Doing Business Overseas

Importing and exporting

Importing and exporting are the two major elements of doing business overseas. Both are ways of extending your range of products and services and providing new markets to enter. You can also gain economies of scale by spreading your costs across a larger customer base; smooth out supply and demand as growth in different parts of the world often occurs at different times; have greater security through having a bigger customer or supplier base to work from.

One of the first tasks when considering doing business overseas is to choose a country from which to import either materials or finished product, or to export to. This will involve market research to establish suitable areas, visiting trade fairs, etc. You may be influenced by your own language skills or existing trade enquiries. You should look for near markets with low entry barriers and start with just one or two, rather than spreading your resources too thinly.
The basic rules of importing and exporting include:

- Duty may be payable on imports and this is normally paid by the buyer when goods are cleared at the point of arrival (port or airport). You need to know the rate payable when you are researching market price structures. This information can often be found by consulting commercial staff at overseas embassies – contact details can be found on the relevant government websites.

- Packaging, shipping and paperwork will all be different and more complex when dealing with overseas markets. A freight forwarding agent can smooth out any difficulties, advise you on procedures and, if necessary, carry out all this work on your behalf. Get comparative quotations listing all charges before selecting one.

- Product liability and all literature must comply with local regulatory conditions. You need to include this in your market research activities prior to choosing an overseas market source or target.

- Payment terms to and from overseas markets vary greatly. In Europe open account trading is most common. Elsewhere drafts (bills of exchange) are used. In some markets payment by Letter of Credit is the norm. Times of settlement also vary – in northern Europe you can often negotiate payment at 7 or 14 days but in southern Europe settlement at 90 or 120 days is typical. Letters of Credit can provide for payment immediately ("at sight") or after a certain term.

- Currency and rates of exchange are another factor to consider when doing business abroad, especially with fluctuating currencies. You can either take the risk or add any changes in currency that occurs during the trading cycle to your profit or loss, or you can buy currency forward. The later strategy has a cost, but in return you get certainty. But looking too far ahead when it comes to exchange rates is often dangerous. If a company is regularly conducting business on the international level and completing numerous

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transactions with a foreign currency, then a hedge fund may be particularly beneficial to protect against currency volatility.

- You should be aware of the differing cultures and business customs prevalent in other countries. Often the use or misuse of some custom or ritual can negatively impact, or even curtail, negotiations. Knowing and understanding the culture, demographics, economic climate, political situation, religions and history of a country is extremely helpful when conducting international business.

Factors to consider when doing business overseas

For the small business, there is a world of opportunity in the export markets. Small firms represent the greatest potential for growth in export sales. Exporting can provide small businesses with previously untapped markets, generating growth and additional profit. In addition, exporting also creates new jobs. Selling abroad demands hard work, a commitment of resources and perseverance. It may also involve changes like new packaging and metric conversion.

Doing business overseas is more complex that the mere buying of goods and services. There are many variables to sort out to complete a successful trade transaction. You must identify the target market and trade leads within the market. Ascertain any problems with trade barriers, sanctions or other impediments that could block a deal. Research a country's politics and evaluate the risk factor. Is the present political structure about to be replaced? Is there an insurrection currently being waged against the government? Do the tax and tariffs of a country diminish the possibility of any profits? What kind of currency will be used to finance the deal? Is it stable in the global currency markets? How will the goods and services be paid for? What are the laws concerning transportation and logistics that each party must bear?

Manufacturing abroad has increased in popularity over the last several decades. Sometimes, it is more profitable to move a company's operations to another country, e.g. because of the abundance of resources or the presence of a highly skilled workforce.

Other options include opening a satellite office in another country, hiring a sales agent or opening a warehouse. However, opening even a small satellite office can be a very difficult task to undertake. It is advisable to work with a partner when setting up a satellite office in a foreign country.