

A Guide to Methods of Entering Export Markets

Business Information Factsheet
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Introduction

If you are thinking about exporting for the first time, you may be unsure about the best way to approach your chosen export market and how to manage a complex marketing and distribution process from a distance. You may choose to sell your product or service direct to overseas customers, or decide to sell indirectly via a third party. It is important to undertake thorough research and be clear about your chosen method of market entry before you start exporting.

This factsheet will help you select an export market-entry method that is suitable for your business. It explains the difference between direct and indirect exporting, and provides links to a range of sources of further information and advice.

Direct exporting

It is possible to sell direct to individual customers or outlets abroad. This may be appropriate where your customer base is narrow or limited, or when there is little need for servicing or after-sales care.

This approach requires a great deal of preparation and a considerable investment of time and money. For this reason, even large firms often decide to use an intermediary for all or some of their exporting. If you choose to export directly rather than appoint an intermediary, you will need to:

- Find a local representative in your target export market.
- Make arrangements for shipping goods and completing all documentation.
- Do your own market research.
- Decide how to price your product or service, and subsequently promote it.
- Manage invoicing and payments, and be prepared to deal with the risk of late or non-payment of invoices.

Examples of types of direct exporting include:

Selling at or attending overseas trade fairs

You could exhibit at trade fairs and exhibitions attended by prospective overseas customers, buyers and suppliers involved in various sectors. If you are considering exhibiting, it is important to contact your trade association to see if they offer any specific support. You should also get in touch with the Department for International Trade (DIT, www.gov.uk/government/organisations/departments-for-international-trade) or your local chamber of commerce

(www.britishchambers.org.uk), which can provide help and technical advice. Even if you do not exhibit, visiting these events will give you opportunities to make contacts, research the market, find agents or wholesalers, and develop sales leads. DIT also arranges market visits, the costs of which may be subsidised, depending on where your business is located.

Franchising

Franchising involves selling the right to use your brand and manufacture or sell your products or services as a ready-made package in a particular market. In return, you will receive fees and other potential income, such as a percentage of annual profits. Franchising is a means of expanding a business while limiting risks and reducing management responsibilities.

The franchisee contributes capital and other resources as well as paying you a licence fee, while you (as the franchisor) will be expected to provide a range of support, possibly including training and technical services. See BIF 131, An Introduction to Franchising a Business, for further information.

Licence agreements

You can grant another firm the right to use your product names, technical specifications, processes or patents by drawing up a licence agreement. A fee (which may or may not include royalties) is charged for the licensed rights. Licensing may depend on you securing protection for intellectual property rights in the country concerned, and may also require approval from the government in that country. See BIF 537, Intellectual Property Licence Agreements, for further information.

Joint ventures

There are three ways of setting up joint ventures for exporting purposes:

- Collaborating with a UK firm: it may be possible to identify a suitable UK firm that is willing to enter into a partnership with you to begin exporting. This provides an opportunity to pool resources and expertise, and it is important to find a firm with strengths and competencies that balance any weaknesses you may have. Chambers of commerce, professional networks and your trade association can also be good sources for locating potential partners.
- Collaborating with an overseas business: it may be possible to reach an arrangement with a compatible business abroad. This can involve agreeing to manage each other's export trade, or a joint operation to enter a specific market that may involve shared investment.
- Working with a multinational firm: whether UK-based or in the target export territory, large firms often seek new products for their sales portfolio. If initial research indicates that your product could work well within a particular firm's range, it is possible to explore this 'piggyback' method.

Indirect exporting

As an alternative to direct exporting, you could choose to appoint an independent agent or distributor to represent you overseas and sell on your behalf on a commission basis. This may eliminate the need for travelling abroad and dealing with some of the complex export documentation. However, it still requires considerable commitment. It can be a useful route to

selling abroad for smaller firms, and provides a means of testing the viability of a product in new markets.

Whatever methods of exporting you use, it is essential to protect the intellectual property rights relating to your products or services, and any ideas and processes that are unique to your business. This will be particularly important if you are considering licensing or contracting out the manufacturing of a product, or setting up a joint venture production facility with an overseas business.

