



Candex do Brasil Ltda

Intl. Marketing & Investments

Rua das Palmeiras, 335 - Suite 12
01226-010 – São Paulo – Brazil
Website: www.candex.us

Phone: (55-11) 3825-9634
Mobile: (55-11) 9206-2402
E-mail: clovis.lemes@candex.us

Candex - Entering Export Markets with Intermediaries

Export success depends on many factors. As a manufacturer or processor, you will need an effective way of getting your goods into and distributed in the export market. Options available include doing it yourself (direct exporting), using third-party intermediaries, and partnering with other firms already in the market.

Frequently, new exporters will consider undertaking the export process themselves. In most cases this decision is prompted by a concern to save money or avoid sharing any profits. Firms contemplating direct exporting should know that, to be successful, they will need to devote the necessary resources to accomplish the following basic tasks:

- Choosing the foreign market;
- Choosing representatives in target markets;
- Arranging for physical distribution and export documentation;
- Performing all market research;
- Developing pricing and promotion strategies;
- Handling billing and collection, including accepting foreign exchange risk.

According to surveys by the U.S. Department of Commerce, a leading mistake reported by new exporters is the failure to use export intermediaries.

Most new exporters use the services of an intermediary, such as an Export Management Company (EMC). The reason is that few firms, particularly small ones, have the resources and expertise to handle all of the export tasks. In many cases, even the larger firms frequently choose to focus their limited staff and financial resources developing on products and domestic markets. Thus, the EMC provides an export-ready company with expert assistance to expand effectively without adding to overhead.

The characteristics and regulations of the target market will help you determine which entry strategy to pursue. For example, direct exporting may be a viable option for a relatively accessible market such as Canada. For other markets with different languages, cultures, complex local business practices, and unfamiliar legal environments, it may be better to use an intermediary.

For most new exporters, using intermediaries such as an Export Management Company, agent, or foreign distributor is likely the best way to begin.

Export Management Companies

An alternative to direct exporting is to use an Export Management Company (EMC) as your export department. EMCs are domestically based intermediaries that market American goods



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abroad, from their own offices in country or through their partners overseas. A full-service EMC handles many, if not all, aspects of exporting, including conducting the foreign market research, arranging transportation, appointing distributors or agents, exhibiting at trade fairs, and handling advertising, documentation, billing, and collection. An EMC can offer an exporter several key advantages:

- The exporting firm can limit the staff time and resources required to build a successful export business;
- An EMC gives a firm instant access to foreign market knowledge and export know-how;
- Most EMCs do not charge a fee for their services, but work on a commission basis. They may charge a small "market opening recovery cost fee", plus commission. This means the exporter will have relatively few out-of-pocket costs and the EMC will have an incentive to produce.

Who Should Use an EMC?

All firms without export experience should consider using an EMC. Even sophisticated exporters may want to consider an EMC for selected products for certain foreign markets. Firms looking for new markets in order to accelerate their business growth should consider using an EMC. If you answer No to any of the following three questions, an EMC might be the best market-entry strategy for you:

- Does your firm have the time and specialized knowledge to enter export markets?
- Does your firm have the money or specialized personnel needed to develop an export business?
- Does your firm have all the U.S. business that it can handle or customers that it can serve and is your business growing at a satisfactory rate?

How does an Export Management Company Work?

As mentioned before, an EMC is an independent firm that acts as the exclusive export sales department for non-competing exporters. An EMC's loyalty is to its clients hiring its services and it works hard to develop a successful export business. An EMC functions in export markets just as a sales representative or exclusive wholesaler functions for a firm in your market. An EMC usually has a formal agreement with firms to "manage" their exports. Sometimes EMCs will represent all of an exporter's product line, but not always. The EMC generally receives exclusive rights to sell in all foreign markets, but, again, not always. EMCs should not be confused with Export Trading Companies (ETCs) which are organizations that specialize in procurement on behalf of foreign clients. An ETC has no loyalty to a particular exporter, it generally seeks the best terms for its clients.

Some EMCs Act as an Agent. The EMC establishes the marketing presence in the export market, soliciting orders from foreign customers in the name of the exporter. Invoicing is done in the name of the producer, and the EMC helps the producer with all the details of the export transaction. The exporter bears the risk of nonpayment and may be asked to extend credit to the export customer. "Agent" EMCs are paid a commission on export sales. The EMC may



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suggest an export price, but the principal has final say on price and even on whether to accept the order.

