



SOUTH AFRICAN CULTURAL OBSERVATORY

**Export Awareness in the
Arts, Culture and Heritage
sectors**

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Chapter 1 SHOULD I TRADE INTERNATIONALLY, AND AM I READY?

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Decide if exporting is the best option for you and your business;
- Know if you are ready to export;
- Understand what is needed to become a successful exporter;
- Know what alternative methods can be used to export;
- Realise what advantages exporting can give you.

1 INTRODUCTION

Consumers can buy goods from all over the world in their local shops. As a local South African business, you must compete with these foreign goods. However, you also have new opportunities and can expand your markets by selling in a multitude of other countries. Over the past decade, the playing field has changed for smaller companies who want to compete successfully in the global economy. You no longer need to be a ‘major industry player’ to become a global enterprise.

The advance of technology, especially telecommunications, is rapidly reducing the cost of providing services internationally, and the World Wide Web will likely change the nature of many products and services as it expands markets even further in the future.

International trading involves not only all the normal business skills and functions that are required to run any business, but also new dimensions. All the marketing, production, financial and administrative functions have additional aspects. When doing business across borders, the environment, culture, ethics, language, law, currency, and the way of doing business in general, change. The learning curve for a business entering the foreign market is very steep. The novice exporter or importer must be well prepared. Success on the local market does not guarantee success in foreign markets. Exporting and importing is nevertheless rewarding, both financially and from a personal point of view.

Although the essential aspects of doing business remain the same across countries, there are striking differences. This book will note these differences, and help you to make allowances and changes to your product, your promotion and your business in general. When focusing on the differences in doing business, it is important to always keep your own business goals in mind.

The very word ‘globalisation’ has begun to assume mythical overtones: Everybody invokes it, but nobody will define it. Globalisation is not an inevitable process, but an all-too-human one, in which success has to be fought for rather than simply assumed. It is important to emphasise that all South African companies face international competition, not only in export markets, but also in domestic markets. It makes little difference whether your company competes with foreign imports in your own home market or in export markets abroad – the competition you face is exactly the same. Becoming internationally competitive is therefore not only an essential requirement for successful exports, but also the best means of defence that local companies can use to counter foreign imports.

Successful businesses work towards a goal! You must have a vision of what you want to achieve and by when you want to achieve it. You may have a plan already formulated and may have even committed this plan to paper. Regrettably, however, many businesses only have a vague idea of where they are and where they want to go.

There are many business functions that have to be managed effectively and efficiently if you hope to run your business at a profit. Traditionally the business functions include:

- General management;
- Finance;
- Marketing;
- Operations;
- Purchasing;
- Personnel;
- Administration;
- Public relations.

Each function must contribute to the other if you are to be successful. (These are covered in detail in *Management for the Entrepreneur* in this series.)

It has probably never been more difficult for companies to assess new growth opportunities. Roller coaster commodity and stock markets; jittery importers, wholesalers, retailers and consumers; and depressed spending all pose challenges to any business executive, but especially those involved in cross-border activities.

The following is only a checklist, but will assist in preparing a plan for a successful international business.

- **Strategy**

Working through the SWOT analysis in Chapter 3 will contribute to developing your strategy.

- **Planning and analysis**

Planning is essential! The remainder of this chapter will focus on developing an export marketing plan. This plan will form part of your overall marketing plan that in turn forms part of your business plan. Researching an export market or identifying a new international supplier is fundamental. This is covered in Chapter 5.

- **Organising and coordinating**

Flowing from your business plan, export plan and export marketing plan, certain actions will have to be taken and policies implemented. How well these are done will determine the success of the business.

- **Monitoring and evaluating**

Change is inevitable! This is particularly true on the international scene. Evaluating how well you are doing and what can be done to improve this business is a continual process. It will require changes to your plans. These may be major, but usually simple adaptations will ensure success.

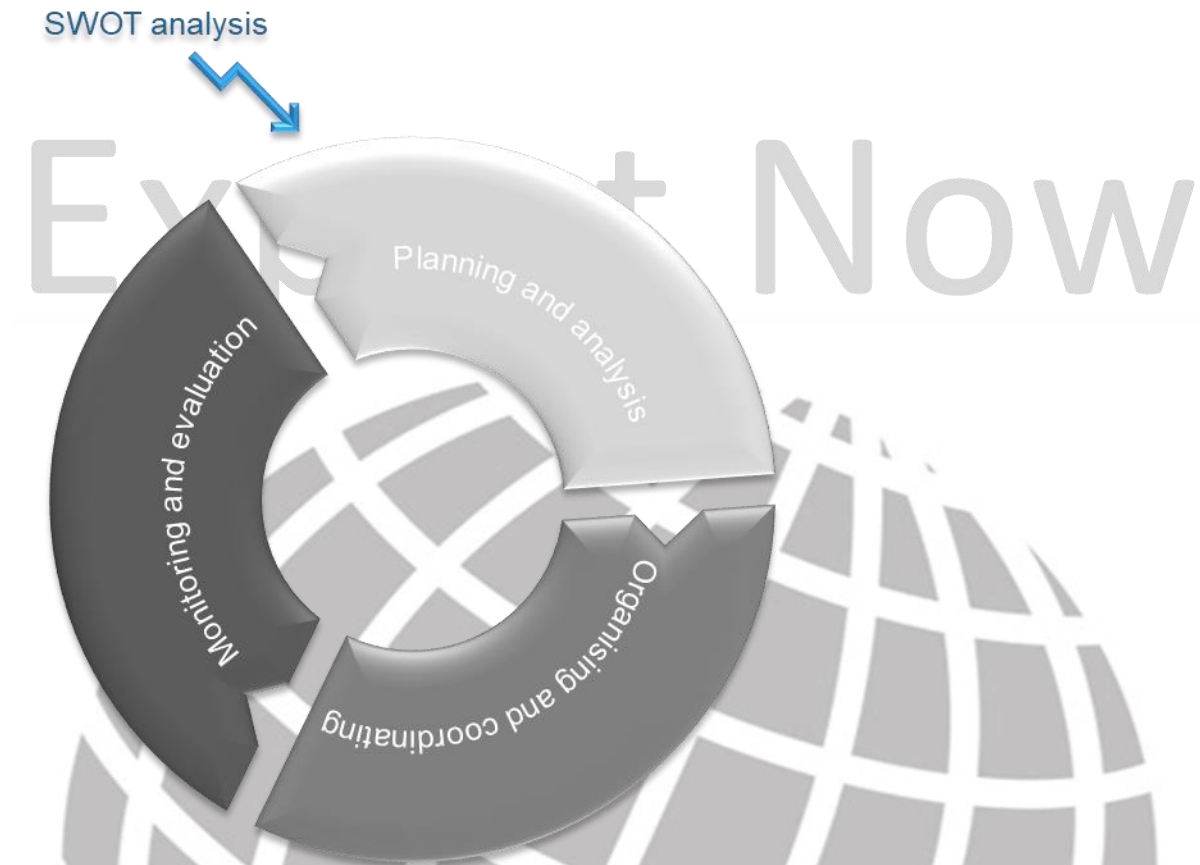


Figure 1: A PLAN FOR A SUCCESSFUL INTERNATIONAL BUSINESS

1.1 The export plan

Planning is vital to the success of any business. An export plan would form part of your business plan and the export marketing plan would form part of your export plan. The components should complement each other and work together to achieve your strategy.



Figure 2: AN EXPORT PLAN AS PART OF A BUSINESS PLAN

This book is not about how to compile a business plan, which is an important process in any successful business. (Writing a marketing plan is covered in *Marketing for Entrepreneurs* and will not be covered again in this book.) After working through this book, however, you should be in a position to compile an export marketing plan.

Briefly, the following components are usually included in any export marketing plan:

1. Executive summary
2. Current marketing situation
3. Marketing analysis
4. Setting objectives
5. Deciding on marketing strategy
6. Drawing up action plans
7. Projected profit/loss statement and budget
8. Establishing controls.

Source: adapted from Kotler & Armstrong 1991:539

2 QUO VADIS?

Although there are sound reasons for exporting, you should consider the alternatives before making the commitment in export development. As an alternative to exporting, consider domestic opportunities. You may be able to extend your current customer base (e.g. to younger or older buyers; to other areas or groups; or by extending supply to wholesalers, retailers or end consumers) or launch new or modified products.

[DO]Is your **customer base** growing, static or declining?

What **further market opportunities** are there in the domestic market?

How will you deal with **barriers** in exploiting those opportunities?

3 ORGANISATION GROWTH PATH

Obviously, you want to grow! If you do not adapt to changing conditions, you will weaken and disappear. Your current product or product range will mature and decline. Fortunately, you have alternatives.

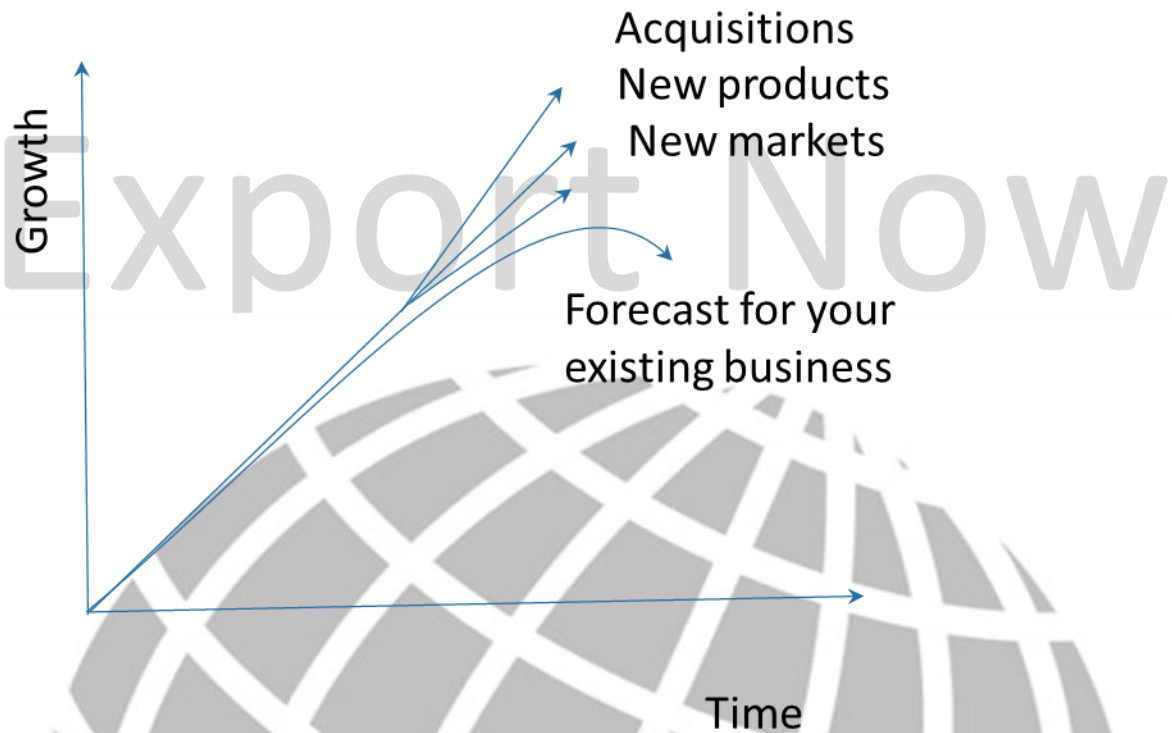


Figure 3: GROWTH OPTIONS

Source: Tookey, D. *Export Marketing Decisions*. Harmondsworth, UK. Penguin Education.

