KWAZULU-NATAL

EXPORT 101

A PRACTICAL GUIDE TO EXPORTING

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DEPARTMENT :
Economic Development & Tourism
PROVINCE OF KWAZULU-NATAL

Trade & Investment KwaZulu-Natal
YOUR KNOWLEDGE PARTNER IN BUSINESS

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FOREWORD

MICHAEL MABUYAKHULU

MEC for Economic Development and Tourism

South Africa enjoys remarkable macro-economic stability and a pro-business environment which makes it a logical and attractive choice for companies wishing to enter the African market. One of the key entry points into South African and the continent's market is KwaZulu-Natal – the second largest economy in the country after Gauteng. The province boasts a diverse range of stable and growing economic sectors that make it the most advanced, broad-based and productive part of our country.

The Provincial Government therefore is committed towards driving our economy forward and to attract export led investments to ensure the creation of sustainable jobs essential for the reduction of poverty. Amongst leading sectors that make KwaZulu-Natal tick is manufacturing, agriculture, tourism, telecommunication, clothing & textiles and chemicals. These are some of the focal points that the province continuously develops strategies to ensure they sustainably contribute to socio-economic transformation through the creation of job opportunities for the citizens.

For KwaZulu-Natal, export growth is important because of its effect on internal trade and economic stability. The rate of economic growth and the distribution of income and wealth in South Africa are closely related to export growth since the growth of our economy is directly related to exports. We therefore need more manufacturing and technology advancement which is critical in the beneficiation of raw materials in order to create high value products that can be exported for high returns. If exports increased at a faster pace as compared to imports the province will be in a better pedestal to become fully developed.

Being strategically located along the busy eastern sea-board, with two of the country's highly developed ports KwaZulu-Natal is well positioned to feature prominently in the world's export market. We have a conducive investment climate which largely works in our favour that has been further enhanced by the advent of the new King Shaka International Airport that serves as an anchor of the multimodal logistics platform, the Dube Trade Port which is destined to elevate the province's trade capacity.

South Africa's membership to regional economic blocs, multilateral trade organizations and the other numerous bilateral trade agreements that our government is a signatory to, have created good environment for export for our entrepreneurs. More importantly, the current political goodwill in the country, the good relations between business, labour and government, are ingredients that should be harnessed to position KwaZulu-Natal among the leading exporters both regionally and internationally.

Lower exports mean low foreign exchange which in turn implies a small purchasing capacity of our economy in the international market. It is our intention to ensure continued growth of our exports and the development of our companies into solid export ready enterprises. We are therefore putting more emphasis on value addition to our export products and diversification of commodities.

Boasting a highly enterprising citizenry and vibrant entrepreneurial spirit, KwaZulu-Natal has potential to claim its sizeable stake in the world's export market and all that is required is to instil confidence and determination in our business fraternity to ensure that our entrepreneurs do seize the opportunities offered by the globalisation of the country's economy. The development of the Export 101: A Practical Guide to Exporting will serve as a road map for our business people that are prepared to venture into the lucrative export market. The document provides a clear direction on export protocols for exporters in all sectors of the economy.

Mr Michael Mabuyakhulu, MPP
MEC for Economic Development & Tourism

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

ZAMO GWALA

Chief Executive Officer

This basic guide provides an overview on all of the considerations needed for a South African Company that is intending to embark on an export drive. Export development is an important part of Trade and Investment KwaZulu-Natal, thus essential to highlight the dos and don'ts of exporting.

It is common fact that the growth of an economy is directly related to exports. If exports increase at a faster pace as compared to imports, nothing can stop an economy from being a developed one. The exports generate growth, create employment, attract foreign investment and earn foreign currency.

This guide in particular seeks to address the following process:

Evaluation (Reality Check)
Evaluate the company's export capability and product suitability for the potential market, considering the consumers' needs.

Market research
The company must decide whether to market in a single country, few or many countries. Country attractiveness is influenced by the product, its competitiveness in the market, geographical factors, income and population, economic environment, political climate and other factors.

Marketing plan

The development of a marketing plan, paying special attention to the method of market entry as well as how much to adapt the domestic marketing strategy to satisfy market conditions overseas.

Restrictions and regulations

Legislation may prohibit or restrict the exportation of certain goods.

Quoting for product export

When ready to export it's essential that goods are sold competitively and quotes are correctly prepared.

Export finance, insurance and payment

Consideration must be given to the possibility of any delays in payment, losses due to fluctuations in exchange rates and the possibility of not receiving payment for a number of reasons. The guide gives most suitable form of payment methods which can be explored with your bank, prior to concluding any agreement.

Mr Zamo Gwala
Chief Executive Officer

ACKNOWLEDGEMENTS:

Export 101: A Practical Guide to Exporting was developed by Trade & Investment KwaZulu-Natal's Export Development and Promotion Unit (EDPU) under the guidance and leadership of Mr Neville Matjie, GM: Export Development and Promotion.

The efforts of the EDPU team for the development of the guide is acknowledged and appreciated. The Management Team of Trade & Investment KwaZulu-Natal under the leadership of the CEO, Mr Zamo Gwala are acknowledged and appreciated.

The Durban Chamber of Commerce and Industry and Pietermaritzburg Chamber International Trade Committee's member comments further provided guidance to the book. Mr Robert Watson of CRE 8 Export Services was contracted to proof read and verify of content. The members of the Durban Exporters Club further deserve special thanks.

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1 ABOUT THIS GUIDE

Exporting is an exciting, dynamic activity which rewards the exporter and the customer, that can open up immense opportunities for business growth and profitability. It is for this purpose, the 'Export 101, A practical guide to exporting' was developed by Trade & Investment KwaZulu-Natal.

The 'Export 101, A practical guide to exporting' will assist those KwaZulu-Natal businesses which are thinking about exporting, and also established exporters which are seeking to diversify products and services into new markets.

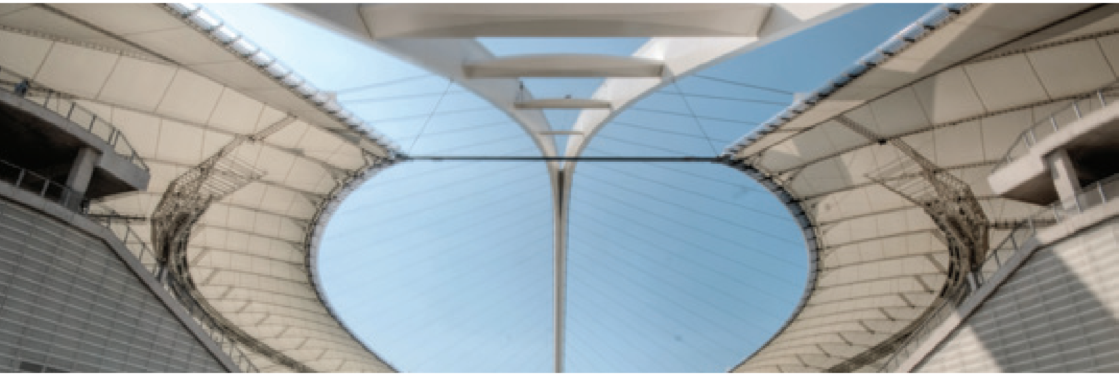
This guide contains adequate information to KwaZulu-Natal businesses to effectively and efficiently deliver products for international destinations; however, the guide is not intended to answer every possible question about exporting. The step-by-step approach assists in achieving the basics in successfully exporting and avoiding many pitfalls.

Additional material on exporting is available here:

- www.sadc.int
- www.thedti.gov.za
- www.gov.za
- www.southafrica.info/business/trade/export
- www.durbanchamber.co.za/downloads/; and

Helpful resources are also published by some other government agencies, industry associations, financial institutions and professional firms.

2 | ABOUT TRADE & INVESTMENT KWAZULU-NATAL



Our Mandate

Trade & Investment KwaZulu-Natal is a South African trade and inward investment promotion agency, established to promote the province of KwaZulu-Natal as an investment destination and to facilitate trade by assisting local companies to access international markets. The organisation identifies, develops and packages investment opportunities in KwaZulu-Natal; provides a professional service to all clientele; brands and markets KwaZulu-Natal as an investment destination; retains and expands trade and export activities and links opportunities to the developmental needs of the KwaZulu-Natal community.

Vision

To contribute to economic development by promoting the Province of KwaZulu–Natal (KZN) as the premier investment destination and the leader in export trade.

Mission

- Identify and package investment opportunities in KZN;
- Brand and market KZN as an investment destination;
- Link opportunities to the developmental needs of the KZN community;
- Ensure easy access to investment and export trade opportunities.

Such activities include:

- The facilitation of joint ventures;
- The facilitation of business linkages between small and big business;
- The timely provision of relevant and reliable information to both potential and existing investors and traders;
- Assistance to both existing and new investors regarding applications for both investment and export marketing incentives;
- Assistance to foreign investors in terms of applications for business permits;
- Negotiations for local government incentives on behalf of investors;
- The provision of project support and after-care services to investors;
- The provision of assistance to emerging international traders;
- Assistance with international trade enquiries;
- Assistance to investors with regard to locating suitable premises; and
- Assistance to investors in terms of securing project and operational finance.

Trade & Investment KwaZulu-Natal provides a wide range of services and information to help KwaZulu-Natal businesses with international market development plans.

Trade & Investment KwaZulu-Natal has developed a network of strategic partners in KwaZulu-Natal and around the world, that enables Trade & Investment KwaZulu-Natal to provide market intelligence on key markets and sectors. It may undertake customised research for KwaZulu-Natal businesses with the capability to internationalise and proactively identify trade opportunities.

To find out more about its services and how can assist the exporter, please visit Trade & Investment KwaZulu-Natal's Website: www.tikzn.co.za or phone
031 368 9600.

3 | INTRODUCTION

3.1 Defining Export

The word "export" may be defined as:

- To ship goods to other countries or places for sale in exchange for foreign exchange (FOREX); and
- To send or transmit data to another country or place in exchange for FOREX.

The least risk and most common export strategy practice is to export goods and services by "direct exports" through the company's structures using available local service providers to pack and transport cargo to an export country. This method of exporting gives the company control over the goods and in most cases may be exported at zero-rated VAT. (Refer to the VAT section for more information).

The alternative is to export the goods and services through a local third party commonly known as 'Export Agents' or 'Export Trading House'. This form of exporting is known as "indirect exports" and involves the least involvement with the company's structures. Under the VAT Act of 1980 and with all in-direct exports, VAT must be charged by the seller to the third local party at the 14% standard rate. The third party now becomes the exporter and exports the goods and services as a "direct export".

3.2 Decision to Export

The decision to export is primarily based on the opportunity to increase sales and make a profit:

- Companies which have the capacity to produce for the export market will therefore be in a position to extend the market for a product that has proved popular at the domestic level.
- Companies that can supply international buyers with whom a profitable business relationship can emerge; and
- Companies which intends to lengthen a product's life cycle by selling in foreign markets, once a product's popularity declines in the home market and wanting to take advantage of seasonal differences.

3.3 Advantages of Exporting

KwaZulu-Natal firms and entrepreneurs, like their counterparts in other parts of the world, have to strive towards production of higher quality goods and first class services at lower prices. Export success provides companies with opportunities to develop new products for the KwaZulu-Natal market, using the latest technology and skills. Exporting therefore offers considerable opportunities such as:

- It provides an opportunity to grow and sustain business operations;
- It offers the advantages of a larger market with greater economies of scale;
- It enables the Province of KwaZulu-Natal to attract investments and new business, thereby creating employment opportunities;
- Export-driven growth for the Province and the South African economy is important as it allows the country to balance finances and surpass debt, thereby providing the facilities and materials for the export to exist in the first place; and
- Increased export growth can trigger greater productivity, creating more exports in an upward spiral cycle.

4 THE EXPORT ENVIRONMENT

KwaZulu-Natal's export environment is changing dramatically as a consequence of liberalisation which is the de facto merger of domestic and international markets into a single market and the necessity for domestic firms to become internationally competitive, even in the domestic markets. The impact of globalisation is the accessibility of resources to domestic firms that can help them be more productive and efficient in a highly competitive market. Faster and more flexible delivery methods have increased the pressure on KwaZulu-Natal exporters to adapt to the evolving needs of international markets and require exporters to have a broader understanding of markets and international marketing.

4.1 Export Marketing and Communication

The internet is also becoming an increasingly important tool for marketing and selling products and services. While e-business is unlikely to replace the value of developing personal relationships with clients and suppliers, it provides a vital business channel which is being adopted by competitors.

