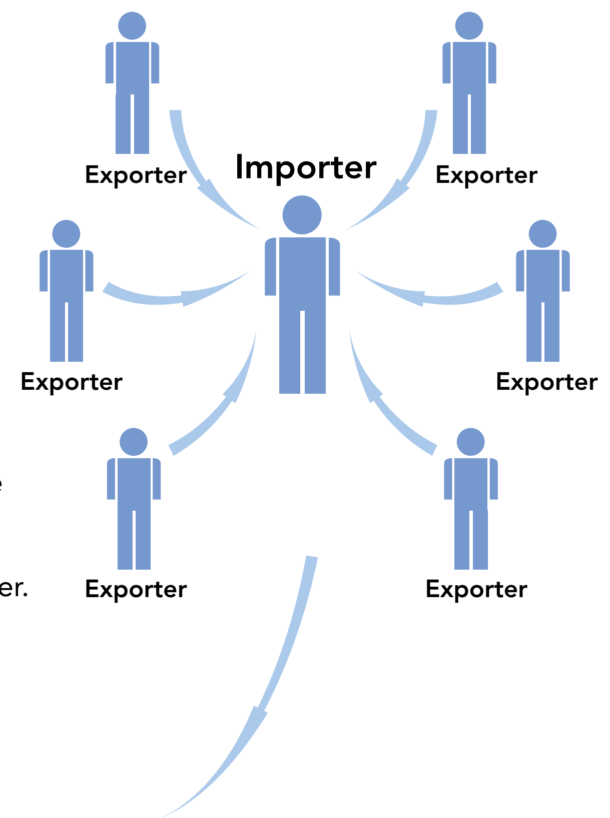
The purpose of a Bond or Guarantee is to provide an independent undertaking to pay, should the buyer fail to honour his/her obligation.

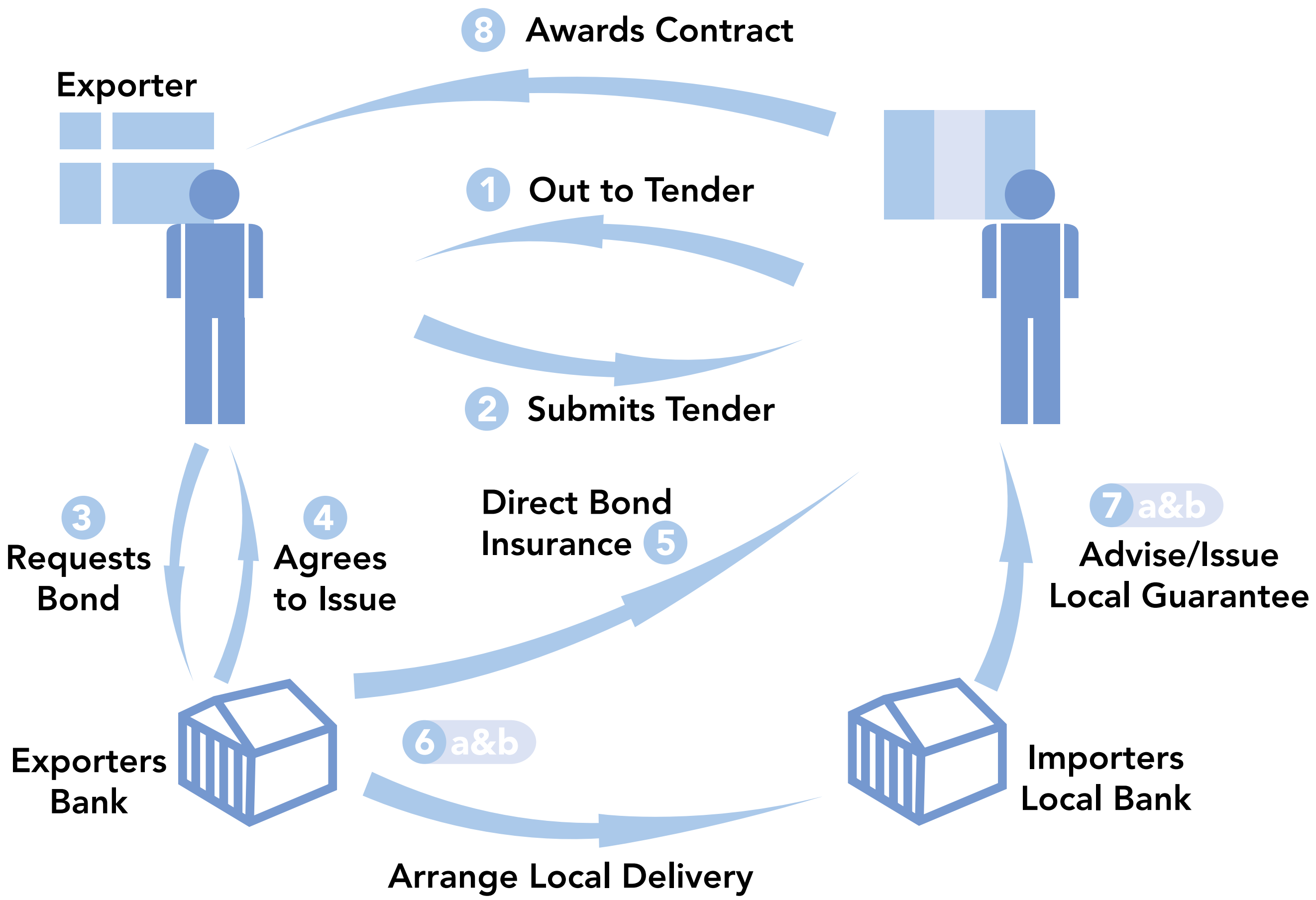
The Bid Bond ensures that the exporter submits realistic bids and protects the importer against any loss that might occur if the exporter fails to sign the contract. Bid Bonds are usually issued for between 2 - 5% of the tender amount.

