The Art of Closing the Export Deal

Idea Objective: *To understand how to go about closing an export sales transaction.*

If you've downloaded our other idea objectives at GlobeTrade.com, you've selected a best-prospect export product or service by analyzing your "Pros" and "Cons" on your exporting worksheet; assembled your export dream team; organized for the export trial run; and now you are ready to close on your first export deal. Here's how you go about it.

Before anything else, you should expect to adapt your product to some degree for sale outside domestic markets before you make your first sale. You'll be well-situated to tackle this after you have availed yourself of the market information resources outlined in the previous chapter, consulted with local government market experts, and communicated with sources overseas — prospective customers, wholesalers, agents and embassies.

Now the hard work of finding and cultivating your customer has paid off — you've got a product inquiry and request for a price quotation. Congratulations! You're ready to follow through, put a deal together and make it happen. We'll show you how to choose safe, prompt and cost-effective transport, arrive at an appropriate price per product unit, and work with a freight forwarder to prepare your final quotation. Read through what follows carefully, and refer to it often. You want to be on top of all the information you'll need at each stage of the process.

Transport Options

Since export shipment involves moving goods from one country to another — a somewhat riskier and more complicated enterprise than domestic shipments — it is extra important to find a company that offers safe, reliable, quick and cost-effective transport services. The quantity, value and perishability of your product, your customer's location, how fast the shipment is needed and how much you are willing to spend will determine which method (for example, air or ocean) of transportation you should use.

It's imperative to shop around and compare rates to get the best possible transportation package for your customer. Don't be shy about questioning a transportation company or freight forwarder at length and in great detail about their service and rates. A freight forwarder is an all-around transport agent for moving export cargo, typically from a factory door to your customer's warehouse or storage facility.

Always inquire about the latest and most advanced methods for moving goods overseas. Even as you read this, improvements are under way. Keeping current with the transportation industry will help you to offer your customers the most innovative and cost-effective service and equipment options.

You now have some guidelines as to what transport methods are available to get your product to your customer and how to make a cost-effective choice. As you move on to put together a price quotation for your customer, you'll see exactly how valuable a good global freight forwarder can be as you work together to make the sale and deliver the goods.

Pricing Your Product and Preparing a Quotation

Pricing a product for the overseas market, determining landed costs and presenting them in quotation form are critical steps in the international sales operation. At this point, you might want to revisit the SBA's "Breaking Into The Trade Game: A Small Business Guide to Exporting – 4th Edition" (downloadable in parts or in its entirety at http://tinyurl.com/2hzsh5) and review "Chapter 5: The Export Transaction" for how to do this. We can also give you a couple of tips on how to arrive at good shipping rates that will meet with your customer's approval. We will show you how to use these figures to put together a proforma invoice, a key document in every export transaction.

Theoretically, if you have a customer willing to buy, you can price your product at almost any level, provided it never exceeds what the customer is willing to pay, or what the market will bear. You don't want to alienate the customer or make it easy for your competitors to undercut you! Typically, exporters take a 10-15% markup over cost, which is the price a manufacturer charges you when you buy product from them. In other words, if your supplier charges you $1.00 per unit for his product, you might price it anywhere from $1.10 to $1.15 per unit. That markup becomes your profit or commission.

Test your price out on your customer, with whom you have hopefully cultivated a strong relationship and to whom you've presented your product's positive sales attributes. See what reaction you get and then negotiate from there. If you priced the product with only a slim margin for yourself — so slim you cannot afford to go any lower — and your customer still balks, consider re-negotiating with your supplier. Oftentimes, if you explain that the only way to sell the product overseas is to price it more competitively, they will agree to go back to the drawing board and see if they can rework the numbers. Don't pull this too often, though, because if you continue to have price problems the supplier will catch on sooner or later that you haven't properly checked out what the foreign market will bear.

Complete Your Quotation with a Competitive Shipping Rate

Let's say you've given your product a markup of $0.15 on your $1.00 cost per unit. By the time it lands at your customer's port, it costs him $1.25 per unit. How does that happen?

Just as in a domestic sale, you will be billing your customer for the costs of shipping your product. To finish your price quotation, you must first contact a freight forwarder who will provide you with a competitive shipping rate.

How Does the Freight Forwarder Arrive at a Rate?

Besides the physical logistics of your actual shipment, here are some other factors that will affect how your freight forwarder calculates your shipping rate:

1. The tariff on your product. Unless they file a new rate for your product and destination, freight forwarders use rate books to determine the tariff.

2. The amount of traffic to and from your destination point.

3. How the industry as a whole is performing. For example, is demand exceeding available transportation services, or the other way around?

