E-Exporting

Is this Booklet Right for You?

You are operating a small or medium-sized business in P.E.I. You have done the hard work to establish an online presence. You can even accept orders and ship your product to your customers.

One day you receive an order from somewhere outside of Canada. Now what? What do you need to know about exporting in order to meet your customers' needs and protect yourself? Or, perhaps you have heard about the opportunities to sell your product in other countries and would like to know what you have to do. This booklet aims to answer these questions and more.

Exporting Basics

There is no doubt that international business is a potentially lucrative area for many businesses. Consider the number of potential customers waiting to hear about your product around the world.

For most business owners, establishing yourself in a foreign market is complex and time-consuming. However, for the e-business savvy business person, no matter the size of the company, doing business internationally can be easy and relatively straightforward. While you won't have to worry about issues related to marketing and distributing your product in foreign markets, you will still have to deal with issues related to shipping, customs, electronic contracts and transactions.

Definitions:

Exporting is the practice of sending or carrying goods or services to a foreign country for trade or sale.

E-exporting is the practice of receiving and processing orders online from customers located in foreign countries.

How You Can Use the Internet to Export

The Internet offers some advantages over traditional exporting approaches. Not only can you reach a huge number of potential customers from around the globe without needing to establish a physical presence in other countries, but you can also:

- **Customize your product or service offering based on customer location** – By offering special links on your website, you can localize and personalize your website for different markets (e.g. provide website information in the language and currency of the market you are serving).

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- **Offer electronic customer support** – You can offer customer support either through a Frequently Asked Questions (FAQ) list available on your website, or through e-mail powered assistance, as opposed to operating a costly and time consuming 1-800 number.
- **Clearly communicate the features and benefits of your product or service** – Your website is the ideal vehicle to market your product or service to others. Using pictures, product descriptions, technical details, customer testimonials and even videos, you control what your customers see and learn about you and your product. Also, your website is a great platform to communicate information about how your product meets international standards and the policies (e.g., pricing, shipping, and return policies) your company embraces.
- **Promote your company** – Many customers are interested in not only product specifications, but also information about the company with which they will be doing business. The Internet allows you the opportunity to tell potential customers more about your company's history, staff, location, partners, and so on.

Benefits of Exporting:

- Increased sales and increased profitability
- Reduced reliance on domestic markets due to market diversification
- New opportunities for growth
- Economies of scale (the more you produce, the less each unit costs to make)
- Use of excess capacity (through increased sales)
- Rejuvenated sales of existing products
- Reduced vulnerability to seasonal fluctuations in the market for your product
- Enhanced domestic reputation
- Increased awareness of possible foreign competitors

- **Facilitate communication with your customers** – E-mail is a convenient way to communicate with your international customers. You can respond to questions instantly, notify your customers of their product shipment status, and send them your latest news or information on special offerings.

Steps to E-Exporting

There are seven main steps when you are considering e-exporting.

1. Evaluate Your E-Export Potential
2. Develop an E-Export Plan
3. Modify Your Product for Foreign Markets
4. Research the Legal Issues Related to E-Exporting
5. Leverage Your Website to Sell Abroad
6. Ship Your Products
7. Get Paid

These steps are described in more detail in the pages that follow.

1. Evaluate Your E-Export Potential

Before spending a great deal of time, effort and money on e-exporting, take some time to reflect on your current operations and product offerings. This assessment phase will help you avoid headaches later and will educate you on what you need to do to get ready to e-export.

What You Should Consider when Evaluating Your E-Export Potential:

Considerations	***Status or Comments***
☐ To what extent is your business currently successful in its domestic operations? • Are you struggling to fill orders? • Does your product require a lot of servicing or follow-up assistance?	
☐ Does your product have wide appeal in many markets and cultures? • Does your product respond to a uniquely Canadian need? • Will you have to modify your product to appeal to a wider customer base?	
☐ Can your business withstand the financial strain of exporting? • How will you finance production and shipping costs until payment is received? • Is your company eligible for financial aid? If so, are you aware of the possible sources for financial aid for exporters in Ontario?	
☐ Are you aware of and willing to work in the various cultural environments where you may be selling your product?	
☐ Do you have the capacity to serve both your existing domestic customers and your new foreign clients?	
☐ Would you have to make modifications to your product to comply with the various regulations in foreign markets (e.g., regarding labelling, contents?)	
☐ Would the cost of transporting your product make competitive pricing a problem?	