A Bid/Bond guarantee facilitates acceptance of the exporter's bid by the importer, as well as enhancing both the performance reputation and credit standing of the exporter.

Bid/Bond Guarantee – Process

b. Bid/Bond Guarantee - Process





Step 1: The contract is put out to tender

Step 2: The exporter requests issuance of the Bid Bond from his/her bank

Step 3: The exporter assesses credit history of the buyer and agrees to issue the bond

Step 4: The Bid Bond is issued directly to the buyer

Step 5: The Exporter's bank uses the service of the importer's bank to:

a. Advise exporter's bank bond to buyer

b. Issue local bank's bond to buyer

Step 6: The buyer receives advice on the Exporter's Bank Bond and advice of the local bank bond

Step 7: The contract is awarded by the buyer to the successful exporter. The buyer holds the Bid Bond pending signing of the contract and replacement with Performance Bond

2. Letters of Credit

Letters of Credit

A Letter of Credit adds a bank's promise and acts as a guarantee to pay the exporter to that of the foreign buyer, provided that the exporter has complied with all the terms and conditions of the Letter of Credit. Payment under a documentary Letter of Credit is based on documents, not on the terms of sale, or the physical condition of the goods. Once the buyer's bank receives the shipping documents evidencing the shipment of the goods by the exporter, the Letter of Credit is paid. The Letter of Credit eliminates the exporter's risk of non payment by the buyer, as the buyer's bank must pay once the documentary evidence of shipment of goods has been provided. Before payment, the bank responsible for making payment verifies that all documents conform to the Letter of Credit requirements.

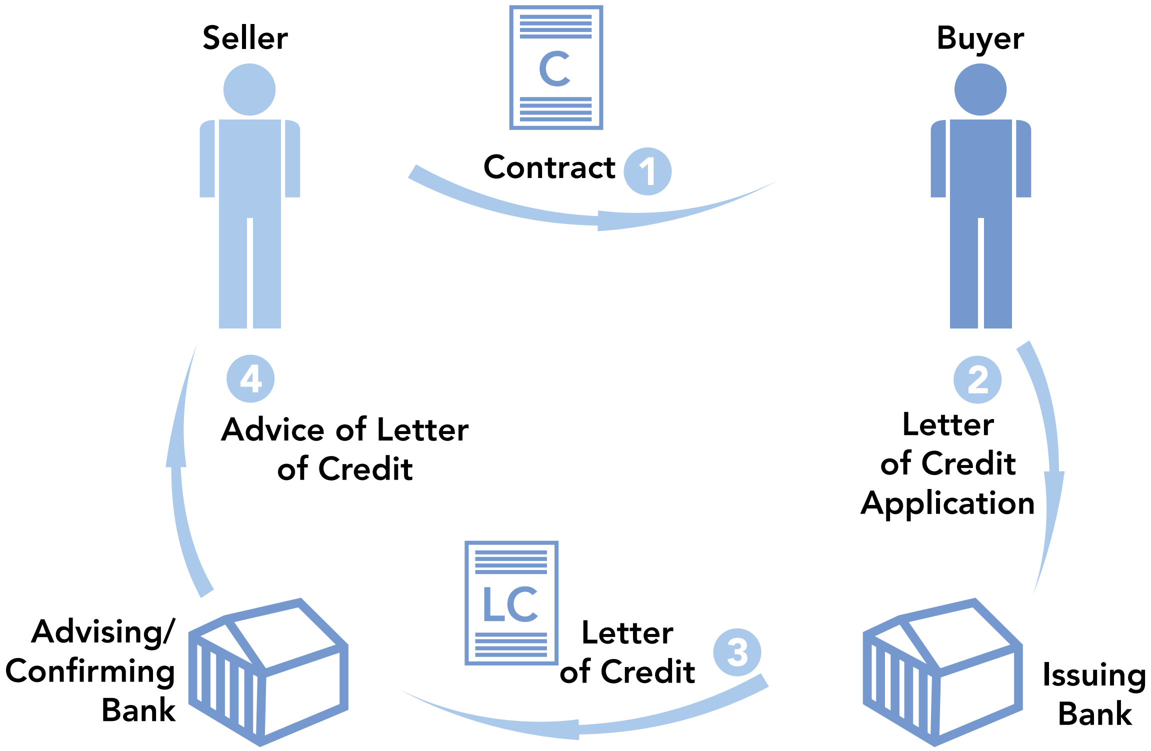
All Letters of Credit are governed by the International Chamber of Commerce's publication 'Uniform Customs and Practice' (UCP 500).

