

■ EXPORT MARKETING

material for management training in agricultural co-operatives

TRAINER'S MANUAL

international labour office, geneva

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MATCOM
Material and techniques for cooperatives management
training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

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Preface

This training package is one of a number of training packages designed by the ILO - MATCOM Project to assist people who plan or carry out training for the managerial staff of agricultural co-operatives in developing countries.

The training provided under this training package, as well as under other packages in this series, is based on a thorough analysis of:

- (i) the tasks and functions to be performed in agricultural co-operative societies in developing countries;
- (ii) the common problems and constraints facing the effective performance of these tasks and functions.

The result of this analysis is reflected in the MATCOM "Curriculum Guide for Agricultural Co-operative Management Training". The Guide contains syllabuses for 24 management subjects and MATCOM has produced training packages, similar to this manual, for the following subjects:

- Collecting and Receiving Agricultural Produce
- Transport Management
- Storage Management
- Marketing of Agricultural Produce
- Supply Management
- Rural Savings and Credit Schemes
- Staff Management
- Work Planning
- Financial Management
- Cost Accounting
- Risk Management
- Project Preparation and Appraisal
- Export Marketing
- Management of Larger Agricultural Co-operatives
- Co-operative Audit and Control
- Management of Multipurpose Cooperatives

For more information on the above training material, please write to:

The MATCOM Project
c/o CO-OP Branch
International Labour Office
CH 1211 Geneva 22
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THE TRAINING PROGRAMME1. Target Group

Target groups for this training programme on "Export Marketing" are:

- (i) managers or assistant managers of co-operative business federations, co-operative unions or larger primary societies involved in export marketing or with the potential to do so;
- (ii) co-operative officers supporting such managers;
- (iii) co-operative policy-makers (commissioners, registrars and assistant registrars, secretary generals, etc.).

Throughout the programme, the focus is on the export marketing of agricultural products. Many sessions and exercises, however, have been broadened to include examples of non-agricultural products (e.g. handicrafts, fishery products, textiles). With some adaptation the programme can therefore also be run for target groups from the nonagricultural co-operative sector.

2. Aim

The aim of the programme is to enable trainees to market effectively the products of their co-operatives to foreign markets in order to increase production and the income potential of co-operative members. Specifically, the course should enable the target group on their return home to:

- select and develop appropriate products for potential export markets;
- select the most effective marketing channels and distribution systems and to sell effectively through them;
- set competitive prices for their export products;
- select appropriate contract terms with regard to delivery, payment, commercial disputes and the like;

- prepare price quotations and sales contracts;
- use the services of their government, international agencies, freight forwarders, and other professional experts in export activities;
- use international sea and airfreight facilities and transport insurance in an effective way;
- to comply with and, where possible, benefit from customs rules and regulations and to prepare required shipping documents.

The training course as described in this manual can be used for a special course on export marketing or it can be incorporated in the curriculum of a more comprehensive management training programme.

3. Duration

The complete programme consists of 27 learning sessions. Session times vary from 1 to 4 hours. The total programme will take approximately 60 hours, or between 8 and 10 days, depending on the qualifications and experience of the trainees. A timetable should be prepared accordingly.

4. Training Approach and Methods

The programme is based on the assumptions that:

training is expensive
money for co-operative management training is scarce

Therefore, it looks upon training as an investment, and unless the training yields results, the return on the money invested in it will be nil.

On their return home from the training programme, the participants should be able to show concrete results of improved management in the field of export marketing. To equip the trainee to achieve this, the programme has adopted a highly active learning approach

through the use of "participative" learning methods and a built-in action commitment.

Instead of studying export marketing and foreign trade in a generalised and passive way, participants learn through realistic case-studies, roleplays and other problem-solving exercises. Working mostly in groups trainees will solve real life problems with the necessary assistance and guidance from the instructor, who acts more as a "facilitator of learning" than as a lecturer.

The built-in action commitment at the end of the programme will give each participant the opportunity to discuss with his/her colleagues what he or she is going to do as a result of the course. Trainees then commit themselves to the implementation, by a certain date, of their proposals.

5. Structure

The programme is divided into ten TOPICS:

1. Introduction
2. Product Development
3. Marketing Channels
4. Selling
5. The Sale: Terms and Conditions
6. Shipping the Goods
7. International Trade and Governments
8. Trade Fairs
9. Marketing Research
10. Export Marketing Applied

Each topic is covered by one or more sessions. The following material is provided for each session:

- a session guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session with instructions on how to conduct it;

- handouts (white pages) of all case-studies, role-play briefs, etc., to be reproduced for distribution to the trainees.

6. Adapting the Programme

Before using the programme in a real training situation, it may be necessary to adapt it. This can be done as follows:

Read through the programme and decide whether:

- the programme can be run as is;
- only certain topics or sessions should be used;
- new topics and sessions should be added.

Your decision will depend on the needs of your trainees and the means at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts. Modify them where possible to include local currencies, names, products and so on. Such adaptation will help trainees identify themselves more easily with the people and the situations described in the handouts thus increasing considerably the impact and effectiveness of the training programme.

In the event of substantial adaptation, it is better to retype the page completely.

Minor adaptations (currency, one sentence or paragraph) can be corrected on the original supplied in this binder.

7. Preparing Yourself

Some trainers may feel that material of this sort means that they need spend only a few minutes preparing for each session. This is not the case.

You should study each session guide thoroughly and prepare a detailed lesson plan from it including any adaptation which you may find necessary.

You should work through all calculations beforehand, so that you can explain them to the trainees.

You should obtain and study all necessary local forms, statistics or other materials so that you can incorporate them in the sessions wherever their use is suggested.

8. Preparing the Training Material

Handouts constitute an important part of the training material used in the programme. They can be reproduced from the original handouts supplied in the ringbinder, after the necessary adaptations have been made (see "Adapting the Programme").

Reproduction may be done using whatever method is available: stencil, offset printing, photocopy, or other.

The only item of training equipment which is absolutely essential is the blackboard.

It is, however, a good idea to use, whenever possible, a flipchart since sheets of newsprint can be kept for reference in later sessions.

Certain sessions contain dialogues which can be pre-recorded and then played to the trainees during the session. Once changes have been made to reflect local currency, names and so on, the dialogue can be recorded on any tape recorder. If a tape recorder is not available, the dialogue can be enacted by the trainees in the classroom.

Some suggestions for visual aids are given in the session guides. If flipcharts or overhead projectors (OHP) are available, you

should prepare these aids in advance. If they are not available you can still use the chalkboard.

Trainees should be told in advance to bring with them as much data as possible about the products produced and marketed by their societies, prices obtained, distribution channels used, etc. (see Pre-course Questionnaire).

The Pre-course Questionnaire should be sent to trainees at least three weeks in advance. Trainees should be asked to complete it and hand it in at the beginning of the training programme.

9. Follow-up and Evaluation

It is recommended that you or other resource persons arrange to contact the trainees after 6 months, to see how well they are fulfilling their "action commitments". The course - not the trainees - should be evaluated according to the degree of success with which trainees have been able to implement their commitments.

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List of Abbreviations

AR	All Risks Whatsoever
ASEAN	Association of South East Asian Nations
CCCN	Common Customs Council Nomenclature
c+f	Cost and Freight
c.i.f.	Cost Insurance Freight
ESCAP	Economic and Social Commission for Asia and the Pacific
f.o.b.	Free On Board
FPA	Free from Particular Average
GATT	General Agreement on Tariffs and Trade
GSP	Generalised System of Preference
IATA	International Air Transport Association
ICC	International Chamber of Commerce
ITC	International Trade Centre
ITT	Import Turnover Tax
TLVO	Total Loss of Vessel Only
VAT	Value Added Tax
WA	With Average

Pre-course Questionnaire

Name:.....

Society:.....

Job Title:.....

Brief description of your responsibilities:.....
.....
.....

Major products/services produced or provided by your organisation,.....
.....
.....

To whom are these products/services sold or provided?.....
.....
.....

Do you have any experience in export marketing of agricultural or other products? Describe briefly:.....
.....
.....

Please complete the following sentence. "As a result of attending the course on Export Marketing, I hope that I shall be able to
.....
.....

Please bring with you the information listed on the reverse side of this questionnaire.

Bring the following Information and Data to the Course

1. A list describing the products your society produces and which you are already exporting or intend to export (if possible, bring along samples).
2. Statistics on production, sales prices and exports of these products.
3. Description of the distribution channels through which these products are presently marketed.
4. Prices of these products at different stages of their distribution (export, wholesalers, retailers, consumers, on the domestic market and foreign markets).
5. An organisational chart of your society, with your own position clearly marked.
6. Sample promotional material (brochures, leaflets, newspaper advertising, etc.) for your society's products.
7. If your products are sold in consumer packages (boxes, cartons, bags, cans, bottles, etc.), please bring samples of these containers or their labels.

topic

1

introduction

Session 1.1 Opening the Programme

Session 1.2 Know Your Colleagues
and Their Products

SESSION 1.1

OPENING THE PROGRAMME

- Objectives:
- i) to demonstrate the potential of effective export marketing;
 - ii) to ensure that all administrative matters are dealt with, so that no personal uncertainties remain to distract participants from the programme;
 - iii) to make participants fully aware of the programme's objectives and of their responsibilities, thus ensuring maximum commitment to the training course.

Time: 1 to 2 hours.

Material: Participants should hand in the completed Pre-Course Questionnaire on arrival. The timetable and the list of participants should be distributed at the beginning of this session.

Session Guide:

- 1) Opening Speech: The presence of a prominent guest at the formal opening can be a valuable demonstration of the importance of the programme. His speech should be brief and to the point, and he may welcome guidance as to its contents. For example, the speaker should be asked to point out that co-operatives must be well managed like any other institution: they must serve their "clients" as well as possible, that is, the people who buy the products they handle, their member societies and their members. The guest speaker may also stress the importance of foreign trade to the economy and the role co-operatives can play as important earners of foreign exchange.
- 2) Objective: It is vital to emphasise from the outset that the programme is intended to enable participants actually to do a better job; "improved attitudes" or "a broader view" may indeed result, but these are only means to the end of practical improvement.

Go through the timetable, stressing the positive action implications of each topic. Remind participants that before the end of the programme they will be expected to have decided on at least one major improvement in the field of export marketing to put into effect on their return home. They will be expected to commit themselves personally to this. Their success at implementing their "action commitment" will be ascertained at a later date and this will be crucial to the evaluation of the programme.

- 3) Learning Methods: Point out that the group can draw on an enormous wealth of experience in co-operative marketing and practical ideas for its improvement; the purpose of the programme is to enable participants to share their knowledge with one another. They must not expect answers from the trainers; as professionals, they know far more about marketing co-operative products than any trainer. The trainer's role is to guide and structure the discussion and to encourage each participant to make maximum contribution to shared learning.

Point out that the timetable only covers the formal parts of the programme; many hours will have to be spent on individual reading and preparation, and all will suffer if anyone fails to do this. The programme as described in the timetable is provisional; it must be modified according to participants' wishes.

- 4) Administration: Brief participants on administrative details such as the time and places of sessions, eating and financial arrangements, facilities for private study, medical facilities, mail, laundry and so on.

Stress that the programme is for the participants' benefit, so they should feel free to comment on or suggest changes to any aspect of the text, learning methods or administrative arrangements.

SESSION 1.2

KNOW YOUR COLLEAGUES AND THEIR PRODUCTS

- Objectives :
- i) to identify the interests, problems and experiences of the participants, so that all have a clear idea of what resources are available within the group;
 - ii) to identify and describe the products which are currently exported or which could be considered for export by the societies of the participants.

Material : Before this session, the completed Pre-Course Questionnaires should be carefully analysed to determine what individual expertise is available and what sort of products the participants are concerned with. For their presentations trainees should use the information they have been asked to bring to the training course.

Session Guide :

- 1) Participants should each be given about five minutes to introduce themselves. The introduction should include:
 - The name by which they prefer to be addressed informally.
 - Their organisation.
 - Their title and a brief statement of what they actually do and the field in which they judge themselves to be quite proficient.
- 2) Ask each trainee individually to list and describe the products marketed by his society and to cite which of these, in the trainee's opinion, could be considered for export marketing.*

Allow questions for clarification and additional information from participants.

- 3) Conclude the session by referring to the participants wide range of experience and the variety of products they would like to market. Reaffirm that the group's accumulated expertise is an unrivalled source of information; the aim is to make it available to all.

topic

2

product development

Session 2.1 Why People Buy What They Buy

Session 2.2 Developing Products for Export Markets

SESSION 2.1

WHY PEOPLE BUY WHAT THEY BUY

Objective : To enable trainees to explain why consumers, distributors and processors choose the goods they buy, as well as the way they buy them.

Time : 2 to 3 hours.

Material : Handout 1 - Mini Case Studies, "Buying Behaviour"
Handout 2 - Role Briefs, "Astra Feed Mills Corporation"

Session Guide:

- 1) Divide trainees into groups and distribute the mini case studies "Buying Behaviour". Allow 20 minutes to 30 minutes for the groups to discuss the cases and agree on the answers to the questions.
- 2) Reconvene the groups in plenary. Elicit the following ideas and summarise on the blackboard or flipchart.

Case A

A possible conversation may have been: "Are these fruits or vegetables?"; "I don't know. I really wonder what they taste like. Maybe one should boil these before eating?"

Neither customer wanted to risk buying a product which was unknown to her. They weren't sure that they would receive value for their money. A consumer buys products he already knows.

Case B

Mrs. Brown will examine the envelope and remember the name Alpha Brand. She probably intends to pick up a package for herself, having been able to try the spices at her friend's house. Word of mouth and personal experience motivate a consumer to buy.

Case C

Mrs Redstone is thinking she definitely won't buy Beta-Brand asparagus again, and she'll probably avoid any other canned food bearing the Beta-Brand label, too. She would rather spend a little more money to obtain the quality. A consumer buys quality as well as "quantity". Brand-names often stand for "quality" in the public mind and as such influence consumer decisions.

Case D

Price is important for a professional buyer, but it should be considered in conjunction with quality. Since nothing is known about the quality of ACU's products, Mr. Eder should request samples first. If he is satisfied with the samples, he should still probably place a trial order, because he does not know anything about the reliability of his new supplier. Factors which a professional buyer will consider important when deciding whether or not to buy certain goods include: price, quality, supplier reliability, risk or risk coverage, transport conditions, payment conditions. Tell trainees they will learn more about these factors later on in the programme.

Case E

Customers may not know mango nectar and therefore not buy it. They may not like the taste of it. The price may be too high. Once introduced, the nectar may stop being available. The label may be unattractive or not in the language of the customers. The cans may be the wrong size. Mr. Smith may have doubts about the shelf-life of unbranded mango-nectar.

- 3) Question: Are the buying motives of consumers and wholesale distributors always the same? Elicit the following conclusions:
- Ultimate consumers buy to satisfy a need. Their motivation is not always rational; emotions may play a part. Factors like "satisfaction", "freshness", are important to the consumer.

- Distributors buy in order to resell and make a profit doing so. Their motivation is nearly always rational: they will buy only if the product can be resold at a profit. "Margin", "turnover", and "perishability" are important to them. But distributors can only sell products which satisfy needs of the ultimate consumer.
 - Conclusion: though interrelated, the buying motives of consumers and distributors differ.
- 4) Remind trainees that manufacturers form another important group of buyers. Explain that the buying process of a manufacturing company will now be demonstrated in a role play and that this will be a development of Case D with Mr. Eder from Astra.
- 5) Before you start this session you should have selected four trainees to play the roles described in the role play briefs for "Astra Feed Mill Corporation". They should have been given the time (about 20 minutes) to read and to "think themselves" into their roles and to decide how they will react during the meeting. Ensure that the role players keep their role briefs secret and do not talk about it to anyone else in the group, nor with one another, until the meeting described below in 6) has started.

Place a table and four chairs in the middle of the training room and seat the remainder of the trainees in such a way that they can easily observe and hear the four actors during the meeting. Explain that Mr. Eder, the procurement manager of Astra Feed Mill Corporation, will hold a meeting with his production manager, marketing manager and financial manager. They will discuss the pros and cons of buying produce cheaper from a new supplier. Ask trainees to take notes on the discussion, but not to interfere in the discussions of the four "actors" until the scene is over. (An alternative to confining the role play to four actors with the other trainees as audience would be to divide the whole group into teams of four actors. Each team would then be asked to perform the role play on its own. Separate rooms must be available so that all the role playing teams can perform without disturbing one another.)

- 6) Call in the four actors and place them around the table. Present them individually by name and title so that observers know who is who. A name sign on the table may be useful.

Let "Mr. Findlay" open the meeting and allow it to proceed for 15 minutes to 20 minutes until the vote is taken.

- 7) Re-establish the original seating arrangement.

Whatever the outcome of the meeting (most likely the managers of Astra decide not to buy immediately from the co-operative) ask trainees for their comments on the meeting and in particular ask them to discuss the following questions:

(In case all trainees performed the role-playing exercise, teams should be asked to report back in plenary on how they reached their decisions. The same following questions should be raised and discussed.)

- Question: How was the decision made?

The role-play simulated a typical case of collective decision-making. In most big companies, purchasing decisions are made by groups of persons on a consensus basis. If made by an individual (e.g. a buyer), purchasing decisions must conform to a number of pre-established criteria.

- Question: Was the decision a purely rational decision?

Although it is generally believed that collective decision-making is a guarantee for rational decisions, this is not the case. Some decision makers may have personal reasons for supporting a decision; others may be prejudiced. Compared with individual decision-making, however, decisions made by a group of people are likely to be more rational, because individuals cannot impose their reasons and prejudices on the rest of the group.

- Question: Should the salesman of the Alpha Co-operative Union have participated in the meeting? Or should he have tried to

meet with some or all of the managers before this decisive meeting? Could this have influenced the final decision?

Trainees may differ in opinion. They must, however, accept that decision makers are only human even if they occupy top posts. As such they are open to arguments and new information and they can be influenced. Personal contact will also enable the salesman to learn more about the needs of his customer.

- 8) Conclude as follows: purchasing decisions by large distributors, processors, overseas buyers and importers are complex and time-consuming because they are very often collective decisions. They must conform to a number of pre-established criteria and they may be influenced by non-rational factors.

An overall conclusion of the session should be that people will only buy a product when it satisfies an existing need at an acceptable price.

Buying Behaviour

- A - Two women go shopping in a supermarket in a European city. They discover on one of the shelves a display of strange fruits with the following signs: "Kumquat \$4.-kg" and "Kiwi \$1.-/piece." They look at the fruits, touch them, smell them and finally put them back. They say something to each other and then walk over to the next counter where one of the women buys bananas for \$2.-, and the other buys a small bag of apricots.

What do you think the two women said to each other?

- B - The Greens have invited the Browns for dinner. After a very pleasant meal, Mrs. Brown asks, "Say, Mary, your salad was just delicious. What did you put in it to get this delicious flavour?" Mrs Green replies, "Oh, that's one of these new Alpha-Brand spice mixtures. They come directly from where the spices grow. I bought it in our grocery at the street corner". Mrs. Brown asks, "May I see the package, please?"

What do you think Mrs. Brown is going to do?

- C - Mrs. Redstone has bought a can of preserved asparagus in the local supermarket. From among the several brands displayed on the shelf she chose the Beta-Brand because the label showed really nice-looking asparagus, thick and white, with smooth heads, and the price was some cents cheaper than the others. When she opens the can at home to prepare lunch she finds however, that the asparagus are rather thin and greenish. They are also heavily salted. Her husband certainly does not like them, and puts them on the rim of his plate. A few days later, while Mrs. Redstone is preparing her vegetable shopping list for the next week, she pauses when she gets to asparagus.

What goes through Mrs. Redstone's mind right now?

- D - Mr. Eder is purchasing officer of the Astra Feed Mills Corporation. The company manufactures feed for cattle, pigs and poultry. He buys, usually from importers, large quantities of

maize, tapioca, oilseed, cakes and meals, groundnuts, etc. He has now been contacted by a salesman from the Alpha Co-operative Union, who offers to sell to the company most of the above products for fifteen per cent less than the present price. You are Mr. Eder. Would you buy from ACU? Give reasons for your reply.

E - Mr. Miller has an appointment with Mr. Smith, buyer for the Sigma Grocery Chain Store Company. After having taken an order for a number of well-known items, Mr. Miller presents Mr. Smith with a sample can of unbranded mango nectar. Mr. Smith shakes his head, saying, "Sorry, but we already carry too many different items. Putting up a completely unfamiliar product would probably reduce our sales".

Mention some other objections to buying this mango nectar.

Astra Feed Mills Corporation
Role brief: Purchasing Officer

You are Mr. Eder, Purchasing Officer of Astra Feed Mills Corporation. Your company manufactures animal feed for cattle, pigs and poultry. You usually buy your primary produce, such as maize, tapioca (cassava), oilseed, groundnuts, etc. through local importers. You have now been contacted by a salesman from a co-operative in a developing country. This man said that the co-operative is in a position to supply most of what Astra needs for about 15% less than what Astra usually pays to suppliers, but he asked for payment upon delivery. He has also assured you that the quality of his products will meet Astra's specifications. Unfortunately, the salesman was not able to support this on the spot with samples but he promised to send you samples on his return home. You have not yet received them. You have discussed the matter with the vice-president of your corporation who suggested that you hold a meeting with the management group, i.e. Mr. Mcpherson, the production manager, Mr. West, the marketing manager and Mr. Findlay, the finance manager. The vice-president wants a decision from the meeting: should you buy from the overseas Alpha Co-operative Union, and if so, under what conditions?

Since you know that prices of primary commodities are likely to go up in the near future, you want to persuade your colleagues to decide in favour of buying a two-month supply at low prices from the ACU as soon as possible.

From experience you know that every penny saved in buying cheap is a penny added to profits.

And the decision must be made right away, as the crops will become available in the near future. If you do not order now, the ACU will probably sell its goods to middlemen and the opportunity to buy cheaper will be lost.

Astra Feed Mills Corporation

Role brief: Production Manager

You are Mr. Mcpherson, Production Manager of Astra Feed Mills Corporation. Your company manufactures animal feed for cattle, pigs and poultry. Raw materials are usually bought by your company from local importers, with whom you usually have a good relationship, of long standing. In fact, one of them is a close personal friend and both of you have spent the last vacation together with your families.

What you value most in raw materials to be used in the production of animal feed is their absolute conformity to specifications. The feed stuff is mixed according to a special formula approved and controlled by the government; Astra-Brand owes its high reputation to the success of this formula.

Another important factor is timely delivery, as every delay may cause production to stop. Usually you maintain only a 3-day reserve stock, thanks to the ready availability of new supplies - all it takes is a simple phone call to one of the importers' depots in the harbour. This also makes it possible for Astra to use its warehouse to store ready-made feed instead of raw materials.

You have now been called to a meeting to decide whether or not to buy from a new overseas supplier. You are opposed to this idea because it would require long-range forecasts of the quantity of supplies needed and complicated inspections and tests when the supplies arrive. In addition, there will be a constant risk of the goods not arriving in time.

You also foresee a storage problem. Where are you going to put a 2-month supply? Should you use the larger part of Astra's warehouse, which is now used to store the bagged feed? But then where would you store the bagged feed?

Finally, you fear that this decision may hurt your friendship with the importer.

However, should somebody show you how to overcome your problems, you would not be averse to a trial order. If the shipment comes too late or is not up to standard, it will not be your responsibility but the buyer's.

Astra Feed Mills Corporation
Role brief: Marketing Manager

You are Mr. West, Marketing Manager of Astra Feed Mills Corporation. Your company produces animal feed for cattle, pigs and poultry. The feedstuff is manufactured according to a special formula, which has given Astra-Brand its excellent reputation. High standards of quality combined with your marketing policy of "fast delivery upon request", have enabled you to win a large share of the market for Astra.

Of course, fast delivery makes it necessary to keep a rather large stock of ready feedstuff available. This allows the farmers and breeders to keep a minimum stock only. It diminishes their risk and they do not have to invest in large stocks. This advantage is the main reason why your customers prefer to buy from Astra and not from other companies (among which there are some who sell feed of equal high quality at a slightly lower price). You fear that a considerable number of breeders and farmers will start buying from your competitors, if you happen to be unable to deliver immediately from your large stock.

This has happened once before, when a strike paralysed your production for one week. Your sales decreased that month by 30% and the company went in the red. Although it was not your fault, you felt very frustrated. Your salesmen had trouble winning back all the customers who had been lost because of your inability to deliver immediately.

You have now been called to a meeting to discuss the new purchasing policy for raw materials.

You are quite prepared to accept any proposition, as long as high quality and supply capacity are maintained.

Astra Feed Mills Corporation

Role brief: Finance Manager

You are Mr. Findlay, Finance Manager of Astra Feed Mills Corporation. Your company produces the well-known Astra-Brand feedstuff for cattle, pigs and poultry. The company's business policy is to supply a high quality product at prices which are slightly above average, but justified by the excellent and quick delivery service provided by your marketing department. The high market share and the highly rationalised management and production procedures produce a reasonable surplus for the company every month.

Demand is steadily increasing and the company will soon have to increase its production capacity if it wants to maintain its market share. There is a plan afoot to invest profits from sales as well as a bank loan in new machinery with higher production capacity.

The vice-president has asked you to chair a meeting in which three other company officers will participate: Mr. Eder, the purchasing manager, Mr. Mcpherson, the production manager, and Mr. West, the marketing manager. The aim of the meeting is to find out whether there is any real advantage to changing suppliers of raw materials. The vice-president insisted that the meeting should only recommend a decision if there was unanimous agreement.

You have brought the following figures and facts to the meeting:

- (a) The present production costs are as follows:

Direct Material Cost	45%
Direct Labour Cost	20%
Indirect Production Cost	35%

- (b) Present suppliers /importers allow 30 days credit. Invoices are issued only at the end of the month of delivery. Deliveries take place on average twice a week.

How will you chair this meeting? To begin with, you give the floor to Mr. Eder, the purchasing manager, who will introduce his proposal to switch to a new supplier of raw material. Then you will ask first Mr. Mcpherson, the production manager, and after him Mr. West, the marketing manager, to give their respective opinions on the proposal. Further discussion should aim at clarifying the views of each manager.

Make sure you tell your colleagues that the company cannot afford to invest money in a new warehouse as all available capital will be needed to boost production capacity. Neither will it be possible to pay cash for stocks of raw materials. Your present suppliers allow you to pay after having sold the finished product.

During the discussions, make a list of all the positive and negative consequences arising from a change of supplier, and present this as a summary before the meeting votes on the matter.

As you have another appointment in 20 minutes, press for the matter to be brought to vote rapidly.

Remember: The vice-president asked you to arrive at a unanimous decision. If this is not possible, the matter must be referred to the president for a final decision.

The president, however, is travelling abroad and will not be back for two weeks.

SESSION 2.2

DEVELOPING PRODUCTS FOR EXPORT MARKETS

Objective : To enable trainees to adapt/modify the products marketed by their societies in order to make them more appealing to overseas markets and consumers.

Time : 2 to 3 hours.

Material : "Related Products" lists from Session 1.2
Handout 1 - "Product Adaptation Check List"
Handout 2 - "Product Improvement Form" - Blank
Handout 3 - "Product Improvement Form" - Samples

Session Guide :

- 1) Question: Could all products produced by the trainees' co-operatives be exported to some foreign market in their current form? Elicit the comment that in most cases some changes will be required with regard to quality, colour, flavour, variety, size, grading, packaging, labelling, etc. in order to make the products more acceptable to foreign markets.

Ask trainees to give examples of the different forms in which products produced by their co-operatives could be marketed.

Examples:

Mangoes : Can be sold fresh in different varieties, in bulk or packaged or peeled and frozen, or canned as mango nectar, juice, pulp, slices, or incorporated in fruit cocktails.

Spices : can be sold in bulk, in grain, ground into powder, mixed with other spices, packaged in small dispensers, etc.

Elicit acknowledgement of the need to adapt products which are now marketed and consumed domestically to the needs, tastes, preferences, habits of the overseas market(s) and consumers:

- Different markets have different social customs, purchasing and consumption habits. Also, the way products are sold and consumed on the local market may be totally different from sales and consumption habits on the export market.
 - Packaging may have to be adapted to reflect different metric or imperial systems (kg/lbs - cm/inches - metre/feet - yards).
 - Health and safety regulations vary from country to country.
 - Some markets will require top quality and be ready to pay higher prices, while others will only buy cheap products.
- 2) Question: Should the package be considered part of the product? Definitely. Ask trainees what should determine the shape, colour, size, material etc. of a package.

Elicit that packaging must appeal to and meet the requirements of the end-user. The producer must ensure that the package makes the product easier to use, is easy to open, is strong enough and of a practical size and that it protects the quality of the products, etc. Tell trainees that a consumer may very well refrain from buying a top-quality product if it is badly packaged. Consumer-oriented packaging takes into account the buyer's needs.

Packaging requirements relate to the following aspects (rule of the "Six P's"):

- Presentation
- Preservation
- Promotion
- Proportion
- Protection
- Portability

Presentation is concerned with the appearance of the product. Ask trainees to give examples of well presented agricultural products, keeping in mind the increase of sales of such products through self-service supermarkets:

- fruits individually wrapped;
- strawberries in cellophane-covered boxes;
- orchids with a little water reservoir in a transparent plastic cylinder;
- eggs in trays of half a dozen or a dozen, etc.

Preservation i.e. how the package helps to keep the product fresh or intact. Examples of such packaging (mostly of food products) are

- canning;
- plastic film wrappers;
- vacuum packaging;
- air-tight packages;
- deep-freeze packaging;
- bottling etc.

Promotion means that the appearance of the package must please the consumer and help him to identify the product. Ask trainees to give some examples.

Proportion refers to the size of the package, i.e. the price/quantity relationship. Should the product be sold in "economic size" packages or in smaller units or by piece? Discuss differences between local and overseas markets in this respect.

Protection means that the package should be strong enough to protect its contents during storage and transportation. Ask trainees against what risks food products should be protected (contamination, unpleasant odours from other goods, dust, humidity, insects, rodents, leakage, etc.)

Portability relates to a product's transport and handling requirements. The product must be easily carried and stacked both by the distributor and the consumer. Illustrate how 1-2 kg net bags of

oranges make the carrying and stacking of oranges much more convenient for supermarket staff as well as for consumers.

- 3) Exhibit lists of the related product groups prepared in Session 1.2. Any unprocessed primary products sold by trainees' co-operatives could be added to the lists.

Divide trainees into groups on the basis of the product lists, i.e. members of a group should all be familiar with the products on a particular list.

Inform trainees that the following exercise will give them an opportunity to do a real product adaptation.

Tell each group to select one to three products from their product list - products which they believe could be improved and made more suitable for export. They should complete one "Product Improvement Form" for each product. Distribute sufficient copies of the form to the groups. Also distribute the "Product Adaptation Checklist".

Tell groups to use this list to assess what changes may be required in quality, specification, grading, colour, flavour, variety, size, packaging, labelling and/or further processing in order to make the products more acceptable to export markets and more suitable for marketing through selected channels. Groups must also list any information that they don't have but need before they can come to a decision about possible changes. They must translate these information requirements into questions to which research could provide the answers.

- 4) In order to illustrate what is expected from the trainees, distribute the two samples of a "Product Improvement Form", which have been used to initiate improvement of (i) a handicraft product (cushion covers) and (ii) an agricultural product (mangoes). Point out that in the first case, several factors made the cushions very difficult to sell, including their great weight (3.5 kg because of heavy Kapok filling), their rectangular shape (European customers prefer square cushions), the colour and design, which did not cor-

respond to consumers' tastes, and finally the raw material use. The result of the product adaptation was an entirely new and different product with high export potential. In the second case, the export of mangoes was hampered because this fruit is highly perishable and arrived on the target market in bad shape due to poor packaging and inadequate quality controls. Allow time for questions from the participants and stress the need for attention to detail.

Tell trainees to use the "Product Adaptation Check-list" in the same way in order to improve the products selected by their respective groups. Depending on the number of products analysed and changes suggested, allow from 30 to 90 minutes for this exercise.

- 5) Reconvene in plenary. Ask each group to present the modifications they would suggest for the product(s) they have selected and what additional information they would require. Allow other groups to ask questions and make suggestions. Allow approximately 10 minutes per product presentation.

Most of the groups' suggestions will probably relate to:

- introduction of new products;
- modification of existing ones through processing;
- improvement of "packaging".

- 6) Explain that product development can also apply what is called "product differentiation", i.e. making one producer's products easily distinguishable from other goods of the same category. One way of doing this is through "branding". For example, growers of bananas and other fruits are in a very competitive market; use stick-on labels or stamps so that customers can easily identify their brand among the others. Ask trainees why easily distinguishable products enjoy a commercial advantage over other goods. Only products with distinct features (e.g. brand-names) can be successfully advertised. When faced with competition, sales can be maintained by distinguishing the product from competing products, and

not necessarily by lowering prices (and losing money). Illustrate with the following example:

A fruit growers' co-operative vigorously and expensively advertised their very high quality oranges in a new market. Shopkeepers bought large initial stocks of the oranges, but since they did not look any different from other, slightly less expensive oranges, the shopkeepers sold the other type to customers who asked for the co-operative fruit. The sales results were after a while quite insufficient to cover the costs of the promotion.

Question: In what other ways can they differentiate same or similar products from one another, apart from "branding"?

They can change appearance such as colour, size, shape, volume, design of the product or its package.

- 7) Elicit the difference between the "characteristics" and the "benefits" of a product.

People are not buying products as such, but rather the "benefits" and "satisfaction" which they expect to get from the product.

Green beans	characteristic	stringless
	benefits	ease of preparation pleasant
Tangerines	characteristic	no pits
	benefits	ease of eating no disposal (spitting of pits)
Canned fruit nectar	characteristic	ring-pull top
	benefits	ease of serving no opener required

Try to get them to say that product improvements - whether through the introduction of new products, modification of existing ones,

improvement of packaging or product differentiation - must aim at improving the benefits of the product to the consumer.

Briefly review the product improvements which the various groups have suggested. What additional benefits have these changes brought for the consumer.

- 8) No benefits, either for the consumer or for exporting producers, can be obtained, however, unless decisions for modifications are implemented.

Remind trainees of their responsibility to commit themselves to a course of action to be implemented after the training course. Some trainees may wish to adapt or improve a product of their society and analyse the feasibility of such a modification.

Emphasise that implementation will depend on whether the costs connected with the modification(s) are lower than the benefits, i.e. the extra sales (and surplus) generated by modifying the product. Both costs and benefits must be identified and calculated for each product modification.

Production Adaptation Check-list

Before concentrating on the product itself, think of the end-user. Who buys the product and why? What is its main use? Are there any other uses possible? Why do some people not buy the product?

1. What is the principal characteristic of the product?
2. Can this characteristic be modified, enhanced, improved?
3. Can the product be produced in greater quantity, at less cost?
4. Is production seasonal or throughout the year? Can this be changed?
5. Can the product be made more attractive, more durable, easier to use?
6. Is your product a substitute for another one?
7. Can it be sold as a complement to another product?
8. What about changes in colour, flavour, size and form?
9. Can the product be dried, ground, dehydrated, liquified, frozen, preserved, cooked, boiled, baked, smoked, salted, pickled, etc.?
10. Can it be mixed with other products for a new use?
11. Can it be used as raw material to make a more elaborate product?
12. Can the product be sold after modification, as a new product?
13. Can the product be put, after modification, to a different use?
14. Can the production of the product be suppressed altogether and easily replaced by a more rewarding one?
15. How can your product be differentiated from those of competitors?
16. How is your product being transported, stored, distributed?
17. In what form is your product being sold to its end-user?