3.1 Alternative options for growth

Sticking to your current activities is not an option. Over time, your position will be eroded.

- You can **improve the efficiency** of your company; in other words, by doing the same as you currently are, only better and more cheaply. This will help increase the profits and ensure your survival over the short term. It will slow down the process of decline and you may even gain domestic market share. (By improving your company, you will be on the road to exporting.) There is, however, a limit to what can be achieved by this option.
- You can look at **new product lines**, either developing them yourself or sourcing them globally.
- You can acquire **new companies**. This is an expensive route to ensure that you grow.
- **New markets** are an alternative. South Africa is changing rapidly and with the change, new opportunities are constantly appearing. You can look at new markets in other areas or other demographic groups. If you are currently selling to the middle-aged market, you might want to look at either the youth or elderly markets.
- The **most profitable new markets** would be in foreign countries. The remainder of this book will look at how to enter these markets.

4 SUCCESSFUL TRADING

Successful exporting (or importing) boils down to being methodical. Thriving global businesses, from the smallest start-up to the largest multinational, have the following common:

- They know that their **customers and employees** are their most important assets.
- They understand their strengths and weaknesses.
- They have a proper **strategy** (exporting or importing) in place.
- They have **defined a market niche** and have differentiated their product accordingly.

- They have **researched** the markets thoroughly.
- They conduct an internal **audit**.
- They have financial strength.
- They have the **ability to adjust** products and packaging to meet foreign needs.
- They are aware of any **threats** that will affect business.
- They take advantage of any **opportunities** that may arise that will enhance the business strategy.
- They ensure that **adequate resources** are in place to change products or services to suit the market.
- They consider all **local variables** over which there is no control.
- They always **treat customers** (their most important asset, apart from employees) and potential customers **with respect**, and are aware that they are the 'foreigner' and that their culture and habits may be strange or offensive to their non-South African customers.

5 WHAT ALTERNATIVE METHODS CAN I USE TO EXPORT?

International trade can be rewarding financially and in many other ways, but it is also demanding. After assessing yourself, you may simply want to remain in the local market. Even if this is your choice, you will have foreign competition. As trade barriers and tariffs come down, more and more foreign firms will either set-up operations in South Africa or sell their products in this market. You will have to ensure that your company is competitive.

Whatever option you decide on, it is important to ask the following:

- What are the **benefits** (or **disadvantages**) of trade?
- What are my strengths and weaknesses?
- Are there any **opportunities** available?
- How do I evaluate the **environment**?

There are many options open to you to become involved in cross-border operations. After having gone through this exercise you can:

- carry on with what you are **currently doing**;
- export indirectly:
 - If you decide to export, you may do so via trading houses. There are many export agents who understand the foreign market and, in many cases, have many years of experience. This may be a route to follow. There are a few disadvantages, the main one being that you do not have full control over the process. The export agent may at some later stage decide to represent your competitor's products, leaving you in the lurch.
- become an international trader:
 - The third alternative is exporting directly on your own account. Although this book does not claim to provide you with all the answers, it will point you in the right direction for assistance to enter foreign markets competitively. The channels available to you will be discussed in greater detail in Chapter 8 (*A distribution export action plan*)

Figure 1.4 ALTERNATIVE METHODS TO EXPORTING



6 THE BENEFITS OF INTERNATIONAL TRADING

The world trade growth rate has consistently outperformed domestic economic growth rates. Participation in trade has provided both importers and exporters with higher growth rates, a greater return on investment, and more opportunities to learn than firms operating in the domestic market. International trade also has advantages for society generally. Workers employed by exporting industries have more secure, better-paying jobs. Successful export efforts enable South Africa to cover international payment obligations and to pay for imports. Successful trade is reflected in domestic economic improvement and the realisation of the inherent potential of the economy. This is noticed by international investors who, as a result, decide to invest, and this further encourages trade. Exports are pivotal to a virtuous circle, which results in more wealth and a higher quality of life.

Because trade plays a crucial role in the economic development of many countries and helps to improve the general standard of living, most governments pursue economic policies aimed at increasing export earnings on a national scale. Some of the advantages of exporting at a national level include:

- Growth;
- Better utilisation of national **resources**;
- Increased overall level of technological and economic **development**;
- Improved global **competitiveness**;
- **Expansion** and development **opportunities** beyond the local market;
- Increased job opportunities and reduced unemployment;
- Better-paying **jobs**;
- Earning **foreign currency** required to pay for essential imports and services, as well as for **advanced technology** not currently available in the domestic market.

Many large enterprises have set-up production plants that produce more than the local market can buy. Most South African manufacturing companies tend to move into exports to grow and increase sales. They are often motivated by adverse home market conditions, such as shrinking market share because of foreign competition. The benefits that exporting brings to the individual company, include the following:

6.1 Commercial advantages

The commercial benefits for a company include:

- Increased sales;

- Increased profits;
- Reduced risk;
- Lower unit costs;
- Economies of scale;
- Reduced seasonal fluctuations in sales;
- Extended product life cycle.

When you start competing in foreign markets, you have to become efficient in all of your activities. Exposure to international product and production technologies, as well as to the latest developments in marketing methods, generally improves your overall international competitiveness. New markets may also yield ideas for further innovation within the exporting firm.

If you have a unique product that is not yet available elsewhere in the world, the global market is a solution.

Quality requirements are high. Importers are often more demanding than South African buyers. Systems and quality control measures are expensive but may be a prerequisite for exporting. It is therefore necessary to ensure that you provide for:

- Additional production facilities that may be needed to cope with increased sales through exports.
- The product may need to be modified to meet foreign market criteria.

6.2 Financial

Exporters have access to additional sources of finance, and interest rates abroad may be considerably lower than those offered in South Africa. However, additional capital will be required for production expansion, research and development (R&D) and market development costs. The travelling time is longer, and importers may be more demanding when it comes to credit terms. It is likely that your outstanding book is going to increase and will need to be financed. Credit terms may need to be extended because of competition, local custom or transit time. Exporting, although rewarding, is generally an expensive activity and will require additional financial resources.

6.3 Organisational

For some companies, the status of being involved in international trade is very important. There are various 'Exporter of the Year' awards, the most significant in South Africa being the President's Award for Export Achievement. Exporters who win this are allowed to use the logo on their letterheads and other promotional material.

On the negative side, management may need to devote a considerable amount of time to the start-up procedures and decisions involved in exporting. Key personnel or other critical resources may have to be diverted from domestic responsibilities to help with the company's export activities. Catalogues, brochures and other sales promotion material, as well as packaging and labelling, may need to be adapted and/or translated into a foreign language.

6.4 Other reasons

There are many personal advantages. Being involved in exporting will be an opportunity to travel and meet different people, and see many different countries that you may not have been able to do otherwise.

6.5 Commercial disadvantages

Dealing with buyers over vast distances, which can be further complicated by different cultures and languages, makes communication difficult and expensive. It also increases your risks. Export orders are often larger than domestic orders and any loss is therefore increased.

7 AM I READY TO TRADE INTERNATIONALLY?

By now you will have an idea as to whether international trade is for you. Before you decide to start trading and develop an export or import plan, an in-depth company analysis relating to organisational and product readiness for exports is essential.

7.1 Why do you want to export?

It is important that you know *why* you want to import or export. Although nothing in life is ever guaranteed, your export drive will be more likely to succeed if it is based on sound business objectives. Are there any business advantages in moving to exporting at this stage? Companies follow a variety of objectives in pursuing international opportunities. The following questions are some of the areas that need to be addressed when trying to gauge your motivation for exporting.

[DO]What are your personal reasons for wanting to export?

- Is your main goal to dispose of excess products/utilise excess production capacity?
- Do you intend to export by filling unsolicited orders only?
- Do you plan to benefit solely/partially by stabilising seasonal market fluctuations?
- Is your long-term motivation to expand into key world markets?
- Is the enhancement of your competitiveness by acquiring market knowledge a motivating factor?
- Are you motivated by the extension of the life cycle of existing products in foreign markets?
- Does supplementing domestic sales with occasional export sales motivate you?
- Is the spread of risks by selling to diverse foreign markets a motivating factor?
- Is the company motivated by the exploitation of its unique technology and know-how?
- Is an improved return on investment a major motivator?
- Is the contribution of exports to long-term expansion a major motivator?

Although there are no right or wrong answers, some motivations for exporting are better in the sense that they are sustainable. If your primary motivation to export is due to a current production over-capacity, you may be tempted to drop any export efforts when domestic market conditions improve. This could have long-term negative effects for you and indeed for South African industry in general. There is already a growing perception abroad that South African companies tend to adopt a very short-term approach to export development.

[DO]What are your key business reasons for exporting?

What objectives are you hoping to achieve?

How could you achieve these objectives with less risk by expanding your current markets?

7.2 Reviewing your company

Your and your business's background will have a significant impact on a balanced assessment of your international market potential. Some of the questions that you need to ask are:

- What **strengths** do you have, or will have access to, that will give you an edge in global marketing?
- What is your current **strategic emphasis**?
- What is your manufacturing capacity?
- Do you have specialised technical skills?
- Do you have proprietary technology, patents, trademarks?
- What **strengths** does your management team have?
- What **financial resources** do you have, or have access to?
- What is the current scope of **marketing**?
- What **marketing know-how** is available?
- What **percentage** should exports represent of your total sales?
- Are you **currently exporting**? If so, how?
- What **success and problems** have you encountered while exporting?
- Are **external funds** available for expansion?
- What is the company's level of **knowledge of foreign cultures** and business customs?
- What past **experience** in international business transactions does the staff have?
- Are members of your management fluent in the **language** and familiar with the **culture** of the target market?
- What **market share category** best describes your presence in the domestic market?

7.3 Commitment

Although many exporters start off with an unsolicited inquiry, exporting is not a matter of a quick order and then sitting back. It requires commitment (time, and financial, human and other resources). While focusing on exports, there is a risk that your domestic business will suffer. You need to set aside time for export development, such as developing contacts, marketing to customers and undertaking foreign visits. Your viewpoint on international business will obviously seriously impact upon the success rate. Questions that need to be addressed include:

- What are your **reasons** for going global?
- Are they genuine **business objectives** (e.g. increasing sales volume or developing a broader, more stable customer base) or are they frivolous (e.g. the owner wants an excuse to travel)?
- What are your overall strategic business objectives?
- Do the **export objectives** support these?
- Is **top management** committed?
- What is the current state of the **South African economy**?
- Is exporting viewed as a **quick fix for a slump** in South African sales and will you disregard foreign customers if South African sales pick up?
- What are your **expectations** for the export effort?
- How quickly should export operations become **profitable** or self-sustaining?

