PROFIT
promoting regional opportunities for investment and trade

International trade checklist

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1. Introduction

Unlike selling domestically, selling internationally requires that you think about many requirements, some of which are legal requirements and some of which may affect your level of profit. International trade is much more complex, partly because more parties are involved and partly because of differences in language and culture and in the distance from the customer. In some cases, working in different currencies adds to the complexity though many businesses now just work in dollars. This checklist describes the requirements – and in most cases there are further factsheets that will explain in more detail how to comply.

2. Make a plan

It is important that you make a plan since this will minimise the likelihood of you missing a key step. As you become more experienced, you can condense this into a simple flowchart to use as an aide memoire. But when you are just starting, it makes more sense to set out all the requirements in detail.

A key requirement is to be clear about your approach to international trade or investment. Are you 'just' exporting, and if so, are you selling direct, or using distributors, or using agents, and how are you marketing your goods? Or are you looking at investing internationally or setting up a joint venture or licensing another business's intellectual property. You need to be clear about the reasons that customers will buy from you: think in terms of the benefits conferred by your product or service?

You may also require a plan to secure additional finance in which case the plan will also need to convince the reader that senior management is committed, that market research demonstrates that there is a market and sets out quality standards and legal requirements that need to be met, that the logistics arrangements are all in place, that staff are aware of the requirements for international trade (and ideally frontline staff will have been through an appropriate training programme), that the price covers all the additional costs and that you have insurance arrangements in place in case you are not paid. You will also need a financial forecast.

3. The market

Have you assessed the market? Do you have an indication of the total market for your product or service? Do you have an indication of how much you can sell? Does it matter? Or do you have one or two selected customers who wish to buy from you? Are you putting too many eggs in one basket?

Are you allowed to export your product at all? And, if so, are you allowed to export it to your chosen target country? Are you aware of the standards that you will need to meet in your target country? It is quite likely that they will have different quality standards for the product and may well also have different packaging or different labelling requirements.

Do you require a licence or an export permit? Do you, or your customer, require an import permit?

Are you clear about the documentation that might be required including certificate of origin, know you customer, phyto-sanitary certificate, etc?

Is the product covered by quotas or tariffs? Will those prevent customers from buying from you?

4. Risks

What financial risks do you face? Are your customers likely to pay – have you undertaken credit checks? How well do you know your customers? Are they established? Or is there a danger that they could cease trading? Are customers able to transfer currency internationally? Will that inhibit customers' ability to pay? Are you able to insure against this risk?

There will be a foreign exchange risk – unless you decide to do all your business in a single currency. Even exchanging from dollars back to your own currency imposes some risk. If the sums are large, you may be able to hedge this risk with your bank.

The target country may also present risks. These include political events – you only have to look at the USA's recent trade wars to see the possible impact on trade – as well as foreign exchange controls or import restrictions, either of which can be imposed at any time, and natural disasters, civil unrest or even wars.

5. Costs

Calculating the total cost is, in essence, no different to calculating the costs for domestic sales. However, there are some important aspects for which to watch. For example, if you are selling products, most businesses use Incoterms. Watch these closely. For example, ex-works (EXW) means that it is the customer who collects the goods from you and is then responsible for all the export procedures; but delivered duty paid (DPP) means that you are responsible for everything right up to the point where the goods are delivered to an agreed destination. Many suppliers aim to deliver free on board (FOB), so responsibility transfers to the customer once the goods are on the vessel, or cost, insurance and freight (CIF) in which responsibility transfers to the customer once the goods are on the vessel, but the seller pays for the cost of freight and insurance.

6. Payment

You will want to be paid as quickly and as securely as possible. Methods of payment, starting with the most secure, are:

- Advance payment – in which you require that payment is cleared before the goods are shipped. A bank transfer is the quickest method of clearing funds, though many online bank accounts now allow international payments.
- Letter of credit – these can be unconfirmed, but are much safer if confirmed by a bank and, ideally, should be irrevocable. You must comply exactly with the documentary requirements to ensure payment.
- Documentary collection – is raised by the exporter and made out to the customer's bank. It is then sent to the customer for acceptance and can be avalised (guaranteed) by the bank for additional safety.
- Open account – in which you offer credit terms of 30 or 60 days or even more. This method of payment is not recommended and should be used only when no other method is available.

There are several methods of actually transferring the funds. As noted above, many online banking services now allow international transfers. In addition, you can use

- SWIFT Inter-Bank transfer – now established as standard practice in the major trading nations. The customer instructs their bank to make payment to any bank account specified by the supplier. It is good practice, therefore, to include account details on invoices.

- Buyer's cheque – an unsatisfactory method of settlement which has the risk that it will not be honoured as well as the added inconvenience of being slow to clear. You should only use this method if you have an established trading history with your customer or where you have increased your profit margin to offset cash-flow problems caused by delays in receiving payment.
- Banker's draft – arranged by the customer who instructs their bank to raise a draft on its corresponding foreign bank. It provides more security than a buyer's cheque but can be costly to arrange and runs the risk of loss in transit.
- International money orders – these are pre-printed and are cheaper than a banker's draft but run the risk of loss in transit.

7. Insurance

It is sensible to insure yourself against non-payment (known as export credit insurance, or similar) and for loss or damage to cargo whilst in transit. Even if the customer is responsible for insurance it may be worth thinking about Cargo Insurance Contingency Cover in case your cargo is damaged in transit and the buyer or importer refuses to accept it.

8. International trade checklist

There is likely to be a lot to remember so it may be sensible to use a checklist in an effort to ensure that you do not forget anything. Print the table and keep it on your desk as you progress through the internationalisation process. Then write a plan, partly as an aide memoire to yourself, but also to raise additional finance should that be required.

Figure 1: Summary of planning requirements

Requirements	✓
Are clear what you are selling – a product, a service, or some intellectual property or know-how. Write a paragraph spelling out your offer.	
Have you set short term and long term targets?	
If you are offering a product, will there need to be any adaptations to sell it in an international marketplace?	
Can you describe your customers? Can you name some customers?	
Do you need to demonstrate compliance to Know Your Customer requirements?	
Which businesses do you regard as competitors? What are the differences between your offer and their's?	

How will you market your product or service to potential customers?

How will you deliver your products to the market (both physically and in terms of reaching customers)? Will you work through distributors, or agents, or other partners? Will you set up your own sales and distribution network?

How will you transport your product to the market? Truck and ship? Truck and air? Have you confirmed the costs?

Have you checked the paperwork that will be required? Have you made a list of documentary requirements (including certificates of origin, confirming the HS code, demonstration that you meet required standards, checking tariff requirements, etc)? Have you considered your terms of trade? Have you checked this against the INCOterms?

Have you determined the cost and set a suitable price? Is that price competitive in the marketplace that you are targeting?

Have you considered what resources will be necessary and do you have these available or expect to be able to raise them from a financial institution?

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