If your responses to the questions above appear manageable, move on to Step 2.

2. Develop an E-Export Plan

In traditional exporting, an export plan is key to help you:

- Identify potential markets to target your exports;
- Identify potential barriers to entry and other information that will help you plan your exporting endeavour;
- Identify distribution channels, partners and routes to market; and
- Create a realistic marketing budget (including, for example, commissioned market research, overseas travel, trade events, ensure marketing collateral, translation services and product customization).

Tip: When considering exporting, don't move too quickly. Consider "test driving" your product in one or two foreign markets. This would help you identify unanticipated factors that may hinder product acceptance and also determine how viable exporting is for your business.

Certainly, if you are being proactive and thinking about actively marketing your product in foreign markets, an export plan is a definite must. However, if you are simply responding to orders from customers located outside of Canada, your needs will be different. Even when you are being reactive to orders (rather than proactive), you should still identify shipping routes and costs of exporting (including, for example, translation and product customization).

3. Modify Your Product for Foreign Markets

Before entering a foreign market, you need to be sure your product is suitable in its current form. You need to consider both the tastes and preferences in your foreign markets, as well as the specific foreign regulations that apply to your product. Note that these will vary by country, so you may have to limit the foreign markets where you sell your product.

Some examples of product characteristics you may have to change include:

- The name of the product (there are many stories of businesses that have launched products in foreign markets, only to discover that the product name has a negative connotation in the local language).
- Labelling (such as changing size measurements to the Metric or Imperial system, for example, or providing instructions in several languages).
- The product itself (for example, to meet local standards, to ensure compatibility with the local electrical power system).

Tip: Familiarize yourself with the guidelines of the International Organization for Standardization (ISO) (www.iso.org). This group issues documents that provide guidance on the selection and implementation of appropriate quality management programs for international operations.

4. Research the Legal Issues Related to E-Exporting

As with most business transactions, informing yourself about the laws and regulations that govern these transactions is critical. This booklet is not intended to provide legal advice. Therefore, you should consult a lawyer specializing in international law to make sure you are in compliance with the various domestic and foreign regulations. The website www.wcoomd.org will provide you links to customs administration websites worldwide and possible lawyers specializing in international law.

Here are some legal and regulatory considerations.

Tip: You need to know your product's Harmonized System (HS) code in order to fill out your export declaration and to find out the duty rates that apply to your product by its country of destination. You can find your product's HS code by searching on http://www.exportcanada.com/HScodeSearch.aspx. For tariff information, you can go to www.wcoomd.org/ie/En/en.html.

Some Legal and Regulatory Issues You Should Consider when E-Exporting
• **Jurisdictions** – Which nation's laws are to be applied (i.e., who has jurisdiction) will affect how your contract is enforced and the rights of the parties involved.
• **Intellectual property** – A world trademark does not exist. You will need to file for a trademark in each country in which you plan to do business. The same holds true for other intellectual property and patents.
• **International trade agreements** – Trade agreements between Canada and the country to which you wish to export may subject your products to lower tariffs. To qualify under any trade agreements, you will need to provide a Certificate of Origin proving the country of origin of your product and its components.
• **Export controls** – Is your product subject to export controls? Certain products require permits, certificates or inspections before they can be exported. Some software and computer products also fall under this category.
• **Domestic exporting requirements** – You will need an import/export account number to report export revenues to the Canada Revenue Agency. ☐ You must also report your exports by submitting, prior to exportation, an export declaration, and when applicable, any required permits, certificates, or licenses for controlled, prohibited, or regulated goods.

Visit the Canada Border Service Agency (CBSA) website (www.cbsa-asfc.gc.ca) for more information on exporting requirements and regulations.

