

Closing the Deal: A Guide to Trade Transactions

Client: BuyUSA.com/US Department of Commerce

Obtaining qualified leads from BuyUSA is only the beginning of your company's journey into new trade avenues. We have a complete support system of over 1,700 trade specialists in offices around the world who are trained to help you with every aspect of your trade transactions. Your BuyUSA membership entitles you to this advocacy at no additional charge. In addition, we provide you with our extensive online guide to trade transactions. The guide is a rich source of information and is designed to help you "close the deal."

Qualifying potential business partners

Qualifying your international business partners is an important step in ensuring that your company's overseas business objectives are aligned with those of your business partners, and that you are dealing with reputable, credit-worthy and otherwise financially solvent firms. Qualification helps to reduce the risks associated with international business and can save you time and money in the long run.

When interviewing prospective overseas partners, clearly state the qualifications and requirements you are seeking. It is also important to speak to any prospective business partners before conducting transactions. Our Gold Key Matching Service enables you to conduct personal interviews in-country, or via video-conferencing in some locations.

Speak to your local trade specialist for more details, or see our "Basic Guide to Exporting/Factors to Consider When Choosing a Foreign Representative or Distributor" for more information.

Obtaining background checks

It is important to obtain a background check on an international company if you plan to have any legally binding commitments. The U.S. Commercial Service offers International Company Profiles prepared by our U.S. Embassy or Consulate staff in many countries around the globe. These reports, which are available for a fee through your local Export Assistance Center, provide corporate background information, references for corporate officials and financial information on your prospective international business partners. Similar reports are also available from private sector entities in many countries. It is important to verify credit worthiness before extending credit to prospective overseas business partners.

Quotes

Preparing quotes for international buyers

While a sales contract that spells out the details of a transaction is warranted for larger, more complex deals, a quotation in the form of a pro-forma invoice may be sufficient for smaller transactions and serves as a legally binding quote. Take care when preparing the pro-forma. Incoterms cited on the pro-forma define the exact point at which risk passes from the seller to the buyer. The pro-forma states the exact city or port to which you will deliver the goods and will require you to calculate and include any freight charges you plan to incur. Required terms of payment are stated on the pro-forma, along with the time period for which the quotation remains valid.

Distribution Channels

Benefits of using distributors

While your first export sales may be made directly to international buyers, most exporters find it necessary to

develop a network of international distributors to achieve their export goals. It's also important that buyers know they have a local point of contact for after-sales support and settlement of warranty issues. Effective channels of distribution are essential to a successful export marketing plan, and your diligence in selecting and appointing appropriate distributors and seeking the assistance of a skilled international attorney will pay off. Contact your local trade specialist for further guidance and referrals to qualified professional trade service providers.

See the "Basic Guide to Exporting/Locating Foreign Reps and Buyers" for more information.

International sales channel partner guidelines

Overseas representatives -- whether a commission-based sales representative or stocking distributor -- should have:

- The ability to aggressively sell your product or service
- The technical (engineering, software, mechanical, artistic) knowledge to market effectively
- An active customer base
- Sufficient financial resources to invest in market development
- The capability to handle catalog translations
- The resources to perform after-sales service (warranty work), where applicable
- The ability to host your visit to their country and visit you for factory training
- The means to exhibit at trade shows
- Your trust, so they can be your eyes and ears in their country

Be sure to investigate any conflicts with competitive lines that your potential partners carry.

Selecting an international distributor

Avoid exclusivity at the outset and pick qualified, well-established representatives with good reputations. Visit the representative at his or her place of business before you sign on. Also, when you agree to do business make sure the representative places an immediate order and agrees to have basic inventory on hand to demonstrate and market the product. Agree on mandatory inventory levels and minimum, regular stocking orders to fulfill your contract. Do not assume that if you don't sign a contract you are free of all liability or that you may terminate the relationship at any time. Seek qualified legal advice and formulate an exit strategy in case the business relationship does not work for you.

Agreement Negotiation

Structuring a distribution agreement

Consult a reputable international attorney as you prepare distribution agreements or sales contracts. Your local trade specialist can assist you with referrals to qualified international attorneys in your area. These professionals are familiar with applicable commercial law in the U.S. and overseas and can help protect your company's interests. It is wise to include sales performance requirements in distributor agreements in addition to territory definition and termination clauses. In some countries, signing a distribution agreement can commit your firm indefinitely to a relationship. It is important to specify which country's laws will prevail in dispute situations, or specify the use of third-party arbitration. Be aware that avoiding a distribution contract altogether does not necessarily mean that your firm can terminate a distributor at any time.