Other EMCs Act as a Distributor. More frequently, EMCs operate as an exclusive distributor on a "buy-sell" basis. The EMC buys from the producer at a set price and resells to foreign customers at prices established by the EMC. In this case, the EMC is responsible for invoicing and bears the risk of nonpayment. The EMC pays the client on agreed terms, usually similar to the firm's terms for its best U.S. customers. Note that when the EMC is acting as a distributor, the producer may have no control over the export price and may not even know who the foreign customers are. Many EMCs work closely with their principals on both pricing and customer relations.

EMCs usually have long-established sales networks abroad. Some have established foreign sales and warehousing subsidiaries. But more commonly, EMCs appoint export agents (or representatives) and networks of exclusive distributors and dealers in each foreign market. EMCs are experienced in all facets of exporting (e.g., foreign travel, export marketing, etc). Typical strengths of an EMC include:

- An ability to handle all details. EMCs have the know-how to answer inquiries, prepare quotations, enter orders, handle shipping details, and get paid. They are export professionals. The lifeblood of an EMC is active contact with foreign firms.
- An ability to establish a strong foreign distribution system. EMCs have the know-how to select agents and distributors, and to manage their distribution networks.
- EMCs are experts on business conditions abroad. EMC executives travel for first-hand experience. Even while at home, they constantly appraise market conditions and sales opportunities.
- The profits of the EMC are based on how successfully they export. Thus, they're motivated to do a good job.

What Does an EMC Charge?

An EMC's fees or charges will vary, depending upon the product, the degree of promotion required, and the EMC's method of operation. EMCs operating on a commission basis will usually want a commission that equals-or even exceeds-your best domestic commission. This might range from 10 percent for consumer goods to 15 percent or more for industrial products.

EMCs functioning on a buy-sell basis will ask for your best U.S. discount plus an extra discount. EMCs that do accept their client's best U.S. price will usually have to mark up the product more than a U.S. distributor in order to make a profit to cover shipping, foreign inspection and testing, customs, etc.

In addition to commissions or discounts, an EMC may charge for other items. Some EMCs will ask for a "special event" contribution, such as a 50/50 sharing of costs to exhibit in a foreign trade show. EMCs may require a contribution for advertising and other promotional activities, usually on a shared basis. A few EMCs ask for a monthly retainer, especially in the early stages of establishing export sales. It is unusual for a well-established EMC to ask for a retainer for other reasons.



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Some exporters feel that EMC services are not worth the extra commission or discount they get. But remember, an EMC has many costs that even domestic distributors do not have. Some of these include:

- Commissions or special discounts to their foreign agents;
- The cost of running an export business: experienced personnel, communications, etc.;
- Foreign travel and export paperwork;
- Promotion costs, if not shared with their clients.

EMCs claim, with some justification, that they receive little or no benefit from the client's domestic promotion. Therefore, an EMC may want lower prices or higher commission rates, as it will be responsible for export promotion and other special expenses.

Four Advantages to Using an EMC:

- Export sales come quicker. EMCs already have a network of foreign agents and distributors. Your product, if compatible, will have a built-in distribution system. If you were to build your own export business, it would take much longer to realize sales.
- Your out-of-pocket expenses will be less.
- An EMC has the time. Even with adequate financial resources, you may lack the time necessary to build an export business because of other priorities.
- You will learn from a professional. There's no better export practitioner than an EMC. If you want your own export department at some point, then prepare yourself in advance by seeing how an EMC operates.

Export Management Companies aren't the answer for all export situations. For example, most EMCs are relatively small and may have limited financial resources. Thus, some may not be able to stock your product or to offer extended in-house financing to foreign customers. They may, though put you in contact with adequate sources of financing.

EMCs focus their efforts on those products that bring them the most profits. New lines, or those with limited potential, may be overlooked.

Agents and Representatives

An agent secures orders from foreign customers and receives a commission from the exporter. A representative is a specialized agent who generally operates within a specific geographic territory and sells related lines of goods.