- What level of **return on investment** do you expect from exports in the short term?
- What **long-term return** on investment do you expect from exports?
- Who will be **responsible** for the export department's organisation and staff?
- How much **senior management time** should or could be allocated?
- Who will **follow through** after the planning is done?
- What level of export department **operating costs** can be supported?
- What other **new development plans** are in progress that may compete with export plans?
- By what **date** must an export effort pay for itself?
- Are top management and owners willing/not willing to jeopardise **current profits** and return on investment? (If so, up to what percentage?)
- What **funds** will be set aside to develop foreign markets in each of the first three years?
- With what type of **planning** will foreign markets be developed?
 - No formal planning process;
 - Annual budget preparation;
 - Marketing plans for specific needs or projects;
 - Regular marketing plans for each market and product.
- At which level will **international personnel** in your company be compensated?
- How long is top management willing to wait before achieving **break-even** point on their foreign market investment?
- Will the company allocate **additional staff** other than the time committed by senior management to international business development?

[DO]How much time can you give to developing your export opportunities?

Who else will be involved and how will their existing workload be covered?

8 SUMMARY

Exporting and importing is exciting and rewarding! There are many advantages and disadvantages in the global market. There are also many pitfalls and traps that unwary traders will fall into. The remainder of the book will alert you to potential hazards, give you hints and tips, and guide you to taking proactive steps to establish a profitable business in global markets.

After having completed the SWOT exercises, you will be in a better position to start preparing your export and import business plans. These SWOT exercises are repeated at the end of this book and you will be in a better position to answer many of them and prepare your business plans.

10. SELF-EVALUATION

1. What are the advantages of export (or import) for you?
2. What are the advantages of export (or import) for your company?

3. List what must be done to ensure that you are export-ready.
4. Are the strengths you have sufficient to enter the competitive international market?

Export Now



Export Now

Chapter 2 THE EXPORT PROCESS

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Broadly understand procedures in a typical export transaction;
- Appreciate the roles of the various service providers;
- Identify service providers to assist you in the export process;
- React appropriately to export enquiries;
- Undertake effective feasibility studies;
- Accurately cost export consignments;
- Prepare comprehensive quotations/pro forma invoices and process orders.

• INTRODUCTION

This chapter is a road map to the remainder of the book. Topics are highlighted, but will be discussed in greater detail in other chapters.

The global market is very competitive. There are many similarities with domestic trade; however, due to differences in legal, social and cultural norms and rules, these similarities are made far more complex. These complexities need not hamper international trade. It is necessary to note differences and make allowances for them.

To be successful you will have to prepare and organise your operation thoroughly. To do this you need to understand the processes used in international trade. These processes do not begin with the shipment or with the order. The processes do not even begin with the advertising or other promotional efforts. The process in fact begins with your definition of what you want to do. You need to organise and prepare yourself for the whole process. It is only once you and your organisation have a strategy, and have done the necessary analysis and prepared a plan, that you are ready to start marketing globally.

Although this book is about the nuts and bolts of international trade, marketing decisions lie at the centre of your strategic direction. Marketing a core business function is about making a profit and is therefore critical to your business – local or global.

There are many definitions of marketing. Some see it as a function akin to selling; others view it as promotion or perhaps advertising. These interpretations, however, offer a very narrow and simplistic view of what the discipline embraces. As a marketing manager, you need to be aware that marketing is a management process. You need to identify, anticipate and satisfy your customers' requirements *and* make a profit. To do this you must have a product (service) that customers want. You need to make the customer aware that you have this product. You must sell the product at the highest price they can afford and are willing to pay. You must get the product to the customer efficiently and effectively. These are commonly referred to as the four Ps (Product, Promotion, Price and Place or distribution). The important element is satisfying the customer, be it an organisation or an individual. Collectively these customers form a market.

[DO]What is the first step you need to take in the export process?

What is the most important aspect of your business (after your employees)?

1 FROM START TO FINANCE – UNDERSTANDING THE EXPORT PROCESS

To conduct a successful international sales transaction, you need to be aware of the various activities involved in export administration and the sequence in which they take place. You will have to ensure that you are prepared to improve, and continue to do so, if you are going to remain competitive globally.

2 ORGANISATIONAL PREPARATION

The process is daunting to novice exporter and the learning curve is very steep. There are terms and processes that are peculiar to international trade and you have to get to grips with these.

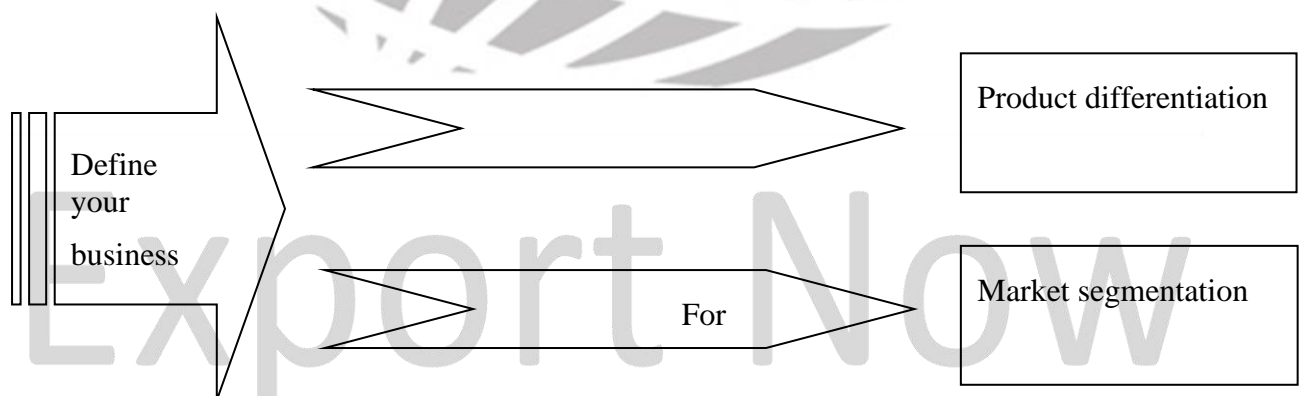
You have to ensure that your administration is functioning perfectly. If your administration is not up to scratch when you are operating in the domestic market only, you are going to experience serious and potentially costly problems doing business globally. Before attempting international trade, you must ensure that your systems are in place and working effectively.

The process involves a number of different people and organisations participating in various interrelated activities that often require accurately completed documentation. Fortunately, there are many support service providers and other support mechanisms. Details of these are either given, or there are pointers to where you can obtain further information.

It is important for exporters to have efficient export administration systems. These will be dealt with in greater detail in other parts of the book and include inquiry processing, order processing, and documentation.

Businesses often fail because they lack direction and focus. You need to be able to define the business you are in. Essentially you need to know what you want to sell and to whom. If there are sufficient buyers and you can produce effectively and efficiently, success is more likely.

Figure 2.2 THE BASIS OF YOUR BUSINESS



Although these may look like marketing functions, they form the basis of your business. (Chapters 6, 7, 8, and 9 will look at these aspects in greater detail.) Marketing, although it is important, is only one of the business functions. To be successful you need to ensure that you can efficiently prepare the goods or services (produce or otherwise obtain) in a marketable

form. Once the goods have been manufactured, you need to be able to deliver the goods to the buyer:

- in the **quantities** required;
- of the appropriate **quality**;
- in the **time** required;
- at minimum possible **cost**.
- Finally, you need to be paid for the products.

3 SECURE THE ORDER

Research has shown that many exporters' first international transaction was as a result of an unsolicited inquiry. If you are a manufacturer, a member of a chamber of commerce, or are listed in the Yellow Pages or other directory, you may get a foreign trade inquiry. Often exporters or manufactures will be approached directly from a foreign buyer enquiring about their product. However they started, successful exporters are proactive rather reactive and include a foreign promotional campaign in their overall marketing plan.

3.1 Promotion

Promotion is essential to export development. Markets are large and competitive. Even though the world is becoming smaller, communication is hampered by distance and language. Promotion is a communication process aimed at drawing the customer's attention to your products or services (see Chapter 7). The major decision you must take in planning a promotional strategy is whether to go with 'one name, one message and one voice' or to develop promotional schemes tailored to the local audience in each market. Export promotion can be done in many different ways. These include the appointment of agents to represent the exporter and their products, advertising in trade journals, and taking part in trade fairs or exhibitions. The newest tool, which can be used to promote South African products in foreign markets, is the internet.

3.2 International trade inquiry

After successful promotion of the product, the exporter will receive an inquiry. This again can take many forms depending on how the promotion was undertaken and the country from which the inquiry was received. It can be a communication directly from the agent or from the importer or their agent.

Trade leads are valuable – treat them like gold!

Enquiries should be classified, with the most promising being answered promptly by telephone or e-mail and a couriered brochure and price list. Others can be answered by fax, e-mail or telex. If the importer does not have any of these facilities, you will have to resort to the postal service. Although you should not ignore this importer, you should make the effort to communicate with them. It may pay off in the long run.

3.3 Prepare to negotiate

Many export transactions, particularly first-time export transactions, begin with the receipt of an inquiry from abroad, followed by a request for a quotation (RFQ) or a pro forma invoice. A feasibility study should be undertaken immediately upon receipt of the inquiry. The complexity of this depends on the product and the country of destination. You should check whether export permits are required and must start a costing exercise (to the country of destination using the

Incoterms), investigate the various transport options, investigate the creditworthiness of the buyer, etc.

[D]**Incoterms** are a globally accepted **set of standard terms of delivery** commonly used in foreign trade that are issued by the International Chamber of Commerce (ICC). They spell out the responsibilities, costs and risks of the parties concerned. This prevents legal complications that can arise from misunderstandings on such matters as who is to pay for ancillary freight charges, consular fees, losses during transit, pilferage, etc. Price will need to be determined for each Incoterm.