KwaZulu-Natal exporters need to factor e-business into export planning. Email is often the preferred way of dealing with suppliers or contacts and for working with service providers and agencies in export procedures and checks.

4.2 Critical Success Factors to Exporting Products

Successful exporting is about covering operational business expenditure, obtaining a return and getting paid. Exporting that is not profitable in the long term wastes resources and can result in company failure. Management commitment and planning efforts are crucial to the whole process of exporting and building effective relationships. For potential or existing exporters to be successful in exporting, they must have knowledge of:

- Clients and their needs;
- Rules or regulations affecting exports;
- The price (Forex) the client is prepared to pay for the product or service;
- The costs of delivering products or services to the export market;
- The levels of service expected in the market; and
- The competition and any relevant cultural factors.

4.3 Critical Success Factors to Exporting Services

Most terms used in exporting tend to refer to goods, such as tangible products packed into containers and carried by sea, air, rail and road transport to the export destination. However, this guide also refers to other foreign exchange generating activities, such as 'services'. The common link between these forms of exporting is that they involve foreign exchange payment from offshore sources.

Service exports include consultancy, scientific research, tourism, IT-related Software, construction and specialised project work offshore. These have been widely accepted as part of KwaZulu-Natal's export activities for some time. The services sector is KwaZulu-Natal's fastest growing sectors. It therefore plays an important part in export activity, as an 'intangible product offering' in its own right, and as a way of selling other products.

For potential or existing exporters to be successful in exporting their services, they must develop unique skills and expertise backed by in-depth knowledge and experience.

4.4 Beyond Exporting

KwaZulu-Natal companies which have already started exporting often need to make decisions that go 'beyond exporting'. This enables them to reach larger markets or gain greater control over products offshore. It may include strategic alliances or manufacturing under license in key markets.

Adequately protecting intellectual property is often a crucial aspect of strategic alliances and manufacturing under license. This may range from ensuring freedom to operate, through to patents to protect know-how, and trademark registration to protect brand names. Knowledge and understanding of relevant legislation is critical to an exporter.

Strong and growing relationships between buyers, sellers, clients and suppliers need to be backed by sound agreements. These are essential, regardless of the product, service or supply method.

4.5 The Basic Steps to Exporting

These are the basic steps in the exporting process. It is wise to consider all the recommended steps prior to commencing. Consider the options before deciding on a course of action, and actions and terms that may be unfamiliar until serious exporting is considered.

- Registering procedures;
- Business development through exporting;
- Are you ready? Identifying strengths and weaknesses;
- Setting up roadmaps and objectives;
- Selecting markets;
- Collect information;
- Check the freight and finance details;
- Visit the market;
- Decide on a market entry method;
- Use the right promotion;
- Finalise pricing;
- The sales pitch; and
- Follow-up.

4.6 Registering Procedures as an Exporter

All persons who will be exporting commercial goods from South Africa must register with the South African Revenue Services (SARS), and duly complete a DA185 registration form. This form can be downloaded from www.sars.gov.za/home.asp?pid=63505

New Applications lodged on a DA 185 Form, will require supporting documents. The following supporting information/documents must be submitted with this application form.

One of the following documents to prove bank details:

- A cancelled cheque;
- A legible certified copy or original bank statement which confirms the account holder's name, account number and branch code;
- An original letter from the bank on a letterhead; or
- An original bank statement.

Certified copies of the following documents:

- Municipal account not older than three (3) months to confirm the address details;
- VAT, IT, PAYE, SDL, UIF letters from SARS to confirm revenue registration details;
- CIPRO registration letter when a company or CC was registered;
- Identity document or passport; and
- Telkom and/or cell phone account not older than three (3) months to confirm contact details.

As part of its services, Trade & Investment KwaZulu-Natal assists KwaZulu-Natal based companies with the registration process.

The company will be issued with a Customs Code Number which must be used for all exports. It is recommended that companies also visit the Department of Trade and Industry, through their website: www.thedti.gov.za/trade_investment/trade_investment.jsp.

> "It is not necessary to respond to every unsolicited enquiry, as it can often be very speculative queries from people who are not committed buyers"

4.7 Agent or Principal

If the exporter is not the manufacturer of the product, representation by an agent or a trading house may be utilised.

An agent is a person, firm or company that is contractually nominated by the exporter to represent them in an import country in order to procure sales of the exporter's product or products. The agent usually earns a commission based on the selling price and is paid this commission by the exporter. Usually the exporter prepares the goods for export, produces all the necessary export documentation and collects payment in its (the exporter's) name.

A Trading House purchases goods locally and then sells them; therefore, the trading house is able to dictate the price and is in effect the exporter.

Requirement: Standard Agency and Distributorship Agreements, contact an attorney, ensuring that the contract is accurate with no loopholes.

4.8 Unsolicited enquiries

Caution must be taken when responding to unsolicited enquiries. It is not necessary to respond to every unsolicited enquiry, as often such queries are speculative and come from people who are not committed buyers. First-time exporters can make the mistake of responding in detail, which can be very time consuming, and provide little or no results.

Be selective about which enquiries are responded to, and concentrate on those from your main target markets. Validate any enquiries carefully, by confirming the importer's ability to pay before sending any goods. An agent can be used to check the potential importer's financial credentials, such as how long the importer has been operating.

5 VALUE-ADDED TAX (VAT) AND EXPORTS - EXPORTING OF GOODS

5.1. Direct Exports

In the case of direct export, i.e. where the RSA vendor consigns or delivers the goods to the recipient at an address outside South Africa, the vendor may apply the zero rate.

5.2. Indirect Exports

The Export Incentive Scheme was introduced to regulate the zero-rating or refund of VAT where goods supplied by South African vendors are removed from the Republic by the recipient of the supply for conveyance to an export country.

In broad terms, the Export Incentive Scheme provided for the zero-rating of supplies in a 'call and collect' situation or the refund of VAT in such situations provided, certain documentary requirements were met. The documentary requirements were aimed at ensuring sufficient proof that the goods had, in fact, left South Africa. This Scheme applies to indirect exports of moveable goods.

With regards to indirect exports, i.e. where the purchaser or his representative (his freight forwarder) takes possession of the goods in South Africa and exports these goods, or where goods are delivered to the purchaser's contractor in SA (including F.C.A. and Ex-Works exports), the new procedures apply.

- Except as provided in Part Two of the Scheme, the Scheme requires that where the moveable goods are delivered to a foreign purchaser in South Africa (thus not exported by the RSA vendor) the RSA vendor must charge 14% VAT irrespective of whether the goods are intended for consumption locally or outside SA. Part One further provides for the VAT to be refunded to the foreign purchaser by the VAT Refund Administrator (VRA) provided the set requirements are met; and
- The Scheme provides in Part Two for a choice by the RSA vendor to charge VAT at the zero rate, where moveable goods are delivered by the RSA vendor to a harbour (FOB), airport (DAP) or railway siding (DAP) as listed as a designated commercial port from where the goods are to be exported by the purchaser on any terms. The RSA vendor, however, accepts the risk of being held liable for payment of VAT, penalties and interest if the necessary documentary proof of export is not subsequently obtained timeously, or is found to be fraudulent. If the RSA vendor does not accept the risk or if the goods are exported by road, the SA vendor must charge VAT at 14% on these exports. The purchaser may claim a refund from the VRA.

5.2.1.Export by a Cartage Contractor on behalf of the Purchaser

The Purchaser would only be entitled to a VAT refund claim if the cartage contractor used:

- Is a registered VAT vendor in the Republic of South Africa;
- Has transport as its main activity;
- Transports and delivers the goods in exchange for money; and
- Includes couriers and freight forwarders.

To apply for a refund, the procedure, which is the same for all designated ports, is the following:

The purchaser may request a refund by submitting a letter, explaining the circumstances and stating the postal address, together with the prescribed documentation. This applies to all exports, especially those to neighbouring countries. Copies of the new Scheme can be obtained from the South African Revenue Services or on the website: www.sars.gov.za

5.3. Vat Compliance

In order to VAT zero rate an exported product, the VAT Act stipulates that the goods must be either Consigned or Delivered to a buyer at an address in an import country and export documents as defined by the Customs Commissioner must be produced within a specified time period.

5.3.1.Consigned

A consignment is where the exporter uses a cartage contractor (supplier’s cartage contractor) to deliver the goods on its (the exporter’s) behalf to the buyer at an address in an import country, only if the supplier’s cartage contractor is contractually liable to the exporter to effect delivery of the goods and the exporter is liable for the full cost relating to such delivery.

5.3.2.Delivered

Delivered is where the exporter physically delivers the goods to a buyer at an address in the import country, by means of the exporter's own transport.

5.3.3. Documentary Proof of Export - Compliance

Is the term used by the VAT Act to determine the documentary proof required by the Commissioner of Customs & Excise in order to zero rate a transaction for road cartage:

CONSIGNED	DELIVERED
Copy of zero rated tax invoice	Copy of zero rated tax invoice
Buyer's order or contract	Buyer's order or contract
Proof that the seller paid transport cost	Import custom's declaration from the import country
Cartage contractor acceptance note or copy of road manifest	Copy of road manifest attested by custom's at the border in both countries
Custom's entry EDI or SAD 500 bearing custom's stamp and dated	Customs entry SAD 500 bearing customs stamp and dated
Proof of delivery	Proof of delivery
Proof of payment	Proof of payment

It is the exporter's responsibility to acquire these documents within 120 days from the date of issue of the exporter's zero-rated tax invoice.

Should ALL these documents not be acquired within the stipulated time frame, the exporter must reverse the VAT and declare the sale at standard rate. However, the VAT Act allows for exporters to acquire these documents within a 12 month period, at which time they may revert the sale back to the zero rate and declare the sale as a zero rated sale.

6 BUSINESS DEVELOPMENT THROUGH EXPORTING

There are strategic decisions which may have a positive impact on the company's bottom line when entering into the export market. Exporting companies usually comprise 65% of all SA exporters. These are firms with 20 or fewer employees, demonstrating that size is no longer a requirement for success in global markets.

Be cautious when exporting and ensure that market research has been prepared, there's a detailed export plan and you are ready to export.

There are many good reasons for exporting:

Market growth: Where is the company's potential growth? Looking at the world demographics, 95.5% of the world's population is outside South Africa. If products or services are for sale, go to where the buyers are and, increasingly, that is outside the borders.

Economies of scale: Assuming a firm has excess production capacity, it will be marginally less expensive to increase production so the per unit cost will decrease as sales expand into new markets.

Extend product life cycle: A product that may be nearing obsolescence in the domestic market may be exported to extend the product's life cycle.

Moderate seasonal production cycles: By selling seasonal products during off seasons, a company could moderate seasonal fluctuations in its production cycle; This is highly beneficial to the company and it's employees.

Increased growth, revenue and profits: Several years ago a comprehensive study was done that showed that exporters tend to grow 22% faster than non-exporting companies, have higher profits, and stay in business longer. Exporters are winners, by definition, by "thinking outside the box" and successfully competing in global markets.

Competition: Due to its size, the South African market is extremely competitive compared with many other countries around the world where market share might be easier to obtain and profits might well be higher.

Additional markets: Due to increased competition - which could come from either foreign or domestic companies, or both - a firm might decide it needs to enter other markets in order to grow the business. Also, a small business might explore international opportunities as a response to its chief domestic competitors doing so, in order to remain competitive in the long run. The competitor might be trying to lower production costs and/or attempting to use overseas profits or economies of scale to more aggressively compete at home.

Tax advantages: There are a number of export incentives offered by the Department of Trade and Industry to assist companies in accessing new markets which will be discussed in more detail in this guide – www.thedti.gov.za/financialassistance. Further, the South African Government has signed a number of trade agreements which allow certain goods to enter specific markets at a reduced duty or duty free, thus creating an advantage for KwaZulu-Natal products – www.sars.gov.za/home.asp?pid=63505.

There is also an export credit guarantee which is a form of insurance that covers an exporter if the importer or their bank defaults on payment. The Export Credit Insurance Corporation (ECIC) provides export credit guarantees to support the export activity of KwaZulu-Natal firms and businesses. Visit http://www.ecic.co.za for more information.

Careful consideration should be taken whether or not to export. Avoid taking a short-term view, or reacting to an uninformed appraisal of domestic or international trends. For example, exporting may be unwise if it is undertaken to:

- Offset falling sales in KwaZulu-Natal;
- Cash in on short-term price booms in a market;
- Relieve short-term over-capacity; and
- React to unsolicited enquiries from overseas.