Advice is available through your local chamber of commerce and DIT can provide free information to help you plan your exporting venture effectively.

The following organisations may be able to help you identify an agent or intermediary:

- Commercial officers are based in British embassies abroad. They are bilingual and have good knowledge of business in the country where they are based. They help organisations find suitable agents and also provide tailored market reports. Go to www.gov.uk/government/world/organisations for a list of consulates and embassies around the world.
- Trade or professional associations may hold information about agents in your industry both locally and abroad. The Trade Association Forum publishes a directory of UK Trade Associations. Go to www.taforum.org/Members for details.
- Internationally United Commercial Agents and Brokers has a membership of national organisations and can often put suppliers in touch with local agents. Go to www.iucab.com/en/information/membership_list.php for details.
- The Manufacturers' Agents' Association hosts an online database of professional agents across a range of manufacturing classifications. Go to www.themaa.co.uk/about-the-maa/finding-an-agent/ for details.

Options to consider when using an agent or intermediary include:

Import and export agents

Import agents are based in overseas countries, while export agents are UK-based. Agents may look for the sole rights to a region or country and will help you fulfil orders in return for an agreed commission payment on each order. (They do not normally deal with shipping or payment, which you must arrange separately from the UK, usually through a freight forwarder.) They are briefed on appropriate prices and terms, and they then find you customers within their designated geographic territory.

Agents accept orders and enter into legal contracts on your behalf. They do not usually accept a credit risk on stock unless they are 'del credere' agents, who accept the credit risk on supplier stocks for their market and charge a higher commission to compensate for the risk involved.

Distributors

Distributors based in overseas markets hold stocks of products from which they fulfil local orders. Unlike agents, they will buy products from you and sell these on at prices that they fix themselves. They usually also oversee the import/export process.

Distributors work in various ways: some may buy products from you and resell them at their own prices; others will trade under a sale-or-return arrangement. You should seek advice from

a solicitor with experience in international trade if you are thinking of setting up an exclusive or selective arrangement with an overseas distributor.

Other intermediaries

There are several other types of intermediary, named according to the type of advice or practical assistance they offer. In many cases functions overlap, and the services offered may vary from country to country.

- Export houses are firms with a detailed knowledge of international sales that specialise in financing and servicing exports. The price paid for your product will reflect their costs, but in some cases the importer pays the fees of the export house.
- Export consultancies generally specialise in certain markets and services. They usually accept responsibility for all aspects of export administration or will offer you particularly specialised kinds of support.
- Export management services are independent and take on the export function on behalf of their clients, often securing the exclusive territorial rights to certain areas or product ranges.
- Export merchants buy products outright from you and sell them abroad. They usually take delivery and make payment in the UK, and often specialise in certain products. When dealing with a new product, they will require an agreement with you to protect their investment in building overseas sales, and may also request product or packaging changes to meet their market requirements.
- Confirming houses place orders with you on behalf of overseas customers and attend to all transport arrangements. They can also act as agents for you and seek orders from their overseas contacts.
- Crown Agents make purchases on behalf of the public sector - for example, foreign governments, the armed forces and transport authorities. They are responsible for paying you within the UK.
- Large overseas firms, such as grocery or retail chains, often have buying houses in the UK. These have huge purchasing budgets, and although you will usually still have to deal with the administrative process of exporting, you may receive large orders.

Choosing the best method for exporting

It is important to consider all the elements of a particular export project before finalising your market-entry strategy. Each entry method should be considered in the light of the proposed market and customers, product or services provided and resources required.

Proposed market and customers

Gaining a foothold in any market involves being aware of how it operates. It is important to clarify the existing channels of distribution for your particular type of product. A market visit will provide a good opportunity to study the local business structure and answer the following questions:

- Are there any legislative issues that will affect sales, such as restrictions on choice of representatives?

- How do firms in the chosen market prefer to do business? For example, many large organisations are not keen on unsolicited approaches but channel all their buying through an agent.