Exporting Information Via the Internet

Many products that are traded or sold online never cross a physical border (e.g., in the cases where the product can be downloaded). Information is not subject to duties if provided via the Internet. Therefore, it does not require documentation or reporting. However, if you physically send your software product (e.g., on a CD or DVD) to your international customers, then it is subject to the same regulations as any other physical export.

5. Leverage Your Website to Sell Abroad

The Internet represents a critical sales tool for SMEs with limited resources. Consider the following tips for using the Internet that can help you with e-exporting.

Tips	Details
Website A high quality website projects a positive image	A website that is high-quality projects a positive image for potential customers and other partners. Unlike domestic customers, foreign customers find it difficult to verify your company's credibility through traditional methods. Your website may be the only opportunity you have to convince foreign customers that your business is capable of delivering a quality product.
Product Information Make sure information about your product or service is tailored to your specific markets	Similarly, your website is an ideal source of information about your product(s). You might find it useful to provide tailored information for your international customers, and in multiple languages where appropriate. Perhaps a separate webpage linked to the main page dedicated to the products you have available for export.
Research Learn about your customers and their preferences	You can learn a lot about your potential customers and international partners by researching them online. You can find out their preferences, your competition and potential distributorships.
Inquiries Make it easy for customers to ask you questions	You can also use the Internet to talk to your customers and respond to their questions. By including an e-mail address or "Contact Us" link on your website, customers can readily contact you.
Timeliness of Response Be sure you can respond to inquiries in a timely manner	If you are going to provide your contact information, be sure you can respond to inquiries in a timely manner. If you aren't able to respond to inquiries within 24 hours, don't invite e-mail inquiries. Slow response can seriously hamper your sales efforts.

6. Ship Your Products

Once you have made a sale, you need to get your product to your customer. The international shipping process can be complicated at best. Shipping can be broken down as follows:

- Packing – Since your product will change hands several times throughout the entire exporting process, you need to make sure it is adequately packed, so that it will arrive at the destination safe and undamaged.
- Labelling – Proper labelling ensures that your merchandise is handled properly and gets to where it is going in a timely manner.
- Documentation –The export process requires certain documents to accompany your shipment as it travels to its ultimate destination in a foreign country.
- Insurance – By insuring the merchandise you ship, you are protecting your investment against damage, loss, theft, and even delay.

To ease the burden of shipping products abroad, you can call upon the assistance of freight forwarders and customs brokers, as described in the chart that follows.

Getting Help with Shipping Your Product	
Freight Forwarders…	***Customs Brokers…***
• Are agents who assist exporters in moving cargo to an overseas destination. • Are knowledgeable in foreign importing requirements, exporting requirements, shipping processes and documentation requirements. • Typically don't cost the exporter anything since it is common for their fee to be calculated into product pricing and passed along to the customer.	• Can help you fill out necessary paperwork and find your HS code. • Can help you understand the export and import regulations that affect your product. • Can assist with the process of clearing customs (it is recommended that you choose a customs broker that specializes in your product and has a thorough understanding of the country to which you wish to export). • Can be located by visiting www.cscb.ca and consulting the member directory of the Canadian Society of Customs Brokers.

Remember: While the services of freight forwarders and customs brokers can greatly assist you in exporting your product, keep in mind that you, the exporter, carry the burden of responsibility. You need to inform yourself accordingly.

7. Get Paid

Many Canadian businesses that export their products abroad give credit terms to their buyers. The most common payment method is by **open account**, with a 30 to 90 day credit period. "Open account" means that you agree to ship the goods, or provide the services, before getting paid. The main advantage of this method is its simplicity and minimal paperwork. However, you are exposed to your buyer's credit risks: if the buyer refuses to pay, for whatever reason, you may not get your money.