18. Does your product undergo transformation in the target market?
19. In what type of stores is it being sold?
20. In what quantity is it usually bought at one time?
21. Does the decision to purchase depend on the wrapping, packaging?
22. Is it easy to identify the product by its packing?
23. How long is the product usually kept in stock before being sold?
24. How is your product usually handled in warehouses?
25. How can handling be simplified through modification of packaging?
26. During transport and storage, are there special precautions to be taken against variations in temperature or extreme temperatures?
Humidity? Shocks? Theft? Insects? Rodents? Dust? Water?
27. Are there rules and regulations to be observed for special packaging, labelling?
28. Is present packaging material produced locally or imported?
29. Is product packed by hand or by machines?
30. How does packing and packaging compare with competitors'?
31. Is quality constantly controlled and maintained at the same level?
32. Can grading and standardization be improved?
33. Can price be reduced by more efficient operations (production, administration, marketing)?

Product Description:	Producer:
Target Market:	
Changes Required:	Translate information requirements into precisely formulated questions
Information Required?	

SAMPLE

PRODUCT IMPROVEMENT FORM

<p>Product Description: <u>Cushion</u>, cover handwoven, synthetic fibre, bright colours, traditional design. Filling: Kapok. Weight: 3500 gr Shape: Rectangular, Size 50 x 25 cm</p>	<p>Producer: Women's Co-operative Union</p>	
<p>Target Market: Europe</p>		
<p>Changes Required:</p>	<p>Information Required?</p>	<p>Translate information requirements into precisely formulated questions</p>
<p>1. <u>Filling</u> Sell cushion cover only without filling to reduce transportation costs</p>	<p>New prices</p>	<p>How much transportation cost can we save?</p>
<p>2. <u>Shape</u> Change from rectangular (unpopular in target market) to square</p>	<p>Preferred size</p>	<p>What would be the best size for the new cushion? Can we make two or several different sizes?</p>
<p>3. <u>Raw material</u> Products made out of man-made fibres pay high customs duty. Use natural fibres.</p>	<p>Which fibre? Supply source</p>	<p>Where can we buy good quality cotton yarn and at what price?</p>
<p>4. <u>Colour</u> Change bright colours to pastel shades</p>	<p>Which colour? Supply source?</p>	<p>Where can we obtain suitable dye, at what price and of what quality?</p>
<p>5. <u>Design</u> Change from traditional to modern</p>	<p>Which design? By whom?</p>	<p>Who can provide skilled designers? At what cost? Foreign assistance?</p>
<p>6. <u>Packaging</u> Wrap individually with transparent plastic or cellophane sheet</p>	<p>Supply source Cost</p>	<p>Who sells transparent wrappings? Shall we use sheets or bags?</p>
<p>7. <u>Label</u> Apply self-adhesive "Quality" label, identifying craftsmanship country of origin and indicating Hand-made</p>	<p>Design, wording, language, source, price</p>	<p>Is there a printer producing such labels? At what price? Does he provide design services?</p>
<p>8. <u>New Products</u> Following same weaving pattern, create table mats, shoulder bags, purses, etc.</p>	<p>Design, material, prices, market requirements.</p>	<p>Are similar products already on the market? Do general standards exist? At what price can items be sold?</p>

SAMPLE

PRODUCT IMPROVEMENT FORM

<p>Product Description: Alphonso Mangoes. Average 300 gr each Harvest: April - May. Low market price during glutt.</p>	<p>Producer: Alpha Fruit-growers Co-operative Society</p>
<p>Target Market: Industria</p>	
<p>Changes Required:</p>	<p>Information Required?</p>
<p><u>Harvesting</u> Pick mangoes one week before they reach full ripeness.</p>	<p>Best time to pick fruits</p>
<p><u>Gradings</u> Train farmers to grade mangoes A - between 250 gr and 300 gr B - between 300 gr and 350 gr All others to be sold locally</p>	<p>Equipment required for grading Training method % of total by grades</p>
<p><u>Packing:</u> Train farmers to individually wrap and pack in cardboard boxes in orchard. Provide wrapping paper and boxes.</p>	<p>Training method Source of suply Cost of material</p>
<p><u>Quality Control:</u> Organise spot checks before collection of product.</p>	<p>Pesticides Degree of ripeness Grading Integrity of fruit Packing</p>
<p><u>Storage and Transport:</u> Keep in cold storage until weekly air shipment by Alpha International Airline.</p>	<p>Storage capacity required</p>
	<p>Where to order packaging material? What is the cost of paper, boxes? Is printing work necessary? Develop standards and control procedures. Can the Ministry of Agriculture be of any assistance? Number of boxes per ton? Volume per metric ton. Number of tons daily production?</p>

topic

3

marketing channels

Session 3.1 Reaching the Consumer

Session 3.2 Selecting Distribution Channels

SESSION 3.1

REACHING THE CONSUMER

Objective: To enable trainees to identify and describe the channels through which the products of their societies pass to reach the ultimate consumers.

Time: 2 hours.

Material: Product List evolved in Session 1.2
Diagram - Handout 1 - "Distribution Channels"

Session Guide:

- 1) Hand out the diagram "Distribution Channels". Explain the diagram and ask participants to use this as an example in drawing up diagrams showing the channels through which the products of their societies pass on their way to the ultimate consumer. Participants should also try to estimate the shares of the total production which pass through the various channels to reach the various markets (local and abroad). Each participant should draw his own distribution diagram. Allow up to 20 minutes for this exercise.
- 2) Divide participants into the same number of product groups that were identified in Session 1.2. Make sure that participants who are dealing with the same or related products are in the same group.

Give the groups the following assignment:

- a) Discuss and identify the likely reasons for having certain channels, and the advantages and disadvantages of these channels.
- b) Discuss whether participants see any alternative distribution channels for their products.

Allow up to 30 minutes for this exercise.

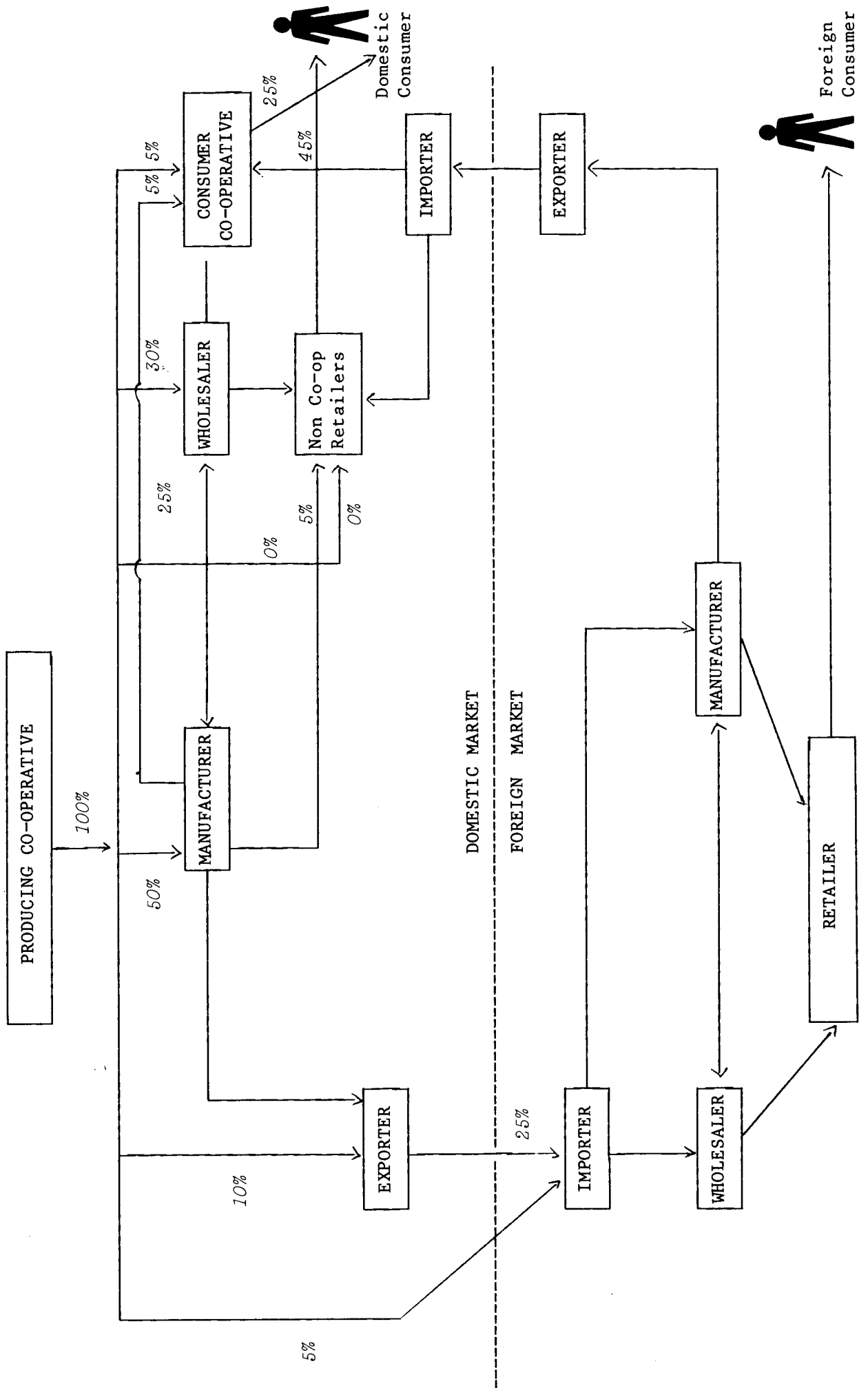
- 3) Reconvene in plenary and ask everyone to present his individual distribution channel diagram.

Questions for each participant: Do these channels work satisfactorily? Could channels improve performance?

- 4) During this exercise most participants will realise that their knowledge of distribution channels for the products of their societies is incomplete. Usually only the first buyer is known and the seller loses track of the product as soon as it leaves the society's control.

Question: Why is complete information about distribution channels so necessary? Elicit the answer that without such information, marketers may overlook alternative distribution channels offering larger sales possibilities, better profits and greater consumer satisfaction.

DISTRIBUTION CHANNELS FOR CO-OPERATIVE PRODUCTS



SESSION 3.2

SELECTING DISTRIBUTION CHANNELS

Objective: To enable trainees to select the most effective distribution channels for marketing the products of their co-operatives abroad.

Time: 3 to 3 1/2 hours.

Material: Handout 1 - Case-Study, "The Most Effective Channel".

Session 3.2:

- 1) Question: What is "distribution"? On the blackboard write keywords suggested by trainees and come up with a definition along the lines of: "Distribution involves all the activities concerned with getting a product from the producer to the customer. Its aim is to make sure that the product is available for purchase by the people who want to buy it, wherever they want to buy it."

Elicit the difference between "commercial" and "physical" distribution.

- Commercial distribution deals with trade contacts and the choice of wholesale and retail channels; involves finding good markets and stimulating demand.
- Physical distribution: deals with the problems of space and time, namely how to overcome them by "transport" and "storage".

- 2) Question: Why are distribution channels in the form of "middlemen" or "intermediaries" necessary at all? Why can't a co-operative deliver its products directly to the ultimate consumer?

- Getting goods to overseas markets involves costly and complex distribution functions. Specialisation helps to reduce both the complexity and high costs of these functions.

Example :

A shipowner specialises in the transport of bananas from tropical countries to Europe and the USA. He equips a ship with special storage facilities in which the ripening process of green bananas can be monitored; he hires a specialised crew to man the ship. Specialisation allows the banana shipper to:

- assemble small lots of bananas from various suppliers until he has a whole shipload, thereby bringing down transporting costs;
- overcome the deterioration problem of bananas by controlling the ripening process.

- 3) Show trainees on blackboard/OHP a typical export distribution chain. Ask trainees to name the common distribution functions in which the listed intermediaries have specialised. A possible list of functions is as follows (list on blackboard/OHP as trainees name them):

Farmer	grows, carries to collection point
Primary Co-operative	collects from collection point, weighs bags, grades, transports, stores
Co-operative Union or Federation	transports, grades, weighs, stores
Transporter	stores and transports
Importer	receives, clears, stores, processes, packs, breaks bulk
Wholesaler	collects, transports, stores, promotes, gives credit, breaks bulk, delivers
Retailer	receives, promotes, stores and displays, gives credit, sells to consumer

Consumer: collects, transports, stores, ultimately processes, consumes

- 4) Question: Which factors should an agricultural co-operative consider when selecting export distribution channels for its product(s)? Elicit the answer that the best choice always aims at satisfying both the consumer and the co-operative:

Consumer: looks for high quality products and low prices, i.e. an optimal quality/price relationship.

Co-operative: wants a reasonable profit and a guarantee for selling the volume it produces.

- 5) Question: When it comes to agricultural products, which factors will influence the quality/price relationship?

- the higher the speed of distribution, the quicker the products reach the- consumer and the better the chance of the products arriving fresh;
- the lower the distribution costs and mark-up applied by the intermediaries in the distribution chain, the lower the ultimate price offered to the consumer.

Point out that both factors work against each other in that a fast distribution system is usually not the cheapest.

- 6) Question: What will determine the profit on the goods they sell? Clearly it is the price which they receive for the goods. Another important factor is the payment conditions - the longer one must wait for one's money, the higher the financial costs will be.

Last but not least, elicit the observation that the nature of the contract which a seller is able to negotiate with a buyer as well as the reliability of the buyer and his distribution channels will be criteria for estimating likely future sales volumes.

- 7) Divide trainees into groups. Distribute the case-study. Make sure all trainees understand the problem and the assignment. Allow up to one hour to complete the assignment. Supervise group work and give guidance if necessary.

- 8) Reconvene in plenary. Ask a spokesman of each group to state which "option" his group recommends and why. Make sure that the reasons given relate to the criteria in the table (i.e. same criteria as identified in 5) and 6) above).

Before discussing each group's choice, have all trainees agree on how each "option" should have been assessed in the table. The completed table looks as on the following page. The subsequent page shows how to arrive at the retail selling prices.

	TROPICANA IMPORT CO.	MAXIMA CO-OP B.O.	Through agent
AFG's NET SELLING PRICE per ton	Price offered \$ 970 - airfreight* (1.15 x 360) - 414 Net selling price \$ 556	Price offered \$ 1,000 - airfreight* (1.15 x 400) - 460 Net selling price \$ 540	Price offered \$ 1,350 (duty and transp. incl.) - road transp. 115 - cust. duty 50 - agent comm. 100 - airfreight* 1.15 x 380) 437 Net selling price \$ 648
PAYMENT CONDITIONS	Between 30 to 60 days credit	\$140,000 at the end of each month. The balance at the end of the season.	Within two weeks from delivery.
DISTRIBUTORS' COSTS	Customs duty \$50 per ton	Customs duty \$50 per ton	-
DISTRIBUTORS' MARK-UPS	Importer 25% Wholesalers 33% Retailer 43% VAT 7%	Total for importer, wholesalers and retailers 100% VAT 7%	Cash & Carry 20% Retailers 40% VAT 7% Restaurants 300% VAT 7% Hypermarkets 30% VAT 7%
LIKELY PRICE TO CONSUMERS (see next sheet)	\$0.55 each	\$0.47 each	At retailers \$0.53 At restaurants \$1.52 At hypermarkets \$0.39
SPEED OF DISTRIBUTION	6 - 7 days to reach the consumer	4 - 5 days to reach the consumer	Not known
TYPE OF CONTRACT	Contract on 150 tons monthly, to be tacitly renewed throughout the season	Contract on 750 tons for the whole season	No contract
RELIABILITY OF BUYER AND DISTRIBUTION CHANNELS	Good	Average	Poor

* Note that one ton of mangoes is 1.15 tons gross weight (incl. cases)

9) Discussions of each choice should emphasise the following:

(i) Group(s) which chose Tropicana Import Company Ltd (Option 1) should have done so because:

- The relatively good selling price obtained.
- The reliability (experience) of the buyer and his distribution channel in selling tropical products.

Counter-arguments, however, are:

- High price to the consumer: no real objection, however, if Tropicana retail outlets are catering mainly for high-income consumers.
- One-week delay may mean that many consumers may end up with over-ripe mangoes; problem could perhaps be overcome by shifting shipment dates.
- The relatively long delay in payment.
- The main argument against Tropicana is the contract: AFGS can only be sure of selling 150 tons since Tropicana has made no formal commitment to buy again; what will happen if another supplier appears and offers Tropicana mangoes at lower price?

(ii) Group(s) which chose the Maxima Co-op Buying Organisation (Option 2) should have done so because:

- The low price of .47c per mango to the consumer: this is a particularly strong argument since consumer research has shown that customers will buy mangoes if the price is less than .50c per piece.
- The speed of distribution: consumers will be able to consume the mangoes at their best. Since most consumers will be "new" mango eaters, the excellent taste will help build consumer loyalty towards mangoes.
- The 750-ton contract, which takes care of the entire season's production. One could, however, question the val-

idity of having a "firm" contract: for instance, what would happen to the contract if mangoes do not sell as well as expected? In such a case it is doubtful whether Maxima would continue to honour the contract and buy mangoes it knows it won't be able to sell. Figures support a "precautionary" attitude:

750 tons = 3,600,000 mangoes

Season (October - February) 20 weeks

Consumption per week should consequently be 180,000.

There are approximately 900 retail outlets. Optimistic estimates say that these could each sell an average of 200 mangoes per week: hence total consumption per week potentially could be $900 \times 200 = 180,000$ mangoes. The contract has thus been based on the most optimistic sales and consumption figures.

- Favourable payment conditions, since more than 90% of the payment due will be received within 30 days of delivery.

Arguments against Maxima include:

- The low net selling price due to the high transport costs incurred by frequent, small, split-up shipments. There may be a possibility of negotiating one shipment three times per week to a central airport in the import country. This would reduce the transport costs per ton from \$460 to \$414 and increase the net selling price from \$540 to \$586 per ton, provided Maxima keeps its buying price at \$1,000. If, in such a case, Maxima would want to lower its buying price, any price above \$954 will still constitute a better offer than what is offered at present.
- The reliability of the distribution channel could be rated at most "average": though research and (optimistic) estimates hold the buyer and his distribution channel capable of selling the quantities ordered, this remains to be proved in practice.

(iii) Group(s) which chose to market their mangoes through an agent should have done so because:

- The high selling price obtained (\$648 per ton).
- The very good payment conditions; the question which arises, however, is, how reliable are Cash and Carry & Hypermarkets when it comes to payments? What happens if they do not pay? What are the responsibilities of the agent in such a case? Will AFGC have to chase payments? The absence of a contract between AFGC and the agent offsets to a great extent the favourable payment conditions.
- The very competitive price for mangoes to the consumer in the Hypermarkets (0.39 per piece); the low price may make Hypermarkets the most promising outlet for future sales of mangoes. The question which arises however is: are Hypermarket consumers typical mango consumers?

Arguments against the agent are, clearly, the absence of a contract; the fact that the agent is not committed to any sales (hence his potentially poor reliability), and the fact that one does not know anything about the state in which the mangoes are offered to the ultimate consumers.

10) Conclude the discussions as follows:

"Ideal" buyers and distribution channels for co-operative products do not exist. Co-operatives should aim at distinguishing the best possible buyers and distribution channels. The selection of one channel does not mean that all conditions are perfect and all risks have been avoided. On the contrary, it is the buyer and the distribution channel which a co-operative selects which will determine the sales of its product(s). Awareness of the risks and weaknesses of the channel should help the co-operative to avoid or minimise possible breakdowns in the sales and distribution of its products.

The Most Effective Channel

The Export Manager of the Alpha Fruit Growers Society (AFGS) has to decide which channel to choose to market his mangoes during the next season (October to February). He must try to sell an average of at least five tons daily to reach a total of 750 tons.

The society can pack its mangoes in wooden cases containing an average of 96 mangoes each. Gross weight of each case is on average 23 kg, net weight 20 kg. The rule of the society is that the mangoes should be picked the same day or the day before they are dispatched from the airport. Mangoes need approximately one week from picking time to reach their best taste. After one week deterioration sets in quickly. All importers insist on landed prices, i.e. AFGS must pay the air freight charges.

Air freight charges from Alpha Airport to the target market airports are the following:

Lots below 1 ton	\$ 0.50 per kilogram
Lots from 1 to below 5 tons	\$ 400.00 per ton
from 5 to below 10 tons	\$ 380.00 per ton
from 10 to below 50 tons	\$ 360.00 per ton
50 tons and above	\$ 350.00 per ton

The importers have to take care of customs clearance and sanitary inspection of the goods. They will pay a specific customs duty of \$0.05 per kg (\$50 per ton).

Information from market research and negotiations with prospective distributors have reduced the number of possible buyers and distribution channels to three.

Option 1: Selling to the Tropicana Import Company Ltd., a big and well-known importer with a good reputation and long experience in the import and distribution of agricultural products from tropical countries. This importer is willing to pay a DDP (Delivery Duty Paid) of \$970 per ton net weight.

Tropicana will sign a monthly contract for 150 tons, to be tacitly re-conducted throughout the season. Mangoes are to be shipped once a week to arrive each Monday morning with the regular cargo flight, in lots of 30 to 40 tons.

Tropicana will pay the total value of one month's delivery, 30 days after the end of the month in which the mangoes were delivered. The importer arranges for customs clearance, breaks down the consignment received at the airport and ships individual lots to about 20 regional wholesalers, which will receive the goods not later than Tuesday evening. Starting during the night and continuing into the following day, the wholesalers supply the fruits, to an average number of 40 to 50 retailers. All retailers will receive their mangoes not later than Wednesday night.

Option 2: Selling to the Maxima Co-op Buying Organisation. This office is willing to pay a landed price of \$1,000 per ton net weight.

After some initial hesitation, Maxima has agreed to place a contract covering the whole season and all 750 tons. Their commitment is the result of an extensive consumer study in co-operative retail outlets, which has revealed a potential demand for mangoes, provided the price per mango could be held below \$0.50 per piece. This will be the first time that the co-operative stores have sold mangoes. Optimistic estimates say that an average store could sell up to 200 mangoes per week.

Goods are to be shipped 3 times per week, on Monday, Wednesday and Saturday, each time to 4 different airports in the country. That means that every week, 12 lots of approximately 3.6 tons gross weight have to be prepared and shipped.

Maxima will make monthly payments of \$140,000 and settle the account at the end of the season.

Maxima will arrange for customs clearance, take the consignments received at the various airports to co-operative wholesalers, who will add the mangoes to their daily shipments to the 80 to 100 retail stores of their areas.

Option 3: Selling through an agent to a specified number of large Cash & Carry Wholesalers (approximately 120) and Hypermarkets outlets (approximately 180).

The agent will visit the large stores at least once a month and take orders for delivery during the following month. He will make individual sales for quantities between one and three tons, at a price of \$1,350 per ton, delivery and duty included. For his services he wants a commission of \$100 per ton.

AFGS will make one daily shipment of five tons to the address of a freight forwarder, who will arrange for customs clearance and sanitary inspection and pay custom duties of \$50 per ton in the name of AFGS. The freight forwarder will then distribute the mangoes to the customers according to a shipping schedule which is given to him by the agent. The freight forwarders' fee is \$35 per ton. AFGS will have to pay the forwarder for these expenses out of its sales income.

Assignment Use the following table and criteria to assess the three distribution options. Decide on a distribution channel and justify your choice.

	TROPICANA IMPORT CO.	MAXIMA CO-OP B.O.	Through Agent
AGF's NET SELLING PRICE per ton	Price offered \$970 - airfreight* (1.15 x 360) <u>-414</u> Net selling price \$556	Price offered \$1.000 - airfreight* (1.15 x 400) <u>- 460</u> Net selling price \$ 540	Price offered \$1.250** (duty+transp.incl) -forw.fee 35 -duty 50 -agent comm. 100
PAYMENT CON- DITIONS	30-60 days credit	\$140.000 at the end of each month. Bala- nce at the end of the season	-airfreight* (1.15 x 380) <u>437</u> <u>Net selling price</u> 648** Within two weeks from delivery
SPEED OF DIS- TRIBUTION	6-7 days to reach the consumer	4-5 days to reach the consumer	Not known
TYPE OF CON- TRACT	Contract on 150 tons monthly, to be tacitly rene- wed throughout the season	Contract on 750 tons for the whole season	No contract
RELIABILITY OF BUYER AND DISTRIBUTION CHANNELS	Good	Average	Poor

*None that one ton of mangoes is 1.15 tons gross weight (incl.cases)

**Same figures in text: sheet 5 (\$648 per ton); sheet 7 (*1.250 per ton)

topic

4

selling

Session 4.1 Selling and Negotiating

Session 4.2 Who Should Sell to Whom?

Session 4.3 How to Write to a Potential Buyer

SESSION 4.1

SELLING AND NEGOTIATING

Objective: To enable trainees to recognise the requirements for successful sales and sellers.

Time: 1 to 2 hours.

Material: Dialogue 1 - "The Co-operative salesman meets Mr. Strom."
Dialogue 2 - "A Co-operative Saleman meets Mr. Klobe."
One suitcase and some canned fruits and vegetables.

Session Guide:

- 1) During the break preceding this session select four trainees who have some acting talent. Form two couples, giving the first two copies of Dialogue No. 1, and the second two copies of Dialogue No. 2. (Note the names of the trainees acting out Dialogue No. 2, as the same ones, if possible, should also act out a dialogue in Session 5.2)
- 2) Arrange the room so that all trainees have a good view of the stage where the actors are performing the first dialogue. Ask trainees to take notes while observing the play. Call in the first two actors and read aloud the narrator's part introducing the dialogue. When the play is over, ask the actors to rejoin the group.
- 3) Ask trainees to give their general evaluation of the salesman's effort.

Of course, they will all give a negative rating. Ask trainees to indicate precisely what mistakes were committed. List all mistakes cited on the chalkboard or flipchart. Such a list might look as follows:

- He arrived late.

- Was not well informed about the client's business.
- Neglected to bring samples.
- Was unable to convert measures and currency.
- Not completely informed about presentation (packing) of own product.
- Offered absurd discount and delivery date.
- Insisted on L/C.
- Did not propose to meet Mr. Strom at the exhibition grounds.

Do not allow more than ten minutes for this.

- 4) Call in the second pair of actors and read the narrator's part introducing Dialogue No. 2. When the play is over, ask the actors to rejoin the group.

- 5) Ask trainees to mention the strong points of the salesman in this dialogue, such as:
 - The visit was well prepared.
 - Knew his products.
 - Had samples, made effective presentation, stressed selling points.
 - Kept his objective in mind at all times.
 - Obtained order at a good price and at favourable terms of payment.
 - Knew prospect's needs and suggested ways in which product could satisfy those needs.

- 6) Divide trainees into groups and ask them to come up with a check-list for successful selling. The check-list should be sub-divided into at least the following sections:
 - Preparation of the sales call.
 - Face-to-face encounter with the prospective buyer(s).

- Taking the order.
- Follow-up after sales call.

Allow up to 20 minutes for this.

- 7) Reconvene in plenary. Ask one group to present the first section "Preparation" and allow other groups to comment upon and eventually complete this section if important points have been overlooked.

Call upon another group to present the second section of the check-list, "Face-to-face". Again, allow other groups to comment upon and eventually complete this section if important points are left out.

Do the same with the other sections of the check-list until all have been discussed, completed and agreed upon.

A possible check-list might look as follows:

Check-list for successful selling

A. Preparing the meeting

The salesman must:

- inform himself about the market he wants to sell in;
- have an objective for his sales meeting;
- learn about the needs of his prospective buyer(s) and know how his product can help satisfy those needs;
- learn about the prospective buyer's firm and how it operates;
- obtain necessary samples, photographs, specifications of the product he intends to sell;
- obtain necessary information about prices, credit, discount, terms of delivery, terms of payment and transportation;
- prepare arguments to overcome possible objections.

B. Face-to-face encounter with the potential buyer

The salesman must:

- make an appointment and arrive on time;
- keep the objective of the call in mind at all times (usually this is making a sale);
- introduce himself and his co-operative;
- keep his sales talk and demonstration precise and to the point;
- not waste time (e.g. jokes etc.);
- demonstrate to the potential buyer how he can benefit from buying the product;
- invite questions and comments; answer any objections.

C. Taking the order

The salesman should:

- come up with arguments to convince the potential buyer not to delay his buying decision;
- never ask "Will you buy?" but rather "how much will you buy? When do you want the delivery? What variety? What size?"
- Make sure that he discusses quantity (numbers, sizes), packaging, terms of payment, delivery time and price and that mutual agreement is reached on all these points.

D. Follow-up

- Once an order has been obtained, the salesman must make sure on his return home that the order is confirmed, then dealt with quickly and efficiently.
- A report on special needs, likes and dislikes of customer can help the people executing the order to do it the way

the customer wants it. His satisfaction with a first order may mean for the co-operative more orders and eventually a new "regular" customer.

- 8) By this time it will be clear that successful selling requires not only preparation but also specific knowledge and qualifications.

Ask trainees if they consider selling as something which can be learned by anybody or if they look at selling more as an "art" which must be performed by people who were born with salesmanship skills. Allow a short discussion on this point. Most trainees will probably agree that a certain kind of personality gives some salesmen an edge over others, but that one's performance can always be improved by appropriate training.

Elicit the conclusion that a salesman must have certain qualifications: some may be acquired or improved by appropriate training, while others are inherent in his personality and his background.

- 9) Divide trainees into groups and ask them to make up a list of knowledge, skills and attitudes required for sales staff. Such a list could later be used as a guide for selecting appropriate people for sales jobs.

Allow ten to 15 minutes for this.

- 10) Reconvene in plenary and ask groups to count and announce the number of requirements on their list. Have the group with the largest number read off its list. Summarise it on the chalkboard. Allow other groups to complement this first list until all agree to a final list, which might look as follows:

Qualifications required for sales staff

Attitudes required:

Determination, stability, perseverance, flexibility, ability to get along with others, self-discipline, self-confidence, self-reliance, mental toughness, loyalty, motivation.

Knowledge :

- language of target market:
- detailed knowledge of target market (e.g. buying behaviour, tastes, habits etc. but also economic and social situation, religious and social attitudes etc.):
- detailed knowledge of the products he is handling of his co-operative's activities;
- detailed knowledge of the competition and the potential buyers in the target market;
- detailed knowledge of his co-operative's marketing policy: reporting and complaint procedures, terms of delivery, terms of payment, custom and health regulations.

Skills :

- ability to organise his work effectively;
- general administrative ability, including the capacity to write effective reports;
- ability to identify potential buyers and obtain interviews;
- ability to identify the needs and buying motives of potential buyers;
- ability to communicate fluently and effectively;
- ability to use proven sales techniques;
- ability to present a sales proposition in terms of the customer's needs;
- ability to deal with objections;
- ability to close sales;
- ability to analyse both success and failure, in order to improve future performance.

Dialogue 1: A Co-operative Salesman Meets Mr. Strom

Narrator: Mr. Salambo is General Manager of the Alpha Fruit Growers Co-operative (AFGC). He has travelled to Scandia to participate in the International Food Fair. He also uses the opportunity to make sales calls on various Scandia businessmen who deal in tropical fruits and might be interested in a new variety of mangoes which the AFGC would like to export to Scandia.

Mr. Strom is a buyer for the Scandia Fruit Import Company. Mr. Salambo has been able to fix an appointment with Mr. Strom.

Mr. Strom: (sits behind his desk, reading some papers).

Mr. Salambo: (entering) Hello, Mr. Strom. Glad we can meet - it was really difficult to get an appointment with you.

Mr. Strom: (getting up and shaking hands with Mr. Salambo) Sorry, I was waiting for you. My secretary told me she made the appointment for 8 o'clock.

Mr. Salambo: Sorry, I'm a bit late. I didn't know your office was so far out of town, so I had some trouble getting a taxi. I find I'm a little lost in this big city. In our country

Mr. Strom: (interrupts him) You said you wanted to discuss business with me, Mr. Salambo.

Mr. Salambo: Well, Mr.

Mr. Strom: Strom.

Mr. Salambo: Oh yes, Mr. Strom, well, I thought that you as a wholesaler in fruits and vegetables

Mr. Strom: We are importers, Mr. Salambo, and only in fresh fruits, not in vegetables.

Mr. Salambo: Yes, Mr. Strom, that's what I mean, and that's exactly what I'm looking for, actually, an importer for our delicious juicy mangoes - a special variety of mangoes which everybody will love.

Mr. Strom: Did you bring some samples?

Mr. Salambo: Sorry, I didn't. But you can see and taste them at the exhibition. Then you'll see how delicious and juicy, they are Mr. Strom

Mr. Strom: and probably spoiled before they reach the shops. Mangoes are very delicate fruits as you doubtless know. That is why we insist on receiving our mangoes at a certain point of ripeness, and all mangoes in the same shipment must be equally ripe. Would you be able to meet such requirements if we placed an order?

Mr. Salambo: Well, I think so, but let me check that with my people back home. I'll try to write them about this today if you like.

Mr. Strom: By the way, how do you pack your mangoes?

Mr. Salambo: Well, after we grade the mangoes, we put them in cardboard boxes. If I remember right a carton weighs around 45 pounds.

Mr. Strom: So how much is that in kilos - must be about 20 kilos, I think? Now, is that gross or net weight?

Mr. Salambo: Frankly, Mr. Strom, I'm not sure, but I can easily find out for you. I'll make it a point in my letter home today as well.

Mr. Strom: Okay, okay, say a box is 20 kg gross. Now, how many mangoes do you have per kilo, I mean, what's their average size or weight, if you prefer. And how many mangoes do you pack into a box?

Mr. Salambo: I guess around 100. Maybe a little less or a little more.

Mr. Strom: Hmm (getting annoyed). What about your prices?

Mr. Salambo: They're very attractive prices for you and your company, sir. How much do you want? 100, 500, 1,000 boxes? well, it's 50 Alpha dollars per box.

Mr. Strom: What is that in US dollars or in English pounds.

Mr. Salambo: What's today's exchange rate? Probably around \$2.40 to ten Alpha dollars. So that will be around US\$12 per box.

Mr. Strom: Now, what kind of prices are we talking about here? Is this c.i.f. or what?

Mr. Salambo: No, sir, 50 Alpha dollars per box, that is f.o.b. at our airport.

Mr. Strom: Well, that sounds rather expensive. But that's the price for one box. How much discount do you give for buying in larger quantities, say 10 to 20 tons?

Mr. Salambo: That's how many boxes? Let's see, around 500 to 1,000 boxes? That's quite a big order. We can take off 30% for such a big order, sir.

Mr. Strom: Thirty per cent you say. Hmm (getting suspicious). What about your terms of payment? Would you agree with documents against acceptance when the mangoes arrive?

Mr. Salambo: I'm afraid my people insist on a letter of credit, sir, confirmed and irrevocable. But rest assured, once we have it, we start packing the fruits for you and two days later you have them.

Mr. Strom: You mean you can deliver in a matter of two days? What is your daily packing capacity, Mr. Salambo, and how far is your plant from the airport?

Mr. Salambo: About 300 miles, sir, and we can easily pack five tons a day.

Mr. Strom: And you are sure that you can ship 20 tons on two days' notice? Well, we will examine your proposals. Now, you'll excuse me, it's been very nice meeting you. Maybe I'll see you again at the exhibition. I hope I can find some time to come and taste your delicious mangoes.

Mr. Salambo: (getting up and leaving) Thank you, sir.

Dialogue 2: A Co-operative Salesman Meets Mr. Klobe

Narrator: Mr. Mambo is an officer of the Beta Fruit and Vegetable Growers Co-operative Union, which also operates, among other things a canning factory, producing various canned vegetables, fruits, fruit cocktails and fruit juices. On a specially arranged sales mission to Europe he visits a number of large wholesale co-operatives, which have already expressed interest in his proposals in previous correspondence.