However, these events may be useful triggers to assess trends and develop a longer-term view about exporting. For example, consistent unsolicited requests for products from overseas buyers may suggest potential export markets.

> "Due to its size, the South African market is extremely competitive compared to many other countries around the world".

6.1. Critical Success factors

There are seven critical factors for export success which must be considered. The factors are all vital:

6.1.1. Management commitment and effort to the whole process: The people and companies the exporter seeks to work with will look for commitment before deciding.

6.1.2. Time: Adequate time is needed for the exporter and staff to acquire new skills and develop export markets. School of Shipping operates within the Durban Region, offering a number of TETA accredited SAQA export related courses. Visit its website at www.schoolofshipping.co.za for the Durban course calendar. Trade & Investment KwaZulu-Natal also facilitates the development of skills for existing and emerging exporters.

6.1.3. Money: Is the exporter prepared to invest the amount of money required to get started in exporting? Usually, committing to an export market will require money to cover market research, visiting the market, developing promotional material appropriate to that market, participating at International Trade Exhibitions, etc. The further away the market, the greater the cost. Does the exporter have the cash-flow required to cover these expenses in the initial set-up phase? In the majority of cases it can take at least six to twelve months to see any returns from exporting.

6.1.4. Management style: The leaders of successful companies are generally entrepreneurial and also -

- Encourage participation, involve all members of the company in business objectives and performance;
- Foster excellent cooperative staff relations - something of great importance when fulfilling export orders under pressure;
- Prioritise staff training and conditions;
- Are hands-on, enthusiastic and highly involved in activities; and
- Lead by examplle

6.1.5. Strategic market selection: Successful exporters use their growth strategy to target export markets and have a competitive advantage. Products or services are customised to meet the market needs.

6.1.6. Market orientation: Successful companies undertake comprehensive business and marketing planning. This is reflected in:

- A market-led approach;
- The importance placed on market research;
- Assessment of broad environmental information, such as political or economic factors, on their products and markets;
- A long-term view of business and market opportunities;
- Risk analysis and management strategies; and
- Seeking assistance from appropriate personnel and organisations.

6.1.7. Personal contact: After markets have been researched, successful companies always make frequent visits in order to:

- Negotiate and seal business contracts;
- Improve service to overseas contacts;
- Provide an opportunity to train customer staff;
- Deal with problems on the spot;
- Gain market knowledge;
- Scrutinise agent or distributor performance;
- Build personal working relationships and loyalty;
- View competitor activities to build first-hand market intelligence; and
- Identify new business opportunities.

7 | FEASIBILITY STUDY

The first step of export readiness is to undertake an in-depth feasibility study of your products and services, logistics, risks and payments.

7.1. Feasibility Study

✔ Financial Stability	✔ Mode of Transport
✔ Export Restrictions	✔ Payment Method
✔ Restrictions in Import Country	✔ Payment Terms
✔ Product Supply	✔ Special Documents
✔ Deadlines	✔ Transit Insurance
✔ Packaging & Packing	✔ Credit Insurance
✔ Incoterms® to be used	✔ Marine Insurance
✔ Terms of Delivery	✔ Cost Analysis

The next step is to do a thorough analysis of the company's strengths and weaknesses (a SWOT analysis) to help identify real exporting opportunities and the next steps that should be taken. A good description and a checklist of a SWOT that can assist business can be accessed on the website: http://www.exporthelp.co.za/modules/6_swot/intro.html

The answers to these questions provide an important starting-point to filling in any gaps in knowledge, getting professional advice and overcoming any weaknesses in a company. Gaining a clear understanding of strengths, weaknesses and development plans will also enable a clear response to questions from prospective clients and customers.

These questions are likely to be asked as part of the assessment of the business and its capabilities. Having a KwaZulu-Natal/South African market is not an absolute prerequisite for exporting. Some products are specifically designed for certain types of markets, or those markets that provide much greater demand than that available in KwaZulu-Natal or South Africa.

However, testing the product at home can help your exporting efforts. Strong domestic markets often provide the necessary financial base to get into overseas markets and sustain your company until exporting begins to generate profitable income.

Once you've decided to export, you must establish what needs to be achieved and where to start. An export plan assists in staying focused on goals and identifies what activities need to be undertaken to meet those objectives and determines the mechanisms required for reviewing and measuring the progress.

The plan may begin as an informal document or proposal, based on what is required. Setting out clear objectives is helpful when taking formal proposals to a financial institution or possible partner.

8 ESTABLISHING AN EXPORT PLAN

The organisation may already have a business plan for its local operations to expand and focus on exporting. Planning and preparing for exports involves undertaking many hours of research and analysis of intended target markets, setting export objectives, outlining an export marketing strategy, preparing an export budget, outlining an implementation schedule, and presenting and obtaining approval for the export plan.

Expanding a business plan for exporting involves:

- Considering the practical effects of dealing at a distance and across borders (and often time zones, foreign exchange, language, etc);
- Recognising factors that could demand significant changes to products and the way it is prepared and delivered to market;
- Recognising cultural and language factors in dealing with intermediaries, officials, customers or consumers;
- Taking a careful look at the costs of planning, researching and market entry; and
- Assessing the cost of launching and expanding the market once orders are received, and planning for success as much as for hurdles.

8.1. What an Export Plan Covers

There are different interpretations in the export planning process and whilst the structure and headlines might vary slightly, what's important is that there is a carefully thought through plan of action. A formal export plan should cover:

- Defining the business;
- A situation analysis - where the company is now;
- Opportunity analysis - including environmental and competition analysis; and
- A strengths and weaknesses analysis, including past performance, present strategy, resources and capabilities.
- Threat analysis (including an assessment of the competition):
- Risk analysis - identifying risks and solution;
- New objectives and goals;
- Evaluating options - develop tactics;
- Develop a budget and policies;
- Develop an implementation plan; and
- Monitoring and review plan.

8.2. Help with Planning

Trade & Investment KwaZulu-Natal works with other organisations to assist with planning. It offers capacity building programmes that will assist companies in becoming export ready.

There are different programmes developed by Trade & Investment KwaZulu-Natal which encompass the following elements:

Select your markets

Knowing where to begin is sometimes the hardest part of exporting. The starting point is often suggested by the market's knowledge of the product or service, world trends in the industry or the existing market, or your gut feel about likely new markets. The next stage is to test ideas, either informally or formally. Many companies use a combination of formal and informal processes.

Market selection processes

A formal market selection process considers a wide range of political, geographic, economic and other factors. Companies taking this approach may use a matrix in which various factors essential to success are evaluated and ranked. The success factors can be obtained from internet searches, or research by Trade & Investment KwaZulu-Natal and other consultants. As part of its services, Trade & Investment KwaZulu-Natal can advise and provide data on specific markets.

Some aspects of market selection, will require initial outside assistance (such as consultants), while other aspects can only be answered when the market is entered. The process always involves checking and updating information, and learning from experiences.

The market selection process may involve recognising a new market or type of market on the basis of economics and geography and assessing critical market factors such as:

- Market size, demographics, or demand for a product or service;
- Trends, interest in new or innovative products, levels of technology adoption;
- Freight logistics from KwaZulu-Natal; and
- Ease of communications.

It is mandatory to assess the regulatory or legal requirements and how they relate to international practice or South African corporate governance practices.South Africa is a signatory to the OECD (Convention on the Organisation for Economic Co-operation and Development), Anti-Bribery convention. Particular focus and attention must be given to compliance with South African anti-bribery laws when doing business beyond borders, especially in countries where corruption is perceived to be rife.

Comparing cultural and business factors, such as business and trade practices, language, and access to key people, for decision making is important.

8.3. Collect information

As explained, exporting is an information-intensive activity. From the outset a product or service need to be understood. Information required:

- Your chosen country and market;
- Relevant regulations in the market;
- Entry requirements;
- Product liability in the market;
- Freight considerations;
- Export documentation required;
- Obtaining finance for export;
- Remuneration for exported products or services;
- Common terms of sale; and
- Any risk considerations.

This section covers how to obtain this information, and includes some common exporting terms. Freight and finance considerations are covered in the next step. Trade & Investment KwaZulu-Natal provides a wide range of free practical information about KwaZulu-Natal's key export markets.

Trade & Investment KwaZulu-Natal can assist as far as possible to access data for exporters however; some information will only be available from the market.

9 MARKET RESEARCH USING THE INTERNET

The internet is becoming increasingly useful for export-related information, such as seeing how products and services are being promoted offshore. It is a good idea to learn to identify and store useful sites for a particular product, country or market of interest. Some sites have useful links to other related sites that may be difficult to locate any other way, visit these sites to acquire market information: www.euromonitor.com, www.mbendi.co.za.

However, it does not pay to assume that everything on the Internet is accurate or up-to-date. Some companies or individuals will search the Internet for a fee. They will also have access to databases that are otherwise hard to find, or that would involve multiple subscriptions beyond a budget. Many libraries also provide online information and help with searches.

If a specific market is targeted, then it is wise to use the search engine page specifically for that market rather than a generic one. For example, use http://www.google.com.au/ for the Australian market, or www.yahoo.co.uk for the United Kingdom market. This will ensure that the search results are more relevant.

9.1. Online Business Directories

Look for online business directories for target markets.

United States

Yellow Book

www.yellowbook.com

Yellow Book USA is the fifth largest publisher of Yellow Pages in the United States. It is a member of the Yell Group, an international directories business.

Super Pages

http://yellowpages.superpages.com

Search by category, business name, city, and state. A nationwide search can also be done.

Switchboard Yellow Pages

www.switchboard.com

Search by business name or category, although the categories are relatively limited.

United Kingdom

Yell.com

www.yell.com

A member of the Yell Group, an international directories business.

BusinessFinder

www.businesslinx.co.uk

A directory for small to medium-sized businesses and includes a detailed list of business categories.

Europe

Europages

www.europages.net

Allows searching by company name, product or service, or business sector. Can narrow searches by country.

It does not pay to assume that everything on the Internet is accurate or up-to-date

Middle East

AME Info Business Directory

www.ameinfo.com/db/

Allows searching and browsing of database containing 299 593 companies, which are indexed according to the North American Classification System.

Japan

Japan Telephone Directory

http://english.itp.ne.jp/

In English. Search by business name, region or category.

Worldwide

Kellysearch

www.kellysearch.com

Allows for searches by product, service and company information on over 2 million companies worldwide. Can also browse directory by industry sector.

Search Engine Guide - business search engines

www.searchengineguide.com/pages/Business/

Provides links to search engines, portals, and directories arranged by industry.

9.2. Country and market information

Information about export markets is widely available through databases accessed through the Internet which is increasingly offering a good source of initial information. Government agencies in some countries use the Internet as a main vehicle for publishing information on functions, services and compliance requirements, as well as procedures for registration.

South Africa has embassies & consulates in many of the target markets which may be viewed at: www.dfa.gov.za/webmissions/index.html

Other web sites offer databases for checking current events, general market information and trends on specific products. Yellow and White Pages provide directories and professional listings.

Through subscription to highly reputable research sites, Trade & Investment KwaZulu-Natal is able to provide Country Briefs which provide a snapshot of different country's export markets.

Consider the following when exporting a product:

- What products are already on the market and how do people obtain them;
- Who provides them, and are they imported;
- Is there any local manufacturer or provider;
- What are the key brands or trade names;
- What is the market's structure and shape;
- What is the market's size;
- Are there any niche markets, and if so how big are they;
- Who are the major importers/stockists/distributors/agencies or suppliers;
- What are the other ways to obtain sales or representation;
- What are the prices or fees in different parts of the market;
- What are the mark-ups at different distribution levels;
- What are the import regulations, duties or taxes, including compliance and professional registrations if these apply;
- How is the product or service promoted if there are many players;
- Are there any significant trade fairs, professional gatherings or other events that indicate how this product or service is most often promoted; and
- What else is important about this particular product or service?

10 POTENTIAL BARRIERS TO EXPORT

10.1. Understanding Regulations

Overseas regulations which are paramount in understanding and relevance to South African exporters:

- Import duties, sales and other taxes;
- Sanitary and health requirements;
- Standards, testing or other forms of certification; and
- Labelling and packaging.

This information will often only be available in the market and may not always be clear or applied in a straight-forward manner. First check the general rules to discover any impediments to exporting goods or services to the target market. The second step is to confirm that the product or service meets individual regulations, such as registration or labelling.

Tariff and non-tariff barriers such as technical barriers to trade may impede getting a product to market. Non-tariff barriers may include registration, standards and quality requirements mentioned above, all of which can be costly. Ensure research is conducted into any possible barriers and have finances and resources available to overcome these.