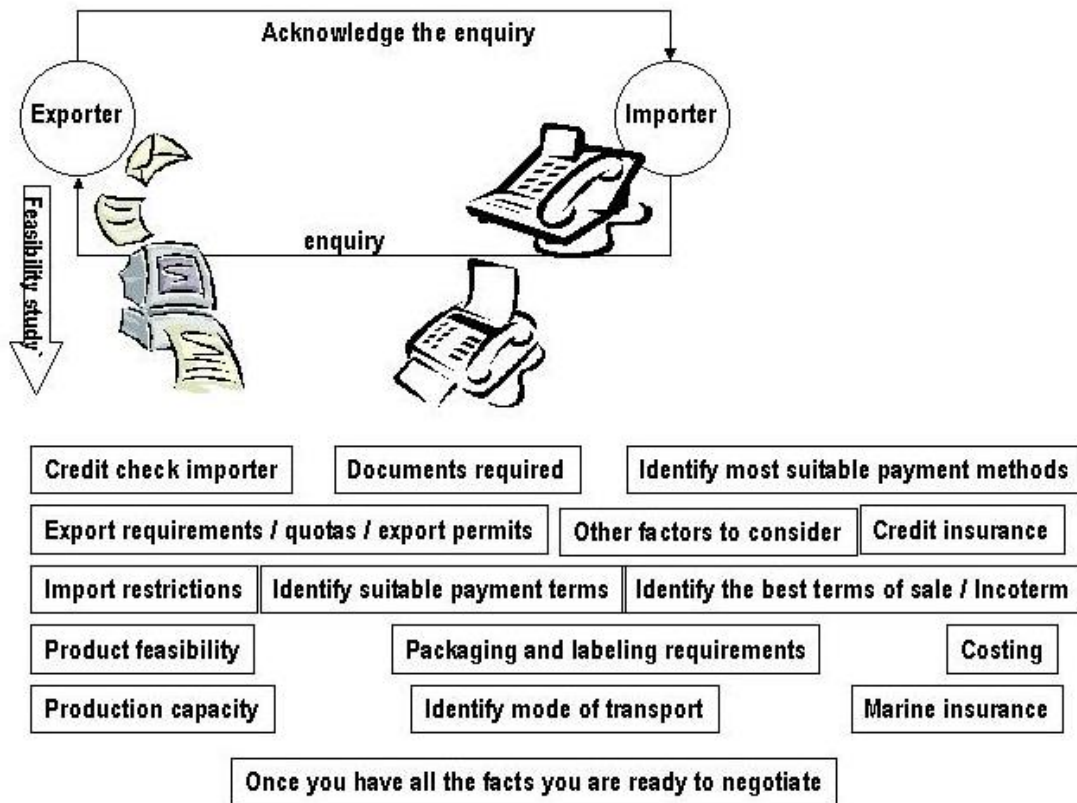


Figure 4 THE EXPORT INQUIRY AND COMPONENTS THAT NEED TO BE INCLUDED IN A FEASIBILITY STUDY

This diagram shows part of the work that you need to do before negotiating with a foreign buyer. This is just a checklist. In some instances, you may need to have other information available to make a meaningful decision. These aspects will be discussed elsewhere in this book and references will be made available as to where you can obtain further information.

3.4 Negotiation

There will usually be some negotiation between you and your new customer. After working through this book, you will have an idea of how to negotiate a long-term win-win deal. After the negotiation, you will send a quotation or pro forma invoice. This is a very important document as it usually forms the basis of all further documents required in the export process. A quotation describes the product, gives the price, sets the time of shipment, and specifies the terms of sale and terms of payment. Since the foreign buyer may not be familiar with the product, the description of it for a foreign quotation must be more detailed than that for a domestic one and should include the following:

- Buyer's **name** and **address**;
- Buyer's **reference number** and **date** of inquiry;

- Listing of requested **products** and brief **description**;
- **Price** of each item;
- Gross and net shipping **weight**;
- Total cubic **volume** and **dimensions** packed for export;
- Trade **discount**, if applicable;
- Delivery point;
- Terms of **sale**;
- Terms of **payment**;
- Insurance and shipping **costs**;
- **Validity period** for quotation;
- Total **charges** to be paid by customer;
- Estimated shipping **date**;
- Estimated date of shipment **arrival**.

You will be requested to submit a pro forma invoice with (or instead of) a quotation. Pro forma invoices are not for payment purposes but are essentially quotations in an invoice format. The invoice should be conspicuously marked 'pro forma invoice'. The buyer uses the pro forma invoice when applying for an import licence or arranging for funds. The quotation (or pro forma invoice) can be e-mailed, faxed, mailed or couriered. You must be able to generate either a quotation to be sent via e-mail or a pro forma invoice with an electronic signature.

It is very important that price quotations state explicitly that they are subject to change without notice and for how long the quotation is valid. The precise period for which a specific price is agreed upon or guaranteed by you should be specified.

4 PRODUCE AND SHIP THE ORDER

Once you have received the confirmed order (or indent) from your buyer:

- check to ensure that it is terms of the pro forma invoice or the letter of credit;
- inform the production department or your supplier of the order;
- contact your freight forwarder and make provisional shipping arrangements;
- contact your bankers and make the necessary forward exchange contracts.

4.1 Producing the order

You must ensure that your factory or supplier is aware of all the requirements of your customer. They must be aware of any changes or adaptation you have negotiated. The date of delivery must be met. Ensure that they have the raw materials to complete production.

Your factory or supplier must inform you of any deviations from the agreement or letter of credit. If there are any problems, or you anticipate any problems, it will be wise to let your foreign client know, and to renegotiate the conditions if necessary.

4.2 Shipping the order

It is important that you get your product to your client on time and at reasonable price. If the product is late in arriving in an international market, you may lose a long-term relationship. Cost is also important. If your shipping costs are too high, your product will be uncompetitive in an international market. Depending on the foreign destination, the goods can be transported by any combination of road, rail, air, sea and inland waterways, and can be conveyed either in bulk (primary products or commodities), break bulk, or containers. The mode of transport and

form in which you export the goods will depend on a number of factors that will be discussed in greater detail in Chapter 10.

The logistics of your international marketing effort must be done efficiently and effectively. Your logistics division will be responsible for ensuring that:

- All South African customs regulations are met;
- All documentation is correctly completed;
- All customs regulations are met;
- All documents are presented at each stage of the delivery sequence;
- The foreign customer knows what is happening. (You must keep him informed at all times of where the cargo is and when it is expected to arrive.)

Your freight forwarder is an integral part of your export operation. You need to establish a sound relationship with this organisation. They will assist you in getting your goods to your foreign customer and are also very useful when you have to prepare the quotation. They will be able to assist in getting the foreign duties, VAT rates, and other import regulations that you will require.

4.3 Documentation

Almost everyone hates documentation and administration. Yet if the various documents and forms are not completed accurately and on time, this can be ruinous or costly at best. Documentation is vital to any international trade transaction. It is the means by which information concerning events and intentions are recorded. Documents are permanent and need to be retained for future reference. Information contained in the documents must be provided to all parties concerned. Documents are legal papers and are binding. They cannot be ambiguous and must be equally comprehended by all parties. There must be a common understanding.

International trade documents can represent ownership of the goods. Banks do not deal in products, exports or imports, but rather in documents. If the documents are presented in the correct manner, the bank will pay; if not, the payment will be delayed. Contracts determine the terms and conditions for the transaction. Documents can be a declaration of a fact. A certificate of origin, for example, is used to verify the source or country of origin of the product traded. Documents can be a promise to pay or a demand for payment.

Because of the importance of documents, you must ensure that they are accurate and free of ambiguity and that they contain all the necessary and relevant information.

There are currently a number of software programs on the market to help the exporter prepare export documentation electronically. Aligned Electronic Documentation (a term used to describe commercial documents conforming to the 'United Nations Layout Key for Trade Documents' format) is prepared on a personal computer by specialised software. (These can be downloaded from www.unece.org).

Most freight forwarders have such software and can complete your documentation (for a fee).

4.4 Retain the market

Once you have acquired a foreign market, you will have to ensure that you retain it. It is cheaper, less risky, and generally more efficient to work with people with whom you already have a relationship. It is important for you to realise that exporting is a team effort. Whether you are exporting your own product, or are an export agent for another manufacturer, you must ensure that the whole process is co-ordinated. Your foreign buyer does not care to know what

your problems are in South Africa. All they are interested in is receiving the product requested. You will, therefore, have to take full responsibility to ensure that all aspects of the export transaction are co-ordinated. Remember – you are competing against many other international suppliers.

The product is the most tangible aspect of your export endeavour. Proper planning and co-ordination with the factory are very important. The factory needs to order raw materials and ensure that a product production schedule is drawn up. It also needs to ensure that any quality standards that are required by your client are adhered to. If the raw material arrives late, the shipment will be late; the order may be cancelled and you will not be paid. You must, therefore, liaise with your production division even before you embark on your export marketing plan.

Your marketing division is responsible for aspects such as the corporate image and product discounts. When you begin to negotiate, you will have to know what your company's corporate image is and how this will be used in your export marketing campaign. You also have to know what prices and discounts you can negotiate with the foreign buyer. You also have to determine how you are going to adapt your promotional material to suit the foreign market, and how you are going to adapt the packaging and labelling to meet with the requirements of the foreign market.

To ensure long-term success, you need to develop excellent relationships with:

- Your customers;
- The bank;
- Your suppliers;
- Freight forwarders;
- Various officials in government departments.

You will also have to remain competitive. You will have to keep abreast of all changes in the global environment and make the most of threats as well as opportunities. You will have to ensure that you:

- Remain price competitive;
- **Adapt your product** when required by the market;
- Always give a **good service**.

5 SUMMARY

The export process is complicated, especially for the novice. It is, nevertheless, logical and methodical. Understanding the process is important from both an administrative and a marketing point of view. The number of forms required and their complexity can be overwhelming. For this reason, it is advisable to find a good freight forwarder and a good banker to assist you with completing them. Getting the goods to the foreign market is a team effort. Your team will consist of yourself, others in your company, a freight forwarder, a shipping line and other role-players, depending on the products and destination.

Many questions have been asked and many more could be asked. This chapter has tried to assist you in identifying, firstly, if you should be involved in international trade, and secondly, what you need to do to ensure a greater chance of succeeding.

This chapter has looked at just a brief overview of the export sequence. The remainder of this book will go into far more detail in each subject. You do, however, need to understand where each aspect fits in. Each of these, whether marketing, finance, logistics or legal, has an impact on success and profitability of the business. All of these aspects are also interrelated. For

example, once you have appointed an agent, there are legal rights and responsibilities that arise out of the legal agreement. The price to charge will determine the profitability of the venture, but could also be detrimental to the marketing effort if it is too high.

There's a lot to learn before you can successfully export. This overview is the road map outlining the export process.

SELF-EVALUATION

1. Discuss how your shipping department will function (e.g. the preparation of documentation) and the services provided by the forwarding and clearing agents.
2. What information should be included in a pro forma invoice or quotation?
3. What documents are typically required in an export transaction?
4. Who is responsible for completing each of these documents?



Export Now

Chapter 3 INTERNATIONALISING YOUR FIRM - THE DECISION TO GO INTERNATIONAL

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Appreciate what demands are made on you as a global trader;
- Identify your strengths and weaknesses;
- Assess your competitive position;
- Develop an export vision;
- Understand what financial, production and human resources are required for successful exporting.

1 INTRODUCTION

Assumptions can be dangerous. This chapter will assist you to identify your strengths and weaknesses. This is necessary before attempting to face global competition. You must emphasise your strong points and develop these so that they can put you in a globally competitive position. At the same time, once you know what your weak points are, you can correct them, or at least minimise the negative impact they have on your business.