Mr. Klobe is the buyer of canned foodstuffs for the Co-operative Retail and Wholesale Union. After having made an appointment by telephone, Mr. Mambo calls on him.

Mr. Klobe: Come in.

Mr. Mambo: Hello, Mr. Klobe. I am Mr. Mambo, from the Beta Fruit and Vegetable Growers Co-operative Union. It's good to meet you personally after having seen your name so many times on letters.

Mr. Klobe: My pleasure, Mr. Mambo. How was the trip? I see you still have your suitcase. Are you coming right from the airport?

Mr. Mambo: No, sir, I've brought along some samples of our new range of products, so that you can see what we're talking about. (Opening the suitcase and taking out some cans.)

We have developed these products especially with the European market in mind, with regard both to taste and quality.

Mr. Klobe: Let's see. Mushrooms, asparagus, green beans, lichees, tangerines, mango nectar, sliced pineapples, fruit cocktails - it's quite a range. Unfortunately, the labels are all in English.

Mr. Mambo : Here I have a catalogue of other labels, sir, in many different languages, and all with the legally required imprints. But, of course, you may also use your own labels, if your wish.

Mr. Klobe : That's all very well, Mr. Mambo, but you know that although the customers buy according to labels, they will never buy again if the contents are not up to their expectations. And needless to say, it's also a question of price. The large Hypermarkets sell these imported canned goods at such a low price that our management wonders whether we can keep up with them.

Mr. Mambo : That's precisely why I came to see you, Mr. Klobe. We studied the market in all details and we know that a can of mushrooms like this sells in a price range of \$1.70 to \$1.90. And fruit cocktails - according to composition, from 50 to 99 cents. But half of the contents is made up of watermelons and papayas. Let's open one of my cans. Here you are. Now, can you find one piece of watermelon in ,it? Some papaya, yes, yellow pineapple, both highly appreciated by the consumer, mangoes and at least four cherries per can to give some colour. Taste some of it. A minimum sugar content. What do you say?

Mr. Klobe : Tastes fine, actually one of the best I have ever tasted. But say, what is your price?

Mr. Mambo : Would you like a c.i.f. or f.o.b. quotation, Mr. Klobe?

Mr. Klobe : Since we may be able to obtain preferential shipping rates with all the stuff we import from your area, we would like to have a f.o.b. quotation. What about your f.o.b. price for the fruit cocktail, for example?

Mr. Mambo : For the fruit cocktail I can quote you a price of 37 cents per can or \$160 per crate. Cans are 775 ccm and are packed by 24 in a special heavy-duty export box.

Eighteen such boxes are shipped in a big wooden crate to ensure maximum protection. All this is included in the price I have just quoted to you. We make it a point of honour that our customers do not receive dented or rusted cans.

Mr. Klobe: How about giving a discount if we buy in large quantities?

Mr. Mambo: We think that the price we quote is very competitive if you consider the quality of our product. Didn't you just tell me that our fruit cocktail is the best you ever tasted?

Mr. Klobe: Well, it's of high quality, I agree, but at that price, plus the freight and insurance charges, we will have to sell it at a price which is comparatively high for fruit cocktail. But what about the other stuff?

Mr. Mambo: Couldn't we finish with the fruit cocktail first? Mr. Klobe, you think many of your customers would be prepared to pay a little extra for a fruit cocktail which is probably one of the best ones they have ever tasted? And wouldn't that contribute to the "high-quality products" - image of your stores? Why not test it out in some of your stores on a trial basis? How many cans do you think you could sell in an average store?

Mr. Klobe: Well, 300 to 400 cans per week, I think Yes, maybe we could start with a trial order and sale. But what if customer demand for your fruit cocktail picks up - would you be able to deliver us the volume we need quickly?

Mr. Mambo: Let's be realistic here. As to volume, we produce approximately 500,000 cans of fruit cocktail per year, which is about 10,000 can per week. If you became a regular buyer of our fruit cocktail, we could certainly earmark part of this production specially for you, so that you'd always be guaranteed the supply you need. As

to time, we need on average 20 days between order and delivery. If we can agree on regular shipments, however, we could organise deliveries in such a way that they arrive when you want them to arrive.

Mr. Klobe : That sounds all right. But tell me something about your terms of payment. We usually pay when we receive the goods, cash against documents.

Mr. Mambo : As you will understand, we prefer to work with a letter of credit for payment to us when the goods are shipped. It divides to some extent the financing burden of the whole transaction between the two of us, which I think is fair.

Mr. Klobe : That seems to be a reasonable compromise. I think we could take 4,000 cans of your fruit cocktail as a trial order. And now let's have a quick look at your other goods.

Mr. Mambo : OK, sir. Look at our sliced pineapples, all slices of the same thickness, all the same size, no yellows and whites mixed

SESSION 4.2

WHO SHOULD SELL TO WHOM

Objective : To enable participants (i) to list the possible ways in which goods can be sold on foreign markets, (ii) to select a suitable commission agent.

Time: 2 hours

Material : Handout 1 - Mini Case-Studies 1 to 4
Handout 2 - Case-Study "Selecting a Commission Agent"

Session Guide :

- 1) State that selling is really one of the most important activities in marketing. Selling means getting orders and without orders there are no sales, no income, no profit.
- 2) Distribute Mini Case-Studies 1 to 4, divide participants into four groups and ask them to study the 4 cases. Then have them list the various ways in which co-operatively produced goods can be sold on foreign markets and how contact can be made with foreign buyers.

Emphasise that each way has its own advantages and disadvantages, and that these should be looked at from the point of view of convenience, cost and effectiveness :

Allow up to 40 minutes to discuss the cases.

- 3) Reconvene in plenary and ask one group to explain the case of the Alpha Handloom Co-operative and to indicate the advantages and disadvantages of selling to local traders . Allow questions and suggestions from other groups.

Lead the discussion to focus on the following points:

Advantages : By selling to local traders, who in turn will export our products, of course one avoids all the trouble connected with

exporting. It is easy to maintain contact with the actual buyer as well as to receive payment for the goods sold, which is more or less without risk. No additional costs are involved.

Disadvantages: This practice does not contribute at all to the knowledge of the target market. One will certainly not get the best possible price. And one is in competition with all other producers from the home country.

For these reasons, exporting products through middlemen should be avoided if possible.

Allow not more than five minutes for discussing this case.

- 4) Ask the next group to present the Beta Handicraft Co-operative Federation case and to name the advantages and disadvantages of selling to visiting buyers from abroad.

Channel the discussion onto the following points:

Advantages: Neither money nor time is spent on travelling abroad. Samples are usually available. Contracts can be concluded easily. Assistance from government trade promotion organisations can be requested. Potentially an important first step to export.

Disadvantages: This passive approach does not contribute to the knowledge of the target market. One may not get the best possible price. Buyers may not be coming.

How to make effective contacts with visiting buyers. Keep in touch with government officials to stay informed about the arrival of visiting trade missions. Be ready to see buyers when it is convenient for them. Have detailed product information ready at all times: samples, prices, terms of payment and delivery. Make sure to have an interpreter on hand, if necessary. Keep the names and addresses of prospective buyers on file and follow-up with correspondence.

Allow from 10 to 15 minutes to discuss this case.

- 5) Ask the next group to present the case of the Delta Fruit Growers Co-operative and the advantages and disadvantages of personal selling abroad. Confine the discussion to outward sales missions, as trade fairs and exhibitions will be discussed later on in a special session.

Direct group discussion to the following points:

Advantages: Visiting customers in their own country is the best way to learn about their needs. One can easily find out about alternative marketing channels, competitors' products, prices, local tastes and trade practices. It may be possible to obtain better prices.

May also be useful in selecting and appointing a suitable commission agent.

Disadvantages: Visits abroad are time consuming and costly, and require careful preparation. Transport of samples may prove cumbersome. Requires knowledge of the language spoken in target market or the availability of a suitable interpreter.

How to make effective contacts: Plan your trip carefully. Avoid the holiday season. Make appointments in advance. If samples and documentation are too heavy, have them sent separately. Make sure that documents are in the appropriate language, measurements, currency. Learn about local customs. Remember that time and punctuality are very important.

Allow from ten to 15 minutes to discuss this case.

- 6) Ask the last group to present its findings on the case of the Gamma Wicker Ware Co-operative. Make sure that the term "full-time salesman" is understood to mean a full time salaried employee of the co-operative who will be residing in the target market, but who may be a national of either the exporting country or the tar-

get market, provided he speaks the language of the target market. See also that the term "agent" is used to mean a person (or firm) who sells on behalf of the co-operative. Distinguish an "agent" from "distributors". The latter are direct customers, buying and selling on their own behalf.

Ask the group to present the advantages and disadvantages of selling through a full-time salesman.

Advantages: If the salesman is a national of the target market, he will have no language problems and his local knowledge and possible "trade connections" will serve the co-operative in good stead; thus he can also be used for research. He is always available. Customers may be impressed by this sign of commitment on the part of the exporter. Has better knowledge of product, production and origin than an outsider would, and will not sell competing products. Ensures more control over marketing channels.

Disadvantages: May be difficult to find. National from exporting country may have difficulties adapting to local life style, customs and climate. Expensive, even more so when the salesman is not successful and sales volume is low. It is unlikely that sales will cover the cost of a full-time salesman, at least not at the beginning of the venture. (Depends on exporter's resources).

Allow up to ten minutes to discuss this option.

- 7) Ask whether there are any participants whose co-operatives already use one or several commission agents in foreign markets. If this is the case, have these participants explain from experience the advantages and disadvantages of this agreement. See that the following points are covered:

Advantages: An agent has local knowledge and established connections. No language difficulties. No expenses incurred unless sales are achieved (remuneration being on a commission basis, usually calculated on the f.o.b. price). High motivation to produce results.

Disadvantages: Lack of possibilities for control. Risk of his eventually representing competing products or too many other firms. May have insufficient organisation and facilities to cover the whole target market. May have connections exclusively with the wrong channels. With increasing business volume, an agent may become more expensive than a full-time salesman.

Allow up to 15 minutes to discuss this option.

- 8) Ask participants how they would go about finding a suitable agent to represent their business in a foreign market. Explain that the first step is to obtain a list of possible agents for the particular products. Such lists are available through chambers of commerce, professional associations or similar organisations. In some cases it may be necessary to place classified advertisements in the newspapers of the target market. The next step is to explain, by letter, the requirements and contractual proposals. From the replies received, a short-list of candidates can be prepared and the most suitable one selected. If possible, prospective agents should be interviewed. In all cases, obtain references.

- 9) Distribute the case study "Selecting a Commission Agent". Divide participants into five groups, ask them to read the case study and then rank the five candidates according to their suitability for the proposed position. Participants should explain why they put the candidates in that order and what further information they would require about each agent.

Allow up to 30 minutes for this assignment.

- 10) Reconvene in plenary and ask groups to present and to give reasons for their rankings.

Guide discussion as follows. One possible ranking could be as follows:

- (i) Maki Hamos: Covers together with a colleague the whole country and is in contact with the prospective buyers. Is not selling competing products. Taking over GWWC's products may be of great importance to him.
- (ii) Peter Drost: His recent entry in the profession makes him eager to take on another product, but he covers only part of the country (the North). It would be necessary to look for another agent for the South. The low commission rate he asks for may be an advantage but it also reflects the fact of his inexperience. Handicraft sales usually pay a commission rate of up to 15%.
- (iii) Top Marketing Co. Ltd.: This agent appears too large to give full attention to GWWC's products. Could also generate more business than GWWC would be able to handle. May be selling conflicting range of products.
- (iv) Blitz Representatives: Has a very unconventional approach. Is he an agent or a distributor? Is he out for a "quick killing"? How can he be so sure of selling GWWC's products without even knowing them?
- (v) Easy Living Co Operates with products related to GWWG's and with relevant customers. Probably no risk for conflicting interests (competing products). Since they are actively look in for a suitable range of rattan products, they have probably identified a market for it.

Emphasise that in all five cases, further information is required before making the final selection. Elicit mention of the following:

- addresses of manufacturers currently represented so that GWWC can write to them for references;
- bank references for each agency.

From the individual agents, GWWC should request the following information:

Top Marketing Co. Ltd. List of products currently sold to find out if there are any conflicting or competing products in their range. How large is the territory of each of the 12 salesmen and how many different products does each sell?

Peter Drost: What kind of distributors does he now visit? Would the Zipp factory allow him to sell rattan furniture, which might compete with their own products?

Maki Hamos: Try to obtain a list of his customers and learn the frequency of calls. What would be his commission rate? Why does he want to take on a complementary line of products very different from his present line?

Blitz Representatives: The approach of this agency cannot be regarded as serious and should therefore be disqualified as representatives.

Easy Living Co

Their line of activities seems to correspond well with GWWC'S interests. Find out more about their product range, geographical coverage and turn-over (being a newly formed company).

Conclude that it is important to provide to all five candidates detailed information on your co-operative and your products, prices and contract conditions. Once an agent has been found, it is very important to have a clear written agreement with him. If it is worthwhile to appoint an agent in a given market, it may also be worthwhile to visit him personally before appointing him.

The normal procedure when appointing an agent (when the parties are not known to each other), is to make an agreement for a trial period, say one year, before entering into a long-lasting relationship. The legal implications should also be considered, for although it may be easy to appoint an agent, it can be very difficult to get rid of a bad one.

Handout 1 - Mini-case Studies

1. The Alpha Handloom Co-operative (AHC)

AHC had several thousand members who produced various kinds of textile products out of cotton yarn supplied by the co-operative. Some local traders constantly ordered large amounts of towels of various sizes which they would export to foreign markets. This situation was quite satisfactory until the day when the traders suddenly stopped buying. A large volume of product had accumulated, there was a shortage of funds and production came to a standstill. The manager of AHC soon found out that the traders were now exporting machine-made products, which were easier to sell in their foreign markets.

2. The Beta Handicraft Co-operative Federation (BHCF)

BHCF was trying to market the products of a number of co-operative societies and artisan families, comprising altogether more than 1,600 crafts people. The various products, such as jute crafts, pottery, items made out of conch shell, buffalo horn, and leather, handmade sheep's-wool blankets, muslin textile, hessian toys, etc. were sold through a retail sales centre located in a large supermarket of the capital city. Some export sales had been made to visiting buyers from abroad, who had visited the permanent sales exhibition and had also given some valuable advice as to the requirements of foreign markets. Two of the buyers had already sent in re-orders and it was hoped that others would follow.

3. The Delta Fruit-Growers Co-operative (DFGC)

DFGC had started to run a small canning factory, producing canned fruit juices and fruit cocktails. The products were selling well in some local supermarkets and department stores, but the production capacity remained at 60%. To increase sales, the management thought of exporting and with the help of the National Export Development Board, had participated in sales missions to several industrialised countries. The products also had been shown in some

trade fairs abroad. Several trial orders had been recorded, but when management sat down at the end of the year to calculate the annual profits it was found that the cost of travelling abroad had far exceeded the additional profits generated by those first efforts at export.

4. The Gamma Wickerware Co-operative (GWWC)

The manager of the GWWC had just discussed the possibility of exporting the products of his society: various baskets and furniture made out of rattan. The most attractive market for his goods, however, had one important drawback: people in this country did not speak English. Would it be worthwhile to hire a full-time salesman, speaking the local language, to visit all prospective retailers to try to sell GWWC's products? Or should he instead look for a commission agent, who would represent the products of GWWC, among others?

Assignment:

For each of the above four cases, identify the way in which the co-operative tried to market its products.

For each of the identified ways, list all advantages and disadvantages from the point of view of convenience, cost and effectiveness.

	Way of Selling	Advantages	Disadvantages
AHC			
BHCF			
DFGC			
GWWC			

Handout 2 - "Selecting a Commission Agent."

The manager of the Gama Wickerware Co-operative (GWWC) came to the conclusion that a full-time salesman would cost too much and was in any case too difficult to find. Therefore he had placed, through the local advertising agency, a classified advertisement in the Morning Call the leading daily newspaper of Omega-Country.

Foreign producer of basket wares
and rattan furniture seeks
COMMISSION AGENT
to visit wholesalers and
department stores in northern and
southern regions.
For full details write Box CX759
Indicate experience and references

He has now received 5 letters from people who propose to act as commission agent for the GWWC.

Read and study the 5 attached letters carefully and rank candidates according to their suitability. For each candidate, explain the ranking and also list any further information you may wish to obtain about him before making your final decision.

You have 30 minutes to accomplish this assignment.

First letter

From: Top Marketing Co. Ltd., Omega-City

Dear Sir,

We refer to your advertisement in the Morning Call concerning the commission agent you are seeking to sell your baskets and rattan furniture. We are a long-established agency firm, well known throughout Omega-Country where we regularly visit most of the large department stores and mail order purchasing offices. Presently we represent about 60 firms in the field of household equipment, furniture and electric appliances, we employ 12 salesmen and 20 head office staff and can provide excellent bank references. Please send full details about your product range, prices, terms of delivery and payment. We usually work on a 15% commission.

Yours faithfully,

Second letter

From: Peter Drost, 32 Gold Lane, Omega-City

Dear Sir,

Your advertisement in the Morning Call for a Commission Agent interests me very much. I would like to become your agent for the North of the country, where I have been working as an agent for the Zipp furniture factory for the last 6 months. Because I use my home as an office and my wife assists me with correspondence and paperwork, I can keep my overhead down and ask for a commission of only 5%. Please send free samples, a catalogue and a price-list of your goods.

Yours faithfully,

Third letter

From: Maki Hamos, 15 Willow Alley, Omega-City

Dear Sirs,

I was extremely interested to note your advertisement in the Morning Call concerning your offer of a position as commission agent for your baskets and rattan products. Together with a colleague I cover the whole country. We employ a secretary in our office in Omega-City and are in close contact with wholesalers, department stores and large retail organisations. Presently we represent 3 large paint manufacturers (Brillu, Lacko and Colorspot) and the Pipo Brush Company and we feel that your products could be a good complement to our programme.

I look forward to hearing from you about your products and your conditions.

Yours sincerely,

Fourth letter

From: Blitz Representatives, Main Road, Small Town, Omega-Country.

Dear Sir,

If you send your goods today, they will be sold tomorrow. Blitz Representatives is at your disposal to sell, on a 10% commission basis, all your goods shipped to our warehouse c.i.f. with 60 days credit. Please do not hesitate, but ship your baskets and rattan furniture immediately to our above address.

Yours faithfully,

Fifth letter

From Easy Living Co., Omega City

Dear Sirs,

We are a recently formed company, specializing in products for interior design. We are presently looking for a suitable range of rattan furniture and related products as a complement to our existing line. We act as agents with a commission rate of 10% and sell through wholesalers and architects for special projects. We would be interested in receiving detailed information on your product range, including prices and other terms.

We are looking forward to your early reply.

Yours sincerely

SESSION 4.3

HOW TO WRITE TO A POTENTIAL BUYER

Objective: To enable trainees to write effective sales letters for the products of their society.

Time: 2 to 22 hours.

Material: Handout 1 - Sample Sales Letter
Handout 2 - Exercise
Handout 3 - Checklist

Session Guide:

- 1) Ask participants by what means they, as exporters, can get in touch and keep in touch with their customers. More often than not, the business letter is the principal means used to communicate with customers abroad.

Distribute Handout 1 - "Sample Sales Letter". Ask participants to analyse and criticise this letter. Allow up to ten minutes for reading and taking notes. Make sure the letter's main shortcomings are noted:

- (i) There is no clear and precise objective behind Joe Brown's letter: he writes in a desultory manner about his own firm's success, how superior his polliwocks are to those of the competition, about fresh and dried polliwocks and how they are packed, and about possible quantity discounts. Before he begins, the writer should know precisely what he wants to accomplish with his letter. Ask participants to suggest various business letter objectives as:

- to create goodwill;
- to express appreciation;
- to explain a delay;

- to disclaim liability for loss;
- to inform the customer of increased prices;
- to refuse (tactfully) a request for credit;
- to thank the customer for a large order or information received;
- to supply information;
- to reply to an inquiry from abroad;
- to make an offer or transmit a quotation;
- to reject a request for reduction in prices;
- to grant a request for better terms of payment;
- to follow up on a quotation;
- to reclaim a lost customer;
- to contact a new customer;
- to sell a new product to an old customer;

(ii) The letter does not focus on the reader and his interests. Joe Brown did not put himself in the reader's shoes when writing the letter. Refer to the opening paragraph as an example. Ask trainees if they believe that the fact of increasing polliwock exports is of special interest to the reader. If not, why bring it up? What is of interest to the reader? That depends largely on who the reader is and his buying motivation.

- If he is an end-consumer or utiliser, he may be interested in the taste, colour and/or other characteristics of the product.
- If he is a processor or manufacturer and uses the product as a raw material for his end product, he may be interested in certain technical qualities.
- If he is a trader, importer or wholesaler, he will be interested in the profit he can make by reselling the product.

Encourage participants to think up a opening paragraph for a sales letter for polliwocks which would focus on the reader's interests in the following situations:

- The reader of the letter is an end-consumer.
(If you are a true gourmet, the exquisite taste of polliwocks will seduce you);
- The reader is a processor or manufacturer.
(If you are looking for a means of cutting your manufacturing cost by 15 per cent, you should know the following);
- The reader is a middleman and buys the product in order to sell it to other people.
(Make new customers and additional profits with the exclusive distributorship for polliwocks in your district)

Make sure participants appreciate the tactical importance of tailoring business letters to the interests of the reader.

- 2) Explain that the sales letter is the most selective of all forms of advertising. Its purpose is to sell particular kinds of goods to specific types of customers.

A good sales letter consists of 4 essential elements. It must:

- (i) arouse interest
- (ii) create desire
- (iii) carry conviction
- (iv) induce action

Not only do all 4 elements have to be contained in the sales letter. They must also be in the proper sequence.

Inscribe the 4 elements on a chalkboard, flipchart or OHP.

- 3) Ask participants what might happen if the opening paragraph of a sales letter does not arouse the interest of the reader. All should agree that there's a good possibility of that letter finding its way into the waste-paper basket unread. The opening paragraph

must therefore grab the reader's attention immediately. It must make an appeal to some particular buying motive.

Ask participants to mention at least one buying motive of the customers of their co-operatives.

If the concept of "buying motive" is not readily understood, explain that it is the ultimate reason why people buy things.

Illustrate by asking certain participants:

Why did you buy your last necktie?

Why does a farmer buy fertilizer?

Why does the grocer buy canned food?

- 4) Ask participants how one can create a desire for a given product in a sales letter.

One must appeal to the reader's concern for himself or for matters that affect him. If the letter is sent to a person who knows nothing about the product, it must be described clearly. The reader must learn what the product is and what it can do for him.

Ask participants whether such information was provided by Joe Brown in his letter. The response should be that Joe Brown has not specified how the reader can benefit from buying polliwocks.

Ask selected participants to describe how their customers benefit from buying the products of their co-operatives.

The seller must study his product and select those features (characteristics) that make it superior to others of its kind. These points must then be stressed from the reader's point of view.

To claim that exports of polliwocks increase constantly or that the co-operative is the product's top producer of the product is of little use.

Instead, one must stress such selling points as the freshness of the product, or the long shelf-life of the product when dried and packed in metallic drums, and one must show that these special features make the product more desirable than its rivals.

Ask selected participants to state at least one characteristic of their product that makes it more attractive - more convenient, more efficient, or cheaper - to buyers than competing products of the same kind.

- 5) Ask participants how they can inspire conviction, that is, support their claims about the superiority of their product's characteristics. They must somehow convince the reader that their product really is what they say it is. This can be done in a number of ways:

- Provide copies of laboratory tests.
- Invite the reader to see for himself at an exhibition or trade fair.
- Provide free samples.
- Provide testimonials from other users or buyers
- Provide a firm guarantee.

Ascertain that every participant has at least one means to support his claim of superiority for his product.

Refer back to Joe Brown's letter and ask participants whether he has made a convincing case for the superiority of his polliwocks.

Joe Brown makes a negative comparison with competing products, asserting that other polliwocks are inferior to his own. This is by no means a definitive statement, as he offers no proof for his claim.

Remind participants that when praising one's own product one must proceed with caution - first, because it is against the law to make false or exaggerated claims, and secondly because the good name of their co-operative and its success depend upon honest dealings.

6) Remind participants of the importance of having a clear purpose for each business letter they write. They want their prospective buyer to take some action, e.g.

- to visit their stand at a trade fair;
- to receive their representative;
- to send for a sample and a quotation;
- to place an order;
- to reply to the sales letter etc.

Ask participants to indicate the fourth element of a good sales letter.

To induce action:

Ask participants how they can write an effective closing paragraph that induces action, that is, persuades the reader to take the action they want him to take.

First, they must provide the reader with a sound reason for acting (and if possible at once or very soon), and secondly, they must make things easy for him.

Ask participants what reasons they can think of for why their customers should act at once, soon or at all.

- His desire has been properly aroused and he wants the product right away.
- He may lose the opportunity to buy at a special "introductory" price.
- Seasonal availability during a limited period of time.
- Prices may rise later on, etc.

Ask participants to suggest ways of making a reply easier for the prospective customer.

- They may provide him with an order form, or a request for further information, or an entrance ticket for the trade fair, a self-addressed envelope, etc.
- 7) Ask participants whether business letters call for a special kind of language. They do not : in fact, a good business letter should contain only plain and everyday language, the same as one would use during a telephone conversation, for example. Writing a business letter is like holding a conversation by post.

Elicit the need for:

- using plain and familiar words;
- avoiding commercial jargon;
- using active and personal construction;
- avoiding wordiness;
- being consistent and precise.

Distribute Handout 2 and ask participants to apply the above principles when rewriting and improving the statements. Allow half an hour for the exercise, which should be done by each participant individually. Statements could be improved as follows:

- | | |
|---|--|
| - Your communication has been received. | I have received your letter dated.... |
| - We are in receipt of your letter and have taken note of its contents. | We received your letter dated and noted its contents. |
| - The writer wishes to acknowledge your esteemed order. | We have received your order dated |
| - Please favour us with an early expression of your views. | Please let us know your opinion soon. |
| - Awaiting the favour of your early reply. | Looking forward to hearing from you in the near future. |

- Awaiting a reply at your earliest convenience. I shall be glad to hear from you.
- Please be good enough to advise us at your earliest convenience. Please let us know as soon as you can.
- We do not anticipate any increase in price. We do not expect prices to rise.
- The preparation of a new price list is in progress. A new price list is being prepared.
- Most of our customers express a preference for variety X. Most of our customers prefer variety X.
- The Bill of Lading and the shipping documents will be handed to our bankers tomorrow. Tomorrow we will hand the Bill of Lading and the shipping documents to our bankers.
- It is regretted that the goods cannot be delivered this month. I am sorry we cannot deliver the goods this month.
- We are only too pleased to take into consideration your request. We are glad to consider your request.
- We express our preference for payment by letter of credit. We prefer your payment by letter of credit.
- Every consideration will be given to your request. We will carefully consider your request.
- We express regret that we are unable to accept responsibility for the delay. We are not responsible for the delay.

- | | |
|--|---|
| - We have quoted our best price for a considerable quantity of wool of the best quality. | We have quoted our lowest price for 2,000 cubic metres of our A-quality wool. |
| - We hope to give consideration to your inquiry in the near future. | We will consider your inquiry next week. |

- 8) Ask each participant to draft a sales letter concerning one of his own products, addressed to an unknown prospective customer whose name he has received, among 100 others, from a foreign chamber of commerce. Only importers who are well established in the participant's product range are supposed to be listed.

Remind participants of the principles of effective letter writing.

Allow up to 30 minutes for the assignment.

See that all participants have produced a draft as requested.

Next, distribute Handout 3 - "Check-list for Effective Writing of Sales Letters", and ask participants to check their own letters against it. Allow up to ten minutes to do so.

Call on two or three volunteer participants to read out their letters and solicit comments from the group.

After editing by the course leader, some or all of the letters may later be typed up and duplicated so that all participants receive a full set of sample sales letters.

Handout 1 - Sample Sales Letter

Dear Sirs,

For the last two years we have been exporting our polliwocks in many overseas countries with consistently increasing success. Polliwocks are a must for every family because of their fine taste and freshness, and we are the number one producer of polliwocks in our country.

Although some other countries also export polliwocks, they are not of our fine quality and their taste is not up to standard.

We can provide polliwocks fresh and dried, at your request. The dried polliwocks are sold in metallic drums. The fresh ones are sold in baskets of ten kilos. We can arrange the price according to the size of the order.

Hoping to hear from you in the near future.

Yours faithfully,

Joe Brown
Export Manager

Handout 2

Rewrite and improve the following statements. You have 30 minutes to do so.

- Your communication has been received. _____
- We are in receipt of your letter and have taken note of its contents. _____
- The writer wishes to acknowledge your esteemed order. _____
- Please favour us with an early expression of your views. _____
- Awaiting the favour of your early reply. _____
- Awaiting a reply at your earliest convenience. _____
- Please be good enough to advise us at your earliest convenience. _____
- We do not anticipate any increase in price. _____
- The preparation of a new price list is in progress. _____
- Most of our customers express a preference for variety X. _____
- The Bill of Lading and the shipping documents will be handed to our bankers tomorrow. _____

- It is regretted that the goods cannot be delivered this month.

- We are only too pleased to take into consideration your request.

- We express our preference for payment by letter of credit.

- Every consideration will be given to your request.

- We express regret that we are unable to accept responsibility for the delay.

- We have quoted our best price for a considerable quantity of wool of the best quality.

- We hope to give consideration to your inquiry in the very near future.

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Handout 3 - Check-List for Effective Sales Letter Writing

1. Is our own address properly indicated in the letterhead? Make sure names, logos etc. are written in characters which can be read by the addressee. Address should always contain the name of your country.
2. Is the letter dated? (Day, Month, Year)
3. Are the name and address of the addressee spelt correctly?
4. Is the proper salutation used?
5. Am I quite sure about what this letter should accomplish?
6. Is the opening paragraph written to arouse the reader's interest?
7. Has the product been properly explained?
8. Are the benefits described from the reader's point of view and clearly enough to be readily understood?
9. Has evidence been provided to support all claims of superiority.
10. Does the closing paragraph contain an appeal for immediate action?
11. Does it provide a good reason for action.
12. Does it give the reader specific proposals to follow up on?
13. Does the letter close in the proper complimentary manner?
21. Are the name of the signer and his title indicated in type below the signature?
22. Have enclosures been mentioned?
23. Is its appearance attractive? Is it well laid out?

24. Are all words correctly spelt and sentences properly punctuated?
25. Does the letter cover all essential points and is the information given correct?
26. Do ideas follow each other in logical sequence?
27. Does the letter sound natural, sincere and courteous?
28. Have commercial jargon, wordiness and meaningless forms of expression been avoided?
29. Is the letter's tone appropriate and is it likely to achieve the intended purpose?
30. Is it the kind of letter I should like to receive if I were in the reader's place?

topic

5

the sale: terms and conditions

Session 5.1 How Costs Affect Selling Prices

Session 5.2 Sales Contracts

Session 5.3 Terms of Delivery

Session 5.4 Terms of Payment

Session 5.5 How to Prepare a Quotation

Session 5.6 Commercial Disputes

SESSION 5.1

HOW COSTS AFFECT SELLING PRICES

Objective: To enable trainees to apply marginal costing when fixing export prices.

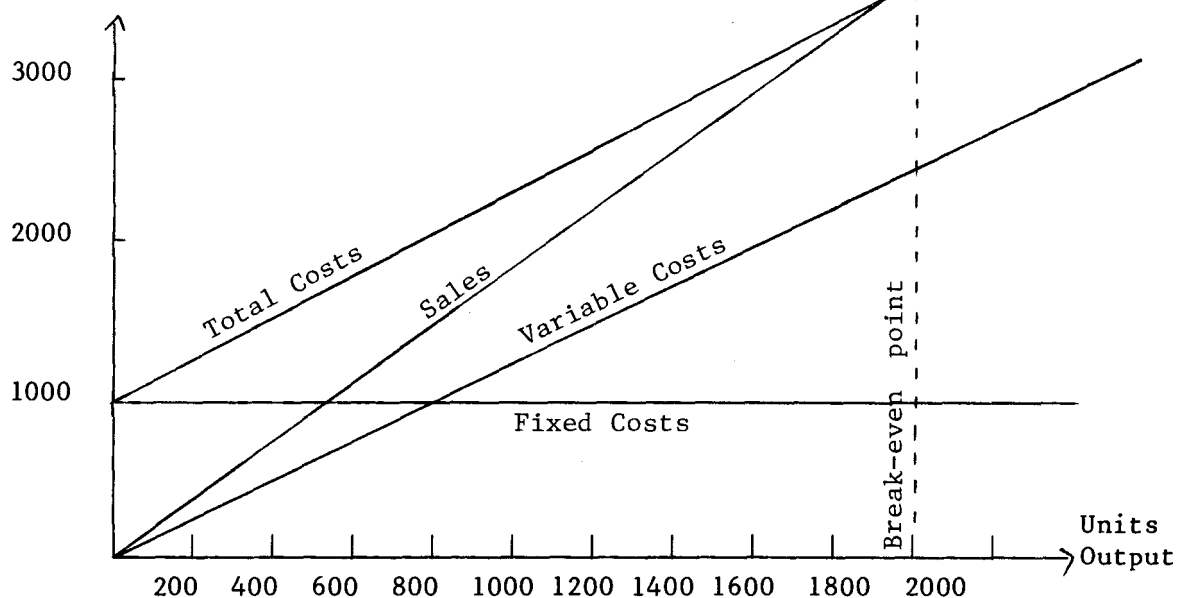
Time: 2 to 2 1/2 hours.

Material: Handout 1 - Case-Studies - "The Alpha Canning Factory".
 "The Beta Canning Factory" and "The Gamma Agricultural Co-operative Society Ltd."
 Millimetre Paper.

Session Guide:

- 1) Before starting this topic, check that all trainees are familiar with the concepts of "fixed" and "variable" costs, and "break-even point". If not, display and explain a simple illustration of a "break-even point" graph, as below, on the chalkboard/OHP. The graph is based on the following figures:

Fixed Costs: \$1,000
 Variable Costs: \$1.00 per unit
 Selling Price: \$1.50 per unit



Use the above figures to illustrate the calculation of a break-even point. The variable cost being \$1.00 per unit and the selling price \$1.50, each unit produced and sold will contribute \$0.50 towards paying the \$1,000 fixed costs.

Ask trainees how many units must be produced and sold before all fixed costs are paid for:

$$\frac{\$1,000}{\$0.50} = 2,000 \text{ units (break-even point)}$$

Clearly, for 2,000 units the following figures will apply.

- Fixed Costs	\$1,000
- Variable Costs 2,000 x \$1.00	<u>\$2,000</u>
- Total Costs	\$3,000
- Sales 2,000 x \$1.50	<u>\$3,000</u>
No Surplus, No Loss	0 (break-even)

The formula for break-even calculations can easily be derived from the above.

$$\text{Break-even point} = \frac{\text{FIXED COSTS}}{\text{INCOME PER UNIT OF PRODUCTION} - \text{VARIABLE COST PER UNIT OF PRODUCTION}}$$

Explain that the break-even point can be given in "quantity sold in units" or "sales in dollars".

- 2) Divide trainees into groups and distribute Case Study A - "Alpha Canning Factory". Give trainees up to 30 minutes to solve the problem and prepare both a mathematical and a graphical solution to the problem. (Provide millimetre paper if possible).
- 3) Reconvene in plenary and allow the group which finished first to present its solution.