Agents and representatives typically are authorized to enter into contractual sales agreements with foreign customers on behalf of the exporter. They are usually paid on a commission basis only when they sell your product.

An agreement with a foreign agent or representative immediately provides an established sales presence in the export market. This approach is less costly than setting up a direct sales operation and frees up time and resources to allow you to make more frequent domestic sales calls. It also gives you the advantage of control over your product and its price.



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A good foreign agent or representative can be helpful in many ways such as:

- Gathering market intelligence;
- Advising on financing and transportation;
- Clearing Customs;
- Providing access to potential customers;
- Making collections;
- Supplying information on local business practices, legal rules, and cultural traditions;

Foreign Distributors

Unlike agents, distributors actually purchase the exporter's product and resell it to local customers. A distributor frequently sets the selling price, provides buyer financing, and looks after warranty and service needs.

A significant advantage of using foreign distributors is that they are often able to provide after-sales service in the foreign market. A downside of using a distributor is that the exporter usually will experience reduced profit margins and have less control over product and price.

Selecting an Export Agent or Distributor

You have many avenues to select a foreign agent or distributor, be it through official channels of government, banks and other contacts. However, Candex group can not only give you names and contacts, but will also:

- Begin working with you to select contacts TAILORED to your type of business (not just "general listing in your sector");
- During the process, you can work with Candex's consultants to check that the VERIFIED contacts match exactly the description of what you are looking for. Candex is "not too busy" like some government entities, and will treat your request as your "export arms out there", getting away from the hidden policy of "not getting too involved with just one tax-payer";
- Provide you with the possibility of once you have the contacts you can decide to get in touch with them yourself "to test the waters", or have Candex to do this service for you;
- Provide you services like fixing appointments in country with the contacts identified and selected. Hotels, interpreters and drivers can also be arranged, along with trade show participation.

Once you have developed a list of candidates to sell or distribute your product, you should visit the market to meet with potential agents or distributors, as mentioned above. The following checklist will help you determine if the agent or distributor meets your needs. Talk to several firms and check their references to ensure that you find a reputable agent or distributor. You can also protect yourself by entering into a limited-term trial agreement. If the foreign intermediary does not meet your expectations, you can find another firm after the trial period is over.



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Checklist for Evaluating an Agent or Distributor

Candex can work with you to ascertain you obtain the following information, prior to any commitment with a prospective agent or distributor.

- How many companies/products have they successfully represented or marketed?
- What is their financial condition?
- What kind of local business representation can they provide?
- What marketing and promotional programs do they have in place?
- Who are their current customers?
- Do they provide after-sales service?
- What are the terms and conditions of sale and payment?

If interested in the Brazilian market, please read the article “Agency and Distributorship Agreements” in Brazil. There are important differences when compared to agents and distributors relationship in the USA.

Partnerships

Another option for the new exporter is to develop some form of partnership abroad that can help overcome the challenges of doing business internationally.

Partnership arrangements have several advantages. A local partner can complement a company's capabilities, providing the expertise, insights, and contacts that can make the difference between success and failure.

A well-structured partnership offers concrete benefits to both parties:

- Each company focuses on what it does and knows best;
- Partners share the risk;
- Partnering can extend each party's capabilities into new areas;
- Ideas and resources can be pooled to help both sides keep pace with change;
- Small firms can use partnering to take advantage of economies of scale;
- Through partners, a company can approach several markets simultaneously;
- Partnering can provide a firm with technology, capital, or market access that it might not be able to afford on its own;
- Both parties can transform the synergy gained into a competitive advantage.

Before investing time in finding a partner, make sure that partnering makes sense for your company. If your needs can be satisfied in-house within a reasonable time frame, a partner may be unnecessary. If the problem is financial, you may be better off looking for investors instead of partners. But if, after going through these options, there is still something missing (special expertise, local market presence) then partnering should be considered.

If you determine that a partnership is appropriate, you will need to define its form, structure, and objectives. Your export plan will be useful in outlining your goals and your ability to



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achieve them. Finally, define what you expect from a partnership. Among the most popular forms of partnerships are joint ventures and strategic alliances.

This article was adapted (and corrected) from "Entering Export Markets with Intermediaries," Pennsylvania Department of Agriculture Exports.