There are many benefits with Letters of Credit. First and foremost, payment is guaranteed by the buyer's bank prior to shipment. Due to the conditional nature of the payment guarantee, the exporter has control in securing the funds. In addition, Letters of Credit can eliminate the risk of non-payment to the exporter as a result of default by the buyer.

Further benefits of Letters of Credit are as follows:

- They can provide access to post shipment non-recourse financing
- They reduce the requirement for a credit control function
- They assure certainty of the payment date

2. Letters of Credit - Process



Step 1: The buyer completes a contract with the exporter. He/she fills in a Letter of Credit application form. He/she then forwards this to the bank for approval

Step 2: The issuing bank reviews and approves the application form and then forwards details to the exporter's bank

Step 3: The advising bank validates the Letter of Credit and forwards it to the exporter

Step 4: The exporter checks details of the Letter of Credit to ensure that all conditions can be met; contacts the buyer and asks for any necessary amendments to be made

3. Documentary Collections

A Documentary Collection is like international cash on delivery (COD). The buyer pays for goods on delivery, however, is distinguished from a typical COD transaction in two ways:

(1) Instead of an individual shipping company, or postal service collecting the payment, a bank handles the transaction

(2) Instead of cash on delivery for goods, it is cash on delivery for a title document (bill of exchange) that is then used to claim the goods from the shipping company

The bank, therefore, acts as an intermediary to collect payment from the buyer in exchange for the transfer of documents that enable the holder to take possession of the goods. The procedure is easier than a documentary credit, and the bank charges are lower. The bank, however, does not act as surety of payment but rather only as collector of funds for documents

The exporter can ensure that the buyer will only gain access to the shipping documents once they have paid (or committed to pay for) the goods.

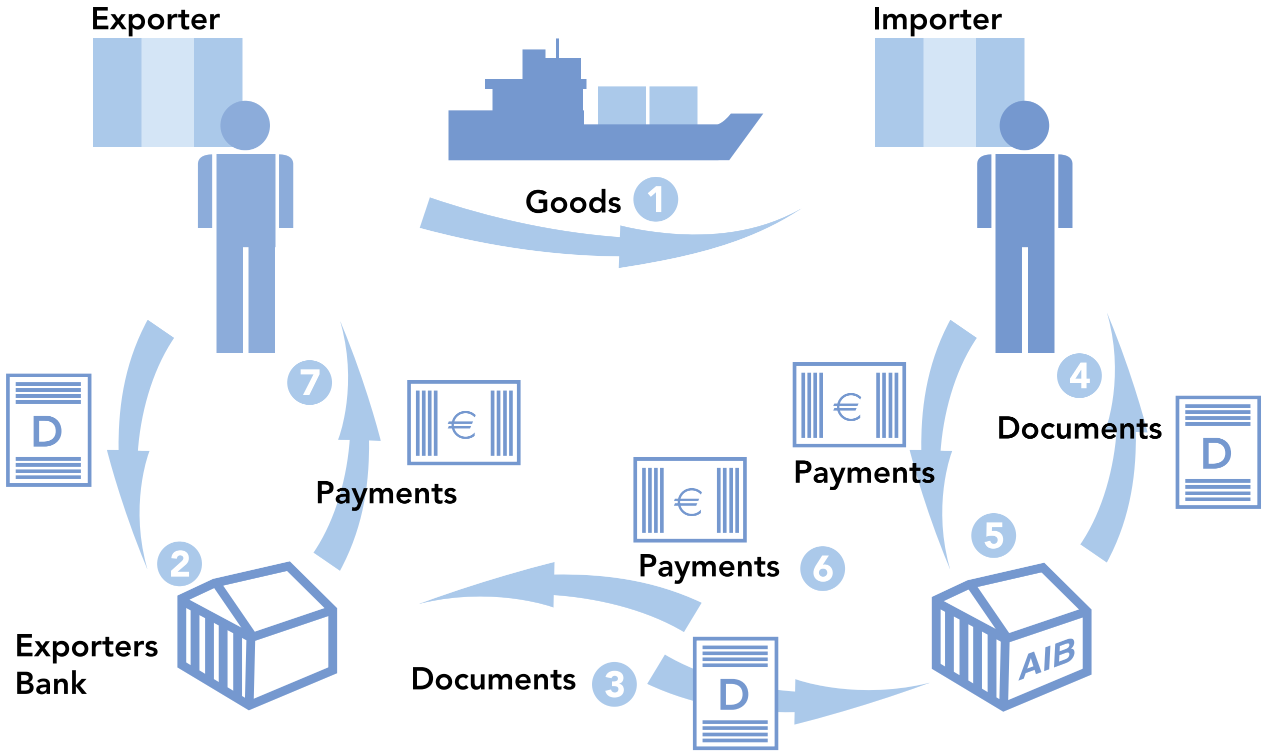
The buyer's bank acts as the exporter's agent by collecting the debt or acquiring the commitment to pay. Proof of the demand for payment can protect the exporter's interest in the event of any legal disputes.