10.2. Entry Requirements

All regulations applying to a product should be strictly followed to avoid shipment delays or expensive penalty and storage charges. However, most countries have a barrage of confusing, and often conflicting, legislation affecting the importation of foreign products. It is especially complex where there are different regulations at national, state and local levels.

Your importer or agent, can provide information on legal requirements for importing into different countries such as standards, related technical requirements for products, etc. Trade & Investment KwaZulu-Natal can also assist in sourcing the information on your behalf.

10.3. Import barriers

A product may be restricted, or even banned, from entry into some markets. Trade & Investment KwaZulu-Natal may be able to assist with a regulations check to establish whether a product or service will comply with market entry regulations and standards through accessing the dti Foreign Economic Representative (or dti marketing officer) in the respective markets intended.

10.4. Tariffs and duties

Tariffs are a system of customs duties payable on imported goods. The rates can vary widely according to product category and country of origin. As a result, tariffs can affect a product's competitiveness against domestic suppliers and imports from other countries. This must be considered when calculating a selling price.

Trade & Investment KwaZulu-Natal can assist in identifying the Harmonised System (HS) of tariff numbers and descriptions for specific markets for products and in verifying the actual duty the product attracts in the market.

View the South African tariff schedule to obtain these HS numbers at: www.sars.gov.za.

10.5. Import Quotas

Import quotas apply when countries restrict imports by fixing the quantity of certain imported goods for a set period, or fix the expenditure of foreign exchange. Quotas are more selective than tariffs and can be adjusted more frequently. They effectively limits the market share available to outside suppliers. In some countries, licences are also required for specific orders and shipments. Each country has its own requirements and should be investigated per product.

10.6. Currency Restrictions

Many countries control foreign exchange expenditure for imported goods and services. These restrictions are usually selective, and are used to influence the import of particular products and their country of origin.

10.7. Taxation

Internal taxes, such as sales, value-added and luxury-goods taxes, can seriously affect the product's pricing and its market prospects. In some countries, taxes discriminate against imported goods. In some large markets such as the United States of America, sales tax varies between states. Talk to an expert in the market before setting prices.

10.8. Health Regulations

Most countries impose health regulations on imported products, especially on food and agricultural products. Ensure that products comply with all relevant regulations or international standards. It is also in KwaZulu-Natal's interest as a major exporter of food and agricultural products that goods maintain high quality standards and meet the legal requirements of markets.

10.9. Safety Regulations

Safety regulations apply particularly to marine products, domestic appliances and electrical equipment. This may even affect seemingly harmless products, such as children's soft toys. All regulations applying to the product's safety should be strictly adhered to. Failure to comply can prevent the product from being imported, or, if someone is injured, result in expensive penalty payments. For non-English-speaking countries, safety warnings may need to be translated and included with product packaging.

10.10. Packaging

Early consideration of packaging regulations in the export market is needed. Different markets have different requirements – different materials or sizes may be needed for each market to which you export. Packaging regulations may control:

- The composition and use of different packaging materials;
- Size and construction;
- Reusable or disposable packaging;
- Packaging of hazardous materials or perishables;
- Labelling and marking; and
- Certain countries require fumigation for wooden packaging and pellets.

10.11. Labelling

Retail goods are usually subject to labelling regulations designed to protect consumers by providing essential information on the product. Labelling regulations are particularly stringent for foodstuffs. Clothing and furnishing products usually need to carry care labelling, descriptions of the materials used and if the product should be washed or dry cleaned. Clothing may need to show country of origin labelling. Fabrics may also require flammability labelling.

Depending on the product, display information on your packaging may be required. Food products, for instance, may require:

- Product name;
- Form, such as smoked or frozen;
- Coding of additives, colourings and flavour enhancers;
- Name and address of importer;
- Country of origin, and name and address of manufacturer;
- Date of manufacture, or date by which product must be consumed;
- Storage requirements;
- Ingredients in order of relative importance, often by weight;
- Instructions for preparation or use, particularly any precautions required;
- Net weight shown in measurements used by the importing country;
- Translation of information in the required language of the importing country; and
- Sell-by dates and batch details are usually required on packaged foods.

This information must be accurate and conform to the importing country's current regulations.

10.12. Marking

Marking regulations apply to transport containers and vary from country to country. Freight forwarders, shipping companies or airlines can advise on current requirements. These may include:

- Marking gross and/or net weight or volumetric measure;
- Serial and invoice numbers;
- Container dimensions;
- Name and address of importer;
- Transit instructions;
- Country of origin;
- Handling instructions shown in internationally accepted symbols or words;
- Any translations into the language of handling or importing countries; and
- Dangerous goods labelling.

All required labelling and marking should be clear and durable.

10.13. Bar Codes

Bar-coding or product numbering is essential in many markets. This is driven by the increasing use of electronic identification for goods in transit or in store. It provides a unique identifying number for every product unit, so every variation in colour, size and pack has a separate number. This provides a common stock-handling method for manufacturers, wholesalers and retailers.

Bar-coding is often directly related to an ordering and inventory control system, and is increasingly a prerequisite to products being considered by major buying organisations

> Depending on the product, display information on your packaging may be required.

and end-users. Already widely applied by supermarkets, bar-coding is also being extended to industrial use.

The bar-coding is processed through the GS1 South Africa (an entity operating under the Consumer Goods Council of South Africa). For more information on the steps to getting a bar-code, you can visit their website http://www.gs1za.org/.

10.14. Product Liability

Some countries have product liability legislation which makes manufacturers, distributors and/or retailers legally responsible for the safety of the products made or sold. KwaZulu-Natal exporters can be liable for any injury or damage overseas caused by defective products that have been manufactured.

Product liability settlements can be expensive, particularly in the United States where million-dollar settlements are not unusual. Wherever possible make sure you have appropriate insurance, remembering that this is another cost must be included in your pricing. Assess the risk of liability and discuss it with potential distributors in markets with a high threat of prosecution.

Exporters should also seek legal advice on particular situations, and how to best gain cover against legal action. The first course of protection, and often a condition of acceptance by importers and a criterion for insurance cover, is ensuring that:

- Products meet specifications;
- Warnings are placed on packaging; and
- Instructions for use are clear, especially if there is any possibility of danger from accidental or deliberate misuse or failure.

11 INTELLECTUAL PROPERTY

Intellectual property (IP) is the term used to describe non-tangible assets that are transferable or saleable as property. Intellectual property is one of the most valuable assets for a business. It can take the form of a unique design, formula, invention, process or system. Intellectual property often provides the leverage needed for companies to successfully stay ahead of the competition. In other words, it can be your company's unique competitive advantage. That makes protecting IP essential.

There are a number of different types of IP protection, including:

- Patents for inventions, or improvements on existing products and processes;
- Trade marks can be applied to a variety of things, such as words, symbols, pictures, sounds and smells that are used to distinguish the goods and services of one trader from those of another;
- Trade marks can either be registered or established through common law;
- Registered designs for the shape or appearance of manufactured goods, such as the Coca-Cola bottle;
- Copyright for original material in literary, artistic, dramatic or musical works, films, broadcasts, multimedia and computer programs;
- Circuit layout rights for the three-dimensional configuration of electronic circuits in integrated circuit products or layout designs; and
- Confidentiality and trade secrets, including know-how and other confidential or proprietary information.

Intellectual property often provides the leverage needed for companies to successfully stay ahead of the competition.

11.1. Protecting Your Intellectual Property

Formal steps must be taken to register IP in export markets and to obtain the legal rights that come with ownership. If IP is not registered, companies must revert to common law. The proof of ownership falls on the claimant to claim ownership and demonstrable prior use for non-registered IP.

Different IP protection mechanisms vary in the types and extent of protection provided. Often, more than one type may be necessary to fully protect the creation. Registering the IP is the simplest way to protect rights. However, registration in one country does not offer international protection. This must be applied for separately within each country of export, as there are currently no international patents.

Because of the territorial nature of most intellectual property rights, a product or service being offered into an overseas country may infringe an intellectual property right in that country. This may not be apparent from a search that only includes intellectual property rights in South Africa.

For this reason, advice should be sought from an intellectual property specialist before exporting.

12 FREIGHT, DOCUMENTATION AND FINANCE

A good understanding of freight and delivery options is needed to price goods accurately and get them to market cost-effectively. An understanding of the services provided by freight forwarders, customs brokers, transport companies, couriers, air express companies, airlines, shipping companies and others in the freight industry is required.

The chosen delivery method, termed as an Incoterm, will depend on the type and value of the product, the urgency of the order, and level of market development. Large shipments and most bulk exports still travel by sea, but some products are now leaving KwaZulu-Natal by air. This trend is accelerating as the export of more fresh or chilled, value-added and specialised products are done.

Freight arrangements need to take account of manufacturing and purchasing which is increasingly done ‘just in time’. There is also growing demand for quick delivery of specialised products, spare parts and replacements. Airlines, couriers, air express and air freight consolidators are all responding to this trend of fast delivery from KwaZulu-Natal to our major export markets. Freight forwarders and air express companies provide a wide range of services, allowing exporters to offer door-to-door delivery and minimum delivery periods. These include overnight services to most EU centres.

Warehousing and other distribution services from major international hubs are being offered. Some common freight terms are provided below. More information on the terms most often used in quoting and payment is provided further in this section under Getting Paid and Terms of sale.

12.1. Export Documentation

Extensive export transaction documentation is required. It sets out how export controls are applied, such as health regulations, packaging requirements and conditions of carriage facilitates payment through international banking channels, and provides statistical information for exporting and importing countries

The contract between buyer and seller sets out the terms of the export shipment. These include prices, specifications of goods, packing, and conditions of carriage, dates of shipment and payment arrangements. All details must be carefully recorded and checked, as included on other documentation. Any defects in documentation, such as omissions or conflicting information, will inevitably cause delays.

These can put payment at risk, incur additional and unnecessary expense, and ultimately damage the exporter's reputation. Electronic documentation and reporting procedures are becoming more common. However, even if documents are transmitted electronically, hard copies and paper files are still important for legal and tax purposes when moving products across borders.

Freight forwarders, freight consultants and banks can explain documentation requirements. The most common documents for export transactions are listed below.

Every country has its own requirements, but a number of documents are commonly used in the export process:

12.1.1. Proforma Invoice

A Proforma Invoice is a Quote and, upon acceptance, may also be used as a contract of sale. A number of countries in Africa utilise the Proforma as a request for foreign exchange at their bank which in turn is used by Inspectorate Companies to issue a specific order number for inspection of goods prior to export.

A Proforma invoice is usually used by buyers and importers to set out the terms with their bankers to prepare a Letter of Credit in the seller's (exporter's) favour and is usually regarded as a payment instrument.

12.1.2. Commercial Invoice

Known as a demand for payment, however, it is used extensively for the purposes of Customs & Excise procedures and its detail has two considerations. There are many demands laid down by the laws of the countries of origin or destination. These laws may specify the wording to be used and how values are to be expressed or broken down. Both these factors are particularly important when calculating values for duty purposes.

A Commercial invoice is used mainly as part of the transport documentation for Customs purposes. This document MUST accompany the goods and is lodged at the different Customs entry and exit Border Control Posts while in transit. In a number of instances the Commercial Invoice is also used as a declaration by the exporter to Customs to verify the contents of crates, etc. and can also be combined as a “Packing List”.

Often exporters may need to prepare different sets or layouts of the commercial invoice as these may be used for local customs, customs in the export market where transport cost may need to be divided for duty purpose, Inspectorate Companies that may require specific information, Consular invoices that may require currency data and for bank documentation to draw on a Letter of Credit

12.1.3. Bill of Lading (B/L)

This is issued by or for the shipping company and serves as a receipt for goods uplifted for shipment. It is also a contract of carriage and a legal document of title. On delivery of the goods the consignee is required to surrender a negotiable copy of the Bill of Lading to take possession.

The Bill of Lading is now used less frequently in international trade due to extensive containerisation and multi-mode transport, such as land/sea, used under one contract of carriage. Variations of these documents are a marine Bill of Lading, a combined transport document, or House Bill of Lading.

12.1.4. Airway Bill (AWB)

The AWB is equivalent to a Bill of Lading for goods sent by air. In addition, courier companies often have their own documentation, unique to that transaction, which travels with the goods.

12.1.5. Certificate of Origin

The origin of goods has a direct bearing on the rate of customs duty. Certification of origin may be incorporated in the commercial invoice, but a separate document, issued or countersigned by the Chamber of Commerce in the country of origin may often be necessary.

