The first export sale: make sure it counts

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"A small winery has just received an enquiry from a customer in Europe. The winery provides the price list, and sends some samples. Two months later the customer confirms their first order. The next question usually is: 'so now what do we do?'"

Many first time exporters make the mistake of securing a sale before they understand the complexities of exporting. Unfortunately this was the case for our exporter to Europe. After locking in an agreed price for their first small order, they later realised they had not factored in the shipping costs. Despite this, they proceeded with the order, willing to wear the loss in hopes it would lead to more opportunities. Unfortunately the product arrived with quality issues, and was ultimately rejected by the customer. Having agreed to an open account, they were never paid. A loss of $10,000 and their first export sale was nearly their last.

Providing potential customers with a price list used for domestic markets is fraught with danger. Export pricing can be complex, and requires an understanding of all elements of an export transaction. Potential customers will always want to know price, but it shouldn't always be the first thing discussed. Make sure you first understand your responsibilities (and therefore the cost).

What are Incoterms?

Even seasoned exporters sometimes fail to correctly understand their responsibilities. FOB, CIF, DDU are terms many people have heard of, but what do they actually mean? To start, they are all Incoterms, which are internationally recognised terms of trade. They define the responsibilities of both the buyer and seller. It is not just a matter of using an Incoterm when you quote a customer. More important than using it, is to actually understand what it means.

Take the example of our first-time exporter. Their domestic price, which they quoted their customer, was essentially their Free on Board (FOB) price. Their customer had requested a rate CIF (Cost, Insurance & Freight), but having not researched what this meant, they ultimately had to wear the shipping costs to Europe to maintain the relationship. In excess of $1000 of additional costs meant they were never going to break even on their first export sale.

There is a wealth of information available on Incoterms for exporters. Google it, or speak to your local Chamber of Commerce, and buy a copy of the latest edition of Incoterms – 2000. Once you understand what they mean, make sure you use them. On quotes, invoices and any other correspondence refer to the Incoterm, place and edition of Incoterms. It is no use just stating CIF. Is it going to Antwerp or Rotterdam? To correctly use Incoterms you should write CIF Antwerp – Incoterms (2000).

What about before the product leaves the country?

First, you need an export licence from the Australian Wine and Brandy Corporation (AWBC). Following this, export approval must be obtained for each product you intend to export. Two samples of the finished product, along with labels and analysis details must be sent to the AWBC for approval, after which you will be granted a continuing approval for 12 months (or 3 months for bulk wine). Finally you have to lodge a shipping application with the AWBC for each individual shipment, at which time you will be provided with an export permit number.

The export permit must then be used to complete an Export Declaration (EDN) to Australian Customs. You can get assistance from a freight forwarder to complete this on your behalf, or you can arrange it yourself. However, it must be done. Even seasoned exporters have occasionally sent a container to a terminal without an export permit or EDN.

There are many options for getting your product to its destination. Cost will generally dictate that wine is shipped on a sea freight service. Will it be shipped as a full container (FCL) or less than a container load (LCL)? In a refrigerated container? How quickly does your customer need the wine? Although price is important, it shouldn't be the only consideration. It is no use getting great freight rates, if your wine doesn't arrive in the condition it left.

Take the example again of our first time exporter to Europe. No consideration was given to the routing of their wine, or how it was stored. The wine was shipped in summer on a sea freight service via Singapore, where it was delayed for nearly two weeks in hot and humid temperatures. Then it hit the harsh European winter and sat in storage for another week before being delivered. With wine quality issues upon arrival and no means of securing payment, the exporter ultimately had to wear the loss.

History dictates that Australian wine has generally been sold Free on Board (FOB). Unfortunately in this situation many take the attitude that "freight is not our problem." But at the end of the day, you should know under what conditions your product is being transported. Although technically, the responsibility is passed to your customer, it is in your long-term interest to ensure that your product arrives in the same condition in which it left.

Along with this consider how best to pack your goods. What do you need to do to protect your goods during transit? Leave no ▸

stone unturned to ensure your product arrives in good condition, and you know the associated transport costs.

Will my customer will take care of everything else?

Now we have worked out how to get our goods to their destination, will our customer look after everything else? Unfortunately not! Wine labelling or re-labelling is a minefield, and a significant cost to wine exporters.

The AWBC provide an export market guide to identify the requirements of the individual importing country. Labelling requirements will vary from country to country. Speak to your customer and research, research, research to ensure you know the requirements up front. And don't commit to an order until you know when your export labels will be ready. If your customer expects you to ship next week, make sure you can.

You should also understand what the documentation requirements of your customer and the importing country are. Do they just need a Commercial Invoice and Packing List? Maybe they need a Certificate of Origin to benefit from preferential duty rates under a free trade agreement? Wine Exports to the European Union require a VI1 certificate issued by the AWBC. Find out in advance, and know the costs for producing the documentation.

Show me the money

It is no use making an export sale, if you don't get paid. Although the same can be said for domestic sales, recovering a debt from an Australian company will generally be much easier than from a foreign country.

So what can you do to protect yourself? Payment up front would be ideal, but commercially may not be viable. In the wine industry 90 days seems to be a common term. A letter of credit is another option, which is essentially a formal undertaking, issued by a bank to honour payment provided certain requirements are met. Or perhaps you could consider credit insurance, which will generally cover you for up to 90% of the invoice value in the event of non payment.

It's one thing to get paid, but another to ensure you get paid the amount you expect. It is easy to say you will only quote and invoice in AUD, but once again this may not be commercially viable. Many foreign customers may expect invoicing in their currency or more commonly in USD. With the AUD reaching close to parity with the USD, the risk associated with exchange rate fluctuations should be top of mind. A US $100,000 contract negotiated on 1 January 2008 would have at that time netted you about AU $114,000. At the time of writing that same contract would now net you about $106,000. Speak to your bank and look at your options to cover your exchange rate risk, otherwise your first export sale could be your last.

Although you may have taken every measure to protect yourself against your goods being damaged in transit, it may still happen. Consider the use of transit insurance to protect against the unforeseeable.

And finally country risk may result in your products being unsaleable after an order or contract is agreed to. Regulations may change which affect the ability to import your wine. Duty rates may increase making the cost of your wine unviable. Although hard to control, it still should be considered in any export transaction.

The temptation is to avoid these additional costs as they erode profit margins. But if they are fully costed, they provide the security to ensure the long-term viability of your export venture.

Is it all too hard?

Let's touch again on export pricing. Commonly used is a "cost plus" approach whereby all specific additional export costs will be added onto your domestic price. Although a straightforward method, you may end up finding your selling price is not competitive.

An alternative is to use a "top down" approach to costing. By looking at the prices in the particular market, and working back, you can find out what price you need to be competitive.

Whatever approach you use, the important thing is to know your responsibilities and the costs associated with them. Realise that these responsibilities may change from customer to customer, country to country and between today and tomorrow. Plan and research to ensure you are ready for your first export sale.

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