2 ANALYSING YOUR STRENGTHS AND WEAKNESSES

There are many different techniques that you can use to analyse your potential. To be successful in global markets you must at least know your own strengths, as well as those of your company and your product. SWOT analysis¹, a tool for auditing an organisation and its environment, is the first stage of planning and helps to focus on key issues. Once you have identified key issues, they feed into international marketing objectives.

[DO]Summarise your company's strengths:

Summarise your personal strengths:

2.1 SWOT

SWOT stands for **s**trengths, **w**eaknesses, **o**pportunities and **t**hreats. Strengths and weaknesses are internal factors. Your specialist marketing expertise could be a strength, while the lack of a new product could be a weakness. Opportunities and threats are external factors. An opportunity could be the developing of a new internet market; a threat could be a new

¹ It can be used in conjunction with other tools for audit and analysis, such as PEST analysis (**P**olitical, **E**conomic, **S**ocial and **T**echnical) and Porter's Five-Forces analysis.

competitor in the South African market. During the SWOT exercise, list factors in the relevant boxes. Although SWOT analyses are subjective, they help you identify what you perceive as your strengths.

2.2 SWOT exercise

Carrying out an analysis using the SWOT framework will help you to focus your activities into areas where you are strong, and where the greatest opportunities lie. Often, carrying out an analysis using the SWOT framework will be enough to reveal changes that can be usefully made.

To carry out a SWOT analysis, write down the answers to the following questions:

Strengths: Consider this from your own point of view and from the point of view of the people with whom you deal. Be realistic. Do not be modest! Ask:

- What are my advantages?
- What do I do well?
- What do other people see as my strengths?

Weaknesses: Consider your weaknesses internally and externally.

- How are my competitors doing? Any better than I am? (Be realistic and accept any unpleasant truths as soon as possible.)
- What could I improve?
- What do I do badly?
- What should I avoid?

Opportunities:

- What possible beneficial changes are occurring?
- What interesting trends am I aware of?
- Opportunities can arise from:
 - changes in technology;
 - changes in markets;
 - changes in government policy (both South African and foreign, and in international organisations such as the World Trade Organisation (WTO));
 - changes in social patterns, population profiles, lifestyle, etc.

Threats:

- What obstacles do I face?
- What is my competition doing?
- Are the required specifications for my job, products or services changing?
- Is changing technology threatening my position?
- Do I have bad debt or cash flow problems?

Complete the following review:

[DO]Strengths and weaknesses

Consider your recent history. What have been your key strengths?

- 1.
- 2.

3.

[DO]What are the current **strengths** of your company?

1.

2.

3.

[DO]What are your three main **weaknesses** at present?

1.

2.

3.

2.3 Product-specific strengths

Your product is a key aspect of your international marketing venture. The factors that comprise a product are dealt with in greater detail in Chapter 6. Nevertheless, here are a few questions that will assist you identify your product's strengths and weaknesses.

- How well does your product sell in South Africa?
- Does the foreign target market differ from the South African one? If so, how?
- Does your product have unique features? Do foreign customers want these? How do you find out?
- Does the opportunity to sell the older product exist elsewhere?
- How is the present manufacturing capacity being used?
- Will filling export orders hurt domestic sales?
- What will the cost of additional production be?

[DO]Summarise your product's **strengths**:

What can be done to improve possible **weaknesses**?

3.4 Opportunities and threats

[DO]List the most significant **opportunities** that contributed to your success or present situation:

1.

2.

3.

[DO]List the most significant **threats** you face that prevent you from achieving a better result:

1.

2.

3.

[DO]What new opportunities and threats are emerging in South Africa?

Opportunities

Threats

[DO]What new opportunities and threats are emerging internationally?

Opportunities

Threats

Do not draw any specific conclusions from this exercise yet.

2.4 Comparative SWOT analysis

Carrying out this analysis will be revealing. It will point out what needs to be done and put the problems into perspective. Applying a SWOT analysis to your competitors may produce some interesting insights!

[DO]

	Your company	Domestic competition	International competition
Competitive advantage			
Strengths			
Weaknesses			

[DO]List the opportunities and threats that you will face:

Opportunities

Threats

--

3 STRENGTHENING AND IMPROVING YOUR COMPANY

By now you should have a good idea of what your strengths and weaknesses are.

[DO]

Strengths	How can these strengths be applied?
Weaknesses	How can these weaknesses be overcome?
Opportunities	How can these opportunities be used?
Threats	How can these threats be avoided?

4 DEVELOPING YOUR EXPORT VISION

Now that you know where you are, it is important that you know where you want to go. What is your vision for the next three to five years? The following will help you clarify your own thoughts on the matter. At present you may not have enough information to complete the questions. No matter – later on you will have an opportunity to complete this again.

[DO]Export objectives:

[DO]Main motive for exporting:

[DO]Export products (include special or unique selling features)

(product differentiation):

Target markets (regions, countries or cities) and target customers in those markets
(market segmentation):

Your competitive position relative to the competition:

5 ASSESSING AND IMPROVING YOUR COMPETITIVE ADVANTAGES

You have spent some time looking at your motives for exporting and analysing your company to determine whether you are ready or not for global business.

Known market-specific strengths need to be analysed. This must be done on individual markets, as the strengths and weaknesses of your product will inevitably vary from market to market. Where insufficient market information is available, additional market research should be carried out. The following questions need to be addressed to accurately determine market potential for a company's products:

- With which countries has business already been conducted?
- From what countries have enquiries already been received?
- Which product lines are mentioned most often?
- Are any domestic customers buying your product for foreign sale? If so, to which countries?
- Is the trend of sales and enquiries up or down?
- Who are the main domestic and foreign competitors in the market?
- What general and specific lessons have been learnt from past export attempts or experiences?
- Is the product well accepted in the foreign market?
- How does the climate in the target market affect your product?
- Are tariff levels relatively high or low for this product?
- Can the product to be shipped be disassembled to obtain lower duties?
- What are the obstacles and costs in complying with the standards and regulations of the target market?
- Do acceptable substitutes for the product already exist in the target market?
- Is the price competitive in the target market?
- Will patent/trademark protection provide important advantages in the target market?
- Can the company overcome any non-tariff import barriers imposed by the target market on the product?
- Are product category sales in a growth stage in the target market?

- Are qualified distributors hard to locate?
- Are there a number of strong, entrenched competitors in the target market with a significant market share?
- Is there a favourable attitude in the target country towards products and companies from South Africa?
- Is there difficulty getting good, accurate market and competitive information on the target market?

6 RESOURCES REQUIRED FOR EXPORTING

6.1 Finance

Export development is a costly exercise and requires long-term budgeting and planning. Finance is needed to cover:

Market development costs (such as travel to export markets and promotion);

- Product or service development;
- Research costs;
- Costs of increasing capacity and staff resources.

You need to assess your **requirements for external funding** and factor the cost of this funding into your budget.

[DO]Are you currently in a sound financial position (and have access to finance) to enable you to support the high costs of export development?

Have you estimated your resource (financial and other) requirements for export development, and projected expected cash flows and budgets over the next few years?

Will you need external funding? If so, how will this be obtained?

6.2 Production capacity

Is your current production capacity adequate? Assess whether increased export sales can be met by your current capacity. What bottlenecks will you experience and how will you deal with a situation if you find yourself unable to meet increased demand for your services or products? Increasing your capacity entails the purchase of new property, plant and equipment; upgraded or new technology; increasing working capital; increasing capacity and skills for product or service development; and increasing staff capacity, as discussed earlier.

[DO]How effective are your current production processes?

Will you be able to meet projected increases in sales?

Where and how will you need to increase or upgrade your capacity?

6.3 Staff

Human resources are critical to any export project. Export development is time-consuming and requires close attention over time. What proportion of your time can realistically be allocated for export development? Consider what else will be involved. Do you have the internal skills and resources needed? If you need to recruit additional staff, how will you pay for additional expertise?

[DO]Do you have the necessary human resources to focus on your export development drive?

What external support is available?

You are obviously in a stronger position if your company has had previous experience in exporting. You should check whether any of your employees have exporting experience or other links with potential target countries that could be useful.

[DO]Do you or any of your employees have exporting experience?

Do any of your employees have any background or experience in dealing with your potential target markets?

Export development requires a range of skills for success. For example, valuable experience in marketing and sales will have been gained from the development and servicing of local markets.

[DO]What skills do you have to assist with exporting?

Who should you involve in your export activities?

If you cannot depend on your internal capabilities, what kind of outside assistance do you need?

7 SUMMARY

International trade is challenging and exciting, profitable and rewarding. However, there are many pitfalls and traps that can be costly, if not disastrous. Globalisation is here to stay. You must treat the world as your market. You can often obtain capital equipment, raw materials and other products for retail more cheaply elsewhere than in South Africa. Therefore buying or selling internationally is logical.

Because borders are involved, international trade is more complicated. Cultures and languages hamper communication. Distances are larger, which increases costs. Customs procedures need to be followed. Currencies are different and payment procedures more complicated.

SELF-EVALUATION

1. What **characteristics** should an ideal trader have?
2. What are **key resources** are required for successful export?
3. Identify the **major threats** that most South African exporters currently face.



Export Now

Chapter 4 UNDERSTANDING THE GLOBAL ENVIRONMENT

LEARNING OBJECTIVES

After studying this chapter, you should understand:

- the impact of the trade agreements, including the WTO, on your export operations;
- the political environment;
- the economic environment;
- the social environment;
- the physical environment;
- the technological environment.

• INTRODUCTION

Before committing to international trade, you must also assess the global environment. You should understand how it differs from the South African market and how you will need to adapt to prepare for the various options available to you.

Local negotiations are difficult enough, but the complexity rockets in foreign negotiations. At the bargaining table, it is crucial to understand the differences – cultural, geographical, as well as ideological – that will emerge. The marketing mix takes place in a complex environment



and is complicated when dealing with more than one market. The diagram shows how the environment and the marketing mix interact with each other.

RULES-BASED TRADING SYSTEM

Figure 5: THE INTERACTION OF THE ENVIRONMENT AND THE MARKETING MIX

Most trade nowadays is governed by a rules-based trading system. These rules are usually agreed at multilateral level. This limits individual countries from preventing imports or exports. There are many multilateral and bilateral agreements that you should be aware of. Since South Africa came out of isolation, it has become more active in world affairs. There are more and more treaties and protocols that affect international trade. Some of these are positive and increase market access, while others could impose additional restrictions on trade.

It is also important to be aware of the nature of the relationship between South Africa and your foreign target market. According to the Minister of Trade and Industry, 'SA will target other export destinations, and will not allow bilateral agreements to hinder export growth potential. SA would not be locked or solely focused on bilateral agreements with other countries, such as the SA-European Union (EU) trade development and co-operation agreement.'