South Africa has entered a number of trade agreements with its main trading partners and subsequently offers duty preferences to the majority of South African exported products, a special Certificate of Origin is available upon registration from local customs offices that is required to be completed by the exporter or its agent. It demonstrates the South African content if a Company is claiming any duty preferences on entry into some markets, or avoiding penalties in others.

12.1.6. Export Entry

Information required on the entry includes description of goods and:

- HS tariff item number;
- HS description;

- Statistical quantity where required number and kind of packages;
- R/$/€ FOB value & total transaction value;
- Gross weight;
- Travelling by ship/aircraft, and ship name or flight number; and
- UCR a unique number required to track payments.

If the exported goods contain imported goods upon which duty has been paid, or are excisable goods upon which excise duty has been paid, drawback of duty may be claimed. Clearing and forwarding agents assist exporters in identifying specific drawbacks and assist in acquiring the required documentation to customs for claims.

12.1.7. Cargo Insurance

Export goods should be well covered by insurance. The insurance document must comply with the terms of delivery and in most cases is required to comply with a letter of credit clause. The insurance coverage of goods being shipped without a Letter of Credit is determined by the terms of delivery (Incoterms®) between buyer and seller.

Exporters may often have an insurable interest long after the goods have left, while buyers could be 'on risk' before the goods are actually received. The terms of cover are usually laid down in the sale contract or letter of credit. Three common categories have been developed by the Institute of London Underwriters.

These 'Institute Clauses' are used internationally. Free of particular average (FPA) is restricted cover, and is basically confined to total losses from marine perils of a package during loading, transshipment or discharge. Claims for partial loss or damage cannot be recovered unless the vessel is stranded, sunk, burnt or in collision.

With Average (WA) Cover extends the FPA clause to include partial loss arising from heavy weather and sea-water damage. All risks (AR) cover all risks of loss or damage. However, it excludes loss or damage arising from delay, inherent vice or the nature of the goods insured. Events such as goods lost because of inadequate packaging, weight loss from drying out or market loss are not covered by this clause.

Marine Open Cover guarantees cover up to a specified amount for all goods. Exporters must provide details of each shipment made. However, if the declaration is delayed or lost, continuity of cover is guaranteed even after a claim has been made. Marine open cover is generally open-ended with no expiry date.

12.2. Obtaining Export Finance

Exporting can put considerable financial strain on a business. The business may simply not have the financial resources required for export, or insufficient funds to move into some markets as quickly as desired. A sound financial base becomes even more critical if products are being specifically developed for a market, or where it involves prototype development and testing. Technology-based companies, service providers and consultants can also experience problems with finance, either at start-up stage or when exporting.

Companies may, at some stage, have to consider investment or equity arrangements in order to implement an export plan. It is important to get financial planning advice as early as possible to minimise any cash flow and capital difficulties in the future. The following list explains some financial terms commonly used in the export process.

12.2.1. Bank Financing

Banks provide finance for short and long-term exporting plans. Credit-worthiness, a satisfactory cash flow and security are essential for any borrowers. However, bankers will also look at an exporter's prospective market, marketing and exporting plans.

12.2.2. Bank Overdraft

Overdrafts are useful for short periods. As pre-shipment finance, a bank overdraft can assist with purchasing raw materials or processing. As post-shipment finance, it can assist in maintaining a production programme until payment is received.

12.2.3. Term Loans

Term Loans are usually used for financing capital investment projects, such as setting up a new plant. Terms are six months to five years, and repayment is usually spread over the period of the loan.

12.2.4. Foreign Direct Investment

Foreign Direct Investment (FDI) occurs when an overseas investor directly funds or finances a South African owned or based facility or company. It is often directed into new export development involving manufacturing or export of services.

FDI can involve buying shares in existing companies, or creating new companies that may be directly owned from overseas principles, or formed as joint ventures with KwaZulu-Natal or by other overseas-based interests. FDI should bring benefits to both the KwaZulu-Natal and overseas parties.

12.2.5. Venture Capital

Venture capital involves investments in 'riskier' ventures. It often includes starting up or expanding products or services that have not been fully developed, or are unproven in the market. When the investment is seen as too risky for conventional investors, it demands a higher rate of return. In some cases, the return on investment is in the form of high interest on loans. In other cases, the venture capitalist intends to sell shares in the company at a higher-than-usual price when the company starts to succeed.

12.2.6. Investors

An investor is an independent person, usually an individual, who invests in someone else's company. The investment usually occurs when an idea or product is being developed or commercialised, or when the company is growing.

Investors often have special interests and can add a personal skill to the company's particular requirements. Investors work closely with the company owners and sometimes take an equity share during association. However, they usually do not seek a long-term ownership or association, but aim to help grow the company as a way of increasing its investment. Investors usually seek to sell their share once the product or service or company starts to mature.

Investors find these companies and ideas in different ways - not always through conventional, financial or other professional channels but through business networking opportunities.

12.2.7. Transferable L/C for Traders

Most local banks offer finance based on their confirming a Letter of Credit and offering promissory notes to various suppliers of goods in the exporters favour in order to acquire goods for shipment, and guarantees the freight company payment when the LC matures. This manner of financing is becoming a popular option with Trading Houses as there is very little or no cash outlay and the minimum.

12.2.8. Back to Back L/C

This type of transferable Letter of Credit allows for the exporter to issue a Letter of Credit through their bankers to a local or foreign supplier of goods as payment for goods stipulated in the original Letter of Credit. As with Transferable Letters of Credit, this manner of financing is becoming a popular option with Trading Houses as there is very little or no cash outlay and the minimum.

13 | PAYMENT METHODS

How an organisation is paid for export consignments will vary depending on the market, the relationship with customers and the type of exporting. Payment terms are negotiated between the willing buyer and exporter, depending on the sector and preferred methods. Basis for payment needs to be established in advance. Bear in mind that typical terms of payment offshore are deferred days from "Sight" Letters of Credit and 60 or 90 days open account. This will have implications for cash flow, as it could mean up to three months elapses between shipping and payment. It is helpful to have a sound sales base to help cushion any delays.

13.1. Payment in Advance

Payment in Advance is obviously highly desirable, but it is unusual. It generally occurs when there is a high level of perceived payment risk, and perishable or specialised one-off products are being exported.

13.2. On Consignment

On consignment is generally limited to affiliated companies or relationships with a firm, mutual trust. The exporter ships the goods directly to the buyer, arranging for payment to be made when the buyer receives or sells the goods. In effect, the seller extends credit to the buyer. This is an attractive proposition for the buyer, but it can strain the

It is helpful to have a sound sales base to help cushion any delays.

seller's financial resources. Selling on consignment is a high-risk method for the exporter, as control of the goods is lost on consignment and it is hard to enforce payment if the importer defaults.

Popularly used between related parties where the one party can exercise 'significant/insignificant/substantial/insubstantial influence' over another party in making financial and operating decisions or can exercise control or joint control over the other party.

13.3. Sight Drafts

Exporters send the bill of exchange, with relevant shipping documents, through the company's bank to the buyer's bank. Buyers pay the bill of exchange on presentation by the bank, in other words 'on sight', which allows for the receiving of the necessary documentation and upliftment the goods on arrival.

There is an element of risk in this method. If the bill is not paid on presentation, goods can remain at the overseas port incurring warehousing and insurance costs.

13.4. Term Drafts

Exporters wanting to extend credit can arrange for documents to be released to the buyer on acceptance of the draft or bill, similar to a deferred or post-dated cheque. The buyer signs the document as a promise to pay by the nominated time, such as 30, 60 or 90 days. Exporters can sell or discount the draft or bill to their bank.

13.5. Discounting of Export Bills

Discounting is a useful service provided by banks. It is widely used by exporters as a way of obtaining payment for exported goods. So that exporters are not disadvantaged by having to wait for payment, they can sell or 'discount' the draft or bill to the bank, which collects the payment when it falls due. Some fees will apply. The exporter is still responsible for non-payment if the buyer defaults.

13.6. Letter of Credit

Export Letters of Credit for payment are commonly used. They give a high degree of security, especially when the exporter and the customer have not yet built up a strong relationship. The overseas buyer arranges with the bank for a Letters of Credit in favour of the exporter. The buyer gives the bank details of the transaction and the goods, all required documents, the amount to be paid, and the credit's expiry date.

The bank then notifies the exporter's bank in KwaZulu-Natal of the terms and conditions. These details are passed onto the exporter, who should examine these carefully to check for compliance.

Any doubts about the terms and conditions should be negotiated with the buyer at this stage, either directly or through the banks. These changes are then recorded with an official Letters of Credit amendment. The exporter can have additional protection by asking the bank to confirm the credit for a small fee. This joins the local bank in the issuing bank's undertaking to honour drafts drawn in terms of the letter of credit.

According to the UCP 600 Rules for L/C, all letters of credit are irrevocable, which means they cannot be amended or cancelled without the agreement of all parties. After shipment, the exporter presents the draft and documents to the bank. The bank checks that the terms and conditions have been complied with, and that there are no discrepancies, and then negotiates the draft and obtains reimbursement from the overseas bank.

13.7. Factoring

Factoring involves arranging payment for transactions by a third party ahead of when payment might otherwise become due, or where there is some potential risk or difficulty in getting payment. It is widely used in markets with little foreign reserves and Middle Eastern markets as a way of financing sales. It mirrors discounting, but is most often offered through specialists working independently or sometimes in association with banks. Factoring can be useful as an alternative way of improving cash flow or meeting order requirements.

13.8. Payment Options

Common Payment Options for new exporters are bank transfers, local foreign accounts, and offshore foreign accounts. Bank transfers involve the buyer transferring money directly into an account. This involves foreign exchange risk at the time of transaction.

Banks offer exporters a local foreign currency account operated in a specific foreign currency. This will transfer the foreign exchange risk to the time when funds are being withdrawn from an account.

Where exporters establish a bank account with an offshore bank, payment can be received in local currency. This transfers the foreign exchange risk to the time when funds are brought back to KwaZulu-Natal. Consult a bank and a tax advisor about the implications of the local foreign exchange act of any payment arrangement.

13.9. Credit Card Payment

Credit Card Payments can only occur if the exporter has a merchant agreement with an international credit card company. Many purchases relating to mail order or other forms of distance selling depend on customers providing a valid credit card number.

14 | TERMS OF SALE

The most common International Commercial Terms (Incoterms®) are:

Ex Works at the named place of delivery ***(EXW)***

The buyer is responsible for arranging and ensuring the entire transit from place of sale to final destination. The exporter risk ends at the factory or warehouse gate. Note that VAT must be charged at standard rate.

Free Carrier at the named place of delivery ***(FCA)*** used for multi-modal transportation.

The buyer is responsible for arranging the main carriage to final destination. The exporter risk ends when the goods are loaded onto the buyer's first carrier. Note that VAT must be charged at standard rate for overland transportation of goods.

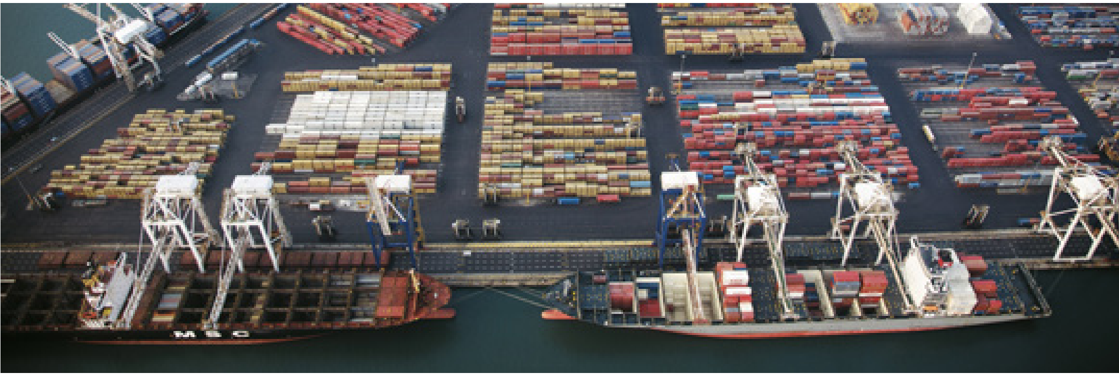
Free on board at the named port of shipment ***(FOB)*** used in seafreight transport only.

The buyer is responsible for freight and insurance once placed "on board" the vessel from the port of loading to delivery at the final destination. The seller is responsible for insurance and transport to the port of loading, and export documents up until that point, and the exporter's risk ends once the cargo is placed on board the vessel.