The group should propose that Mr. Trader's offer be accepted, as it leads to a better utilisation of available capacity. The result would not only be \$1,000 additional profit, but also a higher rate of employment.

If necessary, have one trainee make the calculation "present situation" on the chalkboard, and another one "Mr. Trader's proposal".

Present situation Alpha Canning Factory

Monthly sales	<u>12,400</u>	x \$25		\$ 12,500
Monthly fixed costs			\$ 5,000	
Variable costs	12 x \$ 500		\$ 6,000	
Total Costs				\$ 11,000
Net Profit				\$ 1,500
Margin	$\frac{1,500 \times 100\%}{12,500}$			12%

Mr. Trader's proposal

Monthly sales	<u>18,000</u>	x \$22		\$ 16,500
Monthly fixed costs			\$ 5,000	
Variable costs	18 x \$ 500		\$ 9,000	
Total costs				<u>\$ 14,000</u>
Net profit				\$ 2,500
Margin	$\frac{2,500 \times 100\%}{16,500}$			15.2%

- 4) Distribute Case Study B - "The Beta Canning Factory". Allow groups up to 30 minutes to solve the problem.
- 5) Reconvene in plenary and again allow the group which first produced a solution to make the presentation.

Present situation:

Monthly sales, 450 x \$25			\$ 11,250
Monthly fixed costs		\$ 3,000	
Variable costs, 10.8 x \$700		<u>\$ 7,560</u>	
Total Costs			<u>\$ 10,560</u>
Net profit			\$ 690

NEPA Proposal

<u>Sales</u>	Inland sales, 450 x \$25	\$ 11,250
	Export sales, 250 x \$ 21	\$ <u>5,250</u>
	Total sales	\$ 16,500
	Less advertising contribution	\$ <u>1,000</u>
	Net income	\$ 15,500

Monthly fixed costs	\$ 3,000	
Variable costs, 16.8 x \$ 700	<u>\$ 11,760</u>	
Total costs		<u>\$ 14,760</u>
Net profit		\$ 740

Clearly, the offer should be accepted. Explain that since fixed costs are already covered by domestic sales, BCU has to account for variable costs only when calculating export prices. Every price above the variable cost of \$16.80 @ box will bring an additional profit.

The additional profit from these 250 cases, must, however, be at least \$1,000 in order to cover the advertising costs, which means that each case should contribute $\frac{\$1,000}{250} = \4.00

We add this to the variable cost of \$16.80:

$$\$16.80 + \$4.00 = \$20.80$$

The price of \$21.00 is therefore acceptable since every case sold will add \$0.20 to the profit:

$$\text{Total extra profit} = \$0.20 \times 250 = \$50$$

Added to the profit on domestic sales, total profit will consequently be:

$$\$690 + \$50 = \$740$$

- 6) Distribute Case Study C - "Gamma Agricultural Co-operative". Ask trainees to study the case individually and formulate a suggestion as to how to handle the problem. Allow up to 30 minutes for this exercise.
- 7) Ask for a show of hands by trainees who recommend that Mr. Lu pay members \$3.20 per basket and keep a selling price of \$3,600 per thousand baskets. Select one of them to explain the reasons for his decision. Make sure he brings out the following figures and analysis. Correct, clarify or augment his explanation where necessary.

Mr. Lu was obviously wrong to apply the same mark-up of 20% to his purchase price, thereby neglecting the fact that costs per unit may reflect changes in the volume of sales.

Elicit the idea that not only manufacturers but also traders have fixed and variable costs. In the case of the Gamma Society rent, salaries and office expenses are clearly fixed, while other expenses vary with the volume of trade.

The Co-operative could easily pay \$3.20 per basket this year, as expenses are very unlikely to exceed \$7,500 for a volume twice as large as before.

Calculations are as follows:

Sales: 20 x \$3,600	\$ 72,000
Cost of goods sold (20,000 at \$3.20)	\$ 64,000
Gross Profit	\$ 8,000

Gross margin $\frac{8,000 \times 100}{72,000} = 11.11\%$

Estimated Operating Expenses

Fixed Costs

Staff salary, 12 x \$125	\$ 1,500
Office expenditures, 12 x \$60	\$ 720
Rent for warehouse, 12 x \$170	<u>\$ 2,040</u>
Total fixed costs	\$ 4,260

Variable Costs

Casual labour, 4 x \$400	\$ 1,600
Documentation, 4 x \$100	\$ 400
Truck rental, 4 x \$300	<u>\$ 1,200</u>
Total variable costs	\$ 3,200
Total operating expenses	\$ 7,460

Expenses on sales: $\frac{\$ 7,460 \times 100\%}{72,000}$

Transform margin into mark-up:

$$\frac{100 - 10.36}{100 - 10.36} \% = \frac{1.036}{89.64} \% = \text{mark-up} = 11.56\%$$

- 8) In case trainees are not familiar with the difference between "mark-up" and "gross margin" (also called "margin" or "trade margin") and how to calculate them, explain as follows.

Mark-up: The mark-up is the percentage applied to the purchase price by which the purchase price is increased in order to obtain the selling price. The mark-up percentage should be sufficiently large to cover fixed and variable costs and leave some profit.

Example: Purchase price \$100
Mark-up 25%
Selling price \$100 x 1.25 = \$125

Gross Margin: The gross margin is calculated as a percentage on sales and represents the difference between sales and cost of goods sold.

Example:	Sales	\$ 125
	Cost of goods sold	\$ 100
	Gross margin or profit	\$ 25
	Gross margin	$\frac{\$25}{125} = 20\%$

Stated in money terms, the margin and mark-up in the above examples are the same, that is \$25. But note that to obtain a gross margin of 20% a mark-up of 25% was necessary.

Formula to transform margin % into mark-up

$\frac{100 \times \text{margin in}}{100 - \text{margin in}}$ = mark-up in

Formula to transform mark-up % into margin

$\frac{\text{Mark-up in} \times 100}{\text{Mark-up in} + 100}$ = margin in

Case A - The Alpha Canning Factory

The Alpha Co-operative Union operates a small canning factory which produces canned pineapple juice. Total manufacturing capacity is approximately 800 cans per day, packed into cardboard boxes for shipment (24 cans to a box).

Fixed costs are \$5,000 per month and variable costs are \$500 per 1,000 cans manufactured. Every month the factory sells a trader 12,000 cans at an ex-factory price of \$25 per box. The manager is quite satisfied with the net margin of 12%.

The trader, however, has now asked for a reduced purchase price. He says that if the price were to be lowered to only \$22 per box, he could export much more and increase his monthly purchases by 50%. As the proposed price decrease is 12%, the manager wonders whether this deal would not eat away all his profit.

Would you accept Mr. Trader's offer?

Justify your decision and explain.

Case B - The Beta Canning Factory

The Beta Co-operative Union operates a canning factory producing canned asparagus, green beans and other vegetables. Total manufacturing capacity is approximately 35 boxes of 24 cans each per day; at an average of 20 working days per month, this means a monthly production capacity of a maximum 700 boxes. Fixed costs are \$3,000 per month and variable costs are \$700 per 1,000 cans produced. Right now the factory is producing about 450 boxes per month, of which 200 boxes are sold to a local consumer co-operative and 250 boxes to different wholesalers, at a uniform ex-factory price of \$25 per box. The value added is hardly satisfactory, but higher prices are not acceptable on the local market and the factory, though under-utilised, provides considerable employment in the area.

Through the National Export Promotion Agency, the factory has now received an inquiry from a foreign chain of supermarkets. They want to buy 6,000 cans (250 boxes) per month, at a price of only \$21 per box, with the condition that BCU participate in a promotional campaign in all towns where the chain operates its supermarkets. BCU's contribution would be \$1,000 per month, which would be deducted from the monthly payment for goods.

The man from the National Export Promotion Agency thinks that this would be a good deal. The management committee of BCU is hesitant, arguing that the price of \$21 will not cover the costs of producing the extra 250 cases, not to mention the \$1,000 they will have to pay for advertising.

Variable cost per case: 24 x 0.70	\$ 16.80						
Fixed cost per case	<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>Total fixed costs</u></td> <td style="text-align: right;">= \$3,000</td> </tr> <tr> <td style="text-align: center;">Total monthly production</td> <td style="text-align: right;">700</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">4.30</td> </tr> </table>	<u>Total fixed costs</u>	= \$3,000	Total monthly production	700		4.30
<u>Total fixed costs</u>	= \$3,000						
Total monthly production	700						
	4.30						
	Total cost per case \$ 21.30						

What is your opinion?

Case C - The Gamma Agricultural Co-operative Society Limited

In their spare time and off season the members of the Gamma Agricultural Co-operative Society manufacture a great number of handicrafts including baskets, for which a large market exists in several industrialised countries.

There is one major foreign importer who has been buying large baskets at a f.o.b. price of \$3,600 per thousand. He normally places an annual order for 10,000 baskets. The society's members deliver their baskets to the co-operative warehouse, where they are checked, packed and stored until shipment takes place. Members receive \$3 per basket when the society is paid. The mark-up of 20% provides for operating expenses.

Last years operations account, for example, looks as follows:

<u>Sales</u> : 10,000 baskets (at \$3,600 per thousand)	\$ 36,000
<u>Cost of goods sold</u> : (10,000 baskets at \$3 each)	\$ <u>30,000</u>
<u>Gross Profit</u> :	\$ 6,000
Gross margin $\frac{6000}{36,000}$	
<u>Total operating expenses</u>	\$ 5,856
Net profit	\$ 144
Net margin $\frac{144 \times 100}{36,000}$	0.4%

Mr. Lu, the manager of the Gamma Co-operative Society, is very pleased today, because the foreign importer has just asked him to double the number of baskets for next year, at the same price of \$3,600 per thousand. When Mr. Lu inquires about the supply capacity, however, he finds out that some private traders have been offering a slightly higher price for the baskets: \$3.10 per basket, to be picked up by the traders' truck in the village, so that the farmers no longer lose time transporting the baskets to the co-operative warehouse.

Consequently, the number of baskets delivered to the co-operative warehouse is likely to decrease in future, and Mr. Lu thinks the co-opera-

tive may have a hard time filling an order for 10,000 baskets, let alone the new order for 20,000 baskets.

Mr. Lu looks again at last year's operating expenses.

Staff salary, \$125 per month	\$ 1,500
Casual Labour for packing, loading, handling, etc., \$400 per shipment of 5,000	\$ 800
Office expenditures, \$60 per month	\$ 720
Shipping documentation, \$100 per shipment	\$ 200
Truck rental, \$300 per shipment	\$ 600
Rent for warehouse, \$170 per month	<u>\$ 2,040</u>
	\$ 5,860

Expenses on sales: $\frac{5,860 \times 100}{36,000} = 16,3\%$

Hence the mark-up of roughly 20% on the cost price of the goods in order to cover expenses.

Mr. Lu thinks that paying \$3.20 per basket would be an incentive strong enough to obtain 20,000 baskets to fill the new order. Applying the same mark-up of 20% to cover expenses, Mr. Lu arrives at the following:

20,000 x \$3.20	=	\$ 64,000
+ 20% mark-up	=	<u>\$ 12,800</u>
		\$ 76,800
Price per 1,000 baskets:	$\frac{\$76,800}{20}$	= 3,840
Price increase:	$\frac{\$3,840 - \$3,600}{\$3,600} \times 100$	= 6.7%

It is unlikely that the foreign importer would accept such a price increase and the risk is that he may buy from another source. Could you help Mr. Lu find a solution?

SESSION 5.2

SALES CONTRACTS

Objective : To enable trainees to explain the importance of formal export sales contracts and to identify necessary contract conditions.

Time : 1 1/2 hours.

Material : Handout 1 - Tape Dialogue - "Concluding the Sales".

Session Guide :

- 1) Hand out the transcript of the dialogue to trainees. Play the tape recording, or if a recorder is not available, have 2 trainees stage the dialogue. If possible, use the same trainees who staged Hand out 2 in Session 4.1. Warn trainees that after they have heard the dialogue, they will be required to (i) analyse the various agreements reached and (ii) draft a sales contract.
- 2) Divide trainees into groups of equal size and ask them to analyse the various agreements made and to draft a sales contract accordingly. The contract should cover only the conditions which have been mutually agreed upon. If trainees believe that important points have been left out, they may write them down. Allow up to 45 minutes for this assignment.
- 3) Reconvene in plenary and have spokesmen read aloud their contracts, one after the other.
- 4) After all the presentations are made, ask trainees to select the contract which appears to be the most comprehensive. Read out this contract again and record its main features (summary of paragraphs) on OHP/flipchart.
- 5) Question: Which contract clauses do they find faulty? Have any points been left out? Write these on the chalkboard. Make sure

all trainees agree that a sales contract must be clear, accurate and specific on the following:

- a) Product description.
- b) Description of packing.
- c) Delivery time.
- d) Price (per unit, total price, net, gross)
- e) Quantity (measurements, gross, net)
- f) Terms of delivery (Incoterms) - delivery point - insurance.
- g) Price adjustment clause (in case charges change).
- h) Arbitration clause (in case disputes arise).
- i) National laws that apply, other legal aspects, liabilities.
- j) Terms of payment - currency of payment.
- k) Documentation - certificates of origin, sanitary inspection, etc.

Suggest that the trainees take notes while these points are being discussed as they will be given the opportunity to improve their draft for a sales contract during the next sessions.

A model sales contract is enclosed as a Handout to this session. Do not distribute the contract to the participants until you have completed Session 5.6. You the trainer can use it, however, as a reference when analysing and discussing the drafts for a sales contract made by the various groups during this session as well as the improvements made on these drafts during the next sessions.

- 6) Induce a brief discussion on the following differing views about written agreements.
 - "A detailed written agreement is often viewed with suspicion and regarded as a manifestation of lack of trust between the parties. Such a view is regrettable."
 - "A detailed agreement is, in fact, something positive in that it compels the parties to consider their common interests and divide rights and responsibilities before their activities start."

Questions: How can rights and duties between international trading partners be regulated? What is the exporter expected to do? What rights does he have? What has the importer to do? What are his rights?

Refer trainees to the long and complex list of items which must be included in international sales agreements. Oral agreements are valid, but they are nearly impossible to prove. Written agreements which stipulate in black and white the rights and responsibilities of all parties involved will help avoid future conflicts because:

- the parties involved in the execution of the contract will know their rights and responsibilities and feel compelled to adhere to them;
- it may be possible to settle disputes by referring to the original terms of the agreement.

Written agreements not only include sales contracts but can also take the form of letters, written quotations, orders, order acknowledgements etc.

An oral or written offer followed by an order constitutes a legally valid contract. Formal sales contracts are mainly used in complex business transactions, involving detailed technical specifications or considerable volumes with, for example, long-term delivery schedules. Particular attention should therefore be paid to formulating offers, orders and order confirmations which should be as detailed as possible so as to avoid possible conflicts.

Advise participants that, in view of the complexity of international sales contracts, it is preferable to seek legal advice in drawing them up. They should, however, be able to recognise a faulty contract.

- 7) Remind trainees of their action commitment to be presented at the end of the training course. Someone may wish to consider evolving a model for a standard export sales contract for his society's products, possibly with the assistance of an outside legal adviser.

Tape Dialogue

"Concluding the Sales"

Narrator: You may remember the conversation in Session 4.1 between Mr. Mambo, the salesman for his farmers' co-operative, and Mr. Klobe, the buyer of canned foodstuffs for the Co-operative Retail and Wholesale Union.

Unfortunately, we were cut off before the final order was signed, while Mr. Mambo was still going ahead with his splendid sales job. Now, however, we meet them again, sitting in Mr. Klobe's office summing up their negotiations. Pay careful attention to what they say and take notes, as you will be required to draft a sales contract stating the terms of their agreement.

Mr. Klobe: You know, Mr. Mambo, I still feel a bit worried: I'm just wondering whether your co-operative will be able to deliver all the goods you sold us today.

Mr. Mambo: Leave that to us, Mr. Klobe. Rest assured that you will get the goods you ordered.

Mr. Klobe: Well, I hope so. But, before we finish our meeting let's go over our agreements, Mr. Mambo. Would you please read off your order form?

Mr. Mambo: Fruit cocktail 775 ccm can, as per sample. A trial order of 4,000 cans at 37 cents per can. You want this right away.

Mr. Klobe: Right. Go on.

Mr. Mambo: - Tamarind nectar, cans of 8.8 oz. excuse me, 250 gr, 48 to a box, 15,000 cans at 20 cents.
- Mango nectar, cans of 250 gr, 48 to a box, 15,000 cans at 18 cents.

- Sliced pineapples, cans of 500 gr, 24 to a box, also 15,000 cans at 39 cents.
- Tangerines in syrup, cans of 375 gr, 12 to a box. You want only a trial order of 1,200 cans the first month, at 50 cents per can.
- Mushrooms, cans of 375 gr, 12 to a box, 24,000 cans at 58 cents each.
- And finally, 60,000 cans of green beans in 1 kg cans, at 35 cents each.

Mr. Klobe: And your make really sure that we get this in 6 monthly shipments of about equal size.

Mr. Mambo: Except the fruit cocktail and the tangerines, which you want right away.

M. Klobe: Correct. And be sure to send me a pro forma invoice when you're ready for shipment so that we can make out our L/C.

Mr. Mambo: Okay, we will write the pro forma invoice - how many copies do you require?

Mr. Klobe: 5 copies will do. Say, can you telex me in advance about the exact quantities you intend to ship and the total amount, f.o.b. port of Beta-City?

Mr. Mambo: Of course. And you will get the documents as soon as we have the L/C. If my pocket calculator is right, that will make a monthly delivery of about \$10.345, except for the first month with \$2,080 more for the fruit cocktails and the tangerines. I think that settles everything, Mr. Klobe, and I would like to thank you for your order. We will do everything in our power to give you entire satisfaction.

Model Sales Contract

with specimen clauses

Remarks

- | | |
|--|---|
| 1. This contract is made at Scandia City the twenty- fourth day of May 1983 | Place and Date |
| between | |
| 2. the Co-operative Retail and Wholesale Union, 348 Main Street, Scandia City, Industria, (hereinafter called the buyer) of the one part | Name and address of buyer |
| and | |
| the Beta Fruit and Vegetable Growers Co-operative Union, Orchard Road, Beta City, Agraria, (hereinafter called the seller) of the other part. | Name and address of seller |
| 3. The buyer agrees to purchase from the seller and the seller agrees to sell to the buyer, canned fruits and fruit juices and canned vegetables more fully hereinafter described in Annex I, on the terms and conditions set out hereunder. | Description of product |
| 4. The goods shall be packed as follows:
All cans by respectively one, two or three dozens (according to size) in special heavy duty cardboard boxes, eighteen such boxes crated in a wooden box not exceeding 300 kg weight each, two steel bands per crate. | Description of packing |
| 5. Terms of delivery:
Free on board, Beta City (Incoterms 53)
Partial shipments allowed. | (Ref. Session 5.3
Terms of delivery) |
| 6. Details of ship to be advised not later than ten days before anticipated shipping date. | (Ref. Session 5.3
para. 16) |

7. The price of \$ (amount) shall be paid in dollars of the United States of America against an irrevocable Letter of Credit confirmed by Beta Bank and payable with them upon presentation of shipping documents as follows* (Ref. Session 5.4 Terms of payment and currency) (Document Clause)
8. The price is calculated on the basis of a freight rate of (e.g. \$30.- per metric ton), any variation in the rate for buyer's account. (Ref. Session 5.3 Freight charge variation clause)
9. The Letter of Credit should be available not later than three months after the date of order and have validity for at least six months. (Ref. Session 5.4 Time clause)
10. All disputes arising in connection with the present contract shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said rules. (Ref. Session 5.6 ICC arbitration clause)

* Usual documents: (e.g.)

- Invoice in triplicate, signed and marked.
- Certificate of origin issued by the Chamber of Commerce.
- Full set of clean on board Bills of Lading made out to order and blank endorsed.
- Insurance Policy or Certificate in duplicate, covering Marine and War Risks up to buyer's warehouse, for invoice value of goods plus 10%.

Specimen Order Form

Name of buyer: Co-operative Retail & Wholesale Union

Address: 348 Main Street, Scandia City

Order given by: Mr. Klobe, buyer, canned food department

Item	Ref.	Description	Unit	Unit Price	Quantity	Total
				US\$	Ordered	Amount
1		Fruit Cocktail, 775 ccm	cn	0.37	4,000	1,480
2		Tamarind Nectar, 250 g	cn	0.20	15,000	3,000
3		Mango Nectar, 250 g	cn	0.18	15,000	2,700
4		Pineapple, sliced, 500 g	cn	0.39	15,000	5,850
5		Tangerines, in syrup, 375 g	cn	0.50	1,200	600
6		Mushrooms., 375 g	cn	0.65	24,000	15,600.
7		Asparagus, 500 g	cn	0.58	24,000	13,920
8		Green beans, 100 g	cn	0.35	60,000	21,000
						64,150

Items # 1 and # 5 to be shipped on receipt of L/C (\$2,080).

The remainder to be shipped in 6 monthly shipments of approximately equal size (\$10,345).

SESSION 5.3

TERMS OF DELIVERY

Objective: To enable participants to explain the particularities of the most important terms of delivery, to assess their cost and legal implications and to use the terms correctly when calculating export prices and drafting export contracts.

Time: 3 hours.

Material: Visual aid - "INCOTERMS", Case studies 1 - 7, Handout - "Major INCOTERMS".

Session Guide

- 1) Remind participants that the "c.i.f." and "f.o.b." have been used several times in previous sessions and especially in the last one where f.o.b. terms of delivery were made part of the sales contract.

Question: What do the terms f.o.b. and c.i.f. mean?

Trainees will probably answer:

f.o.b. = free on board and

c.i.f. = cost, insurance and freight.

Questions: What are the essential differences between the 2 terms? Will these differences have an important influence on the export price quoted?

- 2) Support, clarify or correct participants' explanations as necessary, making use of the visual aid "INCOTERMS" which should be reproduced on OHP, on the chalkboard or on a large sheet of paper. Explain that this drawing shows the so-called "critical points" in the trading process between an exporter (seller) and an importer (buyer). Terms of delivery such as f.o.b. or c.i.f. determine what obligations and risks seller and buyer are responsible for.

The critical points will help to define these. In the illustration all critical points are at the loading/unloading platforms. Briefly go through the critical points on the illustration:

- (1) From factory, plantation or exporters godown (A) to port of shipment (B).
 - (2) Loading on board of ship, from (C) over (D), (E) and (F) to (G).
 - (3) Sea freight to port of destination, from (G) to (H).
 - (4) Unloading at port of destination, (H) to (K).
 - (5) Customs clearance; payment of duty, from (K) to (M), over (L).
 - (6) Port of destination to customer's warehouse, from (N) to (O).
- 3) Question: What do they understand by "risk" in export/import contracts?
- The danger of damage to, or loss of the goods is called risk. Both seller and buyer protect themselves against risk with insurance. Risks can be passed from seller to buyer at various critical points, depending on the terms of delivery agreed upon.

Question: What are some of the risks which may occur to products during land and sea transport?

- Damage caused by traffic or rail accidents; damage caused during loading or unloading; damage from hooks; theft; pilferage; contact with other, damaging cargo; damage from sea water; insect or rodent infestation; stranding, burning or sinking of ship.
- 4) Question: Once again, what are the major differences between f.o.b. and c.i.f. terms?

- Who pays for sea freight from G to H?
(f.o.b. - The buyer, c.i.f. - the seller)
- For which stage in the transport should insurance be taken out and by whom?
(f.o.b. - from A to F by seller, from F to O by buyer)
(c.i.f. - from A to O by seller)
- Where does transfer of risk take place in both cases?
(At the moment the goods pass the ship's rail (F))
- Who is responsible for any goods dropped into the sea while being loaded onto the ship?
(It is the seller's responsibility)
- Who is responsible for any goods that are dropped while on board the ship and spoiled?
(It is the buyer's responsibility)

5) Divide participants into groups of not more than 4 persons. Groups can remain and work in the same room.

Distribute Case 1 to all groups and inform them that you will attribute "one point" for each correct solution to this and all following exercises and that at the end of this session a winner will be declared. Allow up to 15 minutes of deliberation.

6) Ask spokesmen of each group to announce their results. Indicate the correct answer only after all group results have been noted on the blackboard.

Announce correct answers:

- f.o.b. selling price per ton (900 + 173) \$ 1,073 (items 1 to 4)
- c.i.f. selling price per ton (900 + 423) \$ 1,323 (items 1 to 6)
- additional costs occurring to seller f.o.b. \$ 173, c.i.f. \$ 423
- additional costs occurring to buyer f.o.b. \$ 427, c.i.f. \$ 177
- total \$ 600, \$ 600
- value at point O (900 + 600) \$ 1,500 in both cases

- 7) Participants have now learned about 2 major terms of delivery.

Question: Do all traders throughout the world understand "c.i.f." and "f.o.b." in the same way?

Explain that such "terms of delivery" have been developed over many years to fit particular circumstances. But because the terms could be interpreted in different ways, misunderstandings were quite frequent.

Question: What happens when terms of delivery are interpreted differently by seller and buyer?

Certainly, commercial disputes may arise.

In order to clear up the confusion that existed in international trade, in 1953 the International Chamber of Commerce drew up a set of standard terms and new definitions. Called the INCOTERMS 1953, they indicate the division of costs and administrative responsibility between the exporter and his customer. More term definitions were added in 1967 and 1976.

Although internationally accepted, the terms of delivery are still sometimes interpreted differently in different countries. Care and classification are necessary when using them. For example, the term f.o.b. should always be mentioned as f.o.b. INCOTERMS and the port of shipment should be indicated, as in f.o.b. Calcutta, INCOTERMS. When using c.i.f. the port of destination should be indicated as in c.i.f. Bremerhaven INCOTERMS.

- 8) Question: What are the other terms of delivery participants have heard of?

A complete list of the more current terms of delivery is:

(The point where responsibility for risk passes from buyer to seller is indicated by the letter shown on the visual aid.)

- (1) Ex-works, ex-plantation, ex-godown (A)
- (2) f.o.r. = Free on rail
- (3) f.o.t. = Free on truck
- (4) f.a.s. = Free alongside ship (E)
- (5) f.o.b. = Free on board (F)
- (6) f.o.b. Airport = Goods to be delivered to the air carrier (E)
- (7) c&f = Cost and freight (F)
- (8) c.i.f. = Cost, insurance, freight = CAF (French) (F)
- (9) c.i.f. landed = like C.I.F. (F), but transport up to (K)
- (10) c.i.f.i. = Cost, insurance, freight and interests (F)
- (11) Others, such as Ex-ship (H), Ex-quay (K), Ex-quay duty paid (L), etc.

Major INCOTERMS in connection with air freight are:

Exw = Ex-works

Frc = Free carrier (delivered to the aircraft)

Daf = Delivered at frontier (delivered to the border)

Dcp = Freight or carriage paid to (airport at destination)

Cip = Freight or carriage and insurance

Ddp = Delivered duty paid

Foa = Fob airport

While each-of the above terms is being mentioned, point out on the visual aid the critical point where responsibility passes from "seller" to "buyer".

If some of the above do not occur to the trainees, prompt replies by pointing out critical points on the visual aid. (Identified by letters A through N.)

- 9) Hand out "MAJOR INCOTERMS". Allow up to ten minutes for all participants to study the handout on their own.
- 10) Question: How would participants go about selecting the most advantageous terms of delivery:

Point out that various INCOTERMS bear a heavy influence on price quotations, as seen in Case 1. For example, a c.i.f. quotation will always dictate a higher price than a "c&f" quotation, and an "f.o.b" quotation will dictate a lower price than a "c&f" contract.

Question: If participants could imagine for a moment that they are one of their own customers, what quotation would they prefer as an importer?

- They will probably prefer c.i.f., because the importer can easily compare price quotations from various countries of origin.
- Alternatively, they may prefer c+f quotations, which allow the importer to choose his own insurance company and at the same time guard him against fluctuations in freight charges.
- Others may prefer f.o.b. prices, because the importer, if he is an important buyer, may be able to negotiate advantageous freight and insurance rates.

- 11) A c.i.f. quotation also has other advantages for the importer. The c.i.f. price hides a minimum of surprises, such as sudden fluctuations in freight rates. As importers usually prefer c.i.f. quotations, exporters should certainly go through the additional effort of making careful "c.i.f." quotations.

Question: How can an exporter protect himself against losses due to fluctuations in freight rates when he quotes c.i.f.?

- He may insert a clause like the following in his conditions of sales:
"The price is calculated on the basis of a freight rate of (e.g. \$ 30.-) per metric ton; any variation in the rate for buyer's account".

Question: What do participants think about using such a "freight charge variation clause" in their sales contract?

- Obviously, it is safer for the exporter to retain his right to alter the price or the conditions of an order, but the customer prefers definite terms and looks more favourably on an offer that quotes a firm price.

Choosing the proper terms of delivery will therefore practically always be a matter of negotiation and a matter of economic power. If one partner shows a weakness in negotiating skills or is competing with many others, he will have to make concessions to make a sale.

- 12) Divide participants again into groups as for Case 1 and hand out Cases 2 to 6. Allow up to 40 minutes for groups to work out solutions to all cases.

- 13) Reconvene in plenary and ask all spokesmen of groups for their solution to each case. Do not forget to award points to groups with correct answers.

Case 2

Explain that the co-op marketing federation may be in a better bargaining position than its respective buyers with regard to arranging transport and insurance. The co-op may therefore be able to quote a more competitive price under c & f and c.i.f. than under Ex-godown or f.o.b. Furthermore, it is in a position to support its country's national shipping and insurance. But with its increasing obligations come new risks. These risks must be set off against the benefits to the exporter (or his country) resulting from an extension of his obligations.

The exporter may avoid the risk of labour disturbances in Alpha-Country by using f.o.b. The c & f., or c.i.f., clauses are also possible, particularly if the buyers are required to pay upon shipment (by L/C or otherwise). However, since under c & f and c.i.f., the exporter becomes a party in the contract of carriage, he may be called upon by the carrier to pay for the immobilisation of the ship in the port of discharge ("demurrage"). But in practice, the seller will seldom be required by the carrier to pay demurrage in the port of discharge.

In Beta-Country there is a serious and unpredictable risk of congestion in the port of discharge. Therefore, the exporter should prefer and require the buyer to pay upon shipment. If he uses c & f or c.i.f. terms rather than f.o.b., he should try to assess whether a potential claim for demurrage may exceed the value of the goods. If so, the buyer - even if he has paid for the goods in advance - may be unwilling to take delivery from the carrier and may fail to fulfill his obligation to reimburse the seller.

Allow one point each for answer "f.o.b." for both countries.

Case 3

Allow one point for the right answer. Have a spokesman for a group that got it explain to the other groups that the buyer became responsible for the goods when they passed the rail of the ship in the port of shipment, and that he can make up for his loss by filing a claim to his insurance company, since insuring the cargo was his own responsibility.

Case 4

Give one point to groups answering correctly. Although the seller paid for insurance under a c.i.f. contract, the risk passed onto the buyer when the goods passed the rail of the ship at the port of shipment. It's now up to the buyer to file a claim against the insurance company.

Question: For what amount should the goods be insured?

It is the general custom always to insure goods at 110% of their c.i.f. value.

Case 5

A solution to this problem is unlikely. Although it is the buyer's responsibility to charter the vessel, reserve space and notify the exporter of the details of the vessel, there may be occasions when this is impossible to do in time. A commercial dispute may arise as a result, proving that f.o.b. and other Incoterms do not eliminate all risks and problems in international trade.

Case No. 6f.o.b. port of shipment: (same amount for both destinations)

1.	Cost ex-godown	\$ 500 x 100	=	\$50,000
2.	Transport to port of shipment	\$ 30 x 100	=	\$ 3,000
3.	Loading charges	\$ 5 x 100	=	\$ 500
4.	Export documentation	\$ 40 x 1	=	\$ 40
				\$ 53,540

c & f Alpha port

(1)	f.o.b. port of shipment	\$ 53,540
(2)	Sea freight to Alpha, \$80 x 100	\$ <u>8,000</u>
		\$ 61,540

c & f Beta harbour

(1)	f.o.b. port of shipment	\$ 53,540
(2)	Sea freight to Beta, \$120 x 100	\$ <u>12,000</u>
		\$ 65,540

c.i.f. Alpha port

(1)	c & f Alpha port	\$ 61,540
(2)	Insurance, 3% on 110% of total	\$ <u>2,100</u>
		\$ 63,640

c.i.f. Beta harbour

(1)	c & f Beta harbour	\$ 65,540
(2)	Insurance, 3% on 110% of total	\$ <u>2,237</u>
		\$ 67,777

This exercise allows for 6 points.