Negotiating with a representative who wants exclusivity

When you respond to a lead, receive an inquiry from overseas, or exhibit at a trade show, international firms

that want to be your exclusive representative might approach you. Exclusivity means exactly what it implies -- you assign sole sales rights to a particular company. Exclusivity should be earned through consistent sales and support success. Exclusive rights should not be awarded without a track record. Exclusive reps enjoy legal protection overseas, which may make it difficult and expensive to sever the relationship with a non-performing rep or distributor.

Exclusive versus non-exclusive distribution agreements

In a relatively small national market, exclusivity may be a requirement for the distributor to justify the investment in advertising, promotion, sales and distribution. On the other hand, distributors will often demand a territory much larger than they can effectively serve (for example, asking for the entire Middle East). If a distributor is not performing or effectively selling the product, such an agreement precludes the exporter from selling directly to end-users or appointing additional distributors in that market. Consult an attorney who is familiar with commercial law in the distributor's country before granting any rights of distribution.

Export considerations for U.S. service firms

U.S. service exports exceed those of U.S. manufactured products, and are clearly an important component of BuyUSA's offerings. In general, success for U.S. service firms overseas depends heavily on establishing strong international contacts and building strategic alliances that can help establish a reputation and brand recognition overseas. The international contacts and leads on BuyUSA include opportunities for service firms. We recommend that U.S. service exporters contact their local trade specialists to discuss their objectives. They can help with connecting to our National Services Team, which focuses exclusively on U.S. service exports. These team members are an invaluable resource in guiding service exporters to success overseas.

Landed Cost Calculations

International landed cost calculations

International landed costs are the costs involved in getting your shipment out of the United States and to the international buyer. These expenses are above and beyond those normally associated with domestic sales. Your calculation of international landed costs should take into account the cost of export documentation; international freight and insurance; possible bank charges for letters of credit; import duties; and importer, distributor or other mark-ups. Your local trade specialist can help you with calculating landed costs.

Payment and Financing

Getting paid

There are several ways you can receive payment when selling your products abroad. Payment terms have a varying degree of risk for your firm. Excessive risk or exposure is not sound financial management, but avoiding all risk may result in an inability to accommodate good customers and a loss of export sales. Listed in order, from most secure for the exporter to the least secure, the basic methods of payment are:

- Cash in advance
- Documentary letter of credit
- Documentary collection or draft
- Open account
- Other payment mechanisms, such as consignment sales

A good international banker will explain your method of payment options and advise you on managing risk. See the "Basic Guide to Exporting/Prudent Credit Practices" for more information.

Financing export transactions

Export financing falls into two areas: working capital and foreign buyer financing. Working capital refers to the additional funds your firm may need to purchase inputs (usually labor and material) to fulfill an export order.

Buyer financing refers to the extension of repayment terms to a buyer for repayment over a period of time.

Many government-backed trade finance programs work in conjunction with private sector sources to meet the needs of U.S. exporters in both areas. Because of the intense competition for export markets, offering attractive payment terms is often necessary to make a sale. U.S. exporters should be aware of the many financing options open to them so they choose the one most acceptable to both parties. In many cases, government assistance in export financing for small and medium-sized businesses can increase a firm's options. The following sources may be helpful in determining which financing options are available to you:

- The international department at a bank in your area
- Your state export promotion or export finance office
- Your local trade specialist
- U.S. Small Business Administration
- Export-Import Bank of the United States
- Basic Guide to Exporting/Methods of Payment

Export Regulations

Illegal exports

Many exports from the United States do not require a license, but all must comply with U.S. export regulations.

As an exporter it's your responsibility to understand U.S. law and diligently check out buyers and potential customers. Use the "red flags" described in the Bureau of Export Administration website as a checklist to discover possible illegal export diversions. The Bureau of Export Administration of the U.S. Department of Commerce publishes and enforces regulations of items termed "dual use." Export personnel should become familiar with the BXA website and develop an export management system to assure systematic compliance with all regulations.