Other terms such as ***FAS, CFR*** & ***CIF*** used for seafreight, and ***CPT, CIP, DAT, DAP*** & ***DDP*** used for multi-model transport, are briefly explained at the back of this manual under Glossary of Common Trade Terms.

A full list of commonly used terms and their definitions and interpretation are contained in the 'Guide to Incoterms®', published by the International Chamber of Commerce and available from the local Chamber of Commerce at http://www.iccwbo.org/policy/trade.

15 RISK



It is important to consider the many types of risk when planning for export. The exposure to risk will depend on the market and product or service. Some risks, such as freight and country risk, are covered by insurance. They can also be insured against product and professional liability, and product recall or tampering. Banks or specialist brokers can advise on foreign exchange risk.

Contingency planning is another important aspect of risk management. It helps prepare for situations out of the company's control.

15.1. Foreign Exchange Risk

The South African Rand (ZAR) has a wide range against key trading currencies in any given year. Exporters need to consider the impact of what an adverse currency rate change would be on profit margins. Exporters should consider foreign exchange risk early in ventures and ask the bank about the appropriate tools to minimise this risk. Foreign exchange risk can be managed in several ways. These include:

- Borrowing and selling in the same foreign currency;
- Maintaining foreign-currency accounts; and
- Offsetting component import costs with export receipts in the same foreign currency.

A foreign exchange advisor should be consulted to discuss all the available options.

The exposure to risk will depend on the market and product or service.

The risks of trading with a floating exchange rate can be avoided by covering foreign exchange transactions. With proper management, exporting with a floating exchange rate should be no more risky than any other normal commercial undertaking.

Covering foreign exchange risk enables a company to plan and develop its trade with a high degree of certainty. Again, this should be discussed with a foreign exchange advisor. Exporters wishing to minimise exposure in overseas markets should get professional advice from their bankers on how the foreign market operates.

15.1.1. Spot Market

Very short-term foreign exchange transactions are made on the spot market, and usually occur where foreign exchange is required for delivery immediately or in one or two days' time. Costs vary, but are higher for bank notes and smaller transactions than for larger deals. Costs are mainly reflected in the 'spread' or difference between the dealer's buying and selling prices. Spreads fluctuate according to expectations of economic and political conditions and daily market conditions.

15.1.2. Forward Contract

Forward Contracts are the most useful way for exporters to cover foreign exchange risks. A Forward Contract between dealer and client is an agreement to buy or sell foreign exchange at some future date at a rate specified in the contract. Exchange rate movements during the term of the contract do not affect the Contract rate. Forward Contracts are generally available for up to 12 months.

15.2. Payment Risk

15.2.1. Not getting paid

All businesses should prepare for the risk of not getting paid. This means assessing the market and the contract, and making appropriate credit and other checks. Payment arrangements will depend on what is most usual for the particular market and on advice from a bank. The experience of doing business in the market and the type of transaction or contract will also determine the options and appropriate terms of supply.

15.2.2. Credit insurance

Credit insurance is available for most markets, and for supply to major or known clients in these markets. Check Credit Guarantee website for more details at: www.creditguarantee.co.za.

Risk can be managed by:

- Considering risk factors when selecting export markets;
- Doing thorough checking on potential partners, including credit reports;
- Getting expert banking advice; and
- Getting advice from compliance and regulatory experts.

15.3. Operational Risk

15.3.1. Product recall and other contingency planning

Considerable loss can result from a costly product recall due to a production or quality failure that could not have been foreseen or prevented. In some instances, tampering may lead to a recall.

Costs are incurred not only at the time the product is first recalled and needs to be replaced. It is also a result of the longer-term loss of market and the need to overcome negative publicity. Companies exposed to this or other risk require contingency measures. Insurance conditions should be discussed with an insurer or broker.

15.3.2. Packing and stowing

Packing of goods for exports involves careful consideration of the method of carriage and, in particular, the weight ratio of goods stacked upon each other. Goods being transported by sea are usually packed into containers and are either packed loose or on pallets. When the weight ratio of the top pallets starts to add pressure the lower pallets, goods are most likely to be damaged to some extent by the end of the voyage, especially in rough sea conditions.

Exporters should get advice or even contract the packing and stowing of goods into containers by logistic companies and forwarding agents who specialise in packing and stowing containers.

Exporters should be aware of local product recall procedures, ensuring a quick response to any issues that arise.

16 | MARKET RESEARCH

Visiting a potential market is part of export planning. Good planning is essential to get maximum benefit for the amount of time, energy and money invested. Trade & Investment KwaZulu-Natal can provide useful country briefs which will assist in research. Trade & Investment KwaZulu-Natal may be able to assist businesses capable of internationalising with identifying potential business partners and setting up in-market appointments. It is also extremely important to inform the South African Embassy/Consulate in the respective country being visited – Trade & Investment KwaZulu-Natal can also assist in informing the Embassy/Consulate on your behalf.

16.1. Carrying Samples

Travelling with samples, demonstration material or prototypes, and in some cases tools or service equipment, can present logistical problems. In general, all samples and specialised equipment need to be declared at customs on entering the export market. In many instances, values and ownership at the border and intention to re-export requires confirmation. A Commercial Invoice & Packing List should accompany samples with values noted as: For Customs Purpose Only.

In some countries, deposits are required for products and equipment. In others, promotional material can attract instant taxes at the border. Check these issues with a freight forwarding agent before leaving KwaZulu-Natal. Issues involved in carrying samples and equipment can often be overcome by using a carnet, which is a type of passport for items you are carrying. Carnets allow you to take whatever is declared in and out of the specified countries without payments or deposits. The carnet system works by agreement between participating countries. In KwaZulu-Natal, the agents and issuers for the carnet are the Chambers of Commerce, take a look at the following websites:

Durban Chamber of Commerce and Industry: www.durbanchamber.co.za
Pietermaritzburg Chamber of Commerce and Industry: www.pcb.org.za
South African Chamber of Commerce and Industry: www.sacci.org.za

16.2. Market Entry

There are a number of options for entering a chosen market. Most exporters initially choose to work through agents or distributors.

Intellectual property considerations are also important at this point, as they relate directly to market entry options, and are often a major contributing factor to market entry costs. The internet provides another option for market entry, and is increasingly used by exporters. However, selling via the Internet should be part of a wider strategy for market entry.

16.3. Representation In-Market

In certain instances a 'middle person', such as an agent or distributor, enables strong market representation and a reliable distribution system that can function at a distance. A number of factors will drive your choice, such as market size, the type of product, and the degree of control you wish to exercise.

You need to build up a positive relationship with your in-market representative to develop a 'win-win' partnership. A critical aspect of agency and distribution arrangements is also the strength of the agreement.

16.3.1. Agent

An agent is employed or contracted by the company, works for company, and is paid by the company, in an agreed manner, generally in relation to sales commissions. The company retains the customers, and is responsible for the costs incurred by the agent. The agent represents the company in-market and must do so to its best advantage. While customer ownership is technically the company's, many well-established agents have their own customer base, and some wholesalers may only buy through a certain agent.

16.3.2. Distributors

A distributor buys products from the exporter and on-sells to their customers. A number of distributors are also regarded as Trading Houses who keep stock in order to deliver goods from their in-market warehouse facilities. Finding a distributor or trading house that offers this option should be set as priority when nominating the distributor.

16.3.3. Choosing an agent or distributor

Selecting the right partner for the company representative in-market is vital to export success. Third-party market research firms can be used in-market to establish the attributes of the company's target market.

The prospective agent or distributor should have a good knowledge of the local market and be confident about the company, the products and chances for success. Retailers could recommend importers or distributors with good reputations for professional services and support.

It is important to ask agents what other product lines they represent. If these are too similar to the company's, there could be a conflict of interest, and the products may suffer at the expense of competitive brands. When appointing a representative it is best to select an expert with an established agency or distribution channel selling to the company's target clients.

16.3.4. Agency & Distribution Agreements

The Agent's Agreement sets out the terms of reference for the agent. It should include territory, market, product range, stock levels, and target sales or performance levels. A Heads Of Agreement should be established between the company and the agent or distributor so that arrangements are clearly understood at the outset. The agreement includes a timeframe, targets, performance measures and termination clauses.

In some countries, agent's and distribution agreements are significant documents, and some standard conditions might apply. Legal advice should be considered before entering into a formal agreement.

16.4. Direct Control of the Market

Exporters are increasingly taking more responsibility for what happens to the products in-market.

Direct mail, mail order and e-business via the Internet also enable more direct control in a market. Delivery can be handled either directly from, or co-ordinated from, KwaZulu-Natal.

Establishing an office overseas is the best choice for control and efficiency. This approach has been taken successfully by some KwaZulu-Natal companies. The office acts as importer and distributor, and provides a convenient point of communication for overseas customers. It can be staffed by those who understand the product, or local staff, and therefore promote your product more effectively.

However, setting up an international office is expensive, and not an immediate possibility for most exporters. Set-up costs include rent, equipment hire or purchase, insurances and staff salaries. Setting up a dedicated sales or marketing office in foreign markets could be costly especially in markets in Angola, United States, Europe and Japan.

16.4.1. Direct marketing

Direct marketing, or distance selling, is a well established sales method in many markets. It is becoming more sophisticated, and is being used more widely in new markets as more people develop either more disposable income or a taste for different products. Direct marketing works best with specialised products, especially niche consumer products targeted at specific buyers in specific markets. Catalogue wholesaling and television infomercials are two examples of direct marketing methods

16.4.2. Special services available to exporters in key markets

Exporters should also consider alternatives to agents and distributors for delivering products in-market. Alternative methods such as contract services enable the company to take more control of the market. In many instances, this is the best way to maintain contact with and service customers, or to meet customer expectations of delivery and after-sales service.

16.5. Contract Services

In some markets you can contract services for:

- Mail-outs of print material;
- Email marketing;
- Importing and warehousing;
- Distribution;
- Direct delivery;
- Invoicing and payment; and
- After-sales service and handling returns.

The services provided by logistics companies and other services are known in some countries as fulfilment centres. They can provide an important means of establishing direct relationships with customers, cutting distribution costs and ensuring prompt delivery. It is worth considering fulfilment centres in markets such as the United States of America, where stock availability is an important factor due to distance and the size of the market. Door to door delivery and COD terms are particularly popular in the USA, Canada & Europe, and at times the only method of acquiring sales in these markets.

16.6. E-business on the Internet

The Internet offers many opportunities to KwaZulu-Natal exporters. Internet technologies can assist local small and medium-sized exporters and transcends the constraints of time, distance, language and currency. It also enables local businesses to collaborate with other businesses and virtual networks, which further reduce time and business size issues. Many exporters already use email, and provide information about the company and products on their web sites.

The next step is e-business, where marketing and sales are conducted over the internet, Transactions and payments are handled online, and supply and distribution systems are managed electronically. E-markets offer online marketplaces where the company can negotiate, buy, sell, distribute and collaborate.

Business to Business (B2B) activity on the Internet is another global trend. It enables exporters to work with importers, distributors, retailers, suppliers and agents electronically, rather than using traditional methods such as fax, phone, and hard copy paperwork. The major drivers of exporting will remain people, intellectual property, products and services. However, it is important for local businesses to understand the extent to which e-business is revolutionising traditional business channels.

16.6.1. E-business Strategy

An e-business strategy is used mainly for marketing, rather than selling. It is not a 'quick win' sales solution. It is important to begin by clearly defining who and where the customers are. Recent growth in social networking sites, namely, Facebook, Twitter, LinkedIn and Skype are used more frequently to communicate on-line with customers and prospective buyers. Research the competitors before going online.

Ask the following three questions:

- Are my customers online;
- Are my competitors online; and
- Does the product lend itself to online sales?

16.7. Intellectual Property

Protecting intellectual property, also known as IP, is an important part of effective exporting. South Africa is a highly integrated market where activities are conducted under the mantle of the Fair Trading Act 1986, and well-established intellectual property laws. An established market position in South Africa may be of advantage internationally when exporting, but it does not provide any freedom from parasitic competition where someone links their products and services on designs and products.

Patent attorneys can help establish and maintain ownership of any intellectual property developed, or seek to exploit it. They can give advice about legal mechanisms for protecting intellectual property in South Africa and in international markets. Getting the right mix and timing depends on the type of product or idea and the plans for its commercialisation, marketing and distribution.

The dti has a subsidy scheme within its individual offerings under the EMIA Scheme, whereby a subsidy of 50% of these international patent and registration costs of up to R150 000 are offered and can be found on the dti website: www.thedti.gov.za.