7.1 The WTO

The most important player is the WTO, which superseded and replaced the General Agreement on Tariffs and Trade (GATT). GATT was a provisional, multilateral agreement governing international trade from 1947 until 1995. South Africa is a founding member of both the GATT and the WTO. As such it is obliged to subscribe to the WTO's rules. South Africa has simplified its customs tariffs and has consented to limit its tariffs to WTO-agreed levels.

The WTO inherited a number of core principles from the GATT, including:

- Non-discrimination;
- Reciprocity of trade concessions;
- Trade liberalisation;
- Transparency and predictability in import and export rules and regulations;
- Favourable treatment to less developed countries.

The WTO has two significant functions that the GATT did not have. First, the WTO has a Trade Policy Review Mechanism. This process periodically accesses a country's trade policies and notes any changes. It is a non-judgmental, non-confrontational process. Secondly, a Dispute Settlement Body and its dispute settlement panels, composed of economists, hand down binding judgments in trade disputes.

The WTO currently has more than 130 members – with others nations seeking membership.

There are other multilateral agreements that will affect your international operations. These include the World Customs Organisation, International Standards Organisations and many others. South Africa is also party to a number of multilateral agreements – the African Union (AU) and Nepad are the latest. Also of importance are the bilateral agreements, which include various double taxation agreements.

7.2 The Southern African Development Community

The Southern African Development Community (SADC) consists of 14 member countries, namely the five Southern African Custom Union² (SACU) member countries, as well as Angola, the Democratic Republic of Congo, Malawi, Mauritius, Mozambique, Seychelles, Tanzania, Zambia and Zimbabwe. In August 1996, SADC members, with the exception of Angola, signed the Trade Protocol that envisages the establishment of a Free Trade Area (FTA) by 2008. The SADC Protocol on Trade came into being on 25 January 2000 after ratification by two-thirds of the signatory states.

² South Africa, Lesotho, Swaziland, Botswana and Namibia.

7.3 Other agreements

There are other agreements that you should be aware of. South Africa is a member of the Southern African Customs Union, Common Monetary Union, SADC, World Bank, International Monetary Fund, Organisation of African Unity, United Nations Organisation, the WTO and the British Commonwealth. South Africa has partially acceded to the Cotonou Agreement between the EU and several developing countries.

However, there are also agreements and trade blocs over which South Africa has no influence but which affect the way in which we trade. Perhaps the EU agreements are the most important because the EU is South Africa's biggest trading partner. Many of the regulations and directives that they pass and administer have a direct impact on trade. There are other regional integration agreements, such as NAFTA, Mercosur and Asian, that influence trade potential.

Africa Growth & Opportunity Act (AGOA), for example, which was passed as part of the United States' Trade and Development Act of 2000, provides beneficiary countries, including South Africa, with liberal access to the American market. It reinforces African reform efforts, provides improved access to US credit and technical expertise, and establishes a high-level dialogue on trade and investment in the form of a US-sub-Saharan Africa Trade and Economic Forum. AGOA authorises the American President to provide duty-free treatment under GSP for any article, after the US Trade Representative (USTR) and the US International Trade Commission (USITC) have determined that the article is not import sensitive when brought in from African countries.

Various bilateral agreements have been signed. For example, South Africa has concluded bilateral trade agreements with Malawi and Zimbabwe and has also entered into a non-reciprocal tariff concession arrangement with Mozambique. These agreements give exporters from these countries preferential market access to the South African market. A full list is available at the Department of Foreign Affairs at (012) 351-1000 or on their website: <http://www.dfa.gov.za/for-relations/bilateral/index.html>

8 HOW INTERNATIONAL MARKETS DIFFER FROM DOMESTIC MARKETS

Although the essential aspects of doing business remain the same across countries, there are striking differences. It is these differences that make exporting challenging and exciting. Take note of these differences; make allowances and changes to your product, promotion, and generally to your business. When focusing on the differences in doing business, it is important to always keep your own business goals in mind.

9 THE PHYSICAL ENVIRONMENT

Territorial size, geographical location, natural resources, climate, rivers, lakes and forests constitute a country's physical environment. These influence political and economic activities, shape cultural characteristics such as language and religion, and determine land usage, transport and commercial flows.

Infrastructure generally reduces the cost of doing business. A country with modern ports, road and transport structure, a sound banking system, state-of-the-art telecommunications facilities, and sound government (administrative and judicial) will be easier to deal with. Because of this you should initially focus on developed markets. However, developing countries may offer you opportunities not available in developed countries.

When planning international marketing activities, you should take into account the possible impact of the physical environment:

Population distribution;

Climatic conditions;

Topography.

These will influence your product, how it will need to be adapted to function, how it needs to be packed, and when and how it can be transported.

9.1 Distances

Of course, the closer a market, the easier it is to penetrate. Transport of the products is, naturally, less complicated and cheaper, and risks are more easily managed. It is also easier to enter markets in SADC than other markets.

The concept of distance has been expanded to include the 'psychological' distance that includes language, culture, religion, etc. An obvious difference in doing business across borders is culture and language. Although there seems to be a convergence of cultures because of mass communication and especially the impact of 'Hollywood', differences in culture and language remain important and can prevent successful marketing. This will have an impact on almost every aspect of your global plan, from the design of your product and promotional material to the negotiations and legal aspects of appointing an agent. South Africans have therefore found markets in Europe, especially in the UK and other English-speaking countries, easier to penetrate and maintain because of long associations with friends and family.

The International Trade Centre (ITC), and its controlling stakeholders, UNCTAD and the WTO, have for some time been developing tools to analyse trade policy issues for developing countries. Some of these tools are freely available on the ITC website (www.intracen.org), while others can be employed on a subscription basis. TradeSim is a gravity model based on macroeconomic and other country data (Gross Domestic Product (GDP), GDP per capita, existence of trade agreements between countries, geographic distances, cultural factors, etc.). The diagram shows the potential and actual trade according to the model. Clearly there is potential for South African exporters in the American market.

9.2 Climate

Climate influences many aspects of life: clothing, housing, food, leisure activities, and life in general. Climatic conditions dictate that adaptations be made. Products that are sensitive to temperature or humidity, such as the composition of car tyres, will vary from one market to another, depending on the extremes of climate. Some glues and oils, for example, will not function in very cold climates.

Climate should also influence packaging. Products that are particularly vulnerable to climatic conditions are those that are adversely affected by extremes in temperature or excessive humidity changes (fruits being transported to hot climates or across the equator, for example).

Abnormal weather (e.g. typhoon season in Asia) can disrupt the transport of export products, while unforeseen changes in the weather can threaten companies that produce seasonal goods.

9.3 Topography

Topography will influence the routing of goods and the choice of transport mode, which in turn will affect cost and thus impact on the price offered to the buyer. Population distribution will

be affected by topography (i.e. a country's rivers, mountains, deserts, etc.) and climate – people tend to settle where the climate is temperate and there is an adequate supply of water.

10 THE TECHNOLOGICAL ENVIRONMENT

Although differences in technology are not as great as they were in the past largely due to globalisation, it is important that you should be aware that differences do exist. Even within a country certain technology uptake will be quicker in one sector than another. This makes generalisations difficult. Nevertheless, you should do a technology audit to ensure that the product or service you are selling can and will be used. It is equally important to understand how it will be used.

11 THE POLITICAL ENVIRONMENT

The political environment in which you operate (or plan to operate) will have a significant impact on your international marketing activities. Despite attractive economic prospects, doing business there might prove to be financially disastrous if unanticipated political events lead to the loss of income-generating assets. The greater your level of involvement in a foreign marketplace, the greater is your need to monitor, on an ongoing basis, the political climate of the countries with which you conduct business.

One of the surest indicators of political instability is a frequent change in regime, and the government's attitudes and policies towards foreign business. The international political scene is fluid and changes rapidly and it is very difficult to put governments into particular categories. Knowing the following about a country and its government will be useful:

Form of government;

- **Length** of leadership in power;
- **Extent** of leadership changes;
- **History** of government stability;
- **Volatility** of electorate;
- Popular **support** for leadership;
- Role of the **military** in politics;
- Religious, ethnic or ideological splits;
- Amount of **political participation** allowed or tolerated through demonstrations, lobbies, professional associations and other informal interest groups;
- Prospects for domestic political **violence**;
- Internal **security forces** per 1 000 population;
- History of **coercion**;
- Regional political alliances;
- Diplomatic **crises**;
- Trade or labour **disputes**;
- **External threats** to supplies or markets.

(Adapted from Asheghian, P. and Ebrahimi, B. *International Business*)

There are ranges of qualitative criteria that can be added when trying to prioritise countries. The greater your involvement in a foreign market, the greater the need to monitor the political climate. The political environment in which you operate will have a significant impact on your marketing activities. Changes in government often result in changes in policy and attitudes

towards foreign business. You will have to adapt your export marketing strategies to changes accordingly.

[D]**Political risk** can be defined as the impact of political change on the export firm's operations and decision-making process.

[D]**Expropriation** is the takeover of a foreign firm located in a host country by the host country's government.

11.1 The legal environment

Legal systems vary from country to country. You will find that the legal systems in operation in your buyers' countries are in some respects different from that of South Africa. The legal environment is derived partly from the political climate in a country and has three dimensions:

- South African law;
- The domestic laws applicable in each foreign market;
- International law.

Contracts specify the respective rights and obligations of the parties to an agreement. The contract outlines specific procedures or actions that must take place, reducing the possibility of disputes arising. When an international commercial dispute occurs, the problem according one of the country's laws and regulations stated in the contract. If the dispute cannot be settled among the parties involved, resolution can possibly be obtained through arbitration (i.e. through negotiations facilitated by an independent third party). Where the process of arbitration fails, for one reason or another, the option of litigation must be considered. Disputes that go to court usually involve large monetary transactions or the ownership of patents, copyright or physical property. Court actions can take from a few months to several years and can involve large expenditure in legal fees and lost revenues.

12 THE ECONOMIC ENVIRONMENT

How people buy and which products they buy is influenced by their purchasing power. If a large proportion of a country's population is poor, the market potential for many products is lower. If a country is expected to enjoy rapid economic growth, and large sectors of the population are expected to share in the increased wealth, sales prospects for many products would clearly be more promising than if the economy were stagnating.

When estimating demand for your product, consider:

- The general economic outlook;
- Employment levels;
- The level and distribution of **income**;
- **Growth** trends, etc.
- Some of the economic factors that should be of interest to you are:
- GDP;
- Real income;
- Purchasing **power**.
- Demographic factors
- Competitive and complementary **products**
- Industrialised vs developing countries

The term ‘industrialised countries’ (or ‘developed countries’) generally refers to the member countries of the Organisation for Economic Co-operation and Development (OECD). They include America, Canada, the western European countries, Japan, Australia, and New Zealand. They are collectively referred to as the First World, tend to be wealthy (i.e. they have a higher per capita income) and oriented towards a free market economy. Population growth is stagnant and ageing. Industrialised countries thus offer markets for a wide range of products in the luxury and high-tech categories.