Two key types of Documentary Collection methods and their processes are detailed below, these are:

a. Cash against Documents Collections

b. Documents against Acceptance (D/A) Collections

a. Cash against Documents Collections - Process



Step 1: The exporter ships goods and prepares export documents

Step 2: An export collection form is completed by the exporter, and then forwards export documents to the bank

Step 3: The exporter's bank forwards the documents to the buyer's bank with instruction to release the documents to the buyer (only against full payment of invoice)

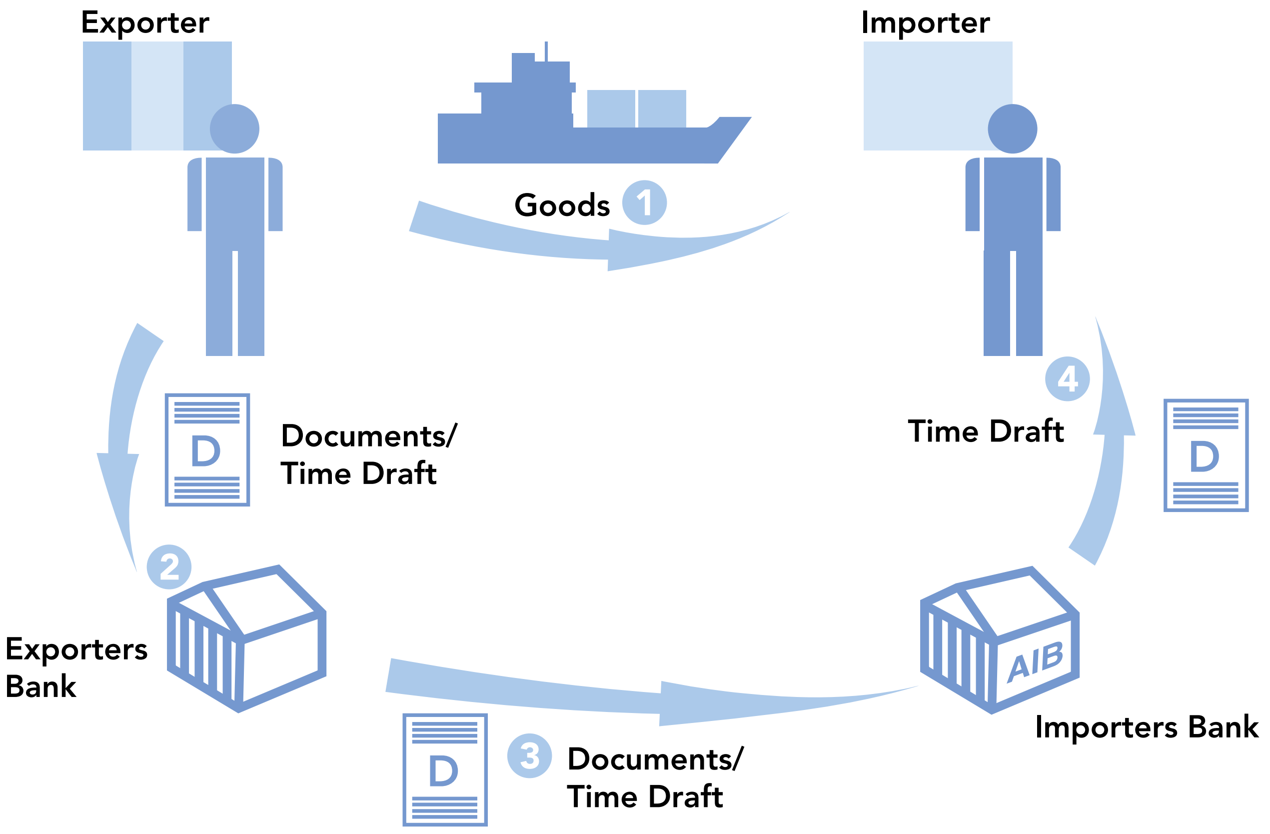
Step 4: The buyer's bank requests authority from the buyer to pay the exporter's bank and full invoice value

Step 5: Once authority is received, the buyer's bank will release the documents to the exporter

Step 6: The invoice value is remitted by the buyer's bank to the exporter's bank

Step 7: The exporter's bank pays the exporter

b. Documents against Acceptance (D/A) Collections - Process



Step 1: The exporter ships goods and prepares export documents

Step 2: The exporter forwards export documents to the bank with the Bill of Exchange (Time Draft) requesting payment from the buyer in the future

Step 3: The exporter's bank forwards documents to buyer's bank to be released to buyer against their acceptance of Bill of Exchange

Step 4: The buyer accepts and returns documents to the bank

Step 5: The importer's bank releases export documents to buyer, and also advises exporter of payment date

Step 6: On payment date, the buyer's bank seeks payment from buyer, and forwards funds to exporter's bank

Step 7: The exporter's bank receives funds and pays exporter

4. Open Account System

An open account transaction means that goods are shipped and delivered before payment is due, which is usually in 60 to 90 days. Payment is then made by telegraphic means or bank draft at the agreed date after the shipment of goods. This is the most advantageous for the importer, but is consequently the highest risk for the exporter. However, because of the intense competition for export markets, foreign buyers often press exporters for open account terms.