Product or service

In many cases, the nature of your product will determine the selection of market-entry method. It is a good idea to make a list of any factors that may affect the way your product should be sold, using your experience of the UK market where applicable. Factors may include the level of technical back-up and promotional investment required.

Resources required

This can include staff time, language skills, technical and marketing resources, as well as finance. For example, how will your domestic business be affected if technical staff are busy dealing with issues abroad?

Finding advice and information about exporting

There are many sources of advice available to anyone considering different market-entry methods and seeking partners or representatives. Their help ranges from general information to specific assistance with a particular venture. They include:

- DIT, which offers a wide range of market research, programme planning and promotional support to exporters. Your first point of contact for assistance through DIT is your local Trade Team in England. You can find your local office on the DIT website (www.gov.uk/government/organisations/department-for-international-trade); Scottish Development International (www.sdi.co.uk); Business Wales (<https://businesswales.gov.wales/zones/export>); or Invest Northern Ireland (www.investni.com/index/selling.htm).
- The British Exporters Association (www.bexa.co.uk), which links first-time exporters with professional advisers and regional export clubs (groups of business people who meet informally to discuss exporting issues). Members may be able to recommend agents or give you advice on market-entry methods they have used.
- Local chambers of commerce, which often have expertise and contacts in certain geographic markets or industries. They are a useful source of practical information about import and export legislation.
- Trade associations usually have links with their international counterparts, or local contacts in export markets. Some have well-developed export services and can arrange joint ventures and trade fair visits, as well as providing general advice.
- Major banks have international departments that should be able to provide you with useful contacts and give general advice on the financial implications of particular export options.
- Solicitors may have specialist expertise of contract law in overseas jurisdictions and should be consulted when you are signing up an agent or distributor.
- Freight forwarders are an important part of the distribution process and can also provide advice on terms of trade and documentation. See BIF 396, Choosing and Using a Freight Forwarder, for further information.

See BIF 235, Government Support for Exporters, for more detailed information and contact details for these and other sources of export advice and support.

Hints and tips

- It is essential to seek assistance from an experienced adviser or solicitor before you enter into contracts with agents or other intermediaries. The relevant legislation (the Commercial Agents (Council Directive) Regulations 1993) is notoriously complex and it is important that the implications of any agreement are understood.
- In many countries, government regulations may dictate the choice of who represents you, and may stipulate the level of commission.
- It is important to understand that the best method of entry into one market may not work in another. Many firms that export to a number of markets deal direct in some areas while using UK intermediaries to sell to other territories.
- Overseas trade exhibitions will provide you with an opportunity to establish contacts with potential buyers, distributors, agents and partners, and also enable you to assess the competition.

Further information

BIF 131 An Introduction to Franchising a Business

BIF 137 A Guide to the Commercial Agents (Council Directive) Regulations 1993

BIF 208 A Guide to Export Documentation

BIF 225 An Introduction to Getting Paid by Overseas Trade Customers

BIF 235 Government Support for Exporters

BIF 318 Choosing and Using a Business Translator

BIF 396 Choosing and Using a Freight Forwarder

BIF 537 Intellectual Property Licence Agreements

Useful contacts

The Department for International Trade (DIT) provides a wide range of support to UK firms trading internationally and to firms seeking to locate in the UK.

Tel: (020) 7215 8000

Website: www.gov.uk/government/organisations/department-for-international-trade

Business Wales helps Welsh firms to establish themselves in overseas markets.

Tel: 0300 060 3000

Website: <https://businesswales.gov.wales/zones/export>

Scottish Development International works with partners to help Scottish firms trade internationally.

Tel: 0800 917 9534

Website: www.sdi.co.uk

Invest Northern Ireland can provide support and information to Northern Irish firms wishing to trade overseas.

Tel: 0800 181 4422

Website: www.investni.com

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Cobweb Information Ltd, Unit 9 Bankside, The Watermark, Gateshead, NE11 9SY.
Tel: 0191 461 8000 Website: www.cobwebinfo.com