16.7.1. Patents

Patents can provide an enforceable monopoly for 20 years to any person or company to exploit new and innovative products and process. It is essential that the patent attorney establish a priority date prior to any disclosure, use or commercial dealing with the innovation. The priority date is the date that a patent application is registered as filed with the Intellectual Property organisation in a market.

16.7.2. Registered design

Registered designs can provide an enforceable monopoly for a period for certain new or original features of design, such as shape, configuration, pattern or ornament embodied in an article. The monopoly period in KwaZulu-Natal is 15 years.

It is essential that the patent attorney establish a priority date prior to any disclosure, use or commercial dealing with the innovation.

16.7.3. Copyright

Copyright gives rights to the creators of original works, including those of literature, drama, music, recordings and computer programs. It also covers art, such as models and working drawings. Copyright, which is noted by the symbol ©, allows the creators to control exploitation, and is granted automatically. In most countries it does not require formal registration.

16.7.4. Registered trademark

A trademark is an identification symbol used to distinguish one company's products from similar products made by others. It is noted with the symbol ® or ™.

The ™ symbol may be used when trademark rights are claimed in relation to a mark, but the mark has not been registered with the government trademarks office of a particular country or jurisdiction, while the ® is used to indicate that the mark has been so registered. It is not mandatory to use either symbol, although the force of convention is such that the symbols are widely used around the world.

It is not necessary to register a trademark, although this confers a statutory monopoly. Registration can be renewed indefinitely after the initial registration period. It is generally unlawful to use the ® symbol with a mark when that mark is not registered. Once a decision is made to target major markets, a company cannot rely on the South African trademark protection.

Ensure that trade marks are available for use and, if possible, for registration in other markets. One disadvantage of the Internet is that it is possible for someone to register a domain name in markets where the right to use the trademark may be owned by another party. If a company has a distinctive brand name or trademark, then registering the relevant domain names should be considered.

If products are being sold over the internet and the trademarks are already in use in the target markets, this can cause trademark problems. It is essential that a company consults a patent attorney for specific advice on this matter.

16.7.5. Confidentiality

Confidentiality conditions enable one company to disclose confidential information to another while protecting ownership and use. These are best established in writing. In some cases, companies are reluctant to receive information under obligations of confidentiality in case the external information overlaps with their own development work. If they commercialise based on their own work, and confusion arises as to the origin of the intellectual property, this could lead to legal action.

Other ways to ensure partial continued control of intellectual property when exporting include:

- Continuous rapid improvement which keeps a company ahead of the field;
- Maintaining low operating costs to create a price advantage;
- Targeting niche markets;
- Maintaining product design and quality ahead of likely imitators;
- Marketing and branding which competitors need time to emulate;
- Maintaining secrecy about the process or formula; and
- Providing a service valued by customers so they remain loyal.

Developing these traits is an important part of an export plan, as just owning a patent or trade name does not automatically guarantee success. The way in which intellectual property is used as an umbrella for commercial or licensing activities usually determines success or failure.

16.8. Technology and Innovation

Innovative technology plays a major role in many of KwaZulu-Natal’s new exports. Technology-based products or services may need special entry techniques, delivery and support in the market. Companies can experience difficulties when bringing new products to market, caused by the type of technologies used by clients in the target market, and the rapid rate of technological change, combined with a slower than expected adoption rate by mass-market customers.

17 BEYOND EXPORTING

A successful export plan needs to recognise options for market entry that go beyond conventional production and supply from KwaZulu-Natal into target markets. It includes a number of options, including:

- Contract manufacturing;
- Franchising;
- Joint ventures;
- Manufacturing joint ventures;
- Licensing;
- Royalties; and
- Strategic alliances.

17.1. Contract Manufacturing

Contract manufacturing means having a product, or part of a product, made by another firm under a contractual arrangement. The relationship with the manufacturer is essentially a customer-supplier one, except that the product or component is made to the company's own specifications, rather than being a standard item. In many cases, a mould or detailed manufacturing instructions must be supplied to meet specifications.

The sale and marketing of the finished product remain the company's responsibility, not the manufacturer's responsibility. Sometimes contract manufacture of components also includes final assembly and packaging of the product, as well as delivery to the point of distribution or sale.

17.2. Franchising

Franchising is a form of licensing that groups a product and 'know-how' together to make an attractive investment package. The product or concept must work well in South Africa before attempting to establish it overseas. Consistent product, service delivery, branding and marketing are all vital when selling the concept and product. A franchise allows a rapid internationalisation of a product, as the capital costs are normally borne by the franchisee. Normally, a company will have a much closer relationship with the retailer or service provider in this method of in-market representation, depending on how the franchise is established.

There are many examples of franchised businesses in South Africa, perhaps the most well-known international brand example being McDonalds™, local brands Steers, Spur and Debonairs, Spar and Shoprite Checkers have successfully franchised their brands in a number of SADC countries. Most countries have industry or other codes about how franchises can be promoted and contracted, as well as the safeguards that apply to franchise agreements.

17.3. Joint Ventures

A joint venture is the long-term commitment of funds, facilities and services by two or more legally separate interests to a combined enterprise for mutual benefit.

A joint venture need not be a separate legal entity or company. Other forms of joint ventures include an agreement to work together, which is formalised through a heads of agreement or a strategic co-operation agreement.

Joint ventures can be formed for a variety of purposes and can take a number of forms. A joint venture can:

- Manufacture a product, or incorporate a product into a larger one, in a target market or a market that offers free trade with other larger markets;
- Provide the finance and distribution network needed to penetrate a new market;
- Establish a marketing and distribution presence in a target market;
- Add new technology and expertise to a product; and
- Gain access to a market, particularly where a country has strict rules requiring capital injection into the venture.

17.4. Manufacturing Joint Venture

Joint ventures are most commonly entered into to get around a trade barrier that prevents entry into a target market. Another way of getting around a trade barrier is to establish a wholly-owned manufacturing or assembly subsidiary in an overseas market. However, many companies find the joint venture route, (where the venture partner does the manufacturing in the market) a better option. A joint venture achieves many of the advantages of a fully-owned operation, without the long lead-time and at a fraction of the cost.

17.5. Licensing

Licensing agreements have potential for companies of all sizes. They harness the production and financial strength of well-established companies to the innovative flair of small and medium-sized organisations. A licence is a formal agreement between two parties where the licensor gives something of value to the licensee in exchange for certain undertakings and payments for the licensee.

Licensing can cover:

- Inventions;
- Technologies;
- Software;
- Manufacturing systems and processes;
- Products; and
- Artistic and literary material.

Licensing can include the full range of a company's activities and assets, although it is usually confined to unique elements that can be offered in a meaningful package, and something backed by intellectual property rights.

17.6. Royalties

This method of distribution is usually attractive to the developer of a product or component without the capital, time or commitment to manufacture and market the product or component themselves. In effect, the company sells their intellectual property to someone else to manufacture on their behalf, or to incorporate into a product they are already manufacturing. An agreed amount, a royalty, is received every time a sale is made. This method is often used when a small component has been developed that can be used in other processes, such as a microchip for use in computers.

17.7. Strategic Alliance

A strategic alliance might be used for a one-off activity, or it might focus on just one part of a business. Alternatively, its objective might be new products jointly developed for a particular market.

In most strategic alliances, each company will benefit by working together. The arrangement they enter into may not be as formal as a joint venture agreement. Alliances are usually formed with a written contract or memorandum of understanding, often with agreed termination points, and do not result in the creation of an independent business organisation. The objective of a strategic alliance is to gain a competitive advantage for the company. In small companies, a strategic alliance can allow the company to graft the whole business onto the superior manufacturing, marketing and distribution structures of an established international company.

18 | EXPORT PROMOTION

Marketing and promoting a company overseas is a key step in the export process. The dti and Trade & Investment KwaZulu-Natal can assist with providing platforms where your company can exhibit its products. Prospective customers need to understand the services or products provided, how these fit into the market, and how to contact the company.

The product or service, its name, packaging, presentation and overall delivery and service are critical to how the product or service is received in the market. It all comes down to branding, which is the integrated package of elements that promote a product or company. A market entry plan should include finding out about other brands. It helps to learn about potential competitors, products and services already established in the target market. A company will gain market information critical to a promotion plan by analysing the promotions of other products and services.

Some of the traditional promotional options are outlined below. Service suppliers and consultants should also consider other forms of marketing specific to their particular services and how their clients buy those products.

18.1. Packaging

Carefully designed and attractive packaging will enhance a product. In some instances, it will be a significant form of promotion alongside other promotional activities required in the

Effective websites have fresh and timely material, and are kept up to date and accurate.

market. Packaging should ideally be designed to incorporate language, colours, graphics and labelling that are culturally appropriate and appealing to the target market.

18.2. In-market Promotion

In-market promotions allow potential customers to see a product in use, and even try it out for themselves. Such promotions may draw on point-of-sale material, sampling or tasting, competitions or other activities linked by some action or advertising.

Seek the advice of an agent or distributor on appropriate and effective promotional tools.

18.3. Trade Fair Participation

Trade & Investment KwaZulu-Natal recommends that you carefully research any trade fairs before committing to exhibiting. Be clear about visitor and exhibitor profiles, how representative they are of the market, and how they are rated by other participants. It is also useful to discuss potential participation at shows with contacts in the market and with Trade & Investment KwaZulu-Natal.

Some international fairs have immense importance as industry or sector gatherings. It is important for identifying trends, and for major launches or order confirmations. Companies also go to these events to look for ideas, for distributors or to support their distributors. Published lists of trade fairs around the world can be accessed through government and industry agencies as well as promoters. It is also useful to talk through the options and the appropriateness of participation with Trade & Investment KwaZulu-Natal.

The dti has a subsidy scheme within its individual offerings under the EMIA Scheme, whereby a subsidy of most costs to participate at an international exhibition are funded on a pay up-front and claim later the dti EMIA scheme and the guidelines and application forms may be found on the dti website: www.thedti.gov.za.

18.4. Advertising

When developing an export marketing plan, an understanding of what type of promotion will be appropriate in the target market for the company's product or service should be investigated.

Widespread or general advertising can be very expensive, but some form of magazine or newspaper advertising could be undertaken in certain markets. Due to the cost of this form of advertising, a company should consider alternative ways of obtaining publicity for products or services. One method is to obtain free editorial coverage in industry magazines. Specialist trade publications often have a section profiling new and unusual products. If a product has an innovative aspect or a novel angle, the editorial staff of these publications could be approached to see if some free coverage can be gained.

Appointing a public relations or other media partner in the target market is another option. A company should ensure that prospective partners have good media contacts and, if advertising is key to promotion strategy, they should also have a media strategy. This is particularly important for apparel companies, but is relevant to most sectors. Request a portfolio of coverage or campaigns the agency has achieved for other clients.

18.5. Trade Magazines

Editorial content about a product or service in professional or specialist trade magazines can support technical or specialist products or services in some markets. Lists of trade and other magazines are often available from the Internet, or the local library. Some trade magazines from major English language markets are available in South Africa for casual buying. Other specialist and foreign language magazines are available on subscription.

18.6. Marketing on the Internet

A company's website should include information that markets your products and services, and provides contacts for a company. Effective websites have fresh and timely material, and are kept up to date and accurate. Different sections of a site can be tailored to appeal to different target audiences, including translating material into different languages. An attractive, easy to navigate site is essential. A company could also consider an interactive feature to enhance the appeal of their site such as registering for an email newsletter.

A website should integrate with all other marketing material. Communications specialists, designers and web developers can create an effective and successful site. Ensure that people are familiar with the website address, and include it on all business cards as well as all promotional material, e.g. brochures, product packaging or trade show stands.

Include the complete South African physical address details as well as the postal address. This will give overseas buyers confidence in a business's physical presence. A web site address will look more professional if it is a domain name specific to a company, rather than a generic service provider domain name.

19 EXPORT COSTING

A critical part of researching a market is gaining a thorough understanding of pricing. Aim at charging a price that the market will bear. This will often be set by the market for similar products or services. It may be hard to go above certain levels, which are often referred to as 'price points'.

Recognising a price point in the market may be the first clue to a company's ability to enter the market. The price should reflect quality levels, delivery and promotion. It is not easy to increase prices in a market or under a particular contract once it has been agreed to deliver at a certain price. Check through the feasibility guideline provided to ensure most costs are accurate.

19.1. Pricing Policy

A pricing policy for the market should be based on current competitor prices for the type of product or service. The final price should reflect the manufacturing and any other costs at home, plus the estimated costs involved in delivering, promoting and supporting activities in the market.