An Open Account System can often result in high costs in chasing payments for exporters. Furthermore, exporters often lose control of their goods. An Open Account System is a suitable trading option for well established customers in developed countries, however, is not really ideal for less established customers in underdeveloped countries.

Exporters should thoroughly examine the political, economic, and commercial risks, as well as the cultural influences of an open account system, to ensure that payment will be received in full and on time.

Managing Risk When Exporting

Buyer Risk

The risk of non-payment by a buyer for goods shipped to them is a cause of concern for the exporter. So therefore, it is imperative for the exporter to undertake risk assessment. The exporter should establish clear credit control policies and procedures, and the key to this is information. The correct name and address of the company an exporter is selling to should be established. This kind of information can be acquired from company registry offices, banks, credit reference agencies, government export agencies and the like. The reputation payment record of the buyer should also be assessed, as well as their payment history and general standing in the particular industry.

If an exporter is considering granting trade credit, consideration as to how exposure to credit risk can be reduced, mitigated or eliminated should be taken. Exporters should seek advice from their bank on payment options that can assist in eliminating credit risk. Furthermore, exporters should consider purchasing credit insurance to reduce exposure to credit risk from overseas buyers.

Damage to goods in transit

As mentioned previously, transit insurance exists which covers the risk of damage to goods in transit. Exporters need to establish if their suppliers are responsible for organising transit insurance. The International Contract Terms (INCOTERMS), which is published by the International Chamber of Commerce, sets out responsibility of parties in relation to insurance *(See Appendix 5 - INCOTERMS).*

9 Financing Exports

A sound financial base is necessary for an exporter, if exporting is to enhance the company's long term prospects. The wrong type of funding can be inflexible and costly, so therefore, sourcing the right finance for the needs of a business is critical. Finance for importers and exporters is available from a range of financial services companies, including banks and other financial institutions.

The financing requirements of an exporter are determined by the following key factors:

- Company cash reserves
- Sales volumes
- Material, labour, overhead costs
- Trade credit granted or guaranteed
- Level of investment in fixed assets
- Strength of the company's credit policies and collection procedures

Banks offer an extensive range of pre and post shipment bank borrowing options to exporters. These are as follows:

Pre-shipment Financing Options:

1. Overdraft
2. Term Loan
3. Leasing Hire/Purchase

1. Overdraft

The overdraft acts as a short term revolving credit facility for working capital needs. An overdraft is repayable on demand and security may be required.

2. Term Loan

This is a medium term facility, used to fund a specific project, investment or fixed asset acquisition, e.g. the purchase of equipment. A fixed repayment schedule over an agreed period and security may be required.

3. Leasing Hire/Purchase

This is a medium-term facility used to fund asset acquisition, such as plant or equipment.

Post-shipment Financing Options:

1. Invoice Discounting
2. Export Factoring
3. Forfeiting
4. Structured Finance

Post Shipment Options

1. Invoice Discounting

This is a source of short term funding for working capital purposes. It is a combination of repayment demand on agreed schedule, based on the company debtor's book. The bank's discounting section may arrange export credit insurance or may use an exporter's own policy as security.

2. Export Factoring

This service turns overseas sales to creditworthy customers into cash. This is a source of short-term funding for the exporter. Unlike invoice discounting, the factoring company will fully manage the exporter's debtors book. The factoring company purchases the rights to the exporter's debtors, and is also responsible for managing the collection of sales outstanding.

3. Forfeiting

This is used mostly for medium to long term transactions that involve capital goods exports on 3 to 5 year credit periods. A stream of receivables due over a period is discounted on a non-recourse basis. The receivables are usually evidenced by Bill of Exchange accepted by, or Promissory Notes issued by the buyer and guaranteed by the buyer's bank.

4. Structured Finance

This is generally used to finance more complex projects. The bank will develop structures by utilising the benefits of their own products, such as Guarantees, to structure transactions. Structured finance is usually a medium-term facility which can be provided on a recourse or non recourse basis.

Trade Credit

Another financing option available to exporters is Trade Credit. Trade credit exists when one firm provides goods or services to a customer, with an agreement to bill them at a later stage, or receive a shipment or service from a supplier under an agreement to pay later.

Trade Credit is a relatively cheap and convenient source of funding for the importer if it is managed properly, as it can reduce the required capital investment. It is the largest use of capital for a majority of business to business (B2B) sellers and is a critical source of capital for a majority of all businesses.

Export Credit Insurance

Export Credit Insurance is an insurance policy purchased by a seller to provide protection against non-payment by a buyer, due to liquidation or political/economic turmoil in the buyer's country.

Export Credit Insurance made on short payment terms is offered by a number of companies. Banks and insurance brokers will advise the exporter on which company is most suited to the particular needs of the exporter.

10 Intellectual Property

The increasing pace of globalisation and technical change means that industry is constantly striving to innovate in order to remain competitive. SMEs are beginning to understand the benefits of innovation. A key component of this strategy is the management and exploitation of a company's intellectual property.

