

8 International trade

8.1 About business Export sales and payment

Internet research

Fluctuations in the exchange rate between currencies can be an important issue in exporting. Search for the keywords *Big Mac Index* to find out a fun way of measuring these.

Discussion

1 How can selling your product in other countries be more difficult than at home? With a partner, list four aspects of export sales where there may not be a level playing field.


Scan reading

2 Read the article opposite from a trade magazine. Which four export mistakes did Eisenhart Games make?

Reading for detail

3 Read the article again. The words in grey are explained in the *Wordlist* on page 158. Which eight lessons does Vincenti say exporters have to learn?

Listening for detail

4  3:16 Listen to an interview with James Sullivan, a sales manager with Nehling and Hynes, an American credit agency, and answer the questions.

- 1 Which two kinds of service do credit agencies provide?
- 2 How large is Nehling and Hynes' database, and why is this important?
- 3 How are credit ratings useful?
- 4 What proportion of European and US firms purchase credit insurance?
- 5 Which advantage does credit insurance give Daryl Vincenti in Saudi Arabia?
- 6 On average, how much does international credit insurance cost?

Reading for detail

5 Read this extract from a guide to methods of payment in international trade. Put the methods in order from the safest (1) to the riskiest (4) from the exporter's point of view.

Open account

Goods are shipped directly to the buyer, with a request for payment.

Advance payment

Payment is expected by the exporter, in full, before goods are shipped.

Bills for collection

A bill of exchange is sent from the exporter's bank to the buyer's bank. When the buyer agrees to pay on a certain date, they sign the draft. The documents and goods are released to the buyer against this acceptance.

Letters of credit (L/Cs), also known as documentary credits (DCs)

Documentary credit is a bank-to-bank commitment of payment: the buyer's bank guarantees that payment will be made when the shipping documents are found to be in compliance with terms set by the buyer.

Discussion

6 As the exporter, decide what methods of payment in 5 you would require from these customers.

- 1 The buyer is a well-known company in a large country in western Europe. This is a first order but you hope the buyer will become a regular customer.
- 2 The buyer is in a country where currency exchange is controlled by the government. Requests for foreign currency payments must be justified by supporting documents.
- 3 The buyer is a new customer in a country with a fragile economy and a poor credit rating.
- 4 The buyer is a large North American company with a reputation for slow payment.
- 5 The buyer is one of your suppliers in a neighbouring country.
- 6 The buyer represents a small company in a developing country and is a personal friend.

7 You and a friend design and sell your own line of T-shirts at rock concerts. You have been very successful in your own country, and now several contacts in other countries have expressed interest in your product. What problems do you anticipate if you start to export, and what solutions can you suggest?

Pinball wizard

learns from mistakes

At Chicago-based Eisenhart Games, Daryl Vincenti is known as the 'export wizard'. Over the last three years, the pinball machine manufacturer has developed a profitable new market in the Middle East. 'Times are hard for pinball in the US,' says Vincenti. 'Competition from video games and computers has hit small manufacturers like us really hard, so we have to find new markets.' Eisenhart now has some 35% of a growing Middle East market, but it hasn't been easy. 'We made a

lot of mistakes at the beginning,' confesses Vincenti, 'but we learned fast. We're now starting to work in S E Asia, and things are much easier because we've taken important lessons on board in the Middle East.'


Vincenti puts using a good credit agency at the top of his lessons learned list. 'When you've invested time, effort and money in making an export sale, you want to get paid! After wasting a lot of time chasing payments, a friend introduced me to Nehling and

Hynes. We learned that by using a credit agency to check out your customer's creditworthiness and to insure against non-payment, you can make export virtually risk-free.'

Other lessons learned centred on adaptability. 'Be flexible: you have to learn to think outside the box,' says Vincenti. 'And don't assume that what works well in your domestic market will automatically go down well in another. You should also be prepared to modify your product specifications to meet local conditions, and to focus on different aspects of the marketing mix. In the Middle East, for example, price is not everything. We started out trying to sell on price: we soon learned that over there, image, quality and service are all more important.'

Vincenti also stresses that would-be exporters should make a firm commitment to export, but focus on one market, rather than trying to sell all over the world. 'You don't succeed in export markets by giving them a couple of hours a week when things are slow at home. You have to put in a lot of time, get out there and meet your customers, and manage your local distributors proactively – if you don't, it's "game over".' Eisenhart learned the hard way when they signed an exclusive deal with an agent in the Gulf; at the end of the first year, sales were zero, and the agent had disappeared without trace.

A final lesson is to remember that appearances can be deceptive, warns Vincenti: 'One day we received a 15-word fax in approximate English from what seemed to be one man and a camel somewhere out in the desert. We thought it was a joke, but a week later we decided we should answer it anyway. They're now our biggest customer.'



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