To calculate "I", use the following formula:

Divide c+f by (1 - Insurance rate in % multiplied by 1.1)

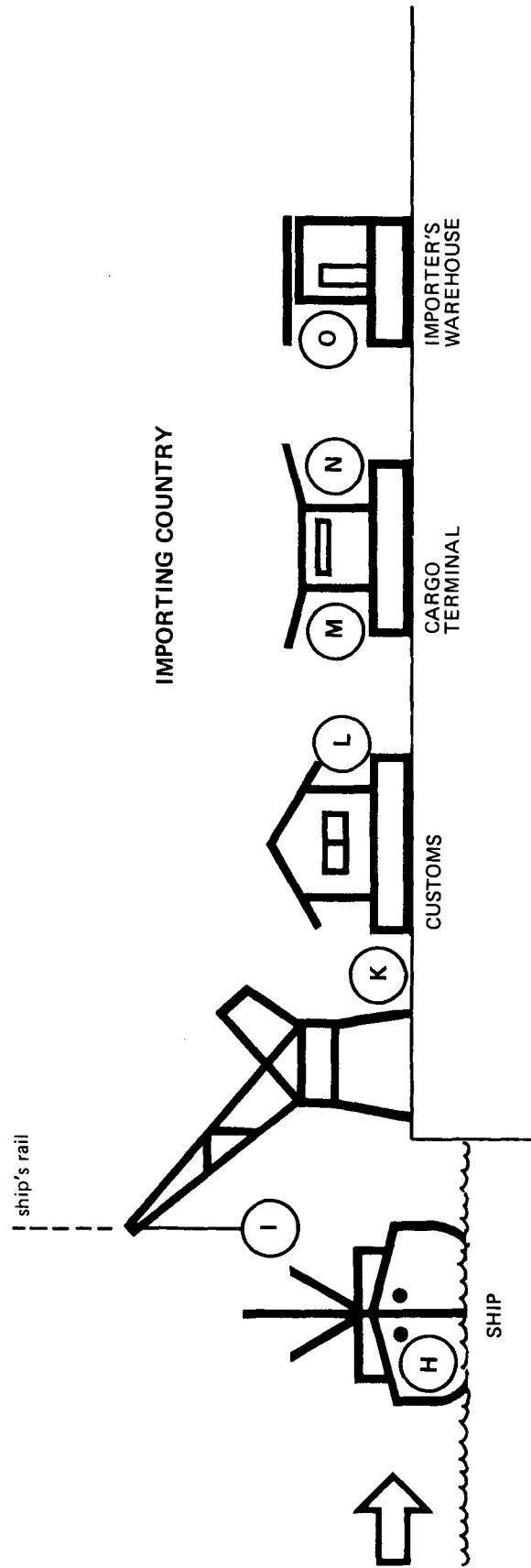
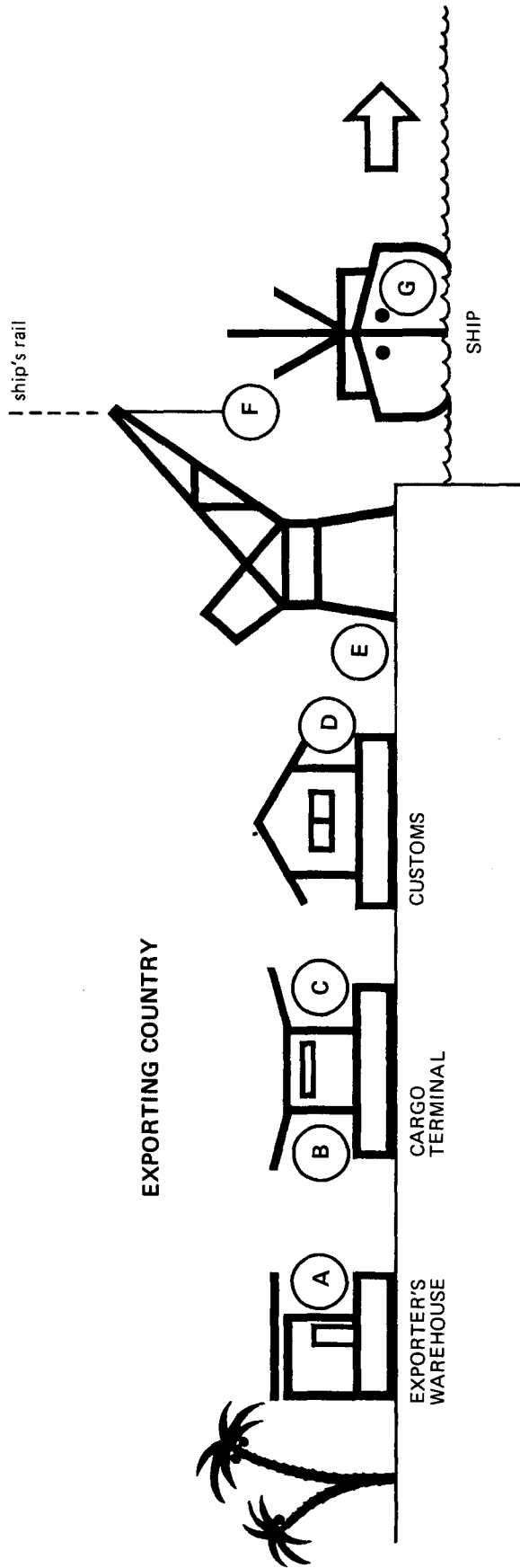
Result is cif. Amount of insurance equals cif less c+f

Example:
$$\frac{61,540}{1-(.03 \times 1.1)} = \frac{61,540}{1-0.033} = \frac{61,540}{0.967} = 63,640 = \text{cif}$$
$$\text{cif} - \text{c+f} = 63,640 - 61,540 = 2,100 = \text{Insurance.}$$

- 14) Compute "points" of groups (maximum possible is 19 points) and declare the winner of the contest.
- 15) Ask trainees to form the same groups as in Session 5.2 to draft the sales contract. Allow up to ten minutes for making improvement on their sales contracts based on their knowledge about terms of delivery.
- 16) Reconvene in plenary and ask group spokesmen to read out the corrected paragraph. Ensure that it contains the formulation "f.o.b. (Incoterms 80) Port of Beta-City". It may also carry a clause such as "Details of ship to be advised by buyer not later than ten days before anticipated shipping date".

Discuss with trainees the reasons for this clause and how it can help the exporter avoid trouble and future disputes.
- 17) Summarise the findings of this session. Stress the importance of using adequate terms of delivery in sales contracts and/or agreements. If possible, obtain and hand out ICC brochure No. 320, "Guide to Incoterms, for more detailed information.

Most importers would prefer CF to CIF terms as they would rather insure the goods with their own insurance company. In developing countries and in countries with foreign exchange control, there are often regulations requiring importers to insure with local insurance companies.



○ CRITICAL POINTS

Case 1

You have calculated the selling price of your product as \$ 900 per ton at the gate of your godown.

Asked to prepare c.i.f. and f.o.b. quotations for a prospect overseas, you have found out about the following costs (all per metric ton).

- | | |
|---|--------|
| 1. Export packing per ton | \$ 150 |
| 2. Transport and insurance from A to E (alongside ship) | \$ 10 |
| 3. Loading of ship, from E to G | \$ 5 |
| 4. Export documentation | \$ 8 |
| 5. Sea freight from G to H | \$ 200 |
| 6. Insurance from G to O | \$ 50 |
| 7. Unloading of ship from H to K | \$ 5 |
| 8. Customs clearance from K to M | \$ 20 |
| 9. Transport to buyer's warehouse from N to O | \$ 20 |
| 10. Customs duty of 10% on c.i.f. value | |

Your assignment :

f.o.b

c.i.f.

1. Calculate the selling price per ton

a) f.o.b. port of shipment

\$	
	\$

b) c.i.f. port of destination

2. How much costs, in addition to the cost of goods ex-godown, will have to be paid by

a) the seller, in case of f.o.b. and c.i.f.?

\$	\$
\$	\$

b) the buyer, in case of f.o.b. and c.i.f.?

3. Calculate the total cost of the goods at point "O" (Buyer's warehouse)

- if the buyer buys f.o.b.

\$	
	\$

- if the buyer buys c.i.f.

This exercise earns you 8 points

Case 2

A co-operative marketing federation exports an average of 200,000 tons of maize a year. Its buyers (about 30) are primarily located in two countries, Alpha and Beta. The co-operative godown is inland - about 200 km from the country's main seaport. There is no difficulty in transporting the grains from the godown to the port of shipment.

The exporter's country has domestic ships that are suited to carrying the grains to the two countries, and it is in need of foreign currency. Also the insurance risk can be covered by domestic cargo insurance companies.

The following conditions have been noted in the two importing countries:

Alpha-Country has a well-organised port of discharge and efficient inland transportation by rail and truck; however, it is known for labour disturbances.

Beta-Country is known for congestion at its port of discharge: the waiting time for ships varies from 20 to 80 days. Inland transportation, on the other hand, is excellent.

What delivery terms would you suggest for the co-operative's sales contracts with buyers in each of the two countries?

Case 3

-
You have sold a consignment of potatoes to a European customer under a "c+f Rotterdam" INCOTERM agreement. During transit, however, a large share of the potatoes were spoiled. The customer wants to pay you only for the share of the consignment which arrived in a usable state because, he says, you were responsible for the shipment because you were responsible for paying the freight charges. Is he right? Couldn't your insurance pay for this?

Case 4

You have sold a consignment of canned fruit juice to a customer in Switzerland under a "cif Rotterdam" INCOTERM agreement. Unfortunately, the ship carrying the goods was lost on the high seas after a heavy storm. The customer, who has paid you "cash on order", wants to be reimbursed immediately. He tells you that you can get the money back from the insurance company. Who has to pay whom and who has to file a claim with the insurance company?

case 5

You have made a sales contract with "f.o.b. Jakarta" INCOTERMS for a consignment of 100 tons of smoked rubber sheets to be shipped by 15 May. On that date, however, your customer has still not yet notified you of the details of the vessel. What are you going to do?

Case 6

You have calculated the selling price of your product, seaworthy packing included, at \$500 per metric ton, ex-gowdown.

Asked to prepare c.i.f., c&f, and f.o.b. quotations for a shipment of 100 tons to customers in Alpha-City port and Beta-City harbour, you have found out about the following costs:

- | | |
|--|--------------------|
| 1. Transport and Insurance from gowdown to port of shipment. | \$ 30 per ton |
| 2. Loading charges | \$ 5 per ton |
| 3. Seaworthy packing | \$ 20 per ton |
| 4. Export documentation | \$ 40 per shipment |
| 5. Sea freight to Alpha-City port | \$ 80 per ton |
| 6. Sea freight to Beta-City harbour | \$ 120 per ton |
| 7. Insurance Premium 3% of 110% of cif value | |

Your assignment :

Quote for 100 tons f.o.b.

c&f

c.i.f.

Alpha	Beta

MAJOR INCOTERMS

INCOTERMS	What costs are added on goods and packing	Where delivery and transfer of title takes place.	What costs the buyer has to pay.	Point where risks pass over.
fob + port of shipment "free on board"	Transport from sellers godown to the docks + loading goods onto ship and preparing shipping documents.	When goods have passed ship's rail at port of shipment or anywhere between (G) and (N).	Sea transport and insurance port to port, landing charges, customs duties, transport to his warehouse.	F Ship's rail port of transport.
c+f + port of destination "cost and freight"	As above + freight cost from port of shipment to port of destination.	When the ship arrives at port of destination (H) or anywhere between (H) and (N).	Insurance, landing charges, customs duties, transport to his warehouse.	F Ship's rail port of shipment.
cif + port of destination "cost, insurance, freight"	As above + insurance to port of destination.	When ship arrives at port of destination (H) or anywhere between (H) and (N).	Landing charges, customs duties, transport to his warehouse.	F Ship's rail port of shipment.

INCOTERMS are internationally standardized definitions of the rights and responsibilities of exporter and importer regarding the arrangements and payment or the delivery of goods in international sales. Such terms as cif and fob are familiar to all. They are 2 of the 12 general terms standardized by the International Chamber of Commerce.

For that reason ICC felt the need to explain the INCOTERMS in simple language and has therefore published two guides:

No. 274 "INCOTERMS", and
No. 320, "Guide to Incoterms"

Although INCOTERMS are widely known and used, and have been translated into many languages, sellers or buyers are often uncertain as to what they must do - the costs they must pay and the risks they assume for the loss, or damage to, the goods during the transport operation.

which can be obtained from your National Committee of the ICC or from

ICC Services S.a.r.l.
38 Cours Albert I
F - 75008 Paris
Tel: 261-85-97
Telex: 650770

SESSION 5.4

TERMS OF PAYMENT

Objective : To enable participants (i) to explain the advantages and disadvantages of the most common terms of payment used in export sales (ii) to avoid mistakes when using the Letter of Credit procedure and (iii) to use appropriate terms when drafting sales contracts.

Time : 2 to 3 hours.

Material : Handout 1 - "Main Stages of a Documentary Credit Transaction"
Handout 2 - Role play briefs A to G
Handout 3 - Sample Documents
One cardboard box

Session Guide :

1) State that, "getting paid" is perhaps one of the most important pre-occupations of the exporter.

Question: Why are payment and financing arrangements in export trade more difficult than for selling in the home market?

Elicit answers such as:

- because the customer lives in a foreign country;
- a great distance separates exporter and importer;
- the customer probably deals in a different currency;
- communicates in a different language and
- works under different regulations and has other customs;

Question: What should the first step in getting paid be?

- Obviously, it is the timely preparation of the invoice for the goods. The export invoice is a basic document in foreign trade. It is the bill for the goods in which the customer is told in detail how much money he has to pay for the products. But the export invoice has wider uses than an ordinary invoice.

Question: For what additional purposes can the export invoice be used?

- The export invoice is used by the importer to clear the goods through customs. It is also used in making insurance claims. Finally, it is very important when considering questions of transport, payment and finance. It is the most important document in export documentation, together with the bill of lading which is the basic document for the shipment of goods.

2) Remind participants of the sales negotiations between Mr. Mambo and Mr. Klobe. Among other things, terms of payment were discussed and the terms "cash against documents" and "letter of credit" were mentioned. Question: What terms of payment do the participants' own co-operatives use when selling in the domestic market?'

- In domestic markets in developing countries, the most common terms of payment are:

(i) Cash Payment - Either on confirmation of order or when the goods are ready for shipment.

(ii) Open Account - Payment after goods are delivered. Sometimes combined with various credit terms.

Question: What are the advantages and disadvantages of these terms of payment for the seller and the buyer?

Lead the discussion around to the fact that the terms of payment are related to the pricing policy. If paid in cash at the time of the order, the producer finances his production with the buyer's money. In the case of open account or credit sales, the buyer

finances his stocks with the seller's money. "Cash with order" prices are therefore usually lower than "credit prices", which usually include interest.

- 3) Question: Can these terms of payment also be used in international trade?

Provoke a discussion of the risk involved for the seller who delivers the goods before receiving payment, and that for the buyer who pays before receiving the goods.

- In practice, a compromise must be sought, such as payment when the goods are ready for shipment.

Question: Under what conditions can the "open account" be practiced in domestic markets and, eventually, export markets?

- Open account is generally restricted to transactions where the two business partners have a close relationship or an understanding and where there are no exchange restrictions to complicate the settlement.

Sales on this basis are normally paid for by periodic payments, such as monthly statements by bank, mail or cable.

Question: How would the trainees judge the financial strength of an exporter practicing "open account" payment terms with his customers?

- The exporter must have sufficient financial strength to carry the cost of the goods (frequently also cost of transportation and insurance) until he receives payment. It may sometimes be necessary to decide upon open account terms in very competitive, sophisticated and demanding markets, but only when the customers are well known and when the exporting co-operative can finance the deal until it receives payment.

- 4) Question: What, in sum, is the exporter's problem when he receives an order for his goods?

- He wants to be paid for his goods as quickly as possible, but he doesn't want to dispatch the goods to some distant land without some assurance that he will receive payment.

Question: What, in sum, is the problem the importer has when he orders goods from a distant country?

- The customer does not want to pay any money until he has the goods or is sure that they are on the way to him.

Question: How can these problems be solved, so that the exporter receives his money when he dispatches his goods (and not only when they are received by the customer) while the customer is assured of title to the goods before he pays for them?

- The answer is "documentary credit", also called "letter of credit" or L/C. A documentary credit is merely a credit opened with a bank in the exporter's favour. The term "documentary" indicates that the whole negotiation is linked with the shipping documents.

- 5) Distribute copies of Handout 1 - "Main Stages of a Documentary Credit Transaction", or show the graph on the chalkboard/OHP.

Explain the working of documentary credit as follows:

The first condition is a mutual agreement to use the documentary transaction for payment (1).

The importer opens a credit account at his bank for a certain amount of money in favour of a credit exporter (2). He instructs his banker under which conditions the exchange of documents against payment will take place at the exporter's place of business.

The money is to be paid under certain conditions only. Normally these are:

- the goods will be as specified in the order;

- the price of the goods will be as specified;
- the delivery or dispatch will take place by a certain date as specified;
- charges for freight, insurance, etc. will be as specified.

Usually, the importer will request from his exporter in advance a "proforma invoice" giving all details so that he may open his credit accordingly.

Two banks are actually involved in the documentary credit process:

- The importer's bank, which opens the credit, is known as the "opening" or "issuing" bank.
- The money is actually paid to the exporter by another bank in his own country. It is known as the "advising" or "corresponding" bank.

The opening bank informs the advising bank of the credit for the exporter (3) and makes arrangements for the advising bank to negotiate, accept, or pay the exporter's draft, if and when he delivers the shipping documents to the bank.

The advising bank informs the exporter of the arrangement made (4).

The exporter arranges for the delivery of the goods according to the terms of delivery stipulated in the contract of sales, and collects the necessary documents (5).

He now presents the shipping documents to his advising bank (6), which will check all documents to see whether they conform to the credit conditions. If they do, the bank will pay the exporter the agreed amount (7) since it is now in possession of the title to the goods, in particular the invoice, the Bill of Lading and the insurance policy. All 3 documents are necessary to identify the goods and give evidence that they have been shipped and insured as agreed upon in the sales contract.

The advising bank then forwards the shipping documents to the issuing (opening) bank (8). This bank hands over the documents to the customer (9) who can then collect the goods from the port of destination.

- 6) Summarise that the documentary letter of credit is essentially a method of raising money on the basis of the shipping documents so that the exporter can get paid as soon as he has fulfilled his part of the sales contract by shipping the goods.

Encourage trainees to ask questions and request further details on the subject of letters of credit.

Trainees may raise questions about guarantees given by letters of credit, revocable and irrevocable credits, confirmed and unconfirmed credits, revolving and transferable credits and the problem of documentary evidence.

Tell trainees that special forms of L/Cs would take up too much time for explanation.

Explain, however, that the revocable credit, although issued by a bank, can be revoked, altered or cancelled by the opener, that is the overseas buyer. This may be done at any time without the consent of and without notice to the beneficiary, who therefore has no guarantee of payment. Revocable credits are mainly employed where a high degree of trust exists between seller and buyer.

The irrevocable credit (the most common type of letter of credit in use today) cannot be revoked or modified before the expiration date without the formal consent of all parties to the credit.

In the case of the confirmed credit, the advising bank guarantees payment, even if there are exchange difficulties. So the exporter is fully protected, provided no circumstances prevent him from complying with the conditions on the letter of credit.

- 7) To illustrate the documentary credit transaction, the following play may be staged.

Title: Selling 200 t polliwocks (any other name or product may be used) against letter of credit.

Requisites: 4 tables representing the offices of seller and buyer and the 2 banks involved. One empty cardboard box representing the consignment. Set of documents.

Actors: Six volunteers to act the roles of exporter, importer, exporter's banker, importer's banker, shipper and mailman.

Distribute role play briefs and documents to the participants. Keep "Certificate of Origin" and "Insurance Certificate" until these documents are requested.

Instruct players to read the role play brief carefully and to study the relating documents for about 5 minutes. When acting out the game, players should always tell the other participants what they are doing, e.g. "I am now giving my instructions to the opening bank".

To avoid confusion, only the "mailman" should be moving about, while other players generally remain seated at their desks.

Let observers know they can ask questions whenever they do not understand what is going on. They should use Handout 1 to follow the procedure.

- 8) The game should be clearly separated into 3 phases. After each phase, have one observer explain what has been happening up till now and clarify any misunderstandings.

The first phase goes until the moment the goods are loaded onto the ship and the bill of lading is given to the exporter.

Questions:

Can the exporter be sure that he will be paid for the goods he has just sent off?

Right answer: Yes, if and when he remits the required documents.

Can the importer be sure that the goods have been dispatched?

Right answer: Yes, because the exporter cannot receive payment without dispatching the goods.

Can the importer be sure that he will receive the goods?

Right answer: No, it depends on the ship's safe arrival in the port of destination without damage or loss during the journey.

- 9) The second phase ranges from the moment the exporter has received the Bill of Lading from the shipper until the moment the advising bank sends the shipping documents to the opening bank.

Have one observer recapitulate the happenings until now and ask the following questions:

Has the exporter now fulfilled his part of the contract?

Right answer: Yes.

Has the exporter been paid yet?

Right answer: Yes, he has received the amount specified in the L/C from the advising bank, if he has conformed to the documentary requirements.

The advising bank will have checked very thoroughly all documents submitted by the exporter for completeness and accuracy. If there were anything wrong with the documents, the bank would not have paid the exporter.

Who can now take possession of the goods?

Answer: Only the importer can take possession of the goods, but not before he receives the documents.

- 10) The third phase begins at the moment the shipping documents arrive at the opening bank and continues until the importer receives the consignment from the shipper and the importer submits the customs declaration to the course leader. The course leader may act the role of a customs officer and request the following documents:

- Bill of Lading
- Commercial Invoice
- Certificate of Origin
- Certificate of Insurance

After the play, have participants agree that a "confirmed and irrevocable" letter of credit guarantees payment under all circumstances, as long as the exporter keeps to the conditions stipulated in the letter of credit.

- 11) Ask participants to examine again the visual aid for the preceding session on INCOTERMS. Question: In which INCOTERM situation can a documentary credit transaction be carried out?

- It can be done in all cases and as soon as evidence is available that the goods have been shipped.

- 12) Ask participants to imagine that their overseas customer is unwilling or unable to extend a credit (he may find the procedure too costly or too cumbersome or may just not have sufficient credit facilities with his bank).

Question: Is there any other means of ensuring that the goods are only handed over to the buyer when he pays for the goods?

This procedure is called "documentary collection" and also works with the help of a third party, the bank.

The main feature of documentary collection is that the exporter sends, together with the shipping documents, a bill of exchange drawn on the buyer and payable either "on sight" (on presentation) or within a specified time (e.g. 30 days).

In return for either payment or acceptance of payment, the importer is handed the shipping documents. The importer now has authority to collect the goods. When the importer's (collecting) bank receives payment, it forwards the money to the exporter's (opening) bank, which pays the exporter for the goods.

- 13) Question: Does the "documentary collection" procedure entail some risk for the exporter?

Clearly, several types of risks are always present.

- The customer might not pick up the documents, or he might "dishonour" the bill, that is, refuse to sign the bill.

In both cases, although the exporter keeps title to the goods, he now faces the problem of what to do with them.

- Another risk is that a time bill may be accepted (signed) by a customer who is then unable to pay at the due time, either through his own default or through a change in his government's import restrictions or exchange control.

When this happens, the exporter is no better off than if he were under the terms of open account.

Probably, the greatest safeguard against a time bill being dishonoured is the fact that the advising bank is unlikely to release the Bill of Lading and other documents to the customer unless it is reasonably confident that he will be able to pay up when the bill falls due.

- 14) Ask participants to list the shortcomings inherent in this procedure?

Things that may go wrong are:

- (i) The importer does not receive all the documents necessary to take possession of the goods or pass them through customs.

- (ii) The documents are presented late or not at all.
- (iii) The importer does not pick up the documents.
- (iv) The importer dishonours the sight draft, that is, he refuses to pay.
- (v) The importer dishonours the time draft, that is, he refuses to sign.
- (vi) The importer does not pay the accepted time draft.
- (vii) The exporter receives payment very late, long after the goods have been dispatched.

Question: How can the above pitfalls be avoided or overcome?
Elicit the following answers:

- To (i) above: The best way is to ask the customer beforehand which import documents he needs. If the customer is uncertain as to which documents are required or how they are to be filled in, information should be requested from banks, forwarding agents or national export promotion organisations.
- To (ii) above: An inherent risk which cannot be prevented or avoided.
- To (iii), (iv), (v) above: As the goods remain the property of the exporter, he must decide which of the following four solutions (all involving expenses) he wants to adopt.
 - (i) Dump the goods into the sea. The drawback here is that the loss is at least the value of the goods. Also, in certain cases import duty may be payable.
 - (ii) Try to persuade the customer to accept the goods and the documents and to pay for them. This will incur extra storage costs.
 - (iii) Sell the goods to somebody else, perhaps through the bank. However, they may fetch a lower than average price and there is the danger of spoiling the market with low priced goods.

- (iv) Instruct the bank to return the goods. This will involve further freight and insurance charges, and the goods may spoil.

Question: Is the chance of the documents not being picked up or the sight or time draft being dishonoured the same for both c.i.f. and f.o.b. shipments?

- In the case of a c.i.f. shipment, the exporter has invested a lot of money in the venture while the customer risks nothing. But the likelihood of the importer dishonouring the time and sight drafts diminishes with "made expenditures" by the importer.

In the case of an f.o.b. shipment, the risk for the exporter is minimum.

- To (vi) above: If the customer fails to pay the accepted time draft, very little can be done. The best prevention is to be careful with new, unknown trading partners and to obtain information on the customer's credit-worthiness beforehand.

Few things in business are completely safe, and an exporter may have to take calculated risks. When government regulations change, "country risk" must also be assessed.

- 15) Ask participants to form the same groups as in Session 5.2 for the drafting of the sales contract.

Allow participants up to 20 minutes to improve their respective sales contracts using their new knowledge about terms of payment.

- 16) Reconvene in plenary and ask spokesmen from each group to read out the corrected paragraph.

(For the correct wording, see model contract session 5.2)

Contracts may also carry a clause such as "The letter of credit should be available not later than three months after the date of order and a validity time of at least six months".

Question: What advantages does inserting this clause have? How might its use avoid possible trouble?

- Currency and documents clause

The currency in which the payment is to be made is clearly specified. US dollars must not be confused with Canadian, Hong Kong or Singapore dollars, for example.

The documents necessary to clear the goods through customs in the country of import are clearly specified. Only if the exporter provides all of them in time will he be paid.

- Time clause

Until the letter of credit becomes available, the goods cannot be shipped. Any delay can jeopardise perishable goods.

The L/C's validity period is crucial. If it is too short, the goods may not be able to be shipped in time. A new L/C would then have to be established. If the validity time is not clearly specified, the credit can be blocked indefinitely if the exporter does not ship in time or does not ship at all.

These clauses protect the exporter as well as the importer.

One may conclude that, for beginners in the export business, the confirmed and irrevocable letter of credit is the most appropriate means of payment.

Note:

Full details can be obtained by reading the following publications of the International Chamber of Commerce:

No. 305 - Guide to Documentary Credit Operation

No. 323 - Standard Forms for Issuing Documentary Credits

No. 290 - Uniform Customs and Practice for Documentary Credits

- 17) Remind participants of the important role the shipping documents had in the documentary credit procedure.

Ask trainees to name all the documents they know of and list them on the chalkboard or flipchart or OHP.

The usual and most important documents are:

Export licence

Import licence

Commercial invoice

Customs invoice (invoice on a special printed form)

Consular invoice (exporter's invoice certified by the consul of the importing country for valuation purposes)

Certificate of origin

Certificate of value

Certificate of sanitary inspection

Certificate of inspection (analysis, specifications)

Packing list or weight list

Ocean bill of lading (or airway bill)

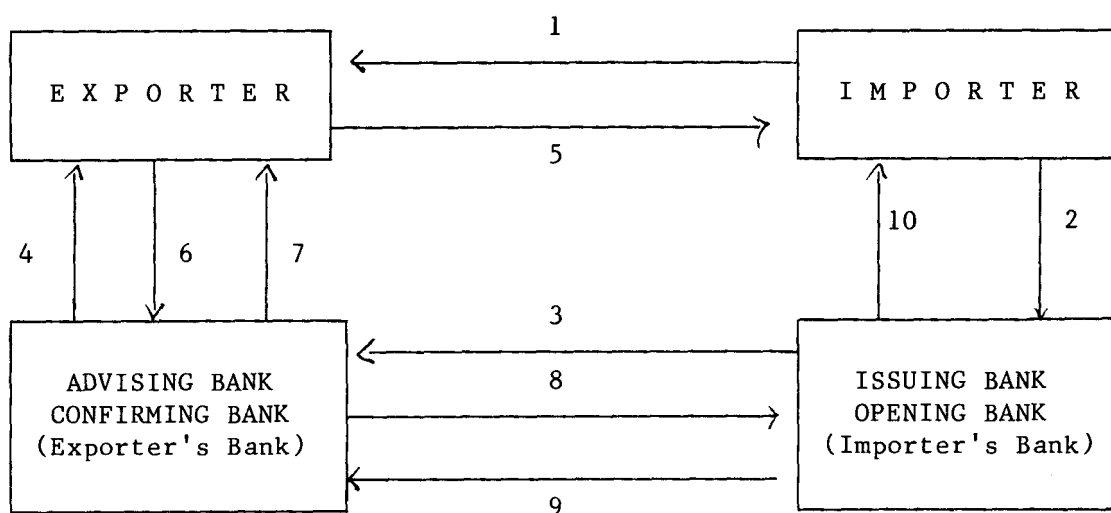
Insurance policy or certificate

- 18) Question: Who is responsible for providing, filling out and processing all these documents?

- Most of the export documents must be provided by the exporter or his representative.
- Be sure everyone realises that whether the exporter takes over this responsibility himself or delegates it to a freight forwarder (this subject will be discussed in Session 6.3), the documentation of an export deal will entail some costs. It must be ascertained whether these costs will be born separately by the buyer or will already be included in the exporter's price quotation.

In practice, the completion of the export documentation is mostly taken care of by specialised agents or freight forwarders.

Remind participants that the sale agreement should always describe the documentation requirements as well as indicate who has to bear the costs.

Handout 1 - Main Stages of a Documentary Credit Transaction

- 1) The exporter and the importer agree in their sales contract that payment shall be made by documentary credit.
- 2) The importer instructs his bank ("opening bank") to open a documentary credit for the exporter on certain terms.
- 3) The opening bank arranges with the exporter's bank (advising bank) to negotiate, accept or pay the exporter's draft upon delivery of the shipping documents by the exporter.
- 4) The advising bank advises the exporter that it will negotiate, accept or pay his draft upon delivery of the shipping documents.
- 5) The exporter ships the goods to the importer and collects shipping documents from the shipping line.
- 6) The exporter presents the documents to the advising bank.
- 7) The exporter is paid by the advising bank.
- 8) Shipping documents are sent to the opening bank.
- 9) The opening bank checks the shipping documents and reimburses the confirming bank.
- 10) The opening bank transmits the documents to the importer upon payment of the amount due (or upon other terms agreed between him and the issuing bank) entitling him to collect the goods.

Roleplay Brief A - Exporter

You are the manager of the

Omega Co-operative Marketing Federation (OCMF)

You want to export 200 tons of "polliwock" at \$100 per metric ton, packed in drums of 50 kg each, f.o.b., Omega-City port, against an irrevocable and confirmed letter of credit.

Your banker is the "Omega Banking Corporation".

Your customer is the "Alpha Trading Corporation" (ATC)

Sequence of play:

1. You travel to Alpha-Country and conclude a sales contract with your customer (Doc No. 1). After conclusion of the contract you return home to Omega-Country.
2. When you receive notice from your bank that the letter of credit has arrived (Doc No. 6), you bring the goods to the ship. In return you will receive a Bill of Lading (Doc. No. 7).
3. You take the Bill of Lading and all other shipping documents to your bank.
4. You receive payment for the goods from your bank.

On starting the play, you will need the following documents:

- Doc No. 1 - Sales Contract (2 copies)
- Doc No. 14 - Invoice
- One empty cardboard box representing the goods to be sold

Roleplay Brief B - "Importer"

You are the manager of the

Alpha Trading Corporation (ATC)

You want to import 200 tons of "Polliwock" at \$100 per metric ton, packed in drums of 50 kg each, f.o.b., Omega-City port, against an irrevocable and confirmed letter of credit.

Your banker is the "Alpha-Bank".

Your supplier is the "Omega Co-operative Marketing Federation" (OCMF).

Sequence of play :

1. You receive the visit of the manager of OCMF and you conclude a sales contract with him (Doc No. 1).
2. You instruct your bank to open a credit according to the terms of the contract (Doc No. 2).
3. You advise the shipping line to pick up the goods in Omega-City port (Doc No. 3).
4. You ask the course leader for a certificate of insurance (Doc No. 8).
5. When the shipping documents arrive at your bank, you pay the agreed amount.
6. After receiving the document from your bank, you go to the port of Alpha-City and pick up the goods, against one copy of the B/L signed by you.
7. Fill out the customs declaration (Doc No. 12) and give it to the course leader.

At the start of the game, you will need the following documents:

- Doc No. 2 - Instruction to open credit
- Doc No. 3 - Request to Shipping Line
- Doc No. 12 - Customs Declaration

Roleplay Brief C - "Exporter's Banker"

You are the manager of the

Omega Banking Corporation

One of your customers, the "Omega Co-operative Marketing Federation", (OCMF) wants to export some merchandise to a customer in Alpha-Country, against a letter of credit.

You will act as the advising bank and handle all paperwork related to the operation.

Sequence of play:

1. You receive word from the buyer's bank that a credit has been opened in favour of your customer (Doc No. 5).
2. You advise your customer of the opening of the credit and inform him of the documentary requirements (Doc No. 6).
3. When your customer presents the shipping documents you check these very carefully and then:
 - a) Pay your customer the agreed amount (Doc No. 11)
 - b) Send the documents to the opening bank
4. Receive payment from the opening bank.

During the play, you will need the following documents:

- Doc No. 6 - Advice to Exporter
- Doc No. 11 - Advice of Credit

Roleplay Brief D - "Importer's Banker"

You are the manager of the

Alpha-Bank

One of your customers, the Alpha Trading Corporation (ATC), wants to import some merchandise from a supplier in Omega-Country, against a letter of credit.

You will act as the opening bank and handle all paperwork related to the operation.

Sequence of play:

1. You receive instructions from your client (ATC) to open a credit in favour of his supplier (Doc No. 2).
2. You will immediately inform the advising bank (exporter's bank) of the credit and the documentary requirements (Doc No. 5).
3. Upon receipt of the shipping documents, you will debit the account of your customer with the agreed amount and send him the shipping documents.
4. You will reimburse the advising bank in Omega.

During the play, you will need the following documents:

- Doc No. 4 - Advice of Debit
- Doc No. 5 - Letter of Credit
- Doc No. 13 - Notification of Payment

Roleplay Brief E - Shipping Line

You are the captain of the Orient Flower, a steamer belonging to MTO Liner Services.

You have to transport a consignment of 500 metric tons of goods, contained in drums of 50 kg each, from Omega-City to Alpha-City.

You do not have to worry about the payment for the sea voyage - it's being arranged by the importer in Alpha-City directly with your shipping line.

1. Upon receiving notification from your shipping line, you will go to Omega-City port and pick up the consignment (Doc No. 3).
2. You will then hand out a full set of the Bill of Lading (3 copies) to the exporter (Doc No. 7).
3. You will then carry out the goods to Alpha-City and notify the consignee of their arrival (Doc No. 10).
4. You will hand over the goods to the consignee only against one copy of the Bill of Lading, endorsed by him.

During the play, you will need the following documents:

No. 7 - Bill of Lading (3 copies)

No. 10 - Notice of Arrival

Roleplay Brief F - Mailman

Your role in this play is to transport written messages and documents from one desk to the other.

You will carry, but only upon request, the following messages:

(Sequence as indicated)

1. From ATC (Importer) to Alpha-Bank (Notification)
2. From ATC to Shipping Line (Request for Transportation)
3. From play leader to ATC (Insurance Certificate)
4. From Alpha-Bank to Omega-Bank (Letter of Credit)
5. From Omega-Bank to OCMF (Advice of Credit)
6. From play leader to OCMF (Certificate of Origin)
7. From OCMF to Omega-Bank (Shipping Documents)
8. From Omega-Bank to OCMF (Credit Advice)
9. From Omega-Bank to Alpha-Bank (Shipping Documents)
10. From Alpha-Bank to ATC (Shipping Documents)
11. From Alpha-Bank to ATC (Debit Advice)
12. From Alpha-Bank to Omega-Bank (Money Transfer)

Instructions for Play Leader (G)

What you have to do	When the below action has taken place
1. Give signal to start game.	1. When all players are seated and ready.
2. Issue Certificate of Insurance to importer (ATC) (Doc No. 8).	2. When requested by importer (ATC).
3. Interrupt the game and discuss the first phase with all participants.	3. Bill of Lading has been given to exporter (OCMF) by the ship's captain.
4. Issue Certificate of Origin to exporter (Doc No. 9).	4. When requested by exporter (OCMF).
5. Interrupt game, recapitulate what has taken place so far and discuss the second phase of the game.	5. When Omega-Bank has paid the exporter and has sent the shipping documents to Alpha-Bank.
6. Take the role of Customs Official. Ask to be shown the shipping documents. Check all documents for accuracy and ask for the payment of customs duty before the importer may take away his goods to his warehouse. Do not clear the goods if shipping documents are inaccurate or incomplete.	6. When the importer (ATC) has taken possession of the goods and presents a Customs Declaration (Doc No. 12).

Game: Selling Polliwocks - Document No. 1 - Issue 2 copies to Exporter

SALES CONTRACT

1. This contract is made at Alpha-City on the _____
between
2. The Alpha Trading Corporation, 5 Main Street, Alpha-City, (herein-
after called the buyer) of one part
and
The Omega Co-operative Marketing Federation, Orchard Road, Omega
City, Omega-Country (hereinafter called the seller) of the other
part.
3. The buyer agrees to purchase from the seller, and the seller agrees
to sell to the buyer, 200 metric tons of polliwocks, at a price of
US\$100.- per metric ton, on the terms and conditions set out here-
under.
4. The goods shall be packed in 4,000 metal drums containing 50 kg
polliwocks each and marked "ATC-Alpha-City" and numbered from 1 to
4,000.
5. Terms of Delivery: f.o.b. Alpha-port (Incoterm 53).
6. Terms of payment: The price of \$20,000 shall be paid in dollars of
the United States of America against an irrevocable Letter of Cre-
dit confirmed by the Omega Banking Corporation and payable with
them upon presentation of shipping documents as follows:
 - Commercial Invoice in triplicate, signed and marked "Notify
ATC".
 - Certificate of Origin issued by Omega Chamber of Commerce.
 - Full set of clean on board Bills of Lading made out to order
and blank endorsed.
7. Letter of credit should be available not later than 30 days after
the date of this contract and have a validity time of at least two
months.