In today's knowledge economy, knowledge is a major resource and the most important property is intellectual property, as opposed to physical property. The Irish National Development Plan (2007 - 2013) plans to invest €2.54 billion in research, technological development and innovation.

What Exactly is Intellectual Property?

Intellectual Property is any product of the human intellect which has value in the marketplace and includes:

- An Idea
- An Invention
- A Unique Name
- A Business Method
- An Industrial Process
- A Chemical Formula
- A Computer Program

Identifying a company's intellectual property (IP) and protecting it is imperative to the future of business internationally. SMEs need to review their position and have the ability to protect their environment if they are going to engage.

How Intellectual Property Rights can Enhance Export Opportunities

Before embarking on exporting, a company should develop a well written export plan in order to determine their product's readiness for export.

A well developed export plan assists in:

- Assessing product potential in overseas markets
- Locating partners and distribution channels
- Adapting the product, design, brand or packaging to the new market
- Determining prices for various export markets, organising transport for export goods, advertising/marketing the product abroad, trade show participation abroad
- Deciding on routes to markets
- Searching for, and considering any Intellectual Property rights of third parties, which may interfere with freedom to implement the export strategy

Intellectual Property Rights are the legal rights one must own in order to protect IP. In simpler terms, IPR are legal systems which offer a facility whereby the original inventor can create legal ownership of IP innovation. This allows the company to reap the benefits of investment resulting in IP creation.

In order to secure full rights in the IP, it must be registered to generate the appropriate IPR.

There are four main classes of protection for innovation. These are as follows:

1. **Patent:** This is a set of exclusive rights to a patentee for a fixed period of time in exchange for a disclosure of invention. No exclusive rights exist without registration

2. **Trademark:** A trademark is a distinctive sign or indicator of some kind, which is used by an individual or business organisation to distinguish its products or services from those of other entities. A trademark is a type of intellectual property, and typically comprises a name, word, phrase, logo, symbol, design, image, or a combination of these elements. A registration system is available for trademark registration, and should be employed to create the strongest IPR possible

3. **Design:** This relates generally to the aesthetic features of an article, which are distinguishable as part of the 'look' of the particular item. Registration systems exist and should be utilised to maximise IPR

4. **Copyright:** This is a set of exclusive rights that regulate the use of a particular expression of an idea or information. At its most general, it is literally "the rights to copy" an original creation. In most cases, these rights are of limited duration. In some jurisdictions, registration of copyright work gives stronger IPR

Intellectual Property and Export Strategy

Managers should include an IP strategy in their export plan, as this will maximise the benefits derived from the company's IP.

The main objective of a company's IP strategy is to ensure that the IP portfolio provides the company with sufficient rights and exclusivity to enable continued growth and maximisation of market opportunities and benefits which IP can offer.

Factors to consider when developing an IP strategy for export: Checklist

- IP protection may limit competition from similar or identical products
- When seeking funding from investors, venture capitalists or banks, holding patents over aspects of a product may often be the convincing factor
- Adaptation of a product, design etc. for export markets may require inventive work that is often protected through an IP system, which guarantees some exclusivity over the adaptations
- When negotiating agreements, with partners, consideration for the ownership of IP rights needs to be taken, especially if the product is to be manufactured abroad, or modified, packaged or distributed by overseas partners
- Marketing of the product or service depends on the company image, which is embodied primarily in the company trademark. If the trademark is unprotected, it could be more difficult to enforce in the event of copying by competitors

11 Duties and Taxes on International Trade

When a company trades with countries outside the European Union, they may be liable for duties and taxes. Liability for these costs will be determined by the terms of sale agreed.

Harmonised System (HS) codes are used to identify and to determine these liabilities. To determine the appropriate code for a particular product, enter a word that describes the product into the EU TARIC; a code with a definition that fits the code will then be found. In the case of a legally binding decision on the correct code for a product, contact the Revenue Commissioners on Binding Tariff Information (BTI).

Certain qualifying goods can claim lower or nil duty rates under a number of EU preferential trade agreements. Information on this can be found on the Revenue Commissioners website.

Irish exports are zero rated for Irish VAT. However, if a company uses an export service, they may affect their VAT position, because it is then dependent on the place of supply. The Revenue Commissioners offer detailed information on specific rules in certain circumstances.

If both the exporter and the buyer are VAT registered in their own countries, and if both VAT numbers are cited on documentation, the exchange is zero rated for VAT by the seller, and the buyer accounts for it in the next returns. If, on the other hand, the exporter is VAT registered and the buyer is not, the exporter must charge VAT on the sale. The exporter must register for VAT in the country of the buyer if sales to non-registered VAT buyers reach the specified threshold figures.

Specific taxation principles and rules (particularly VAT), apply to companies that trade electronically or as an e-business.

There are three types of e-business activity that are affected by VAT, these are as follows:

1. Goods ordered online from a company in Ireland are taxed at the rate applicable to the country of consumption if the buyer is VAT registered in another member country. If this is not the case, Irish VAT is charged and the exporter must register for VAT as stated above
2. Digitised goods and services that are supplied online from one business to another are taxed at the rate of the country of consumption
3. Digitised goods and services that are supplied from business to consumer are taxed in the same manner as traditional economic activity

It is strongly advised to any company considering exporting to seek advice from tax specialists. Log on to the Irish Revenue Commissioners at *www.revenue.ie*.