Of course, you could ask for other payment terms from your customer until you develop a relationship. These other terms include:

- **Cash in advance** – Your buyer pays you in full or provides a deposit before you ship the goods or provide the services. This is obviously the best option for you. However, buyers may refuse to purchase from you if you don't sell on open account.
- **Letter of credit** – In this case, your buyer goes to their bank and requests a letter of credit (also known as LC) for the amount of the transaction (usually a large sum of money). Your buyer's bank (the issuing bank) will notify your bank that it has issued a LC for the stipulated amount as well as the various documents (such as an invoice, the bill of lading, and documents proving the shipment was insured) that must be presented before the issuing bank will release payment to your bank. If the LC is confirmed by your bank, this means that your bank will pay you even if the issuing bank does not release the payment. Also, LCs are typically irrevocable, meaning that they can't be cancelled or amended without your approval. The most secure type of LC is one that is both confirmed and irrevocable. LC is also known as documentary credit.
- **Documentary collection** – To use a documentary collection, you entrust the collection of payment to a remitting bank, usually your own. The remitting bank sends documents (as for LC, above) to a collecting bank (usually the importer's bank), along with instructions for payment. The collecting bank accepts your buyer's payment, in exchange for the documents, and sends it to the remitting bank, which then pays you. The use of collections will expose you to your buyer's credit risks until you receive payment. However, from your point of view, this is preferable to the open-account approach.

Arranging for online payment (before the goods are shipped) will help you to avoid having to collect payment after the goods have been shipped. Online payment options include third party credit card processing companies, online fund transfer services and prepaid credit services, all of which allow payments and money transfers to be made through the Internet. The services these companies offer are not available in all countries.

Caution: In some jurisdictions where a credit card is used, the purchaser can deny the agreement because the credit card is not physically present at the time of the sale. This can result in chargebacks, where the customer asks the credit card company to reverse the charges.

Keeping Records

In Canada, you have to keep accurate books and records of your exporting activities for six years after the end of the calendar year in which you export the goods. You can keep these records on paper or electronically.

Risks of E-Exporting

E-exporting is not without its risks. Below we highlight some key risks and some steps you can take to mitigate those risks.

Risks of E-Exporting	Mitigation Strategies
Financial risk: inadequate financing to get your product ready to sell in foreign markets; taking on short-term debt to cover new operational and administrative costs while you wait for revenues.	• You can access financial assistance from banks and credit unions, government (e.g., Business Development Bank of Canada, Export Development Bank, Trade Team P.E.I., Innovation P.E.I.), and local agencies (e.g. Community Business Development Corporations) to offset your costs related to exporting. • Pre-shipment, post-shipment, medium-term, and project financing are all available forms of export financing.
Risk of non-payment (e.g., accepting payment by open account, credit card fraud).	• Conduct a credit check before signing a contract. • Buy accounts receivable insurance from the Export Development Corporation (EDC). • Use alternate payment methods (cash in advance, letter of credit, documentary collection). • Only accept credit card payments for relatively small amounts. • Hire a lawyer or collection agency to pursue payment.

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Risks of E-Exporting	Mitigation Strategies
Foreign exchange rate risk: fluctuations in the value of the Canadian dollar relative to the currency of other countries can affect export profits either positively or negatively.	• Forward contracts – In these contracts, you agree to sell a fixed amount of currency to a commercial bank, at a fixed price, at some future date. • Exposure netting – In this strategy, you match the currency inflows of the country to which you are exporting with the currency outflows, to eliminate or "net out" the exposure. • Currency options – These contracts give you the right (but not the obligation) to buy or sell foreign currency at a specified price, within a defined time period. Unlike forward contracts, options let you benefit from favourable fluctuations in exchange rates.

Frequent Exporting Mistakes

This booklet highlighted some of the basic considerations involved in exporting via the Internet. In closing, we draw your attention to some of the most frequent exporting mistakes made by new and even experienced exporters. They are as follows:

- Not enough personnel or capacity to handle the inflow of additional orders
- Insufficient knowledge of the legal and regulatory issues related to exporting in other countries
- Selecting overseas representatives too quickly without thorough investigation
- Neglecting new export customers when their domestic market was booming
- Failing to treat international and domestic representatives on an equal basis
- Not modifying products to meet foreign regulations and local preferences
- Not printing sales, service and warranty messages in local languages

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This booklet is part of a series on advanced e-business topics which supplements an introductory handbook *How You Can Profit from E-Business*. For more information on those publications, visit the Innovation PEI website at ***www.innovationpei.com/ebusiness***.

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