Signature of the buyer

Signature of the seller

"Selling Polliwocks" Document No. 3 - Issue to Importer in duplicate

ALPHA TRADING CORPORATION
IMPORT DEPARTMENT
5 MAIN STREET
ALPHA-CITY

Date: _____

To: Ben Ocean
Agents of MTO Liner Services
36, Harbour Square
Alpha-City.

Dear Sir,

This is to confirm today's telephone conversation with regard to a shipment of 200 t net weight (208 t gross weight) of Polliwocks, packed in 4,000 metallic drums of 52 kg gross weight each, to be conveyed from Omega-City port (Omega-Country) to Alpha-City port. Consignor: Omega Co-operative Marketing Federation, Orchard Road, Omega-City.

We agreed that your steamer Orient Flower would load the goods in Omega-Port not later than on _____ 19 _____. Freight prepaid by us in the amount of \$2,500 by enclosed cheque on the Alpha-Bank.

Yours faithfully,

Alpha Trading Corporation.

Encl. 1 cheque as mentioned.

"Selling Polliwocks" Document No. 4 - Issue to Importer's Bank

ALPHA BANK
INTERNATIONAL DIVISION
25 HIGH STREET
ALPHA-CITY

Date: _____

To: Messrs. Alpha Trading Corporation
5 Main Street
Alpha-City

DEBIT NOTE

This is to advise you that your account no. 7348 has been debited today with the amount of US Dollars 20,000 (Twenty thousand) for payment of documentary credit no. PSX 7698 in favour of Omega Co-operative Marketing Federation.

Yours faithfully,

Managing Director
Alpha Bank

"Selling Polliwocks" Document No. 5 - Issue to Importer's Bank in duplicate

ALPHA BANK INTERNATIONAL DIVISION 25 HIGH STREET ALPHA CITY	Date and place of issue
	Date and place of expiry

IRREVOCABLE CREDIT NO. PSX 7698

Applicant: Alpha Trading Corporation
5 Main Street, Alpha-City

Advising Bank: Omega Banking Corporation
389 King's Road
Omega City, Omega-Country

Beneficiary: Omega Co-operative Marketing Federation
Orchard Road, Omega-City, Omega-Country.

Amount:

Credit available by payment against presentation of the documents detailed hereafter:

Covering the following goods:

To be shipped from _____ to _____

Not later than _____

Partshipment: _____ Transshipment: _____

Documents to be presented within _____ days after the date of issuance of shipping document(s) but within the validity of the credit.

We have issued the documentary credit as detailed above. We request that you notify the beneficiary of the credit, adding your confirmation. We undertake that drafts and documents drawn under and in strict conformity with the terms of this credit will be honoured upon presentation.

Yours faithfully,

(Signature)

"Selling Poliwocks" Document No. 6 - Issue to Advising Bank in duplicate

OMEGA BANKING CORPORATION
389 KING'S ROAD
OMEGA-CITY
OMEGA-COUNTRY

Notification of Irrevocable Credit

<u>Issuing Bank:</u>	<u>Beneficiary:</u>
Alpha Bank International Division 25 High Street Alpha-City	Omega Co-operative Marketing Fed. Orchard Road Omega-City
Alpha-Country	Omega-Country
Ref. Issuing Bank PSK 7698	<u>Amount:</u> US\$ 20,000 (Twenty thousand)

We have been informed by our aforementioned correspondent that the above mentioned documentary credit has been issued in your favour. Please find enclosed the advice intended for you.

Please check the credit terms carefully. In the event that you do not agree with the terms and conditions or if you feel unable to comply with any of the terms and conditions, please arrange an amendment of the credit through your contracting party.

As requested by our correspondent, we hereby confirm the abovementioned Credit.

Omega Banking Corporation

(Signed)

Encl. Copy of Credit Ref. PSK 7698

"Selling Polliwocks" Document No. 7 - Issue 4 copies to Ship's Captain

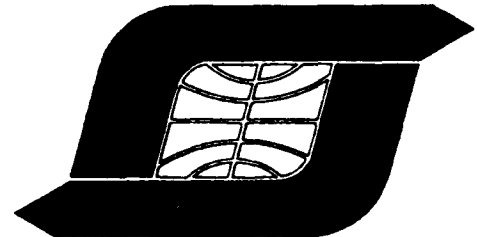
Shipper
 The Omega Co-operative Marketing Federation, Orchard Road, Omega City, Omega Country

BILL OF LADING

Reference No 4835

BL No 3724

Consignee
 Order



M.T.O.
LINER SERVICES

MARITIME TRANSPORT OVERSEAS

Notify address: (carrier not to be responsible for failure to notify)
 Alpha Trading Corporation
 5 Main Street
 Alpha City

Pre-carriage by* Place of receipt by pre-carrier*

Vessel **ORIENT FLOWER** Port of loading **OMEGA**

Port of discharge **ALPHA** Place of delivery by on-carrier*

Marks and Nos.	Number and kind of packages, description of goods	Gross weight kos	Measurement
ATC 1/4000	4000 metal drums 52 kg each said to contain 200 t net Polliwocks	208 t	

**COPY
 NOT NEGOTIABLE**

Particulars furnished by the Shipper of goods

Freight details, charges etc. Freight prepaid by consignee in Alpha City	Shipped on board the above Vessel (or received by the pre-carrier at the place of receipt, if named above - see clause 5 on the reserve side) in apparent good order and condition unless otherwise stated and to be discharged at the aforesaid port of discharge or so near thereto as the vessel may safely get and be always afloat. Weight, measure, marks, number(s), quality, quantity, condition, contents and value, if mentioned in the Bill of Lading, are to be considered unknown unless the contrary has been expressly acknowledged and agreed to. The signing of this Bill of Lading is not to be considered as such an agreement. In accepting this Bill of Lading the Merchant expressly accepts and agrees to all its stipulations, exceptions and conditions, on both pages, whether written, printed, stamped or otherwise incorporated as fully as if they were all signed by the Merchant. IN WITNESS whereof the number or original Bills of Lading stated below, Master's copy and Carrier's copy not included, all of this tenor and date has been signed, one of which being accomplished, the other to stand void.
	Daily demurrage as per additional clause J, unless otherwise agreed as per special booking note.

* Applicable only, when this document is used as a Through Bill of Lading	Freight payable at	Place and date of issue
	Number of Original Bs/L Three (3)	Signature

"Selling Polliwock's Document No. 8 - Issue to Importer upon request
only

CERTIFICATE OF INSURANCE NO. M4839

This is to certify that there has been deposited with the Committee of Lloyd's an Open Cover effected by Alpha Insurance Brokers Ltd, acting on behalf of the Alpha Trading Corporation, dated the 1st day January 19 ____ with Underwriters at Lloyd's and Alpha Marine Insurance Companies and that the said Underwriters and Companies have undertaken to issue to Alpha Trading Corporation Policy/Policies of Marine Insurance to cover, up to US\$100,000 in all by any one steamer to be shipped on or before the 31st day of December 19 ____ from any port or ports, in Omega-Country to any port or ports, place or places in Alpha-Country, and that Alpha Trading Corporation are entitled to declare against the said Open Cover the shipments attaching there to.

Signed:

Dated at Lloyd's, Alpha City, 1st January 19__

<p>US\$ 23,000.- (c.i.f.)</p> <p>We hereby declare for insurance under the said cover <u>Twenty Three Thousand</u> United States Dollars on interests as specified hereon, from <u>Omega-City Port, Omega-Country to Alpha-City Port, Alpha Country</u> subject to the terms of the Standard Marine Policy providing for the settlement of claims. This Certificate is not valid unless the Declaration is signed by Alpha Trading Corporation.</p>	<p>Interests, marks and numbers</p> <p>200 metric tons of Polliwocks 4,000 drums of 50 kg each marked ATC, Alpha-City 1 to 4,000</p> <p>p.p. Alpha Trading Corporation</p> <p>Signed: _____</p> <p>Dated at: _____</p> <p>2% on c.i.f. + 10% = \$506</p>
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"Selling Poliwocks" Document No. 9 - Issue to Exporter upon request
only

<p>CHAMBER OF COMMERCE OMEGA-CITY OMEGA-COUNTRY</p>		<p>Ref. No. 089837 Country: Omega</p>
<p><u>CERTIFICATE OF ORIGIN</u></p>		
<p>1. <u>Goods consigned from:</u> Omega Co-operative Marketing Federation Orchard Road, Omega-City, Omega-Country</p>		
<p>2. <u>Goods consigned to:</u> Alpha Trading Corporation 5 Main Street, Alpha-City, Alpha-Country</p>		
<p>3. <u>Means of transport and route</u> By steamer <u>ORIENT FLOWER</u> from Omega-Port to Alpha-Port</p>		
<p>4. <u>Description of Consignment:</u> 200 metric tons of Polliwocks, packed in metal drums of 50 kg each, marked ATC Alpha-City, 1 to 4,000</p>		
<p>5. <u>Declaration by the exporter</u> The undersigned hereby declares that the above details and statements are correct, that all goods were produced in Omega-Country and that they comply with the origin requirements for goods exported to Alpha-Country.</p>	<p>6. <u>Certification</u> It is hereby certified, on the basis of control carried out, that the declaration of the exporter is correct. Omega-Country Chamber of Commerce</p>	
<p>Place and date: Signature of Exporter</p>	<p>Place and date: Stamp of Certifying Authority</p>	

"Selling Polliwocks" Document No. 10 - Issue to Shipping Line - 1 copy

**BEN OCEAN
AGENTS OF MTO LINER SERVICES
36 HARBOUR SQUARE
ALPHA-CITY**

Date:
Ref. B/L No:

To: Alpha Trading Corporation
Import Department
5 Main Street
Alpha-City

NOTICE OF ARRIVAL

Dear Sir,

You are hereby notified that our steamer "ORIENT FLOWER" from Omega-Country arrived at Alpha-Port on _____ 19____ and general cargo has been landed and stored at Wharf Shed No. 12 at the risk, expenses, and responsibility of the Consignees.

You are also informed that under the Customs Act, No. 7, Section 14 if goods are not cleared within a period of one month from date of arrival of vessel, they are liable to confiscation.

Yours faithfully,

"Selling Polliwocks" Document No. 11 - Issue to Exporter's Bank

THE OMEGA BANKING CORPORATION

Date: _____

389 KING'S ROAD

Ref. No. _____

OMEGA-CITY

OMEGA-COUNTRY

To: Omega Co-operative Marketing Federation
Orchard Road
Omega-City

Dear Sirs,

We refer to our earlier correspondence and the shipping documents required for the payment of Credit No. PSX 7698, which we received yesterday and found in good order.

Please be advised that we have credited your account with us No. 2837, with the agreed amount of US\$ _____ and debited with our charges amounting to US\$ _____.

The shipping documents have now been forwarded to our correspondent in Alpha-City.

Yours faithfully,

Manager
Omega Banking Corporation

"Selling Polliwocks" Document No. 12 - Issue to Importer in duplicate

Importer (Name and Address)		IMPORT DECLARATION FORM		
Supplier (Name and Address)				CLEARANCE FOR HOME CONSUMPTION ALPHA STATE GOVERNMENT Customs Act, No. 7, Section 12 Registration Regulations
Arrival date	Vessel's Name			
Country of Origin	Port of Discharge			
Marks and numbers, number and kind of packages, description of goods			c.i.f. value	
c.i.f. Value in Alpha comprises the cost of the goods charged by the seller abroad, plus ocean freight and insurance			TOTAL	
Importers declaration: I hereby declare that I am the importer of the above mentioned goods and that the particulars given in this declaration are true and that the value declared above is the full value. Date & Signature		FOR OFFICIAL USE ONLY		
		Ad valorem charge	Penalty	
		Total to be paid		
		Cash <input type="checkbox"/>	Cheque <input type="checkbox"/>	

"Selling Polliwocks" Document No. 13 - Issue to Opening Bank

**ALPHA BANK
INTERNATIONAL DIVISION
25 HIGH STREET
ALPHA-CITY
ALPHA-COUNTRY**

Date: _____

To: Omega Banking Corporation
389 King's Road
Omega-City
Omega Country.

Dear Sirs,

We have received the shipping documents required by our credit No. PSX 7698 and have the pleasure of informing you that we have paid into your account with the International Export Bank in New York No. 724320 the amount of US\$ _____.

Yours faithfully,

Manager
Alpha-Bank

"Selling Polliwocks" Document No. 14 - Issue 4 copies to Exporter

OMEGA CO-OPERATIVE MARKETING FEDERATION
ORCHARD ROAD
OMEGA-CITY
OMEGA-COUNTRY

TEL: 285439 TELEX 7893 OL

INVOICE NO. 4835

To: Messrs
 Alpha Trading Corporation
 5, Main Street
 Alpha-City
 Alpha-Country

Description	Unit	Unit Price US\$	Quantity	TOTAL US\$
Polliwocks f.o.b. Port of Omega-City	Ton	100.-	200	20,000.-

Packed in 4,000 drums. Gross weight 208 tons.

This invoice certified true and correct

Omega City, _____ day of _____ 19 ____

Manager OCMF

SESSION 5.5

HOW TO PREPARE A PRICE QUOTATION

Objective: To enable participants to calculate and prepare a price quotation to possible foreign buyers of their products.

Time: 1 1/2 - 2 hours.

Material: Handouts 1 to 7.

Session Guide:

- 1) Question: In order to make an export sale, is it always necessary to conclude a full-fledged sales contract?

In practice this is not the case. Although complex transactions need carefully formulated contracts, regular purchases of raw materials, semi-finished products and consumer goods can usually be dealt with on a routine basis. An essential tool for this is the "quotation".

Question: Does "quotation" mean the same thing as "offer"?

A "quotation" is not an "offer" in the legal sense that it is a promise to supply goods on the terms stated. If, therefore, a seller quotes and later decides not to sell, the buyer has no legal remedy. But of course in practice a supplier is unlikely to risk his reputation by quoting for goods he cannot or does not intend to supply.

Question: When, why and by whom is an export quotation produced?

Usually, a quotation is produced by an exporter after receiving an inquiry from a prospective buyer. This quotation should be sent promptly and provide all the details required by the author of the inquiry.

- 2) Distribute Handout 1 - "Inquiries". Give participants enough time to read it through. It should be obvious that some of these sample letters are better than others.

Question: How easy would it be to prepare quotations in response to each of these inquiries? Are there any standard requirements for a satisfactory letter of inquiry?

A letter of inquiry should:

- (a) State clearly and concisely what is wanted. This is certainly not the case in example # 2.
- (b) State the approximate amount required. This is important because of the effect of quantity upon price. Which examples comply with this requirement? (# 1, # 3)
- (c) State by when delivery is required. This is an important condition in any contract for the purchase of goods.

Examples # 1 and # 3 satisfy this requirement. Letter # 4 explicitly asks for a date.

- (d) State the desired terms of delivery. When asking for a quotation, the buyer must be careful to protect himself by stating clearly whether the prices are to include such additional charges as carriage (freight) and insurance. Failure to do this may lead the supplier to quote different prices for various terms of delivery. Are any of the inquiries clear in this respect? (# 1 and # 5)

Question: Would it be easy to answer inquiry # 2? It would certainly be very difficult for the producer of more than just one product. There's no reason to discard the letter, however, all he has to do is ask the sender for clarification.

- 3) Question: Should quotations, like inquiries, also satisfy a number of conditions? What are these conditions?
 - First of all, the purchaser must be able to find all the information he needs in the quotation.
 - Secondly, the quotation should be attractive and induce the reader to place an order.

Distribute Handout 2 - "Quotations". Ask the participants to study it.

Question: Which, if any, of these quotations provide the potential buyer with all the information necessary to place an order?

Lead the discussion along the following lines:

A satisfactory quotation will include the following:

- (a) An expression of thanks for the inquiry. Does sample # 3 satisfy this condition? (No)
- (b) A precise and concise description of the merchandise to which the quotation refers. None of the samples is very precise in this respect, with the possible exception of # 1, as the price list mentioned in the letter may contain a detailed description of the goods.
- (c) A statement as to the terms of delivery, that is a clear indication of what the prices cover (e.g. packing, carriage (freight) and insurance). Neither # 3 nor # 4 satisfies this condition.
- (d) Details of prices, discounts and terms of payment. Only # 2 satisfies this condition. What is missing in the other quotations?
- (e) An indication as to the date of delivery (see also (b) (c) above). Remember that the delivery date is an important point in any sales contract. Which quotations satisfy this condition? (# 2 and # 3).
- (f) The period for which the quotation is valid. What will happen if a purchaser sends in an order several months later, by which time costs may have increased? Or when the supply situation has radically changed?

Explain that the supplier should make it clear either when quoting for goods in limited supply, or when offering the

same goods to more than one buyer, that the offer is subject to the availability of the goods when the order is received.

Question: How might the supplier word this?

Examples :

- "This offer is made subject to the goods being unsold when the order is received".
- "This offer is subject to acceptance within seven days."
- "The prices quoted will apply only to orders received on or before (date)."
- "For acceptance within days."

(g) Finally, the quotation should conclude with an expression of hope that the quotation will be accepted and with an appeal to action in the near future.

Do any of the examples fail to satisfy this condition? (No, all four examples contain a closure to this effect.)

4) Question: Is it conceivable that participants might receive an inquiry written in a language other than English?

This, of course, happens quite frequently. What should be done in this case? Should a quotation be written in the same language as the inquiry or in English.

The basic condition for a quotation is that its contents be perfectly clear to the recipient, and misunderstandings can best be avoided when the inquiry and quotation are both in the same language.

On the other hand, the exporter must consider that, after he has responded to an inquiry with a quotation, he may be confronted with continued communication in the buyer's language. Only if the exporter's personnel can provide a satisfactory language service should he decide to use a foreign language for quotations.

- 5) Ask participants to compare the language and the style used in quotations # 1, # 2 and # 3 with that of quotation # 4.

While the first three examples are written clearly and concisely, the fourth one is not.

Stress that no matter what language a quotation is written in, it must communicate its message simply, clearly and unambiguously.

Use:

- simple words
- short sentences
- short paragraphs
- a clear understandable style

When corresponding with customers abroad, the exporter should also try to follow the other country's conventions as far as letter writing is concerned.

- 6) Distribute Handout 3 and ask participants to draft individually a quotation in reply to the inquiry. They may use imaginary data (prices, delays, discounts, etc). Allow up to half an hour for drafting the reply.
- 7) Have several participants read aloud their quotations and check these against the points mentioned earlier under paragraph 3) a to g. Allow other participants to comment on the drafts and to compare these with their own papers.

Allow up to ten minutes for the discussion.

Question: Is it worth taking the time to produce a check list for the preparation of quotations?

- 8) Ask for suggestions from among the group and write them down point by point on chalkboard, flipchart or OHP.

A complete check list may look as follows (a copy of the check list has been prepared as handout # 4 and can be distributed to

the trainees when all or most of the points have been identified and discussed).

- (a) Give both parties full references.
- (b) Do not omit the date.
- (c) Write out the customer's name and address exactly as they appear on his correspondence.
- (d) Mark the quotation for the attention of the person who has signed the inquiry.
- (e) The heading should be short and provide an identification of the contents ("Quotation").
- (f) Identify clearly why the quotation is being submitted. Refer to conversations, letters, names of people.
- (g) Attach pictures, catalogue sheets or other material that might capture the prospective buyer's interest. Is the buyer a wholesaler, a retailer? Stress the product's advantages from the buyer's point of view.
- (h) If the goods are in stock, this should be emphasised, as should any other factors promoting quick and sure delivery.
- (i) Quote the price clearly and unambiguously for each item to avoid misunderstandings. This is important when different quality levels, types, colours, etc. are available.
- (j) Minimum orders or rebates (discounts) for quantities should be clearly stated.
- (k) You may wish to have standard business clauses printed on the reverse of the quotation. Make sure you refer to these in the text of the letter. It is also advisable to refer to these on the front of the quotation, e.g. "For conditions see back".
- (l) State Terms of Delivery (Incoterms) clearly. Also define the point where the risk for the goods is transferred from the seller to the buyer.

- (m) State Terms of Payment clearly. They may be contained in the "General Conditions of Sale" on the reverse side of the quotation.
 - (n) "Delivery time" refers to the time when the goods are made available to the buyer at the agreed point of delivery (see (1) above).
 - (o) Packing needs to be specified separately only in those cases when the method of packing differs from what is usual.
 - (p) Always state the quotation's validity time. (This can speed up the buyer's decision!)
 - (q) Identify clearly the person signing the quotation by name and title.
 - (r) Identify any enclosures.
- 9) Distribute Handout 5. Ask participants to analyse it. This letter is a model reply to the inquiry on Handout 3 according to the check list they have just worked out. The letters at the right of the letter correspond to the check list points in handout 4.
- 10) Question: Do the participants think they could calculate now, as Mr. Ben Cooper did, the price c.i.f. Bigharbour for this quotation?

Participants will probably give an affirmative reply, but request cost data.

Distribute Handout 6 - "Cost data sheet". Have the participants calculate the price Bigharbour for 1,000 blankets, item No. XYZ/3.

Work through the calculations with the participants.

ITEM, Unit Cost	<u>for 1,000 blankets</u>		<u>for 2,000 blankets</u>	
	Units	TOTAL	Units	TOTAL
<u>Local costs in OD</u>				
Cost of goods - 5,805,500	1	5 805 500	2	11 611 000
Bags - 6,140	10	61 400	20	122 800
Boxes - 23,200	0.5	11 600	1	23 200
Container - 269,774	1	269 774	1	269 774
Local freight - 1,040	50	52 000	100	104 000
Stevedoring - 29,800	1	29 800	1	29 800
Documents - 8,000	1	8 000	1	8 000
FF fees - 14,500	1	14 500	1	14 500
L/C Charges	1	<u>16 000</u>	1	<u>16 000</u>
TOTAL (fob)		6 268 574		12 199 074
Conversion into US\$ (fob)		9 178		17 861
Ocean freight US\$		1 <u>222</u>		1 <u>222</u>
TOTAL (c&f) US\$		10 400		19 083
Insurance 2% (cif + 10%)*		234		429
TOTAL cif US\$		10 634		19 512
Total cost cif per unit US\$		10.63		9.76

Calculated using following formula:

$$\text{cif} = (\text{c\&f}) + i \quad (1)$$

$$i = (0.02) (1.10) \text{cif} \quad (2)$$

Substitute (2) in (1)

$$\text{cif} = (\text{c\&f}) + (0.02) (1.10) \text{cif}$$

$$\text{cif} [(1-(0.02)(1.10)), = (\text{c\&f})$$

$$\text{cif} = \frac{(\text{c\&f})}{1-(0.02)(1.10)}$$

$$\text{and } i = (\text{cif}) - (\text{c\&f})$$

$$\text{thus } i = \frac{(\text{c\&f})}{1-(0.02)(1.10)} - (\text{c\&f}) = \frac{10,400}{1-(0.02)(1.10)} - 10,400 = 234$$

- 11) Remind participants that changing the terms of delivery, the destination or the terms of payment will also change the composition of costs and that therefore quotations may need to be recalculated each time one has to quote prices to a different customer.

Question: Does offering a quotation always result in an order?

Not invariably. All too often, the seller never hears from the inquirer again. When a buyer rejects a quotation, he ought to write and thank the seller for his trouble and explain the reason for rejection. Failure to do so shows a lack of courtesy.

When neither an order nor an acknowledgement of a quotation is received, it is natural to wonder why.

- 12) Question: What would the participants do in this situation?

If there is an agent or representative in the prospective buyer's country, the seller may arrange for him to call. Otherwise the seller will send a "follow-up" letter.

Question: How does one keep track of the status of all quotations that have been sent out?

A "pending" copy of every quotation issued should be filed in chronological order, so that every two weeks or so, all quotations which have not met with replies are taken up again.

An example of a "follow-up" letter is given in Handout 7.

Handout 1 - Examples of Inquiries

1. Please quote for the regular supply of 10 metric tons weekly from May through August of your Alphonso Mangoes, graded and individually wrapped, approximately 20 kg per crate, delivery by air cargo, c&f Alpha Airport. We would particularly stress the importance of quality and price, as this fruit is not yet well-known by consumers in our country.
2. Would you please send us a quotation for the supply of your products, which are of excellent quality, as we were told by one of our business friends. If you give us a really competitive quotation, we would expect to place a very large order.
3. We are writing to invite quotations for the monthly delivery of 20 metric tons of oranges to our warehouse in Deltaville. As the matter is urgent, we should like to have the information by the end of this week.
4. We should be grateful if you would quote for the supply of the handwoven cushion covers which were shown at the International Trade Fair in your capital. When replying, please give the earliest possible date of delivery.
5. Please send us samples and quote your lowest prices for spices, packed in 50 gr retail packages, 200 packages per box, c.i.f. Rotterdam, under seaworthy packing. When replying please state (i) terms of payment (ii) discounts allowable. If your prices compare favourably with those of other suppliers, we shall send you an order in the course of the year.

Handout 2 - Examples of Quotations

1. Thank you for your letter dated Please find herewith enclosed our price list f.o.b. port of Alpha-City. We will allow a special discount of 10% for a first order exceeding 1,000 pieces. We strongly recommend that you take advantage of this exceptional opportunity and we look forward to your order.

2. We thank you for your inquiry and are pleased to quote as follows:
20 tons of oranges weekly during the months of May through August inclusive. Delivery c+f Alpha Airport, packed in cardboard boxes of 40 kg each. \$800 per metric ton, payable by irrevocable letter of credit. We trust you will find our quotation satisfactory and look forward to receiving your order.

3. In reference to your inquiry of, we shall be glad to supply cushion covers at the price of \$45 per dozen. Our cushion covers are a fast selling item and can be sold with a high mark up. We can presently deliver from stock and will allow you a discount of 5% if we receive your payment together with your order. As prices are rising steadily, we would advise you to place your order without delay.

4. We were greatly honoured to receive your kind inquiry in your most welcome and honourable letter which we received some time ago. We are able to supply the required goods for a price of \$50 on which we will also allow a discount of 20%. We shall be extremely pleased to receive your esteemed order, which will have our prompt and careful attention.

Handout 3

Inquiry received on 3 June 1983 by the Omega Co-operative Marketing Federation. You are requested by the Manager to prepare a quotation in reply to this inquiry.

The Alpha Trading Co. Ltd
74 High Street
Magnatown, Industria
Tel: 743-589

28 May 1983
Ref: SX-493

Dear Sirs,

You have previously supplied some of our major competitors in Industria with handwoven woolen blankets marked with your brand, "Super Coop". As these items sell well especially during winter-time, we should be glad if you would quote for the supply of 2,000 such blankets, 200 x 300 cm, to be delivered before 1 October 1983. Prices quoted should include packing and delivery cif, Bigharbour.

When replying, please refer to our reference number above and state discounts allowable and terms of payment.

Yours faithfully,



John White
Purchasing Manager

Handout 4 - Preparing and Writing a Price Quotation: What to Remember

- (a) Give both parties full references.
- (b) Do not omit the date.
- (c) Write out the customer's name and address exactly as they appear on his correspondence.
- (d) Mark the quotation for the attention of the person who has signed the inquiry.
- (e) The heading should be short and provide an identification of the contents ("Quotation").
- (f) Identify clearly why the quotation is being submitted. Refer to conversations, letters, names of people.
- (g) Attach pictures, catalogue sheets or other material that might capture the prospective buyer's interest. Is the buyer a wholesaler, a retailer? Stress the product's advantages from the buyer's point of view. Give reasons why the buyer should buy from the exporter and why he should buy now.
- (h) If the goods are in stock, this should be emphasised, as should any other factors promoting quick and sure delivery.
- (i) Quote the price clearly and unambiguously for each item to avoid misunderstandings. This is important when different quality levels, types, colours, etc. are available.
- (j) Minimum orders or rebates (discounts) for quantities should be clearly stated.
- (k) You may wish to have standard business clauses printed on the reverse of the quotation. Make sure you refer to these in the text of the letter. It is also advisable to refer to these on the front of the quotation, e.g. "for conditions see back". State Terms of Delivery (Incoterms) clearly. Also define the point where the risk for the goods is transferred from the seller to the buyer.
- (m) State Terms of Payment clearly. They may be contained in the "General Conditions of Sale" on the reverse side of the quotation.
- (n) "Delivery time" refers to the time when the goods are made available to the buyer at the agreed point of delivery (see (1) above).
- (o) Packing needs to be specified separately only in those cases when the method of packing differs from what is usual.
- (p) Always state the quotation's validity time. (This can speed up the buyer's decision!)
- (q) Identify clearly the person signing the quotation by name and title.
- (r) Identify any enclosures.

Handout 5

Omega Co-operative Marketing Federation
48 Orchard Road
Omega-City,
Omega-Country

Your Ref: SX-493, your date: 28 May 1983 (a)
Our Ref: MI-82, your date: 4 June 1983 (b)

To: Alpha Trading Co. Ltd (c)
74 High Street
Magnatown, Industria

For the attention of Mr. John White, Purchasing Manager (d)

Dear Sirs,

Quotation for "Super-Coop" Woolen Blankets (e)

Many thanks for your inquiry of May 28th about our woolen blankets. (f)

Enclosed please find a page from our catalogue giving full information on the sizes, colour and designs available. As you know, they sell well because they feel extremely soft, are pleasant to look at and provide the warmth and comfort so appreciated in your cold climate. This article can thus be a very fine complement to your range of products and it will provide a fast turnover. (g)

We keep the most current models (identified in the catalogue with an asterisk) in stock and suggest that for your first order you choose Nos. XYZ/1 and XYZ/2, which have proved to be fine sellers. (h)

For a minimum of 1,000 blankets, 200 x 300 cm, we quote as follows:

Item XYZ/1	US\$ 9.80 each	(i)
Item XYZ/2	US\$ 12.30 each	

For an order of 2,000 blankets we allow a quantity discount of 5% on the total. (j)

General terms: As specified on the back of this sheet (k)

Delivery terms: c.i.f. Bigharbour, (l)

Terms of payment: Letter of credit, irrevocable and confirmed (m)

Delivery time: Shipment from Omega-City within two weeks from receipt of order and L/C or any other date thereafter. (m)

Packing: Each blanket individually packed in plastic bag with zipper. 45 x 55 cm, 20 blankets to a cardboard box for shipping by container. (o)

The quotation is valid until 15 August 1983. We look forward to hearing from you before that date. (p)

Yours faithfully, (q)

Ben Cooper

Export Manager

Encl. Catalogue sheet

(r)

Handout 6 - Cost Data Sheet

(All local costs in Omega Dinars)

Item XYZ/3 - Woolen blanket, handwoven
 Size 250 x 350 cm, weight: 2.186 kg each
 Design No. 473, Colors No. 2, 4 and 9

1. Cost per 1,000 pieces ex-factory	OD 5,805,500
2. Cost of 100 plastic bags	OD 6,140
3. Cardboard boxes 100 x 80 x 60 cm, per 100	OD 23,200
4. Charge for container 48 m ³	OD 269,774
5. Local freight from factory to port per cardboard box of 45 kg gross weight	OD 1,040
6. Stevedoring fees at port, per container	OD 29,800
7. Shipping documents, per set	OD 8,000
8. Freight forwarder's fee, per shipment	OD 14,500
9. Financial charges on L/C	OD 16,000
10. Ocean freight, per container	US\$ 1,222
11. Insurance 2% on (c.i.f. + 10%), payable in US\$	

Exchange rate: 1 US\$ = 683 Omega Dinars

Handout 7

Omega Co-operative Marketing Federation
48 Orchard Road
Omega City
Omega-Country

Your ref: SX-493, your date: 28 May 1983
Our ref: MI-82/1, our date: 5 July 1983

Alpha Trading Co. Ltd,
74 High Street
Magnatown, Industria.

For the attention of Mr. John White, Purchasing Manager

Dear Sirs,

Our quotation for "Super-Coop" Blankets

In your letter of May 28th you asked about information and prices concerning our "Super-Coop" handwoven woolen blankets. In our quotation of 4 June 1983 we gave you full information about our models XYZ and the prices. We also sent you a catalogue sheet describing the whole range of woolen blankets produced by us.

Unfortunately, we do not seem to have received a reply to our quotation. If an answer from you has gone astray we would appreciate a copy from you. On the other hand, if you have not had an opportunity to make a decision yet, we would remind you that the autumn and winter sales season is not far away.

If we receive your order now we will be able to effect shipment before the end of July, making sure that the blankets will be in your own warehouse early in September.

We look forward to hearing from you.

Yours faithfully,

Ben Cooper
Export Manager
Omega Co-operative Marketing Federation.

SESSION 5.6

COMMERCIAL DISPUTES

Objective: To enable trainees to use proper arbitration clauses in their export sales contracts to prevent and solve commercial disputes.

Time: 2 hours.

Material: Handout 1 - Mini Case-Studies, "Commercial Disputes".

Session Guide:

- 1) Divide trainees into groups and distribute the mini case-studies. Allow trainees up to one hour to read, analyse and discuss among themselves the six case-studies and to evolve for each:
 - a) A clear definition of the problem and its consequences for the exporter and the importer.
 - b) What gave rise to the problem?
 - c) Possible solutions.
 - d) What could have prevented the problem?

- 2) Reconvene in plenary. For each case, allow a group spokesperson about 5 minutes to present his group's interpretation of the dispute, according to the four criteria above. Encourage other groups to comment, and after about 5 minutes or so of discussion, move on to the next case.

Lead the discussions to the following points:

Case A: Question: If the Alpha Union knew that chunks had to be one inch or larger, why were 20% of the chunks smaller than 2 cm? Lack of quality control. The exporter's problems: Not being paid and in four weeks faces storage costs. Possibility: Re-export cans from Industria to some other country that does accept chunks

smaller than 2 cm. Could have been avoided by paying closer attention to market requirements.

Case B: The manufacturing, sales, import and use of DDT is prohibited in most countries, so the Beta Fruit Growers Co-operative should have known that traces of DDT on food products would lead to the rejection of the products in Industria. For international trade in food products, one must pay special attention to health regulations. To simplify things, an importer, say in U.S.A., could state: "to comply with U.S. health regulations" and enclose a copy of the relevant regulations. He would then have fulfilled his obligation towards the exporter. Similarly, the exporter should supply as detailed information as possible concerning chemicals used in production and post-harvest.

Case C: Legally, the Zeta Marketing Co-operative was obligated to make its deliveries during January. Now Zeta is suffering the consequences of the unpredictability of weather conditions (or was there an erroneous production forecast?). Selling strawberries at a 30% discount would probably be preferable to having them spoil. The situation could have been avoided had there been in the contract a clause" following a two-week leeway in delivery dates depending on climatic conditions.

Case D: This crisis stems from lack of attention to detail when filling out the shipping documents. The Delta Planters Co-operative Union certainly is in trouble now and may have to wait for quite a while before being credited with the money. And what if the customer takes plenty of time to give revised instructions for the payment of the credit?

Case E: Prices quoted should be strictly adhered to when delivery takes place. A price adjustment clause in the contract could have prevented the dilemma. The Eta marketing Co-operative should have been aware of the increase in freight charges in time to have quoted a new price before dispatching the consignment.