South Africa is generally acknowledged as having a ‘dual economy’. This is because South Africa, while in many respects a Third World country (characterised by, for example, a large rural population growth rate, relatively low GDP per capita, etc.), nevertheless displays several attributes of a First World country (evidenced by, for example, a relatively sophisticated industrial sector, high living standards among certain sectors of the population, an excellent bank sector, good roads, telecommunications infrastructure, etc.).

currencies and payment

One of the major differences in local and international business is the fact that there are different currencies. You are also at risk receiving payment. These aspects will be discussed in detail in Chapter 11.

12.1 Degree of government intervention

Governments may intervene for various reasons:

to protect the balance-of-payments

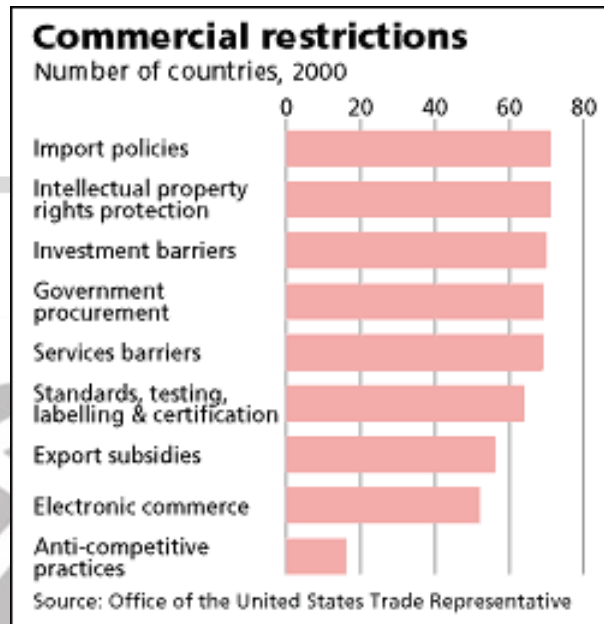
A country’s balance-of-payments is the systematic record of all economic transactions between the residents of a country and the residents of the rest of the world over a specified period of time (e.g. one year). These transactions either use up foreign exchange (e.g. imports, or investments in foreign subsidiaries) or make foreign exchange available (e.g. exports or capital investment from abroad). A government normally protects the balance-of-payments (i.e. tries to ensure that a deficit does not arise) by restricting imports (and promoting exports). Typical mechanisms in this regard are temporary surcharges on imported goods or (selected) imports being subject to special licences, the allocation of which depends on the availability of foreign exchange.

[D]A surcharge is an additional tax imposed by the authorities to increase revenue or to discourage domestic spending on luxury and imported goods.

[D]An import licence or permit is a mechanism through which the authorities regulate the importation of specific goods to protect local industry, or to stabilise the balance-of-payments situation.

[e.g.]TRADE BARRIERS

Roughly 60 countries, including the EU's 15 members and the Gulf Co-operation Council's six members, have mechanisms for restricting trade with the rest of the world. That conclusion comes from the annual report of America Trade Representative (USTR) on obstacles to American exports. (The report does not analyse America's own elaborate restrictions.) Of most relevance to countries besides America are anti-competitive practices. The bad news on this front is that Hungary, Peru and Romania have attracted the USTR's attention for their protectionist policies in telephone services, fuel and products previously controlled by state monopolies. On the good side, Norway has reformed its monopolistic system of buying pharmaceuticals for hospitals. Another negative is in the growing field of electronic commerce; the USTR finds that 52 countries now hamper trade on the internet, up from 46 last year. Export subsidies could be the next area in which progress is made; most members of the WTO want to trim them, especially for farm products.



5 April 2001: From *The Economist* print edition
to protect domestic industries

Just as individuals tend to put their own interests first, countries tend to advocate free trade when they are in a strongly competitive position and are likely to profit by an expansion of world trade. When they are in an uncompetitive, high-cost position, they tend to be protectionist. Often the result of protectionism is contrary to its objective and a decline in economic growth is achieved instead; for example, domestic industries become less efficient because outside competition has been reduced. Protectionism could also encourage other countries to retaliate; that is, they might also impose restrictions on trade and this could drastically reduce the demand for the protected country's goods.

to maintain economic security

In pursuit of economic security, a government may insist on imports of strategic commodities being sourced from certain countries perceived as 'reliable'. This situation was demonstrated by America back in 1985 when they exempted strategic minerals from the South African sanctions package because it would have meant placing America in the hands of the Eastern bloc countries for the supply of these essential commodities.

trading blocs

There are different forms of economic links or integration, depending on the closeness of the ties adopted by the countries concerned:

[D]A **free trade area** is the simplest kind of trading bloc. Tariffs and other barriers to trade are eliminated among member countries, but individually each country retains its own tariffs on imports from countries not included in the agreement. An example of a free trade area is the North American Free Trade Area (NAFTA) comprising America, Canada and Mexico.

A **customs union** goes one stage further. Besides abolishing tariffs among themselves, the countries concerned establish a common external tariff on goods imported from outside the union, and divide the customs revenue among the members according to a specific formula. South Africa has had a customs union agreement in place with Botswana, Lesotho and Swaziland since 1910, and Namibia joined this union (i.e. the Southern African Customs Union) in the 1990s.

In a **common market**, a common tariff is placed on imports from other countries. Within the common market, there is freedom of movement of labour and capital. In other words, restrictions on immigration, emigration and cross-border investment are abolished. The common market for Eastern and Southern Africa (Comesa), for example, has replaced the Preferential Trade Area (PTA).

In a **monetary union**, the countries concerned use the same currency, or the rate of exchange for their currencies is fixed, and there is a common monetary policy. South Africa has a monetary union with Lesotho and Swaziland.

The creation of an **economic union** requires, in addition to the free movement of goods, services and factors of production across borders, integration of economic policies, such as the harmonisation of monetary policies and taxation, and the introduction of a common currency for all members. The EU has made significant progress towards becoming an economic union.

13 THE SOCIO-CULTURAL ENVIRONMENT

Humans essentially create their own cultural and social environment. Customs, practices and traditions are passed down from one generation to the next. Societies are conditioned to accept certain 'truths' about life around them. You will have to adapt your business approach to the culture and traditions of specific foreign markets. Culture includes norms of behaviour based on learnt attitudes, values and beliefs. Group affiliations are important. These are based on gender, family, age, cost, religion, political preference, professional associations, and ethnic racial or national origin.

[NB] Names are important – they give identity and strengthen branding. Names are sometimes difficult to translate. Burroughs Computers had problems at a trade show in Latin America with the native equivalent of 'bastard' flashing away at their booth.

[NB] Networks are important! The Chinese concept of 'guanxi' is a network of relationships with people at various levels across a broad range of organisations. As in any business, it is important to have the right contacts and to cultivate those relationships. You can construct your own web of supporting relationships in China and elsewhere. This is achieved through commonsense, good manners, perseverance, courtesy and goodwill.

Remember, your customers are your business's most important asset!

[D] Culture is the human-made part of the human environment – the sum total of mankind's knowledge, beliefs, art, morals, laws, customs and other capabilities and habits acquired by humans as members of society. It is the distinctive way of life of a group of people – their complete design for living' – a mosaic of life. Cateora, P.R. *Strategic International Marketing*.

Adjusting to a new cultural environment is probably one of the biggest challenges of an international trader. Export marketing attempts are frequently unsuccessful because the marketers – either consciously or unconsciously – make decisions or evaluations from a frame of reference that, although acceptable in their own culture, is unacceptable in a foreign environment. Business practices that are successful in one country may be entirely inappropriate in another.

[E]The Marlboro Company took its famous lone cowboy advertisement to Hong Kong in the early 1960s. The image of the cowboy riding off in the distance by himself led the Chinese to wonder what he had done wrong.

14 Business practices

Business practices, influenced greatly by culture, religion, law, and history, vary around the world.

The work ethic also varies, and the relative importance of work is determined by the interrelationship of the cultural and economic environment. People are motivated to work for various reasons. These include the Protestant work ethic: the belief that work will bring success and reward, habit, the need for achievement and performance of higher order needs.

Different occupations bring economic, social and prestige rewards in different countries. People tend to gravitate towards jobs in which they perceive they will receive higher rewards.

There are no absolute standards for ethics in the world today. What we may consider wrong may be culturally accepted in other countries.

[NB]In Saudi Arabia and other Middle Eastern countries, business is conducted in a personal manner. It is important to pay close attention to all family members to whom you are introduced. Enquiring regularly about the health and happiness of your client's brothers, uncles, cousins and sons will strengthen your relationship. Care should be taken when mention is made of female members of his family.

In even simple issues such as gift giving may have ethic ramifications. In many countries giving a gift may be considered bribery. However, failure to give a gift in another country will be considered a breach of etiquette and could be interpreted as an indication that you do not want to do business.

[NB]Avoid giving alcohol, perfumes containing alcohol, pork, pigskin products, personal items such as underwear, knives, toy dogs or gifts that picture dogs, and images of nude or partially clad women (even in paintings or sculptures with artistic merit) to an observant Muslim.

[NB]Gifts given to your Chinese or Indian clients should be wrapped in red, pink and gold. Colours to avoid are black, navy blue and white, which are equated with death and mourning.

The following are observations that have been made. They are not rules, but rather guidelines. You should use common sense and good manners in dealing with foreigners. Observe their behaviour and ask what the taboos are if you are in doubt.

- Fatalism is the prevailing outlook in **Israel**. Assurance of immediate returns is essential for a successful business deal. Warranties and long-term guarantees are not enticements.
- The amount of time spent in negotiations signifies the importance of a business arrangement in **India**.
- Avoid giving knives, scissors or other cutting tools as gifts to the **Chinese**. It is symbolic of severing a friendship or other close bond.
- It is considered offensive to show the sole of the shoe or foot to another in **Thailand**. Take care when crossing and uncrossing your legs.
- In **Saudi Arabia**, the law prohibits the wearing of neck jewellery by men, and transgressing businessmen have been arrested.

- In **Argentina**, do not be offended if your business associate arrives 30 to 40 minutes late to a meeting.
- **Singapore**, possibly the most corruption-free state in Asia, has strict laws against bribery. Government employees may not accept gifts of any kind. Gifts are usually reserved for friends. Before giving a gift, you must first establish a personal relationship with the recipient, otherwise the gift may very well be perceived as a bribe.
- In **Costa Rica**, avoid giving calla lilies as these are associated with funerals. In **Singapore**, ensure that you give an even number of flowers – an odd number is considered an omen of bad luck. Frangipanis should be avoided, since **Indians** use them only for funeral wreaths.
- In **China**, do not write notes using red ink. This suggests that the writer will die soon.
- Observant **Hindus** do not eat beef or use products that are made from cattle. Consequently, most leather products will be inappropriate gifts.
- **Singaporean Indians**, opposite to Chinese custom, prefer odd numbers since they are believed to be luckier.
- In **China**, avoid using the number four at all costs because this signifies death.
- Avoid first names in **Germany** and **Austria**, as they are reserved for family members and close friends. It is not uncommon for colleagues who have worked together for years not to know each other's first names.