4. Exchange rates play a major factor in the transportation calculation. This will be reflected in your quote as the CAF, or currency adjustment factor. Let's say a freight forwarder quotes you a rate of U.S. $1,800 for a 20-ft. containerload from a United States West Coast port to Tokyo, Japan, and lists a CAF of 57%. That means you must add 57% on to the U.S. $1,800 base rate to arrive at a total rate of U.S. $2,826!

When your freight forwarder gives you a quote, the total charge will be broken down into the following line items:

Inland transport: $______
Ocean transport: $______
CAF XX%: $______
Documentation: $______
TOTAL: $______

- Inland transport is the cost to move the product from a factory door to a port of exit within the same country.

- Ocean transport is the cost to move the product from the port of exit to the port of entry in the destination country.

- CAF stands for currency adjustment factor, which is the going rate of exchange from one currency to another — for example, U.S. dollars to Japanese yen.

- Documentation represents the freight forwarder's fee for handling all documentation associated with the shipment, including letters of credit.

You should also familiarize yourself with the most commonly used terms of shipment. These are known as "Incoterms" (http://tinyurl.com/2j72rq) and will affect the final numbers on your export quotation, as well as your financial responsibility for the shipment. For example, with CIF (cost, insurance and freight), you are responsible for paying the freight and insurance costs in advance. You will collect these later when you invoice your customer. Normal practice is to insure a shipment for 110% of its CIF value. Let's say you are insuring a shipment to the Far East (Japan, Korea, Taiwan) at a rate of $.6175 per $100.

Invoice Value:	$12,000.00
Freight:	$ 1,200.00
Clearance/Handling:	$ 100.00
TOTAL:	$13,300.00
110% of TOTAL:	$14,630.00
INSURANCE:	$ 90.34
CIF TOTAL:	$14,720.34

Here's how you arrive at the CIF total: add the invoice value (cost), freight, and clearance/handling charges. Multiply this total by 110%, then divide by 100. Take the resulting figure and multiply it by $.6175. In this case, the result is your insurance charge of $90.34. Add this to your invoice, freight and handling total of $14,630 for a CIF total of $14,720.34. It's good to know how this is done, but you won't have to concern yourself with this calculation or actual issuance of the certificate if you use a freight forwarder. All you have to do is ask the freight forwarder to quote you insurance coverage at the 110% CIF rate.

Preparing the Cost Analysis and Proforma Invoice

Your next step is to enter these itemized charges on your own invoice form, which, as you will see shortly, will become what is known as a proforma invoice. Your document will have all the familiar components of an ordinary domestic invoice — a description of the product, an itemized listing of charges and sales terms. Let's say you want to get your customer a landed price quote for a shipment of widgets to their port of entry, in this case CNF (Cost and Freight) Tokyo:

U.S.A. Widgets to Tokyo via Ocean — Calculating Landed Price per Unit

You have 100 cases of widgets, packed 12 units to a case. Each case is priced at $120, or $12 per unit. Total cost for the order is $12,000.

Selling price: $12,000 — F.O.B. (Free on Board) factory door in U.S.A.
Inland transport: $ 700
Ocean transport: $ 1,500
Duty: $ 300
CAF: $ 1,250
Documentation: $ 125
TOTAL LANDED PRICE (or Total CNF Tokyo): **$15,875**

The selling price is your cost to buy the product from the manufacturer, plus your markup. Add that figure to the total shipping costs and divide that total by the number of cases. That gets you your landed price per case. Divide that figure by the number of units in a case. That gets you your landed price per unit. In front of the word "invoice," type "proforma."

You have now finalized your price quotation and created a proforma invoice. Don't forget to specify a precise time period during which your quote is valid, and add the freight forwarder's quote reference number. Once your customer approves the proforma invoice, it will become your actual invoice for the order. The customer will also use the proforma invoice to obtain any necessary funding or import licenses. Your customer should communicate acceptance in a short written sentence or two such as the following (usually via fax), with a signature: "We accept your proforma invoice No. 1234 against our P.O. No. ABCD." You will then respond: "Acknowledge and confirm your P.O. No. ABCD against our proforma invoice No. 1234."

That's it. You have a sale. You're in business! Before you release the order, though, you and your customer must negotiate terms of payment. At this point, call your banker for an overview of the most common — and the most secure — methods of arranging payment for export goods, as well as an array of export financing sources.

Now, revisit GlobeTrade.com and we'll show you how to evaluate the trial run. From there, you're on your own. But should you run into trouble, you know where to find us!

About the Author: Global business expert Laurel Delaney is the founder of GlobeTrade.com and its wiki community (globetrade.wetpaint.com). She also is the creator of "Borderbuster" (globetrade.com/borderbuster.htm), an e-newsletter, and The Global Small Business Blog (borderbuster.blogspot.com), all highly regarded for their global small business coverage. She can be reached at 773-381-1700 or ldelaney@globetrade.com