Case F: Something went wrong with the delivery. The arrival of goods was not made known to the consignee and documents were not presented. Of course, further investigation will certainly reveal what has happened and whose responsibility it was. But the buyer's problem must be dealt with right away. The shipping line should explain the non-delivery. Eventually its insurance company should be alerted. In the meantime, a second shipment may be dispatched.

- 3) Question: Couldn't some or all of these cases be solved in court? Most trainees will say yes. Emphasise, however, that usually there is a considerable lack of clarity on which laws should apply to agreements between parties from two different countries. Therefore, a sales contract should always state which laws shall be applicable.

Question: What are the advantages of applying the laws of the seller's country?

- Applying the laws of the seller's country may favour the seller. But the question of enforcing the decisions of a local court in a foreign country remains.

- 4) Question: Is it better to seek conciliation or arbitration by impartial specialists?

- A good rule is to let all commercial disputes be dealt with by arbitrators.

Advantages of this procedure are:

- Speed, as the dispute is normally dealt with by a single instance procedure, i.e. decisions cannot normally be appealed.
- The action is not public (no adverse publicity).
- The arbitrators have better knowledge of the subject than ordinary judges. They are usually experts with particular knowledge of the matter in dispute.

- Arbitration is cheaper, because of the single instance procedure.

Disadvantages are:

- The decision cannot be appealed.
- There are no precedents to go by as the decision is not made public.

5) Give a short lecture on International Chamber of Commerce (ICC) Court of Arbitration.

- Among the various bodies which are active in the field of international commercial arbitration, the Court of Arbitration of the International Chamber of Commerce in Paris occupies a special place.

The ICC offers two means of settling commercial disputes: conciliation and arbitration. Frequently, the mere fact that a clause with regard to ICC arbitration is included in the export sales contract is sufficient to bring about a solution through direct negotiation.

- To make it possible for a dispute to be submitted to ICC arbitration, both parties must agree to do so, either in advance or after the dispute has arisen. It is therefore recommended to use the following standard clause in all export sales contracts (show it to the trainees on a transparency): "All disputes arising in connection with the present contract shall be finally settled under the Rules of Conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said rules".
- Conciliation is absolutely optional and can be organised only with the consent of the parties concerned.

To prepare an examination of the case, each party submits five copies of a statement of the case from its point of view, together with a statement of its claim, and copies of all relevant papers and documents.

The conciliation process takes place at ICC headquarters in Paris. One of the essential factors affecting the success of conciliation is, of course, the presence of the disputants in person, or of their authorised representatives. Such agents may be anyone enjoying the confidence of the party represented, regardless of nationality or profession.

The conciliation committee achieves its purpose in three ways:

- By noting the agreement reached in a conciliation report signed by the conciliators and by the parties;
- by making recommendations on the basis of which the parties are invited to settle their dispute within a given period;
- or by simply noting the failure of the attempt at conciliation.

In the latter case, if the parties are bound by an agreement to arbitrate, the parties will refer the dispute to arbitration.

- 6) Ask trainees to think about the cases they have just analysed in this session. Question: How could conflicts have been avoided?

Clearly in three major ways:

- By drafting the export sales contract more carefully.
- By strictly observing the contract conditions.
- By conducting a strict quality control of all goods exported.

- 7) Conclude by emphasising the importance of having an arbitration clause in the sales contract. Distribute the model sales contract of Session 5.2 and compare with drafts of participants particularly with regard to documentation, arbitration and special clauses.

Commercial Disputes

- A. The Alpha Co-operative Union has exported 1,000 cases of canned pineapple chunks c.i.f. port of Industria, to the Fruitimport Corporation. It was agreed that payment should be made by cheque 30 days after receipt of the goods. However the customer now refuses to pay, on the grounds that the product cannot be sold. The reason is that a local regulation prohibits the sale of canned pineapple chunks that are smaller than one inch. FC has on file a letter in which ACU was informed of this fact. Random checks have now shown that approximately 20% of the cans' contents consist of pieces smaller than 2 cm. FC keeps the shipment at disposal of ACU and will turn the boxes over to a storage company in four weeks' time. If no instruction is received before that date, ACU will have to pay storage fees from then on.
- B. The Beta Fruit Growers' Co-operative has shipped five tons of pink grapefruit on f.o.b. port of Beta City, to the United Corp. Impex in Industria. Terms of payment were agreed to be L/C, and BFGC has been credited for the invoiced amount upon remittance of documents to the Beta City Bank. Upon arrival to the port of destination, the shipment was checked by a sanitary inspector, who found traces of DDT on the outer skin of the grapefruits. The consignment has now been seized by the authorities and cannot be cleared through customs. UIC advises BFGC to have the fruits destroyed in the free trading zone to avoid payment of duty and taxes. Return shipment would be too costly; besides the fruits will start rotting soon. UIC argues that BFGC should have known that DDT was prohibited in Industria and insists that BFGC reimburse the amount of the L/C, plus freight and insurance. BFGC, however, does not have the financial capability to do so and local foreign exchange regulations would prevent this anyway.
- C. The Zeta Marketing Co-operative had a contract with the Indus Department Store to deliver in four shipments, one a week, a total of 20 tons of strawberries during the entire month of January by air freight, c&f airport Industria. Payment was agreed to be cash on delivery because the season was late this year, delivery started

only on 15 January. When the third shipment of five tons was ready to be flown out on the 2nd of February, the Zeta Marketing Co-operative received a telex from IDS advising them to hold the shipment or to agree to a price discount of 30%, as the month of January was now passed. The manager of ZMC had to decide whether to agree to the discount; insist on contract terms, or try to sell the strawberries on the local market, risking total spoilage in a few days.

- D. The Delta Planters Co-operative Union had finally managed to conclude a contract for the delivery of 20 tons of dessicated coconuts to Industria, f.o.b. port of Delta. Payment by confirmed and irrevocable L/C. After loading the goods on the ship, he obtained the bill of lading on Thursday night and the ship sailed on Saturday. Because banks were closed Friday through Sunday, documents were submitted to the Delta Commercial Bank on Monday morning. By Monday noon the bank called the secretary of DPCU and advised him that they could not accept the documents. The letter of credit specified 20 metric tons gross weight, while the bill of lading read 20 tons net weight. They wanted to know whether the weight was measured in short, long or metric tons, and why it was "net" instead of "gross" as mentioned in the L/C and the invoice. Meanwhile the credit would be kept in abeyance and eventually returned to the opening bank.
- E. In February, Eta marketing Co-operative had quoted a price of \$200 per ton of Polliwocks, c.i.f. port of Industria, payment on arrival. When they received an order for ten tons in June, they immediately prepared the shipment and loaded the consignment onto the first vessel sailing to Industria. As the shipping charges had meanwhile gone up by \$30 per ton, they increased the price to \$230 per ton. On arrival of the goods, the customer, however, refused to pick up the documents and to take delivery of the consignment. He asked that the price be reduced to \$200 as quoted. Thus, this deal would result in no profit for EMC.
- F. The Vegetable Growers' Co-operative Union had made a sure deal: fifty tons of mung beans, delivery ex-ship, payment against presen-

tation of documents at reception of goods. Two months after the scheduled delivery date, however, the customer complains that the shipment has still not yet arrived. On inquiry it turns out that the documents have never been presented to the customer. He now requests a second shipment of 50 tons, as he needs the beans desperately.

Assignment:

Read, analyse and discuss the above case studies and evolve for each:

- 1) A clear definition of the problem.
- 2) Probable causes of the problem.
- 3) Consequences for the exporter and the importer.
- 4) Possible solutions.
- 5) What could have prevented the problem?

topic

6

shipping the goods

Session 6.1 Sea and Air Transport

Session 6.2 Marine Insurance

Session 6.3 The Freight Forwarder

topic

6

shipping the goods

Session 6.1 Sea and Air Transport

Session 6.2 Marine Insurance

Session 6.3 The Freight Forwarder

SESSION 6.1

SEA AND AIR TRANSPORT

Objective : To enable trainees to explain the rules and principles of international sea and air transport so that they can (i) apply them to their advantage when shipping their products abroad and (ii) select the most appropriate means of transportation.

Time : 2 to 2 1/2 hours.

Material : Handout 1 - "Shipping Marks;" Handouts 2 and 3 - "Bills of Lading".
Case-Studies - "Cargo Handling".
Pocket calculators, if available.
Blank copies of airway bill.

Session Guide :

1) Question: Why is ocean freight the most widely used form of transportation in international trade?

- It is a cheap mode of transport for delivering large quantities of goods over long distances.

Question: Can anyone describe the procedure for arranging shipment of goods by sea?

Elicit answers in the following sequence:

- Find out freight rates.
- Select a shipping line and a particular vessel.
- Book shipping space.
- Register cargo on a shipping note and send shipping note to shipping company.

- Register details of consignment on custom entry form and send to customs.
- Arrange adequate packing, including shipping marks.
- Receive "calling forward notice" from shipping company.
- Send goods to port with "consignment note."
- Pay "freight bill".
- Receive "bill of lading" from shipping company.
- Enclose "bill of lading" with other documents, and send to bank, or directly to customer.

2) Question: What do freight rates depend on?

- Freight rates, of course, depend on the nature of the goods shipped, their weight or volume and their destination.

To some extent, however, they depend on the type of shipping used.

Question: What are the four basic types of shipping?

- Conference line vessels: These ships belong to a line which is a member of a shipping conference. Conferences are groups of shipping lines. They establish common freight rates, regularly scheduled departures and common shipping conditions. They also provide international liner services for the carriage of cargo on specified routes.
- Non-conference vessels: These ships are operated by shipping companies that offer scheduled services but quote freight rates independently from one another.
- Tramp ships: These ships do not follow regular routes but travel as and where cargoes are available.
- Charter ships: These ships can be hired to transport products for a particular purpose or time. Their use can only be justified for large quantities.

The most commonly used type of shipping is conference line vessels, because they make regular journeys and offer special discounts to exporters who use them regularly. The exporter or his freight forwarder may make such special arrangements with conference lines.

Since in shipping a conference is a cartel, freight rates (listed rates) are normally considerably higher than for non-conference lines, it is often more advantageous for the small exporter to use non-conference lines.

There are two basic types of agreements:

- Deferred rebate: The exporter (also called the shipper) reclaims about 10% of the freight cost after exclusively supporting conference line members for a specified period, usually six months.
- Immediate rebate: This is granted for signing a contract covering future shipments for a given period of time.

Freight rates are charged for most types of cargo either by weight or by volume. The shipping company quotes "per freight ton W/M option". This means the shipping company will charge either by weight (W) or measure (M), whichever is greater.

The most common mode of transport by sea is nowadays by container (20' or 40'). The exporter will have a choice of complete container (FCL = Full Container Load) or limited space in a container LCL = Less Container Load). Even if the complete space is not utilised, it is often still more economical to rent a full container. This will also minimize shipping time since there will be only one destination for the containerized goods.

Question: How will a shipping company normally charge for canned goods? For cotton bales?

- Probably by weight for canned goods and by volume for cotton bales.

Experience shows that of all goods shipped, about 80% is shipped by volume rather than by weight.

3) Ask trainees what factors will determine how the goods are packed?

- the characteristics of the goods;
- the mode of transportation;
- the climatic conditions during the journey;
- the customer's requirements;
- governmental or other regulations;
- cost.

Question: Once again, at which different stages of a journey are goods vulnerable to risks:

- when being loaded on the exporter's premises;
- when being handled between modes of transportation such as road/rail or rail/docks;
- when transported by road, rail, sea, air;
- when unloaded at the port of destination;
- when unloaded by the customer on his premises.

Question: What kind of damage could possibly occur to products in transit?

- Possible risks include pilferage, rough handling, crushing, humidity, pressure, cold, heat, etc.

Packing should be strong enough to withstand these transportation hazards.

Question: What other considerations should be kept in mind when packing?

- Costs - Goods must be as light and compact as is safely possible in order to keep freight costs down.

4) Question: How can boxes, crates, bags and other packages be identified among thousands of other, often very similar, packages on board a ship? What precautions can be taken to ensure that one's shipment is identified on arrival, unloaded at the right port of destination and sent to the right consignee?

- This is accomplished by using shipping marks. All cases and crates have to be marked for shipping. Often an importer will have his own shipping mark so that consignments due for him are more easily recognisable at the port of destination.

Question: What type of information should be included in the shipping marks?

Three types of data should be given:

- Essential data: Name of exporter and his address. Name of customer and his address and his shipping mark. There may also be a case or crate number.
 - Other data: Weight of packages and cubic measurement, name of ship, port of shipment, destination and origin of goods.
 - Handling instructions, such as a mark showing the centre of gravity of the case, proper position of slings and any warnings such as "no hooks" or "fragile" or "this side up". Distribute Handout 1 - "Shipping Marks" for illustration.
- 5) Distribute Handout 2, a specimen copy of a bill of lading and remind trainees that the bill of lading is the transport or "shipping" contract, apart from being a receipt for the goods and a document of title to the goods.
- 6) Distribute Handout 3 - "Bills of Lading". Allow trainees to study the contents for up to ten minutes.

7) Question: How should a bill of lading be made out when shipping against a letter of credit?

- The terms of the credit usually state that the bill of lading must be clean, shipped to order and blank endorsed.

This means that the goods must be in apparent good order, be loaded on board the stated vessel and that the bill gives title to any bearer.

8) Question: How many disadvantages of ocean transport can the participants think of?

Elicit such replies as:

- long delays, making it nearly impossible to ship fresh fruits, vegetables, flowers etc.;
- long delays, which then force shippers to wait longer for payment;
- rough handling, necessitating heavy and costly packaging;
- lack of security, raising the cost of insurance premiums;
- the complexity of formalities and procedures.

9) Distribute the mini cases titled "Cargo Handling" and allow trainees up to 15 minutes to work out Case A. Stress that the answers to this and the following examples involve mathematical calculations.

10) Ask trainees for their answers.

Go over the calculations as follows:

One case measures 30 x 30 x 40 cm = 0.036 m³ or 20 kg

The shipment of 100 cases = 3.6 m³ or 2 metric ton

3.6 m³ = 127 cubic feet

Charged by weight: 2 x \$120 = \$240

Charged by measurement. $\frac{127}{40} \times \$120 = 381$

Alpha will therefore have to pay on measurement basis i.e. \$381.

- 11) Allow trainees up to 15 minutes to work on an answer for Case B.

Ask trainees for their answers and go over the calculations as follows:

By sea:

Cost of sea freight		\$ 100
Cost of sealed bags \$2 x 20		\$ 40
Cost of interest 18% on \$4,000 for 3 months		
	$\frac{18 \times 4,000}{100} \times \frac{3}{12} =$	<u>\$ 180</u>
Total cost by sea		\$ 320

air:

Total cost by air	\$ 250
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Thus, airfreight is cheaper and should be preferred.

- 12) Allow trainees up to 30 minutes to calculate the answer to Case C.

Ask trainees for their answers, and go over the calculations as follows:

a) Currently, the customers have to pay the following amount per ton net weight (1,040 kg gross)

f.o.b. port of Omega \$125 x 20	\$ 2,500.00
Ocean freight charges for 84.72 cu. ft	\$ <u>211.80</u>
Sub-total (c+f)	\$ 2,711.80
Insurance, 2% of 110% of c.i.f. price	\$ <u>61.00</u>
Total c.i.f. per ton net	\$ 2,772.80
Interest on L/C 3 months (4.5% of \$2,500)	\$ <u>112.50</u>
Total c.i.f per ton	\$ 2,885.30
c.i.f. per case	\$ <u>144.27</u>

b) The new c.i.f. ocean freight quotation would be as follows
(per ton net weight)

Price f.o.b. in cardboard boxes	\$ 2,500.00
New wooden cases, 20 x \$2.-	\$ 40.00
Ocean freight charges for 107.36 cu. ft.	\$ <u>268.40</u>
Sub-total (c+f)	\$ 2,808.40
Insurance, 2% of 110% of c.i.f. price	\$ <u>63.17</u>
Total c.i.f. per ton net	\$ 2,871.57
Interest, 3 months (4.5% of \$2,871.57)	\$ <u>129.22</u>
Total c.i.f. per ton	\$ 3,000.79
c.i.f. per case	\$ 150.04

c) The new c.i.f. air cargo quotation would be as follows:

Price f.o.b. in cardboard boxes	\$ 2,500.00
Airfreight charges	\$ <u>250.00</u>
Sub-total (c+f)	\$ 2,750.00
Insurance, 1% of 110% of c.i.f. price	<u>30.59</u>
Total c.i.f. per ton	\$ 2,780.59
c.i.f. per case	\$ 139.03

Not only is this the cheapest quotation of all three, but the nuts would arrive in a much fresher state and with a minimum risk of pilferage.

Question: What would the participants have concluded had both costs (by sea and by air) been equal?

The freshness of the nuts is very important, although difficult to put a value on in money terms. Question: Would the participants pay more to make sure they got fresher nuts? How much more?

13) Question: Which agricultural products can be exported only by air cargo?

For many items, such as fresh flowers and fruits, air cargo is the only possible mode of transport. Air freight is, however, a good choice for any goods which have a high ratio of price to weight, i.e. goods which are light but expensive.

The higher the speed of delivery, the quicker the customer receives his goods and the faster the exporter receives his payment.

The greater security of air transport means that insurance premiums on shipments by air are usually lower than for sea transport, because the risk of pilferage and damage is smaller.

Also, the packing needed for shipment by air is much lighter than for shipment by sea. This is a big advantage from the point of view of freight cost, particularly in countries where duties are based on the gross weight of the goods. A final advantage of air freight is that procedures are newer, hence more up-to-date.

14) Question: How are airfreight rates calculated?

- The basis of calculation is usually a price per kilogram.

There are four main categories of freight rates:

- (i) Minimum charge - up to 5 kg
- (ii) General cargo rate - also known as the "under 45 kg rate"; for cargoes of more than 45 kg there is a quantity discount of up to 25%
- (iii) Class rates - These apply to shipment of special commodities within or between certain geographical areas. They are expressed as a percentage of the "normal under 45 kg rate".
- (iv) Special commodity rates - there are numerous categories of rates, covering specific commodities. They are not fixed but rather subject to negotiation with the airlines.

Other negotiable discounts are: bulk discount for regular shipments and container discounts for shippers using containers that conform to IATA (International Air Transport Association) regulations.

Although airlines charge usually by weight, they may charge by measurements if 1 kg of airfreight exceeds a volume of 7 cubic decimeters (0.7 liters). Other costs that may be incurred include:

- Terminal charges for customs clearance.
- Sorting, pick up and delivery.
- Transit charges at the airport.
- Airport taxes.

- 15) If possible, obtain blank forms of an airway bill and distribute to the trainees.

Explain that the airway bill is an internationally standardized document, printed both in English and in the language of the air carrier. The airway bill is:

- a receipt from the airline acknowledging that it has received the consignment from the exporter (the shipper);
- a contract between the shipper and the airline for moving the goods;
- an instruction sheet;
- a bill for the freight;
- a certificate of insurance, if the amount and the extent of insurance are included in it.

What the airway bill is not - unlike the bill of lading - is a title to the goods. The airway bill is not a negotiable document, and by handing it to the airline the shipper does not lose ownership of the goods.

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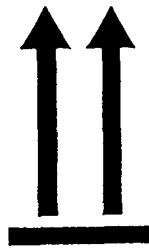
The airway bill is made up of three original copies, one each for:

- the airline, which uses copies for various purposes;
- the consignee who receives it along with his consignment at the airport of destination;
- the shipper (the exporter), who gets it back as a receipt and evidence of his contract with the airline and, eventually, as an insurance certificate.

The customer automatically receives the original of the airway bill enabling him to collect the goods without further formality, unless there is a c.o.d. arrangement (cash on delivery). Such an arrangement is a major protection when using air freight. In this case payment is required before the goods are collected by the customer.

Handout 1

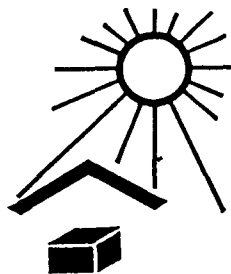
SHIPPING MARKS



This side up



Fragile — Glass



Protect from heat



Don't use hooks



Sling here



Protect from water

Handout 2

Shipper _____

BILL OF LADING
for Combined Transport or
Port to Port Shipment

B/L No. _____

Reference No. _____

Consignee or order _____

Notify address _____

Accepted by the Carrier from the Shipper in apparent good order and condition (unless otherwise noted herein) the total number or quantity of Containers or other packages or units indicated below*, stated by the Shipper to comprise the Goods specified below, for Carriage subject to all the terms hereof (INCLUDING THE TERMS ON THE REVERSE HEREOF AND THE TERMS OF THE CARRIER'S APPLICABLE TARIFF) from the Place of Acceptance or the Port of Loading, whichever applicable, to the Port of Discharge or the Place of Delivery, whichever applicable. On presentation of this document (duly endorsed) to the Carrier, by or on behalf of the Holder, the rights and liabilities arising in accordance with the terms hereof shall (without prejudice to any rule of common law or statute rendering them binding upon the Shipper, Holder and Carrier) become binding in all respects between the Carrier and Holder as though the contract contained herein or evidenced hereby had been made between them.

Copy not negotiable

Intended vessel/voyage	Intended port of loading	FREIGHT AND CHARGES			
		European	Australian	New Zealand	Basic
Intended port of discharge		Zone charge	Zone charge	Zone charge	Service charge

Marks and Nos. Container No. ++	Quantity and type of packages.	Description of goods	Gross weight kg
------------------------------------	--------------------------------	----------------------	-----------------

Particulars declared by the Shipper.

As far as this Bill of Lading covers Combined Transport it is based on the uniform rules for a Combined Transport document (ICC Brochure No. 298).
No. 3

Total No. of containers/transportable tanks/flats/pallets/packages or pieces/quantity of other cargoes	*	
--	---	--

Place of acceptance + _____

In Witness of the Contract herein contained _____ originals have been issued, one of which being accomplished the other(s) to be void.

Place and date of issue _____

Place of delivery + _____

for _____

+ Applicable only when document used as Combined Transport B/L. Place of delivery always to be an address if Notify address not applicable.
++ Container No(s) to be inserted only in respect of containers supplied by or on behalf of the Carrier.

Handout 3 - Bills of Lading

The exporter should be familiar with the following terms:

"Shipped" This form of bill of lading is, strictly speaking, obligatory in a c.i.f. contract. -
cates that the goods have been received by the shipowner "in apparent good order and condition" and duly shipped.

"Received for shipment" This is an anticipatory document that can be used to indicate to a customer that the goods are in the custody of the shipping company but have not necessarily been shipped. It is sometimes used to obtain partial payment for a consignment. Strikes, dock congestion or other delays might give rise to the need for such bills. Many companies specialising in container transportation issue "received for shipment" bills while making up container loads.

"Clean" Indicates that the goods are apparently in good condition, without any qualifying clauses, such as "insufficiently packed" or "one case leaking".

"Dirty" (or cloused) Indicates that there is something wrong with the goods, such as inadequate packing or leakages.

"Stale" Term used for a bill of lading which is to be negotiated against a letter of credit but which is unlikely to reach the customer before the ship actually arrives. One of the problems in this situation may be that warehousing and dock dues accumulate until the arrival of the bill of lading.

"B/L in ship's
bag"

A bill of lading sent in the ship's bag so that it is immediately available when the ship arrives at the port of destination.

"Groupage bills"

Bill of lading covering a number of consignments that have been consolidated by a shipping and forwarding agent, who issues each individual exporter with a certificate of shipment or, sometimes, his own "house" or forwarding agent's bill.

"On deck"

Indicates that the goods have been loaded for storage on deck. No bank will accept such a bill of lading unless expressly authorised to do so by the importer or his bank.

Cargo Handling

Case A: The Alpha Vegetable Growers' co-operative wants to ship 100 cases of canned vegetables to Industria and has asked the Rapid Shipping Company for a quotation.

Rapid quotes \$120 per shipping ton W/M, whichever is higher. Shipping ton equals 1,000 kg weight or 40 cubic feet measurement. One case of canned vegetables measures 30 x 30 x 40 cm and weighs 20 kg. One cubic meter equals 35.3 cubic feet. How much freight cost will AVGC have to pay?

Case B: Coffee was like gold, thought the manager of the Beta Coffee Growers' Society. It was currently worth \$4,000 a ton, the Society's overseas customers paid as soon as they received their coffee and the money could be put on deposit for six months before members' accounts were finally settled. The interest payment at a rate of 18% per year went a long way to covering the Society's costs. The ocean freight cost was only \$100 per ton. The coffee was sealed in 50 kg bags so that it did not lose any value during the three-month voyage. Some people saved \$2.00 sealing cost per bag by shipping by air, but that was foolish, the manager knew, as the cost of airfreight was over twice as much, at \$250 a ton. Penny-wise and pound-foolish, he thought. Is he right?

Case C: The manager of the Omega Agricultural Co-operative Society was a bit worried. Every month for five months the Society had been exporting ten tons of KRAK mixed nuts in twin packs, but not all overseas customers were too happy with the present arrangement. First of all, they complained that the nuts were hardly fresh any more by the time they arrived after a three-month sea voyage and that at least 5 to 8% of the boxes were crushed or pilfered. Secondly, they paid a f.o.b. price of \$125 per cardboard box of 50 kg net weight, payment by irrevocable and confirmed letter of credit. They thought that Omega should sell c.i.f., documents against payment on arrival of the goods. Some had asked for new price quotations.

Freight cost quotations are as follows:

Ocean freight: \$100 per ton (1,000 kg or 40 cubic feet).

Airfreight: \$250 per ton (weight only).

Insurance: Marine 2% on value, air 1% on value.

Current bank interest rate for deposits: 18% per annum.

To cut out the pilferage, the manager thought of putting the present cardboard boxes (gross weight 52 kg, dimensions 40 x 50 x 60) into larger wooden cases of 44 x 54 x 64 cm weighing an additional 8 kg each, and costing an additional \$2.00 each.

Or should he decide to use air cargo instead?

Help him write new c.i.f. quotations for transport by sea and by air.

SESSION 6.2

MARINE INSURANCE

Objective: To enable trainees to explain the basic principles of marine insurance so that risks are sufficiently covered when exporting goods to foreign countries.

Time: 1 1/2 to 2 hours.

Material: Handout 1 - "Who is Responsible for Buying Insurance?"
Handout 2 - "Most Commonly Used Clauses in Marine Insurance".

Session Guide:

1) Question: Why is there a need for cargo insurance?

- Previous examples have shown that there are many ways in which goods can be spoiled, damaged or lost completely, and that these risks of damage and loss must be covered some way. This is usually done by subscribing to an insurance policy.

Question: How can one find out who is responsible for underwriting the insurance for the goods in the course of their voyage?

- This is clearly indicated by the terms of delivery (INCOTERMS) contained in the sales contract. They will determine the "critical point" where the risk for the goods passes from the exporter to the importer.

Question: Are there any exceptions, i.e. where the exporter is responsible for contracting the insurance although the risk for the goods has already passed onto the importer?

- Yes, it is clearly indicated under the c.i.f. terms that the exporter is responsible for purchasing the insurance, although

the risk passes to the importer when the goods pass over the rail of the ship at the port of shipment.

- 2) Question: What are the important stages of transport from the exporter to the importer?

As they are being given, write on chalkboard:

- from exporter to the docks or the airport;
- storage time while awaiting shipment;
- being loaded on board of the ship or aircraft;
- off-loading and storage on arrival;
- transportation to customer's warehouse.

Ask trainees to use their imagination to anticipate all kinds of mishaps that may happen to the goods or their carrier.

- They should include, among others, fire, storm, collision, pilferage, leakage and explosion.

Explain that in insurance language the shipment of goods is called an "adventure" or "venture", terms which originate long ago when the shipment of goods was far more hazardous than it is today. Goods should be insured if a person has a financial stake (an "insurable" interest) in the arrival of the goods at their destination. Under the law, a person may purchase marine insurance in a venture only if he has insurable interest in it.

Either the exporter or the importer will be liable for the goods at any one point in the journey.

The liability laid down in the terms of delivery normally follows the title of ownership for the goods: when the title for the goods passes from the exporter to the importer, this is known as the passing of risk, and the point where this happens is called (let trainees complete) "critical point."

- 3) Distribute Handout 1 - "Who is Responsible for Buying Insurance?" and explain that the four most important critical points are shown in the heading of the grid, while the left-hand column shows the most frequently used INCOTERMS.

Let trainees work in pairs on this assignment for up to ten minutes.

Correct answers are:

f.o.b. - Port of shipment, over the rail, importer
c.&.f. - Port of shipment, over the rail, importer
c.i.f. - Port of shipment, over the rail, exporter

- 4) Ask one trainee for his answer with regard to f.o.b. If correct, ask those who have the same answer to raise their hands. Ask those who have different answers to explain why they made a different choice. Allow a short group discussion on the subject and explain:

- In theory, the exporter insures the goods up to the rail of the vessel and the customer takes responsibility from then on. In practice, however, the customer normally buys insurance to cover the whole journey from the exporter's warehouse to the final destination.

- 5) Ask another trainee for his answer with regard to c&.f. If correct, allow trainees with a different answer to explain their choice. Allow for a short group discussion and try to get someone to note that when it comes to insurance, a c&.f contract does differ from an f.o.b. contract.

- 6) Ask another trainee for his answer with regard to c.i.f. Whatever his answer, have him explain why and how.

- Allow a short group discussion and explain that under a c.i.f. contract, the exporter takes out marine insurance even though his ownership and responsibility for loss or damage ends when

the goods have been placed on the vessel. He takes out coverage against the risks customarily covered in his trade. He is not required to do more - unless both parties have agreed to it. These rules are, of course, subject to local usage. Whatever allocation of responsibility is agreed upon, it must be absolutely clear and must cover all emergencies.

- 7) Elicit acknowledgement of the fact that the exporter's objective is to buy as much protection as is necessary at as low a price as possible, for as long as he has a financial stake in the venture, i.e. until he is actually paid for the goods. If the goods are damaged or lost in transit, the importer may be unwilling or even unable to pay for them.

Question: What does the exporter have to know in order to achieve this objective?

Elicit answers such as:

- He must know what risk to cover.
- He must know what risk can be covered.
- He must decide how much coverage is needed.

Make sure trainees distinguish between damage as a result of risks (events that may happen) and damage from inevitabilities (events that normally happen).

If necessary, illustrate with the following examples:

- During the journey a fire breaks out on board the ship and the goods are partly damaged or even totally lost. Does this normally happen? No, it is a risk.
- You ship a consignment of tomato juice packed in bottles. Some of the bottles break during the transport due to rough handling. Does this normally happen? Yes, it is inevitable that some bottles will break.

- 8) Explain that marine insurance never covers the kind of damage that can be expected to occur under normal conditions because of the

nature of the goods themselves. This is called "inherent risks". For example, butter may become rancid, spontaneous combustion may take place in cotton, palm and coconut oil may solidify, nuts and copra may suffer infestation by vermin, goods packed in bags may show leakage (e.g. because use of hooks) and glassware may break. Most of these are considered accepted trade losses and ordinarily should be accounted for in the selling price.

9) Question: What other risks are usually also excluded from insurance coverage?

- They are losses, damages and delays caused by war, strikes, riots and the like.

10) Question: What is the different type of damage suffered in each of the following three cases:

A - A vessel on his way from Singapore to Europe comes into a heavy storm and sinks. All the goods are lost with it.

B - While trying to leave the Klong-Toy harbour in Bangkok, a vessel gets stranded, and part of its cargo, namely 100 bales of cotton, are completely lost.

C - A ship sailing in Indonesian waters runs a leak and its load, consisting partly of canned goods, is to some degree spoiled by sea water.

- Clearly, in A, it's a case of total loss of cargo, including loss of vessel, in B, it's a total loss of part of the cargo and in C, its a partial damage to part of the cargo.

Explain that in marine insurance a partial loss is called "average".

- Partial loss can mean total loss of part of the insured cargo or simple damage to all or part of it.
- A partial loss suffered by part of the cargo is called "a partial average".

- A "general average" is a loss that affects all cargo on the ship and the ship itself.

Question: Ask trainees, how, in marine insurance language, cases A, B and C would be called?

- (A) The ship sinking on its way from Singapore to Europe is a case of a "general average".
- (B) The ship stranded in the harbour in Bangkok is a case of "partial loss" or "partial average".
- (C) The ship sailing in Indonesian waters is also a case of "partial loss" or "partial average" but different from B, as only part of the insured cargo was partly damaged.

An accident may lead to both general and particular average losses. There are many types of insurance clauses providing different types of coverage. A good rule of thumb is that as long as an exporter insures for the coverage generally accepted in his trade, he has nothing to worry about.

- 11) Distribute Handout 2 - "Most Commonly Used Clauses in Marine Insurance," and divide trainees into groups according to product groups. Allow them ten minutes to study and to discuss these clauses.

Trainees should decide which clause seems to be the most appropriate in the particular case of their product or product group, especially in the case of c.i.f. shipments.

- 12) Reconvene in plenary and ask a spokesperson from each group to explain their choice.

Lead the discussion on the following points:

- An exporter of crude oil or ore or other crude raw material would probably decide for the TLVO clause, as it provides protection against a risk the cargo may possibly face.

- For the great majority of agricultural produce, the FPA clause, eventually supplemented by some additional particular coverage, will be sufficient.
 - The WA clause will be required for cargo with higher than average unit value and for most manufactured products.
 - The AR coverage is expensive and in most cases not necessary.
- 13) As trainees probably know from their motor vehicle or life insurance, the basic instrument in insurance is called "the policy", which is a contract. The principal function of this legal document is to serve as evidence of the agreement between the insurer and the insured.

Question: Isn't it rather inconvenient to obtain a new policy before dispatching each new shipment?

- Of course, if only one shipment per year is being dispatched, the administrative strain is tolerable. The insurance administration of dispatching several shipments per month, however, would become cumbersome. Therefore, individual policies, written for a single shipment, are rarely used by regular exporters.
- Exporters generally insure under long-term policies. Usually they will have an open cover agreement or a floating policy arrangement under which the insured has automatic protection for all his shipments, with fixed conditions and fixed rates.
- For documentation purposes, the insured must be able to show an actual policy. When he wants to have evidence of his insurance, the insurer writes a policy for the individual shipment, established against the open cover. An even more common way of getting evidence is to use "Certificates of Insurance", which give all the information normally contained in an insurance policy.

14) Write the following indications on the chalkboard:

c.i.f. - Alpha-City Port, FPA clause

1,000 cartons of 24 cans each, value \$26,400

damage: 150 cartons damaged by sea water
2,000 cans rusty, to be sold at 1/2 of value

Explain that the Omega Fruit Growers Co-operative Union has shipped under a c.i.f. contract a consignment of 1,000 cartons at 24 cans of pineapple juice to their customer in Alpha-City. They had insured the shipment under a FPA clause for a value of \$26,400 (value of goods, c.i.f. price \$24,000 + 10%). On arrival at the port of Alpha-City, the buyer finds that around 150 cartons have been damaged by sea water, resulting in about 2,000 rusty cans that can only be sold at a price reduced by 50%.

Question: How much will the insurance company pay for the damage? Who should file the claim and who will get the money?

Allow up to ten minutes so that each trainee may individually prepare a written answer. Start by asking trainees who should file the claim?

- In principle it is the importer's responsibility to file the claim for an adjustment, as he is in possession of the insurance policy, which is part of the shipping documents. The FPA clause, however, does not cover a partial loss suffered by part of the cargo if the damage is not due to stranding, sinking, fire on the ship, etc. Hence a claim seems superfluous.

Ask trainees who would be reimbursed and for how much, should the sea water damage be due to a collision or if the shipment was insured under a WA clause.

- As the damage exceeds 3% of the insured value, the insurer would pay the damage to the customer.