Appendix 1: Sample Export Plan

Table of Contents

Appendix 2: Business Websites

The following are some business websites relevant to international trade

http://www.aibtradefinance.com/

AIB Trade and Finance

http://www.entemp.ie/

Department of Enterprise, Trade and Employment

http://www.enterprise-ireland.com/

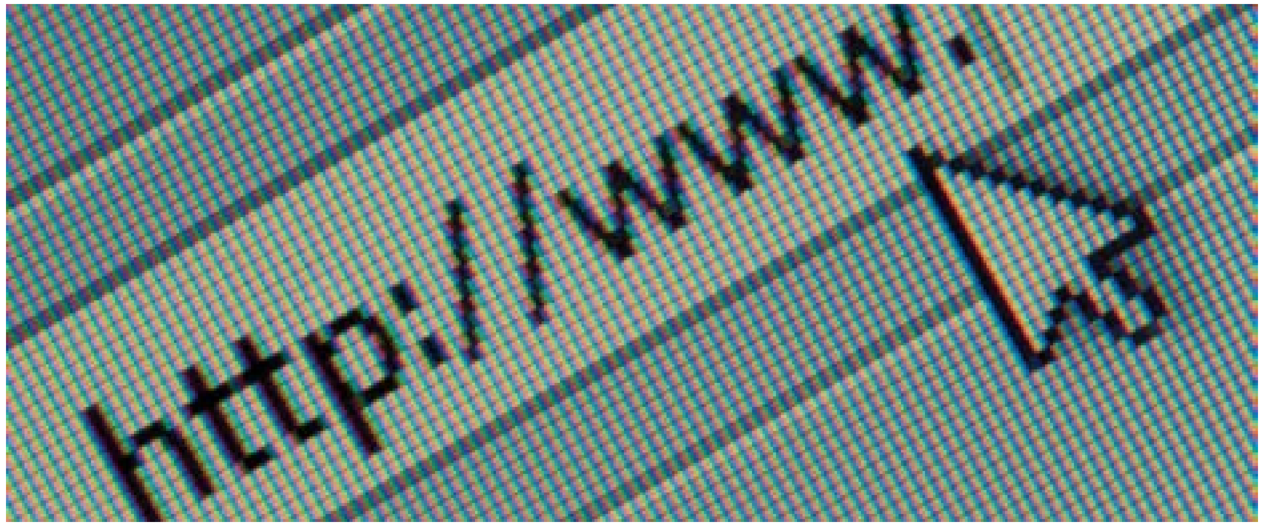
Enterprise Ireland

http://www.revenue.ie/

Irish Revenue Commissioners

http://www.irishexporters.ie/

Irish Exporters Association



Appendix 3: Export Documentation

When exporting goods, a company must ensure that they have accurately completed the correct documents, so as to ensure that goods arrive in time, and prompt payment is received for the consignment.

Different export documentation is required for different products and countries. General export documents include the following

Single Administrative Document (SAD)

This document is required for trade between Ireland and non-EU countries and in some other circumstances. The freight forwarder normally processes this document on behalf of the exporter. For more information on SAD documents, please see the Revenue Commissioners website at *http://www.revenue.ie/*.

Invoices Invoice	Pro-Forma	Commercial	Customs	Consular
Description	Issued by the exporter to customer, detailing consignment. Import licence usually required	Raised by exporter. Contains full details of consignment to facilitate customs clearance. Must be signed and dated	Required by few countries	Required by some Central & South American countries. Available at embassies

EU Certificate of Origin

These are usually supplied by and needs to be authenticated by the local Chamber of Commerce.

Legislation Documents

Some countries require the Certificate of Origin, commercial invoice, etc to be legalised by their embassy in Ireland/UK. This can be very costly and can take up to 48 hours

Bill of lading

This acknowledges export goods for transport have been received on board the ship. The condition of the goods is detailed on the bill of lading which acts as a contract of carriage and a document of title goods

Movement Certificate

This is required for exports to particular countries which have agreements with the EU, and when goods qualify for preferential treatment under the agreement

Health Certificate

This is required for particular products and foodstuffs entering certain countries

Certificate of Free Sale

This is required for pharmaceuticals and chemicals entering certain countries

Pre-shipment Certificate

This certifies quality, quantity and sometimes price for all goods exceeding a certain value

Other Certificates

Other types of certificates may be requested for particular products, including, certificate of age for certain spirits and sanitary certificate

Appendix 4: Glossary of Terms

Breach of Contract

This is failing to perform any term of a contract, written or oral, without a legitimate legal excuse. This may include not completing a job, not paying in full or on time or failure to deliver all goods

Contract

An agreement with specific terms between two or more persons or entities in which there is a promise to do something in return for a valuable benefit, known as consideration

Double Taxation Relief

This is when credit is given for the lower of the two taxes

Enforce

To enforce judgment means to obtain monies or compensation which were awarded by the judgment of a court

Indemnity

The act of reimbursing to someone any losses which they have incurred or will incur.