Flexibility is needed to allow for variation in shipping and stocking costs, as well as in-market and after sales servicing costs as the market grows. If a company is selling from a website, ensure that the company does not undercut stockists or licensed suppliers in the markets. If a company is involved in serious price negotiations, it should anticipate as much as possible what it may be asked to do and allow for this in the price. Also consider the effects on costs and returns of any discounts or charges that might be expected in some markets to get the business.

19.2. Calculating Prices

Pricing a product often means calculating two scenarios, based on both the South African perspective and the in-market perspective.

The first of the following two costing sheets allows a company to calculate the costs of getting a product to market by using production and distribution costs. The second starts at the retail price for similar products in the market and allows a company to work backward to estimate a possible price at each level.

Using both or either costing sheets requires a series of mark-ups or margins at different levels. A company may not know these until they have researched the market and observed different prices. The term 'mark-up' has been used in the cost sheets, but in some markets it may be called a 'margin'. How these are calculated, as add-ons or percentages, will change depending on the market and local ways of doing business.

20 THE SALES PITCH

Making the final sale often comes down to the ability to negotiate. A company is likely to gain the edge over other suppliers based on its knowledge of the market and potential buyers, and the ability to deliver what they expect, rather than just finding a lucky opportunity. Customers have an increasingly wide choice of products from many sources.

Price is an important consideration and usually the first question buyers will request - for some it may sometimes appear the only consideration - but in key markets for specialised products and services, the final buying decision will depend on a range of factors. These include:

- Appropriateness of the product;
- The ability to relate to the buyer;
- The willingness to adapt a product or delivery to the client’s needs;
- How committed a company appears to be;
- History in the market, or, for new exporters, experiences in the domestic market;
- Good recommendations;
- Who else a company deals with;
- Ability to provide back-up in the market;
- What the client knows about South Africa; and
- What the buyer knows or believes about other KwaZulu-Natal (South African) suppliers of similar products, or even other products.

20.1. Cultural Factors

Cultural factors are always involved in successful sales pitches and contract negotiations. A company also needs to take into account the personalities of individuals or groups it is trying to influence. Identifying the decision-maker amongst a negotiating group may be required, as will finding out at what level within a large organisation the decision to purchase is made.

Ensure the presentation is tailored to the audience, getting the balance right between technical and marketing information, and giving the audience the information it is looking for. Practice answering interview questions, preparing positive responses for common objections, and be able to describe briefly a company's competitive edge, and product or service benefits.

20.2. Follow-up

New exporters often think their major task has been accomplished when they have identified willing buyers and completed the first contract. In fact, this is just the beginning. The most critical aspects of follow-up are keeping in contact with the market and being ready to adapt.

Be aware of new opportunities and new markets, and look at the longer-term implications of how markets are growing, and what new products are going to be required. Part of dealing with the future will be recognising a successful formula that can be transferred from one market to a new one. New ideas and new strategies will be needed. This means a company also needs to review, and update or generate new plans for future exporting activity.

While planning for the future, maintain regular contacts and relationships with current distributors and customers and others in the markets. This can be done through phone calls, fax, email and personal visits. A company may be able to reduce the cost of international phone calls by using Internet telephony services such as Skype. Ensure that your computer system has adequate security and firewalls in place if using these products.

Perhaps an agent or distributor should be brought to South Africa to learn more about a product or service. A company also needs to take into account the personalities of individuals or groups it is trying to influence. This can be achieved if regular personal contact is maintained. As the exporting side of the business grows, a company will need to make changes in its business structure. Decisions on how to change will depend on a company's size, structure and the amount of exporting done.

A company may need to expand its production capacity, outsource production of some elements of the product, or look at some element of the 'beyond exporting' strategies. These include contract manufacturing, licensing or joint venturing. Professional advisors can assist with advice on options as exporting business evolves.

As in any business venture, the most important people to a company are the customers. It should be company policy to keep them happy wherever they are. Prove yourself a reliable company and this may be more effective in building up your export business than anything else.

21 TERMS USED IN THIS GUIDE

Terms used in this guide are those commonly used in South Africa. As different terms may apply in some overseas markets, find Glossary of common Trade Terms.

Glossary of Common Trade Terms

TERM	DEFINITION
%	Customs abbreviation for “per cent AD VALOREM”
/	Customs abbreviation for “unless the context otherwise indicates, per”
°C	Customs abbreviation for “degree Celsius”
A	Customs abbreviation for “ampere”
AC	Customs abbreviation for “alternating current”
Ad Valorem	According to a % based on the customs value of goods
AGOA	African Growth and Opportunities Act
ANF	Shipping term for “Arrival Notification”
AWB	Shipping term in Airfreight for “Air Way Bill”
B/E	Payment term for “Bill of Exchange”
B/E	Customs term for “Bill of Entry”
B/L	Shipping term for “Bill of Lading”
BAF	Shipping term for “Bunker Adjustment Factor”
BOP	Banking term for “Bill Of Proceeds”
BV	Bureau Veritas a Pre Shipment Inspection Organisation
C	Customs abbreviation for “cent”
C/O	Certificate of Origin
CAD	Payment term for “Cash against documents”
CAF	Shipping Term for “Currency Adjustment Factor”
CBN	Shipping term for “Cubic Metres”
CD	Shipping term for “Container Depot”
CFC	Banking term for “Customer Foreign Current account”
CFR	Incoterm for “Cost and Freight to named port of destination” used in seafreight transport only
Cg	Customs abbreviation for “centigram”
CGIC	Credit Guarantee Insurance Corporation
CIF	Incoterm for “Cost, Insurance and Freight to named port of destination used in seafreight transport only”

TERM	DEFINITION
CIP	Incoterm for “Carriage and Insurance Paid to the named place of destination” used for multi-modal transportation
CIR	Shipping term for “Container Inspection Report”
Cm	Customs abbreviation for “centimetre”
cm^2	Customs abbreviation for “square centimetre”
cm^3	Customs abbreviation for “cubic centimetre”
cN	Customs abbreviation for “centineweton” means 0.01 of a Newton which is a standard unit of impulse
COD	Payment term for “Cash on Delivery”
COD	Shipping term for “Change of Documents”
COO	Shipping term for “Country of Origin”
CPT	Incoterm for “Carriage paid to the named place of destination” used for multi-modal transportation
CTD	Shipping term for “Combined Transport Document”
CTO	Shipping term for “Container Release Order”
CV	Customs term for “Commercial Value”
CY	Shipping term for “Container Freight Station”
DAP	Incoterm for “Delivered At Place to the named place of destination” used for multi-modal transportation
DAT	Incoterm for “Delivered At Terminal to the named terminal at the port or place of destination” used for multi-modal transportation
DBK	Customs term for “Drawback of duties for export of duty paid imported goods”
DC	Customs abbreviation for “direct current”
DDP	Incoterm for “Delivered Duty Paid to the named place of destination” used for multi-modal transportation
DEAT	Department of Environmental Affairs and Tourism
DP	Customs term for “Duty Paid”
DRO	Shipping term for “Delivery Release Order”
Dtex	Customs abbreviation for “decitex” used to measure filament or yarn
dti	Department of Trade and Industry
EC	European Community
ECIC	Export Credit and Insurance Corporation
EDI	Customs term for “Electronic Data Interchange”
EFI	Shipping term for “Export Forwarding Instruction”
ETA	Shipping term for “Estimated Time of Arrival”
ETD	Shipping term for “Estimated Time of Departure”
EU SA	European Union South Africa Bilateral Agreement

TERM	DEFINITION
EURO	International abbreviation for currency “European Euro”
EXW	Incoterm for “Ex Works at the named place of delivery”
FAK	Shipping term for “Freight All Kinds”
FAS	Incoterm for “Free Alongside Ship at the named port of shipment” used in seafreight transport only
FAV	Shipping term for “First Available Vessel”
FCA	Incoterm for “Free Carrier at the named place of delivery” used for multi-modal transportation
FCL	Shipping term for “Full Container Load”
FEC	Banking term for “Forward Exchange Cover”
FEU	Shipping term for “Forty Foot Equivalent Unit”
FLT	Shipping term for “Full Liner Terms”
FOB	Incoterm for “Free On Board at the named port of shipment” used in seafreight transport only
FOREX	Global financial market for trading currencies
FTA	Free Trade Agreement
G	Customs abbreviation for “gram”
GA	Shipping term for “General Purpose”
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GBP	International abbreviation for currency “British Pounds”
GP	Shipping term for “General Average”
GR	Customs term for “General Rebates”
GSP	General System of Preference
GVM	Customs abbreviation for “gross vehicle mass”
GW.h	Customs abbreviation for “gigawatt hour”
HBL	Shipping term for “House Bill of Lading”
HS	Customs term for “Harmonised System” of classification
IATA	International Air Transport Association
ICC	International Chamber of Commerce
ILU	Institute of London Underwriters
In Trans	In Transit
Incoterm	International Commercial Term
int. unit	Customs abbreviation for “International Unit”
IR	Customs term for “Industrial Rebates”
ISO	International Organisation for Standardisation

TERM	DEFINITION
ITAC	International Trade Administration Commission division of DTI
KA	Customs abbreviation for “kilo-ampere”
kg	Customs abbreviation for “kilogram”
kN	Customs abbreviation for “kilonewton”
kPa	Customs abbreviation for “kilopascal”
kV	Customs abbreviation for “kilovolt”
kVA	Customs abbreviation for “kilovolt ampere”
kVar	Customs abbreviation for “kilovolt-ampere reactive”
kW	Customs abbreviation for “kilowatt”
L/C	Payment term for Letter of credit
LCL	Shipping term for “Less than Container Load”
Li	Customs abbreviation for “litre”
LOI	Shipping term for “Letter of Indemnity” relating to the detail on a Bill of Lading
M	Customs abbreviation for “metre”
m^2	Customs abbreviation for “square metre”
m^3	Customs abbreviation for “cubic metre”
mA	Customs abbreviation for “milliampere”
MAWB	Shipping term in Airfreight for “Master Air Way Bill”
MFN	Most Favoured Nation
mg	Customs abbreviation for “milligram”
ml	Customs abbreviation for “millilitre”
mm	Customs abbreviation for “millimetre”
mm2	Customs abbreviation for “square millimetre”
MMA	Merchandise Marks Act
MMTZ	Malawi, Mozambique, Tanzania & Zambia used in SADC rules of origin between member states
MPa	Customs abbreviation for “megapascal”
NEP	Banking term for “No Export Proceeds”
NPA	National Port Authority
NTB	Non Tariff Barrier
NVD	Shipping term for “No Value Declared”
OoG	Shipping term for “Out of Gauge” cargo
PHA	Port Health Authority
PO	Purchase Order
POD	Proof Of Delivery

TERM	DEFINITION
pr	Customs abbreviation for “pair”
PSI	Pre Shipment Inspection
R	Customs abbreviation for “rand”
RIB	Customs term for “Removal In Bond”
SABS	South African Bureau of Standards
SACU	South African Customs Union
SAD 500	Customs Entry Form for the movement of goods
SADC	Southern African Development Community
SAPS	South African Police Services
SARS	South African Revenue Services
SEDA	Small Enterprise Development Agency
SGS	Societe Generale Surveillance a Pre Shipment Inspection Organisation
SOB	Shipping term for “Shipped On Board”
STC	Shipping term for “Said To Contain”
T	Customs abbreviation for “ton”
TBT	Technical Barrier to Trade
TEO	The Enterprise Organisation division of dti
TEU	Shipping term for “Twenty Foot Equivalent Unit”
THC	Shipping term for “Terminal Handling Charge”
TIKZN	Trade & Investment KwaZulu-Natal
TISA	Trade and Investment South Africa division of dti
TRIPS	Trade Related Intellectual Property Rights
UCC	Uniform Commercial Code
UCP	Uniform Customs and Practices for documentary credits
ULD	Shipping term in airfreight for “Unit Load Device”
UNCISG	United Nations Convention for the International Sale of Goods
UNICITRAL	United Nations Commission on International Trade Law
URC	Uniform Rules for documentary Collections
USD	International abbreviation for currency “United States Dollars”
V	Customs abbreviation for “volt”
V.A.	Customs abbreviation for “volt ampere”
VAT	Value Added Tax
VDN	Customs Term for “Value Determination Number”
VOC	Customs Term for “Voucher Of Correction”
Vol.	Customs abbreviation for “volume”

TERM	DEFINITION
W	Customs abbreviation for “watt”
WB	Shipping term for “Waybill”
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation
ZA	International country abbreviation for “South Africa”
ZAR	International abbreviation for currency “South Africa Rand”

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