15 Language

Language is central to the expression and defines the parameters of a particular cultural group. The use of words reflects the lifestyle, attitudes and many of the customs – language is not only a key to understanding and communicating in the group. Thus if several languages are spoken within the borders of a country, that country is seen to have as many cultures.

[e.g.] In Canada, for instance, both English and French are spoken; in Belgium, French and Flemish; while in South Africa, there are 11 official languages. In addition, there are often variations within a language – different dialects, accents, pronunciations and terminology may distinguish one cultural group from another, e.g. English-speaking South Africans, the British, Americans and Australians.

Learning some of the subtleties of a language can assist greatly in avoiding confusion.

[e.g.] Several brief examples of mistranslated English idioms or expressions can be cited to illustrate how often blunders have been made. One European firm certainly missed the point when it translated the expression 'out of sight, out of mind' as 'invisible things are insane' in Thailand. There is also the story of the phrase 'the spirit is willing, but the flesh is weak' being translated to 'the liquor is holding out all right, but the meat has spoilt'. And consider, finally, a translation of 'Schweppes Tonic Water' to the Italian 'il water'. The copy was speedily changed to 'Schweppes Tonic' because 'il water' idiomatically indicates a bathroom.

(Source: D.A. Ricks: Big Business Blunders)

The importance of being able to understand other languages cannot be over-emphasised. Because English is the predominant language of business in the western world, people with English as a home language are usually reluctant to learn foreign languages and tend to expect others to converse with them in English. In contrast, European and Far Eastern businessmen have, for a long time, normally been willing to learn and converse in the language of their

trading partners, leading inevitably to a better understanding and better rapport between the parties concerned.

16 Aesthetics

A culture's aesthetics refer to its ideas concerning good taste and beauty as expressed in the fine arts – music, art, drama and dance – and in the appreciation of colour and form. Insensitivity to aesthetic values can not only lead to ineffective advertising and package design for products, it can also offend prospective customers.

[NB]The significance of different colours may vary considerably from one culture to another. For example, in many societies, colours are often associated with emotions: 'to see red', 'to be green with envy' or 'to be feeling blue'.

Green, a popular colour in many Muslim countries, is often associated with disease in countries with dense, green jungles. It is associated with cosmetics by the French, Dutch and Swedes.

Various colours represent death. Black signifies death to Americans and many Europeans, but in Japan and many other Asian countries, white represents death. (Obviously, white wedding gowns are not popular with numbers of Asians.) Latin Americans generally associate purple with death, but dark red is the appropriate mourning colour along the Côte d'Ivoire. And even though white is the colour representing death to some, it expresses joy to those living in Ghana.

In many countries, bright colours, such as yellow and orange, express joy. To most of the world, blue is thought to be a masculine colour but it is not as manly as red in the United Kingdom or France. In Iran, blue represents a bad colour. Although pink is believed to be the foremost feminine colour by Americans, most of the rest of the world considers yellow to be the most feminine colour. Red is felt to be blasphemous in some African countries but is generally considered to be a colour reflecting wealth or luxury elsewhere. A red circle has been successfully used on many packages sold in Latin America but it is unpopular in some parts of Asia. To them, it conjures up images of the Japanese flag.

(Source: D.A. Ricks: Big Business Blunders)

Although globalisation is changing the way people dress, aesthetics also embrace people's dress and appearance, that is, their outward garments and adornments or accessories. Distinctive national attire, for instance, includes the Japanese kimono, Dutch clogs, an Englishman's bowler hat and 'brollie'.

[DO]What aesthetic aspects are important in South Africa?

17 Social organisation

Social organisation comprises the social, educational and political systems of a society and refers to:

- the ways in which people relate to one another;
- how they form groups and organise their activities;
- how they teach acceptable behaviour;
- how they govern themselves.

Your ability to communicate depends, to some extent, on the educational level of your foreign market. Illiterate consumers may not be able to read advertising materials or package labels, and these may have to be adapted to the needs of the market. Where the family unit is important, your promotional efforts should be directed at the family rather than the individual.

Certain professions or occupations in different societies carry more prestige, social status and monetary reward than others. Although it is changing, in India there is a strong reluctance among people with university education to perform 'menial' tasks using their hands – even answering the telephone. In many countries, including France, Italy and Singapore, financial independence is considered essential for occupation-related prestige. In Japan, however, the majority of university-educated professionals tend to prefer working for large multinational firms than for themselves.

We see social organisation in the operation of the class system; for example the Hindu caste system and the grouping of society members according to age, sex, political orientation, etc.

18 Religious beliefs, attitudes and values

These are psychological states that make people susceptible to behave in certain ways. Attitudes may relate to:

- work;
- wealth;
- achievement;
- change;
- the role of women in the economy, etc.

Western cultures, for example, value individualism and promote the importance of autonomy and personal achievement needs. In contrast, in many Eastern and developing countries, there is a strong sense of collectivism and the importance of social and security needs.

[e.g.]Pepsodent reportedly tried to sell its toothpaste in regions of South-East Asia through a promotion which stressed that the toothpaste helped enhance white teeth. In this area, where some local people deliberately chewed betel nuts in order to achieve the social prestige of darkly stained teeth, such an ad was understandably less than effective. The slogan 'wonder where the yellow went' was also viewed by many as a racial slur.

(Source: D.A. Ricks: Big Business Blunders)

It is a society's religious beliefs, attitudes and values that determine the behaviour rather than outward manifestations of a culture, such as language, material culture, aesthetics and social organisation. A religious system refers to the spiritual side of a culture or its approach to the supernatural. Although very few religions influence business activities directly, the impact of religion on human value systems and decision making is significant. Thus, religion exerts a considerable influence on people's actions and outlook on life, as well as on the products they buy.

[e.g.]The Hindu religion imparts a type of work ethic that considers work central to one's life but maintains that it must be performed as a service to others, not for one's own personal achievement.

Western culture is accepted as having been largely influenced by the Judeo-Christian traditions, while Eastern or Oriental cultures have been strongly influenced by Buddhism, Confucianism, Taoism and Hinduism.

Disregarding the significance of religious beliefs or superstitions can result in expensive mistakes and cause difficulties for firms.

[e.g.] Companies have encountered problems in Asia when they incorporated a picture of a Buddha in their promotions. Religious ties are strong in this area, and the use of local religious symbols in advertising is strongly resented – especially when words are deliberately or even accidentally printed across the picture of a Buddha. One company was nearly burnt to the ground when it ignorantly tried such a strategy. The seemingly minor incident led to a major international political conflict remembered for years.

(Source: D.A. Ricks: Big Business Blunders)

19 Space

Conversation distance between two people is learnt early in life – almost completely unconsciously. A western executive, conditioned to operating within a certain amount of personal space, may feel uncomfortable or alarmed at the closeness and physical contact displayed in, for example, the Middle East or Latin America.

The concept of space differs. In western corporate culture, the level of seniority in the company usually determines the size and location of an executive's office. The locality and size of an Arab businessman's office, however, are a poor indication of the person's importance.

20 Time

Time also has a different meaning in each country. Western cultures tend to perceive time in terms of past, present and future. They are oriented towards the future and in the process of preparing for it; they save, waste, make up or spend time. In the Middle East, time does not usually include schedules and timetables. The time required to get something accomplished depends on the relationship. With South Africans, the more important an event is, the earlier it is planned, which is why last-minute invitations are often regarded as an insult. In planning future events with Arab businessmen, it is often advisable to keep the lead time to a week or less, because other factors may intervene and take precedence.

[e.g.] Proverbs: Windows into Other Cultures

In many cultures, the pace of time is slower and more leisurely than in America. A Spanish proverb states: 'He who rushes, arrives first at the grave.' The Japanese advise: 'When in a hurry, take the roundabout route' and 'The more haste – the less speed.' The Arabs caution: 'Haste is the devil's work and patience is from the Merciful (Allah).' The Chinese long-term perspective is reflected in 'drips of water wear through stone' and 'feather by feather the goose is plucked.' Ecuadorians say: 'Little by little one walks far.' In Zaire we are reminded that 'the peanuts do not grow until the rains come.' And Ethiopians believe that 'if you wait long enough, even an egg will walk (the chicken will hatch).' The unhurried Indian pace of life is reflected in the expression 'time is free.'

Source: G.M. Wederspahn: *Proverbs: Windows Into Other Cultures*
(<http://www.executiveplanet.com/business-culture/112565789250.html>)

21 Education

The level of education will have an impact on almost all aspects of your international business. Generally, the more educated the target market, the easier it will be to do business.

Considering your product or service, how would literacy levels and education influence the marketing of it?

22 GLOBAL ECONOMIC STRATEGY SYSTEM

The Department of Trade and Industry (DTI) has developed a practical strategic and analytical tool for identifying growing markets to which South African firms could export. The Global Economic Strategy System (GESS) is a flexible menu-driven programme in which the weights and even some of the scores of economic and political criteria can be chosen by the user. The principal trade datasets are sourced from the World Trade Analyser (WTA system of Statistics Canada), World Bank Development Indicators, the ITC and the Economic Intelligence Unit (EIU).

23 CONCLUSION

Many factors continuously produce cultural changes in a society – new technology, population shifts, availability of scarce resources, and changing values regarding the role of education or women. Culture is thus dynamic and exporters, particularly those involved in international travel and marketing, need to regularly assess what new products and service needs have been created, who the potential buyers and users are, and how best to reach them.

24 SUMMARY

Starting with the objectives (vision and mission) and the business plan, an export marketing plan framework was set out. A successful export marketing plan segments the market and provides a differentiated product that can be sold at a profit. The marketing mix includes product, price, promotion and distribution functions.

This chapter has focused on the external environment. The complexity of the subject and the rapid changes that occur make it impossible to cover it to the degree that it deserves. Nevertheless, commonsense, a broad general knowledge and the pointers provided should provide a basic road map.

The remainder of this book will look at practical issues in implementing the plan. You will have to make sure you have the skills, or can gain access to them, to undertake the various tasks to ensure successful implementation. Regular monitoring of the plan, how your product is doing, what changes are about to happen and making contingency arrangements are necessary. You will also have to ask many ‘what if’ questions, as well as what you can do to improve your position in the market

The plan should be dynamic and change regularly, according to the changing environment.

13. SELF-EVALUATION

1. What is the difference between bilateral and multilateral trade agreements?
2. Write out the full names of the following acronyms correctly and explain them: FTA, WTO, GATT and AGOA.
3. What aspects can be included in the ‘psychological distance’ between countries?
4. Two importers have approached you to distribute your product in their markets. They have similar corporate histories and experience. One is in Dubai, the other in London. Assuming that you would probably gain the same profit from both, which would you choose and why?

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