Indemnify

Two parties settle a dispute over a contract and one of them may agree to pay any claims which may arise from that contract

Jurisdiction

The authority given by law to a court to try cases and rule on legal matters within a certain geographic region and/or over certain types of legal cases

Liability

This is the legal responsibility for one's acts or omissions. Failure of a person or entity to meet that responsibility leaves him/her open to a law suit for any resulting damages or loss which may occur to the other party

Negligence

This is failure to exercise care towards others which a reasonable or prudent person would do in the circumstances or taking action, which such a reasonable person would not

Passing of Risk

Risk, in terms of loss, is the responsibility that a carrier, borrower, user/purchaser of property or goods assumes if there is damage or loss. It is the point at which the buyer will be responsible for the goods. For example, if goods are delivered by lorry, who bears the loss if the goods are stolen on transit before they reach the purchaser?

Permanent Establishment

See www.revenue.ie for detailed information

Primary Research

Information that comes directly from the source. You can compile this information yourself or hire someone else to gather it for you via surveys, focus groups and other methods.

Risk

Risk, in terms of loss, is the responsibility that a carrier, borrower, user/purchaser of property or goods assumes if there is damage or loss

Secondary Research

Secondary research describes information gathered through literature, publications, broadcast media, and other non-human sources. Secondary research is in general easier to gather than primary.

Secure Judgment

This is the final decision by a court in a lawsuit. The word 'decree' is sometimes used as synonymous with judgment. The securing of a judgment is obtained by either obtaining judgment in the Court Office or obtaining the final decision of the Court after hearing of the issues by the trial judges. Once judgment is secured, a Court Order issues which records the decision of the Court

Transfer Pricing

The price at which goods are transferred between one country and another within the same organisation

Zero Rated

Where VAT is charged at 0%

Appendix 5: INCOTERMS

The Principle Delivery Terms used in Export Contracts

EXW – Ex Works (named place)

FCA – Free Carrier (named place)

CPT – Carriage Paid To (named place of destination)

CIP – Carriage and Insurance Paid To (named place of destination)

DAF – Delivered at Frontier (named place)

DDU – Delivered Duty Unpaid (named place of destination)

DDP – Delivered Duty Paid (named place of destination)

FAS – Free alongside Ship (named port of shipment)

FOB - Free on board (named port of shipment)

CFR - Cost and Freight (named port of destination)

CIF – Cost, Insurance and Freight (named port of destination)

DES – Delivered Ex Ship (named port of destination)

DEQ – Delivered Ex Quay (named port of destination)

INCOTERMS are internationally accepted commercial terms defining the respective roles of the buyer and seller in the arrangement of transportation and other responsibilities, and clarify when the ownership of the merchandise takes place. They are used in conjunction with a sales agreement or other methods of transacting the sale.

Appendix 6 - FAQS

Frequently Asked Questions - FAQS

1. Why should a company export?

(a) To increase sales and utilise production capacity to the full

(b) To gain global market share

(c) To reduce dependence on existing domestic Irish markets

(d) To assist in developing a company's strengths and abilities, and make it more innovative

(e) To enable learning of new skills, technology and marketing techniques using International approaches

(f) To enhance competitiveness

(h) To allow the transfer of knowledge and skills from international markets to Irish SMEs

2. What is involved in a typical export process?

(a) Feasibility Analysis:

- Analyse domestic performance

- Assess the firm's capacities

- Consider the demographics and the social and economic factors of target markets

- Select target markets

(b) Foreign market entry planning:

- Conduct market research into sector

- Evaluate market research

- Plan export market entry strategy

- Comply with target country licensing, standards and certification requirements

- Identify taxes, tariffs, duties, quotas and other non-tariff barriers

(c) Implementation:

- Determine method of distribution

- Establish marketing methods

- Choose sales representatives or sales methods

- Complete required paper work

- Obtain insurance cover for transit and perhaps credit insurance.

3. What are the most common methods of exporting?

(a) Direct exporting

Selling Direct from Ireland

(b) Indirect exporting

Opening Operations in Overseas Markets

Using a Commission Agent

Using an Overseas Distributor

4. What are the purposes of an export plan?

(a) To assemble facts, constraints and goals

(b) To create an action statement that takes all these into account

5. What terms of payment are available for exporters from Ireland?

For the exporter, the greatest fear in international trade is that the buyer will not pay for the goods purchased. The exporter needs therefore to think through the terms of payment to be used in the export contact. A variety of options exist which provides more or less security to the exporter

- Standby Letter Credit
- Letter of Credit
- Documentary collection
- Open account

6. What is a freight forwarder and how should an exporter select one?

Freight forwarders are agents who arrange land, sea and air transportation of goods. They complete all procedural and documentation formalities involved in custom and post clearance on behalf of the shipper and arrange for warehousing of cargo before shipment of export cargo.

7. What pre and post shipment financing options do banks offer to exporters?

Pre Shipment Financing Options:

- Overdraft
- Term Loan
- Leasing Hire/Purchase

Post Shipment Options:

- Invoice Discounting
- Export Factoring
- Forfeiting
- Structured Finance

8. What are four main classes of protection for innovation?

- Patent
- Trademark
- Design
- Copyright


EXPORT