The damage would be calculated as follows:

$$\frac{\text{Damaged cans}}{\text{Total cans}} \times 50\% \times \text{insured value} = \text{damage value}$$

$$\frac{2,000}{24,000} \times 0.5 \times \$26,400 = \$1,100$$

Remind trainees that the coverage to be bought under a c.i.f. contract must be subject to a mutual agreement between seller and buyer when setting the trade terms. The insurance should always cover 110% of the c.i.f. value.

Handout 1 - Who is Responsible for Buying Insurance?

MAJOR INCOTERMS	CRITICAL POINTS			
	At port of shipment		At port of destination	
	On docks, quays, wharf	Over the rail of the vessel	On board of vessel	Over the rail of the vessel
f.o.b.				
c&f				
c.i.f.				

Your assignment

- 1) For each of the INCOTERMS shown, ask yourself the question, "Where does the risk pass from the seller to the buyer?" Choose one of the four possibilities and put a large circle in the corresponding box.
- 2) For each of the INCOTERMS shown, ask yourself the question, "Who is responsible for purchasing cargo insurance?"

Write within the circle the letter E if it is the exporter, or the letter I if it is the importer.

You have ten minutes to complete this assignment.

Handout 2 - Most Commonly Used Clauses in Marine Insurance

TLVO - Total Loss Of Vessel Only

This is the minimum cover. It is generally deemed insufficient for most purposes.

FPA - Free From Particular Average

This provides the least coverage of any clause in general use. It covers total and general average losses and some particular average losses, but only if the ship has been sunk, burnt or damaged in a collision.

WA - With Average

This broadens the coverage to include a wider range of partial, particular average losses, such as partial damage caused by sea water if the damage exceeds a specified percentage of the value of the insured cargo, generally 3%. Additional specific risks such as damage from hooks, theft, contact with other cargo (e.g. foodstuff comes in contact with fertilizer) may be covered by additions to the FPA and WA clauses.

AR - All Risks Whatsoever

This offers the maximum protection and the broadest kind of standard coverage. But it does not really cover all risks. This clause covers only physical loss or damage from external causes and therefore does not cover loss or damage from inherent vice and so-called inherent trade losses, nor does it protect against risks of war, strike, riot, etc.

SESSION 6.3

THE FREIGHT FORWARDER

Objective : To enable trainees to use the services of freight forwarders in export operations effectively.

Time : 1 1/2 hours.

Material : Tape Dialogue. Case-study - "Choosing a Forwarder".

Session Guide :

- 1) Question: What is a freight forwarder? What can he do for the exporter? State that in general terms: "the forwarder is a person who gets paid to make sure that an export shipment arrives at its destination as quickly as possible, in the best condition and with a minimum of problems for the exporter".
- 2) Play the tape dialogue, or if a recorder is not available, enact the dialogue. Replay the dialogue a second time and stop the tape after each of Mr. Lee's explanations.

Each trainee should make up a list of:

- (i) Ways in which a forwarder can help an exporter.
 - (ii) Points in the conversation which they do not fully understand.
- 3) Ask trainees how a forwarder can help an exporter. Trainees will probably read off statements such as:

"secures space on ship";

"arranges for insurance, documents, etc";

"picks up consignment and sees to it that it gets loaded" etc.

Try, however, to elicit statements of a more general nature, such as:

"He helps exporters meet their delivery schedules."

"He makes sure that the consignment is delivered in good condition."

"He can keep freight and forwarding costs as low as possible."

4) Question: Why is respecting delivery dates so important and how can the forwarder help keep the delivery on schedule?

- As international trade becomes more and more competitive, buyers demand first class services from their suppliers. That includes delivery on the promised date. The forwarder can get space for the exporter and calculate the right sailing date to meet the promised delivery. Even if shipping space is scarce and there are unexpected delays, the forwarder's long-standing connections with the shipping companies enable him to book space when an individual exporter may have great difficulties. With his own knowledge of ports around the world, as well as the information supplied to him by the agents and connections he has in most ports, the forwarder stays abreast of what is happening. In addition, because the forwarder makes sure that the documentation is in order, customs clearance at the port of destination is quicker, and his agent sees to it that the process goes smoothly.

5) Question: Why is it important that the product arrives in good condition? How can the forwarder help to achieve this?

- Delivery in good condition is just as important as on-time delivery, because the customer wants undamaged products ready for sale or for use. If the exporter's shipment is damaged, so is his chance of obtaining further orders. Frequently, payments are held up until the damage is assessed and compensation has been made. Forwarders usually know the packing requirements necessary to minimise the danger of damage. Packing of certain commodities such as coffee, tea, cotton, etc. are subject to special regulations and these the forwarder knows.

6) Question: What does the term "transshipment" mean?

- The term "transshipment" is used when a consignment has to change vessels. This happens when the vessel which loaded the goods at the port of shipment does not call at the port of destination. "Transshipment" is necessary in such a case.

Question: How does transshipment affect the risk factor?

- Transshipment means additional unloading and loading of the consignment and consequently a greater risk of loss, pilferage, or other damage to the goods. This is why forwarders try to avoid as much as possible the need for transshipment.

Sometimes the forwarder will also suggest to his client that he put his goods into containers (discussed later) or palletize them. Palletizing means attaching the cases, cartons or bags to a pallet (usually of wood) with steel bands or some other kind of tension strapping. The pallet will travel with the goods right from the exporter's warehouse to the buyer's premises, and it is constructed such that it can be handled by a forklift.

- 7) Keeping freight and forwarding costs as low as possible is crucial, especially with c.i.f. and c&f prices, since the part covering ocean or air freight expenses is sometimes very large. If the freight cost can be lowered, the export quotation will be more competitive. The forwarder can usually find the best possible shipping contract for his client. By advising on the packing of the goods, he may be able to reduce either the weight of the shipment or its cubic content. If duties in the target market are based on gross weight, any reduction in weight saves money.
- 8) If only relatively small quantities are to be exported to one destination, the forwarder can frequently offer a "consolidated" service. This means that he collects shipments from a number of exporters and puts them together, possibly in a container if these are available at the port of shipment. Then the shipment is

shipped under one bill of lading. When it arrives at the port of destination, the forwarder's agent unpacks it and sends the separate cases or packages on to the various customers.

Question: What are the advantages of containerization?

- Lighter packing needed, shipment undisturbed en route, less risk of pilferage, each exporter pays only a minimum fee.

Inform trainees that some airlines also operate container services and that refrigerated containers are also available for rapid shipment of perishable goods.

- 9) Question: Taking into account the variety of expenses involved in making a shipment (such as fees for documents, preparation of insurance certificates, telexes, messenger services, transport by truck or rail, loading on board the ship, etc.), would an exporter prefer to pay them one by one or all at once?

- Obviously, it's much more convenient to be presented by the forwarder at the end of the transaction with a single bill for everything.

Ask trainees to repeat the definition of a forwarder given at the beginning of this session.

- "The forwarder is a person who gets paid to make sure?"

Question: How much does a forwarder charge for his services?

- Part of the forwarder's income is derived from brokerage fees from the shipping companies for the space that he books, but that is not true for all shipping lines. Air cargo agents approved by IATA also receive a commission from member airlines for bookings. Insurance companies pay brokerage fees or commissions for subscriptions effected through the forwarder. And the forwarder usually charges a flat fee for each set of documents completed.

For other services, such as customs clearance, packing, trucking, the fee may be based on the weight or the value of the goods. In addition, the exporter will have to pay all actual expenses incurred, such as those for telexes, telephone calls, forms, etc.

10) Question: Would the trainees ask for an estimate of the forwarder's charge before hiring him?

- Clearly, this should be done before calculating export prices.

Question: Would the trainees necessarily choose the forwarder who offered the lowest rate?

- No, one takes into account other factors, such as reliability and rapid handling of the shipment, before making a decision.

11) Divide trainees into groups of three to four persons. Distribute the case-study "Choosing a Forwarder" and allow up to 15 minutes to peruse it.

12) Reconvene in plenary and ask groups to name the candidate they selected. Have a spokesperson for each group that chose a different forwarder, offer a detailed explanation for that choice. Then discuss in plenary the advantages and disadvantages of each of the three.

- Royal Ocean and Airfreight Company, despite its low fees, may have been eliminated because it is too new, too small, and too specialised.
- International Freight and Travel Company may have been eliminated because it is too large, too diversified, too traditional, and its fees are too high.
- Financial standing: Usually, a forwarder pays for all expenses himself and collects from the exporter later on. Therefore, he is only as reliable as his financial resources. Who are his bankers?

- Stability and reputation: Which exporters use his services? Have they done so for some time? Are they satisfied with his services? What is his reputation?
- Organisation: Visit his office. Does it look well organised? Does he seem to have enough competent staff to handle documentation and other work efficiently? Does he have a telex service?
- Connections abroad: Ask about these and where they are. Does he have agents or arrangements in the countries to which the exporter wants to ship? Some forwarders specialise in certain countries or continents.

13) Question: Would anyone now wish to revise his previous choice?

- Obviously, World Cargo Service seems to be the most suitable forwarder for the Omega Agricultural Co-operative Society. He has all the qualifications required and the co-operative will be well taken care of. With IFTC the co-operative would have been only one small customer among many big ones and might have got only marginal service.

14) Conclude that new-comers to the export business are well advised to use freight forwarder's services. Stress how important a decision it is to choose the right freight forwarder.

Tape Dialogue

The Freight Forwarder

Narrator : The Omega Agricultural Co-operative Society (OACS) has successfully advertised its new product "KRAK", which is a 400-g twin pack of mixed nuts. The first order has now been placed. Twenty boxes of 125 twin packs each have to be shipped next month to France. Mr. Kim, manager of OACS, visits Mr. Lee, manager of World Cargo Service Inc., a well-known freight forwarder in Omega-City.

Mr. Lee : Good morning sir, what can I do for you?

Mr. Kim : I'm Kim, from the Omega Agricultural Co-operative Society. My secretary called you yesterday afternoon about this shipment of nuts to France.

Mr. Lee : Oh yes, I see, please have a seat, Mr. Kim. So you want to ship nuts. Are they in bags? And how much do you want to ship?

Mr. Kim : No, they're not in bags, they come in corrugated cardboard boxes of 52 kg gross weight each, and there are 20 cartons. Roughly one metric ton all together.

Mr. Lee : You want to ship them to France you told me, to Marseilles isn't it? Or do you want to ship them by air?

Mr. Kim : No, not by air. We've made the sale c.i.f. port of Marseilles against L/C.

Mr. Lee : For which date did you promise delivery, Mr. Kim?

Mr. Kim : Before the 15 of next month. But can we have a ship then? I mean, the goods can be ready by next week, if we start production immediately.

Mr. Lee : That's fine. but tell me, Mr. Kim, these cartons you're talking about, are they strong enough? Wouldn't they need

some strapping or banding, or maybe they should be crated. You know what I will do? I'll send one of our men to your place, and he can look over the consignment and also give advice to your people as to the necessary marking. We might have to put the boxes into crates. Or we can use a container and you may benefit from our consolidation service. What's the size of your boxes, anyway?

Mr. Kim: Hm, that I can't tell you for sure: probably 40 x 50 x 60 cm. But we'll have to measure them.

Mr. Lee: Well, my man can do that at the same time.

Mr. Kim: And what are some of the other things you're going to take care of?

Mr. Lee: Well, right away I'll call a number of shipping lines to ask about departures to France before the 15th of next month, and I'll choose the one indicating the most convenient date as well as the best rate. Then I'll confirm this space reservation to you by letter. If the measurements of the boxes are about right, the consignment should be about 22 cubic metres. We should have no trouble finding space for that.

Later on, I'll call you about the transport to the dock for loading. Will you use your own truck?

Mr. Kim: Our own truck may be up-country to pick up nuts from the members. I'd appreciate it if one of your trucks could pick up the shipment from our factory.

Mr. Lee: Fine, we can do that for you. We will also prepare the bill of lading and send it to the shipping company for signature.

By the way, Mr. Kim, I will need from you the name and address of your customer. This is a form which we call "Instruction Sheet to Forwarder". It contains all the necessary information about you, the consignee and of course the consignment. You have to fill in all the items. Here, for example, we ask for instructions as to marine insurance. Which coverage do you want?

Mr. Kim: I was told that "with average" would be the best for this type of goods, and of course for 110% of the c.i.f. value. That would be \$4,000.

Mr. Lee: Do you want the contract with some particular insurance company or will you leave that to us, Mr. Kim?

Mr. Kim: Oh whatever you think is best. I don't have any particular company in mind. Now, when you pick up the shipment from our factory, what will you do with the cases?

Mr. Lee: First of all, we'll check the quantity, the packing, and the marking on each case. We will then take the consignment to the ship's berth to be loaded. We will also deliver the necessary documents to the ship and even, if you so wish, present the correct documents against the letter of credit to the collecting bank. And finally, we will get in touch with our agent in the port of Marseilles to see to it that your nuts arrive in good condition and are sent on immediately to your customer.

Mr. Kim: Thank you very much, Mr. Lee, that sounds perfect. Now what about the cost of your services?

Mr. Lee: Let my man see the consignment first. I'll give you a ring with our cost estimate the day after the visit. Is that all right?

Mr. Kim: Okay, thank you.

Choosing a Freight Forwarder

Mr. Kim, the manager of the Omega Agricultural Co-operative Society, has decided to use a freight forwarder to handle the export business of the Society, because he is convinced that a forwarder can offer many needed services. He has asked the National Association of Freight Forwarders of his country for a list of its members, from which he has selected three firms. He found out the following facts about them:

World Cargo Service Inc. Established five years ago. Owner and Manager: Mr. Lee. Staff: 35 people. Two small and three large trucks. Large warehouse. Office looks very efficient. Two telexes, two telephone lines. Customers: Mostly small exporters and importers, either newly established or former customers of IFTC. Solid connections with USA and European countries. Fees: Average.

Royal Ocean and Airfreight Company. Established last year. Manager: Mr. Chan. One small office in Omega-City only, but very modern equipment. No telex but has telephone. Staff: 10 people, looking young efficient. Specialises in air cargo. Principal customers: Embassies and foreign firms in Omega. Operates two trucks painted silver and blue to pick up air cargo throughout the country. Reputation for speed and efficiency. Asks for advance payment of 80% of estimated costs. Fees: Below average.

International Freight and Travel Company. Established 80 years ago, formerly foreign-owned, now nationalised since independence. Manager of Omega-City Main Office: Mr. Ton. Three other branches in the country. Main office is very large, traditionally equipped. Staff: 120 people. Handles ocean and airfreight, also operates travel agency, a trucking and a bus company. Main customers: Large and well-established business firms, manufacturers, plantations, export traders, state-owned industry. Has two telexes and four telephone lines. Place looks very busy, people running all over the place. Worldwide connections. Fees: Above average.

Assignment :

Study the facts about the above three forwarders and advise Mr. Kim on which one to choose. Why?

topic

7

international trade and governments

Session 7.1 Getting Help from Your Government

Session 7.2 Barriers to International Trade

SESSION 7.1

GETTING HELP FROM YOUR GOVERNMENT

Note: If the venue of the training course is not too remote from the location of the National Trade Promotion Centre, this session could be conducted there. If this is not possible, one or several officials from the agency should be invited to attend the session.

Objective: To enable trainees to take advantage of the services provided by their country's official export promotion structure.

Time: 2 hours.

Material: Information brochures published by the national Trade Promotion Office.

Session Guide:

- 1) Inform trainees that they will be introduced by officials of their national Export Promotion Agency to their country's official export promotion structure.

Point out that the officials may give only a general explanation of the structure, working methods and services of the national centre, but that trainees may ask as many questions as they like.

- 2) Proceed to the National Trade Promotion Centre (or welcome the officials to the training course). Introduce the speakers and give them the floor.

In the course of an hour officials should cover the following subjects (ask them beforehand to restrict their examples to co-operative products):

- National export policy.
- National export performance.
- National export promotion measures.
- Export incentive schemes.
- Purpose, organisation and function of the national export promotion agency.
- Main services rendered:

Advisory services

Training

Trade information and documentation

Market analysis and development

Overseas services

Other services available

- 3) After a short break, a panel discussion should be arranged. Resource persons, seated together, will reply to questions from trainees. Allow up to one hour for the open forum.
- 4) After the panel discussion, ask trainees to write, individually or in pairs, a brief on their findings and conclusions in the form of a 1-page report to their co-operative. In it they should make suggestions as to how their co-operative can benefit from the available official resources and services. This report will be used again later in the course, during the last session, "Action Learning and Commitment".

Trainees may complete this report on their own time.

SESSION 7.2

BARRIERS TO INTERNATIONAL TRADE

Objective : To enable trainees (i) to explain the functioning of trade barriers, (ii) to comply with custom tariffs, custom duties, rules and regulations, (iii) to take advantage of preferential treatment benefits whenever possible.

Time : 2 hours.

Material : Case-study - "Ruby Department Stores".

Session Guide :

1) Question: Why is it important for an exporter to know something about trade barriers?

- Knowledge of trade barriers is like having the code to a combination lock. Just as without the code, the lock cannot be opened, without this knowledge, trade barriers cannot be overcome.

In a general sense, a trade barrier is everything which makes international trade difficult and obstructs the free flow of trade. There are a number of natural barriers, such as great distances, oceans, mountains, rivers, deserts, foreign languages and foreign currencies, which for centuries have hampered the free flow of goods.

Most of them have been overcome by technological progress, by new means of transport and communication, by international arrangements and negotiations.

Other barriers to international trade are manmade. Some of the barriers may be constructed by the exporter's own government, some of them by the government of the importing country.

2) Question: What type of trade barriers may be constructed by the exporter's own country?

- Goods to be exported may be subjected to the same inland taxes as goods sold on the domestic market; as a result, they become so expensive on foreign markets that nobody wants to buy them.
- The export of some goods may be restricted for economic or social reasons - for example, in order to maintain low price levels on the domestic market.
- The export of specific goods to specific markets may be restricted for political reasons.
- For reasons of foreign exchange control, the exporting country's government may impose such stringent payment conditions (payment with order, letter of credit, etc.) that it becomes difficult to compete with traders from other countries.
- Export procedures may involve so much red tape, bureaucracy, paperwork, "invisible payment" (tea money) that the exporter loses all motivation to pursue his efforts.

Question: Which of these "home" barriers do the trainees currently experience and how might they be overcome?

3) Question: What types of trade barriers may be encountered in foreign markets?

Among all replies received, there will probably be barriers of two kinds.

So-called tariff barriers and non-tariff barriers.

4) Question: Why would a government erect tariff barriers against imports?

There are several reasons:

- to increase government revenue (raise money, etc.);

- to control or reduce the outflow of foreign exchange;
- to protect domestic production against foreign competition.

Industrialised countries rarely use import duties to raise money, as there are many other and easier means to produce the necessary government revenue. But for many developing countries the taxes levied by the governments on imported goods are still the easiest way in which they can raise money, since imports are easy to supervise and control.

The two other aims:

- foreign exchange control, and
- protection of home industry

can be achieved by tariff and non-tariff barriers.

5) Question: What kinds of tariff barriers are there:

- Tariff systems provide either a single rate of duty for each item, applicable to all countries, or two or more rates, applicable to different groups of countries. The tariffs are usually classified as follows:

Single column tariff - this consists of one schedule of duties in which each rate applies equally to imports from all countries.

General or conventional tariff - the conventional rates (those agreed by convention) apply to countries enjoying MOST FAVOURED NATION (MFN) treatment, while the general rates are applicable in all other cases. The general duties are applied to items on which no reductions have been negotiated.

Preferential tariffs - reduced tariff rates (or in many cases zero duties) are applied by a given country to imports from one or several other countries because of a special relationship between them. For example, this includes the British Commonwealth preferences, preferences created between the parties to

customs unions and free-trade areas, the Association of South-East Asian Nations (ASEAN) and a system of preferential duties such as the Generalised System of Preferences (GSP).

Different countries have different types of duties. In general, the method by which the amount is determined varies from country to country and also from product to product.

There are, for example:

Specific duties: These duties are expressed as a specific amount of currency per unit of weight, volume, length, number or other units measurement.

Show the example on the chalkboard and let trainees calculate duty.

Alpha-Country tariff: \$10 per metric ton.

10 tons of polliwocks at \$100 each	=	\$ 1,000
Duty: 10 x \$10	=	\$ 100
Total	=	\$ 1,100

Ad valorem duties: These are expressed as a percentage of the value of the goods. The definition of the customs value varies from country to country. In those countries adhering to the Brussels Convention on Customs Valuation, the customs value is the landed c.i.f. cost at the port of entry.

Show the example on the chalkboard and let trainees calculate duty.

Beta-Country tariff: 10% ad valorem.

10 tons of Polliwocks at \$100 each	=	\$ 1,000
Duty 10% on \$1,000	=	\$ 100
Total	=	\$ 1,100

Alternative duties: In this case, both an ad valorem and a specific duty are set out in the customs tariff for a given product. Whichever is higher is usually applied.

Show the example on the chalkboard and let trainees calculate duty.

Gamma-Country tariff: \$8 per metric ton or 12% ad valorem.

10 tons of Polliwocks at \$100 each	=	\$ 1,000
Duty 12% ad valorem	=	\$ <u>120</u>
Total	=	\$ 1,120

10 tons of polliwocks at \$100 each	=	\$ 1,000
Specific duty 10 x \$8	=	\$ <u>80</u>
Total	=	\$ 1,080

As the ad valorem duty is higher than the specific duty in this particular case, the ad valorem duty would be applied.

In case, however, of a lower unit price of the product, the situation could change.

Let participants calculate duty on the same tariff rates, but for a unit price of \$50 per ton.

10 tons of polliwocks at \$50 each	=	\$ 500
Duty 12% ad valorem	=	\$ <u>60</u>
Total	=	\$ 560

10 tons of polliwocks at \$50 each	=	\$ 500
Specific duty of \$8 x 10	=	\$ <u>80</u>
	=	\$ 580

In this case, specific duty would be applied, whereas ad valorem duty was applied in the previous case.

Question: What is the purpose of such an alternative duty?

It counteracts the avoidance of customs duty by price manipulations and always provides a minimum income for the customs administration.

Compound or mixed duties: These provide for a specific rate plus an ad valorem rate to be levied on the same article.

Show the example on the chalkboard and let trainees calculate duty.

Delta-Country tariff \$5 per metric ton plus 6% ad valorem.

10 tons of Polliwocks at \$100 each	=	\$ 1,000
Specific duty 10 x \$5	=	\$ 50
+ ad valorem duty 6% on \$1,000	=	\$ <u>60</u>
Total	=	\$ 1,110

Seasonal duties : These are duties levied at higher rates during certain periods of the year.

Anti-dumping duties and countervailing duties : Such duties levied by the importing country take the form of special additional import charges designed to cover the difference between the export price and the "normal" price, which usually refers to the price paid by the customers in the exporting country. They are frequently levied when the government or a para-governmental body in the exporting country has paid a bonus or a subsidy for the production or export of the goods.

Show the example on the chalkboard and let trainees calculate duty.

Exporting country's normal inland price	\$	100.-/ton
Exporting country's government's subsidy 20%	\$	20.-/ton
Subsidised export price of Polliwocks	\$	80.-/ton
Zeta-Country tariff: Specific duty \$10.- per metric ton		
Anti-dumping duty \$20.- per ton		

10 tons of Polliwocks - 10 x \$80	=	\$ 800
Specific duty - 10 x \$10	=	\$ 100
Anti-dumping duty - 10 x \$20	=	\$ <u>200</u>
Total	=	\$ 1,100

- 6) Custom duties of a special kind are the variable agricultural levies imposed by the European Community and Sweden. They are collected instead of duties and, for certain products, in addition to duties. The idea is that the price differences between the EC price level and the lower international market price are equalised by these agricultural levies. If international market prices are above EC prices, import levies are not imposed. Thus levy rates

change sometimes every week or even every day. The rates refer to specific standards, in general to 1,000 kg of net weight.

The levy liability is assessed on the basis of the levy rate on the day of import, i.e. the day on which an application of clearance for domestic use or special levy procedure is filed. For that reason levy rates cannot be known or calculated in advance. Products like tapioca pellets, maize, rice, millet, flours and meal of sago and manioc, sugar cane etc. may be subject to these levies.

Some countries also impose excise duties on imports of certain products containing goods liable to excise duty, such as, for example, canned fruit or fruit juice with added sugar.

In addition to duties, imported goods also have to pay the same local taxes (turnover tax, business tax, value-added tax) as locally produced goods. Import Turnover Tax (ITT) is usually calculated on landed value + duty.

Ensure that trainees thoroughly understand that the import turnover tax is not an additional duty levied on imports, but rather a substitute for the locally applied value-added tax.

After the above lecture, discuss with trainees the impact of customs duties on prices.

- 7) Divide trainees into groups of three persons and distribute the case-study "Ruby's department stores". Allow up to 20 minutes to analyse and solve the case.

- 8) Reconvene in plenary and ask groups to whom they gave the order. Some may have favoured the co-operative because the price is about 3% cheaper than the one from the local producer. (Calculation is shown in paragraph 13 below).

Lead the discussion to the following points:

Does this small price advantage counterbalance:

- the risk of doing business with an unknown partner?
- the lack of a well-known brand?
- the great distance involved, which may cause delivery delays etc.?

Question: How much cheaper should the co-operative quote to gain a chance to do business with Ruby's department stores?

Experience proves that this difference is usually around 15% to 20%.

- 9) Question: Who has already heard about "non-tariff barriers"? What are they?

Most, if not all of the trainees, will have heard about non-tariff barriers, as this is presently a very popular topic in developing countries.

The term refers to all measures, regulations and formalities restricting the supply of imported goods by other than price-influencing means.

Best known among them are health, sanitary and safety regulations.

These are devised for the protection of human, animal and plant life in general, for consumer protection and for the protection of the environment.

Explain that such regulations usually do not discriminate against products of foreign origin only but are applied towards home produced products as well.

Other non-tariff barriers are quota systems, i.e. quantitative restrictions (allowing only a restricted amount of a given foreign product into the home market); foreign exchange restrictions (hence the need for import licences) and consular formalities (red tape).

Finally, another hindrance to free international trade is created by various forms of government trading, such as government pro-

curement and state trading which can usually be found in centrally planned economies.

The exporter will have to obtain information beforehand about the existence of such barriers in his target markets, and must then ensure that the prescribed procedures, formalities etc. are adhered to.

- 10) Question: How can their own governments help facilitate international trade and get other countries to lower or remove their trade barriers?

Trainees will probably mention trade agreements and trade negotiations. Some trade agreements are bilateral, i.e. between two countries only.

Other trade agreements involve trading groups of countries, such as ASEAN, or the countries of the Bangkok Agreement, where some reciprocal tariff reductions have already taken place.

- 11) Another type of trade agreement is the multi-lateral agreement negotiated under the auspices of international organisations, mainly the General Agreement on Tariffs and Trade (GATT) and the United Nations Conference on Trade and Development (UNCTAD). For example, both the so-called Kennedy Round and the Tokyo Round were negotiated by GATT.

A very important agreement negotiated under the auspices of UNCTAD is the Generalised System of Preferences (GSP). It calls for preferential tariff treatment for exports of manufactured and semi-manufactured goods from developing countries to developed countries. Its aim is to enhance the economic growth of developing countries by removing or reducing the effect on them of the tariff barriers of the industrialised countries.

Unfortunately, there is not only one GSP, but several. Due to the economic differences and varying tariff systems of all preference-giving countries, each country has devised its own scheme, with more or less liberality. The countries of the European Community

as a whole have adopted the same scheme, as they have also harmonised their own customs tariffs.

- 12) Question: Do the trainees know the CCCN (Common Customs Council Nomenclature) number of the products they export?

Unless trainees have already exported, they will probably not be aware of this number. But they will have to know it to find in most custom tariffs the import duty that is applied to their product.

Stress that it is important for a co-operative doing export business to check the present status of preferential treatment for each of their products in every country, as the rules and procedures change almost every year and it is quite impossible to keep constantly informed about all of them.

Question: Could the removal of substantial reduction of an import duty bring them an advantage in foreign markets?

This is undeniable. In the case of Ruby's department stores, had customs duty been zero, the buyer would certainly have bought the mushrooms from the foreign co-operative.

- 13) Write on the chalkboard the three following calculations:

<u>Local Producer</u>	<u>Foreign Producer</u>	<u>GSP Beneficiary</u>
	19.80	19.80
	+20% <u>3.96</u>	+ 0% <u>0.00</u>
24.50	23.76	19.80
+10% <u>2.45</u>	+10% <u>2.38</u>	+10% <u>1.98</u>
26.95	26.14	21.78

Question: Is it now clear how GSP helps a beneficiary country? GSP gives all developing countries a relative price advantage over countries which do not have the benefit of GSP.

Ruby's Department Stores

The buyer for the food department of Ruby's department stores has to decide whether to buy 5,000 cans of locally produced canned mushrooms or to buy the same product from abroad.

Tests have shown that both products are similar in quality. The local producer is a well-known canning factory, at 300 km from Ruby's central warehouse, selling under the brand "Crown Conserves".

The foreign exporter is a co-operative-owned canning factory in a developing country with which Ruby's is not familiar, 5,000 km away. No brand.

Local value-added tax (VAT) is 10% on ex-factory price.

Customs duty on imported canned mushrooms is 20% ad valorem (c.i.f. price).

Import Turnover Tax (ITT) is 10% on landed price (c.i.f. + duty).

Price quotations by the two competitors, per box of 24 cans:

- Local producer (Crown brand): \$24.50 ex-factory, VAT not included;
- Foreign producer: \$19.80 c.i.f.

Assignment :

- a) Calculate the price which Ruby's department stores would actually have to pay for both products.
- b) To whom should the buyer send his order? Give all the reasons behind your decision.

topic

8

trade fairs

Session 8.1 Selecting the Right Trade Fair

Session 8.2 Efficient Participation in Trade Fairs

SESSION 8.1

SELECTING THE RIGHT TRADE FAIR

Objective: To enable trainees to decide whether their co-operatives should use trade fairs to promote their export trade and if so, to select the appropriate fair.

Time: 1 hour.

Material: Handouts 1A - 1D - "Trade Fair Information".

Session Guide:

- 1) Tell trainees to assume the following situation:

The management committee of an agricultural co-operative has decided to exhibit products at an overseas trade fair. Trainees must decide whether participation in the fair is worth while or not.

Ask trainees individually to list a minimum number of basic questions which could be asked in an effort to gauge the usefulness of fair participation. Allow up to 30 minutes for this.

- 2) Ask the trainee with the fewest questions to read them out. Summarise them on the OHP or chalkboard. Ask other trainees to comment on or improve the list.

Make sure that the list includes following four essential questions:

- (i) With which product does the co-operative want to participate in the trade fair?

Bring out following points during a discussion:

- The nature of a product will to a great extent determine whether it is suitable for a trade fair or not.

Examples:

- Primary commodities (e.g. onions, potatoes) which are usually marketed in bulk benefit very little from trade fairs.
- Neither do commodities which are bought and distributed by a handful of buyers or firms. Direct correspondence and sales calls will be more effective with such products.
- Consumer products which are not yet familiar to overseas consumers, such as tropical fruit juices (e.g. mango nectar), can benefit from the exposure they receive at fairs.

(ii) What is the objective of trade fair participation (i.e. what does the co-operative hope to achieve as a result of participating in the fair)?

Bring out the following points during a discussion:

- Participation in a trade fair must fit into an overall marketing plan for a product. Does the co-operative participate in the fair because it wants to make its product(s) known to overseas consumers, or is the fair used as a market test, or does the co-operative want to establish trade contacts with retailers or importers, or wholesalers? Or is participation decided upon merely for prestige, or to give some people an opportunity to travel abroad.

(iii) Which trade fair does the co-operative participate in?

Emphasise the following:

- The business of staging trade fairs has become highly competitive and the number of fairs has increased greatly. To select the fair that best suits the products and the products' marketing plan is essential.

- To be able to select the most appropriate fair, it is necessary to evaluate the available fairs. A lot of information can be obtained from the authority promoting or organising the fair. (Distribute Handouts IA - 1D to illustrate the type of information which should be obtained).
- Distinguish between Consumer or Exhibition Fairs, which are open to everybody and normally attract a large number of general consumers, and Specialised Trade Fairs, where only business visitors are admitted.
- A good way to help one decide about a particular trade fair is to go to the fair as a visitor, study the stands, talk with the exhibitors and the other visitors.

(iv) Isn't it expensive to take part in a trade fair? Aren't there any cheaper ways to reach the same objective?

Elicit the following observations:

- Participation in trade fairs is very costly. Most costs are in foreign exchange, which may be scarce.
- Be careful not to underestimate the costs of participating in a trade fair: include transport cost, travelling costs, staff costs, insurances, trade fair participation fees, costs of erecting and equipping a stand, cost of promotional material, samples etc.
- Often national trade promotion authorities are prepared to share costs in overseas trade fair participation.
- Alternatives to trade fair participation include: solo exhibition, store promotion, advertising, direct mail contacts, sales trips.

3) Remind trainees of their action commitment. Some trainees may wish to select a suitable trade fair or exhibition for their society's products and initiate steps for successful participation, possibly in collaboration with the national export promotion organisation.

- 4) Ask trainees whether the selection of the right trade fair for the right product will guarantee the success of a co-operative's participation in the trade fair.

Not in itself. The participation must be organised efficiently. Many things can go wrong and it requires a good organiser and manager to make sure nothing does. This subject will be taken up in the next session.

Handout 1A

NEW WORLD INTERNATIONAL FAIR - In __ A 112,000 square meters.

Frequency and duration: Annual, 10 days in September.

Exhibitors: 3,000 of which 1,200 foreign, of which 400 from D.C.s

Visitors: 800,000, of which 80% nationals and 20% from 14 foreign countries. Fair organisers state that audience includes "many trade buyers, businessmen and prospective partners".

Organisation: National Stands exhibiting a variety of products are grouped in the International Pavilion, which is a separate exhibition hall. The rest of the fair is broken up into six branches.

Sections: Food and beverages, furniture, household appliances, clothing and fashion, sport and leisure articles, giftwares and handicrafts.

Handout 1B

INTERNATIONAL FOOD FAIR - In__ B 20,000 square meters.

Frequency and duration: Biennial, 6 days in October.

Exhibitors: 1,200, including about 300 stands of foreign individual companies or groups of interest. Exhibitors are mainly producers, importers or wholesalers.

Visitors: 120,000 of which 60% are in the food trade, including retailers wholesalers, importers, buyers, manufacturers. About 10% of the visitors come from abroad.

Organisation: No international section. Organised mainly by type of products. Sections include food, catering lines, fine specialities, fresh products, groceries, beverages, and food processing and packaging equipment.

Handout 1C

INTERNATIONAL GIFT FAIR - In __ 22,000_ square meters.

Frequency and duration: Semi-annual, 5 days in May and November.

Exhibitors: 1,200, of which about half are foreign firms. Exhibitors are manufacturers, agents, importers and wholesalers of giftware and decorative accessories for the home. Includes products both mass produced and handicrafts.

Audience: 30,000 mainly retail buyers, wholesalers and importers. Fair closed to the public. About 10,000 foreign visitors.

Organisation: Principally by materials, but there are also national stands for foreign exhibitors and sections for broad lines of products for certain usages.

Handout 1D

INTERNATIONAL GREEN WEEK - In __ D 50,000 square meters.

Frequency and duration: Annual, 10 days in April.

Exhibitors: 700 exhibitors, of which about 30% are from foreign countries. Exhibitors are manufacturers, producers, wholesalers, importers, co-operatives and agricultural organisations. Products include agricultural and horticultural produce, equipment and machinery.

Audience: 500,000 visitors, of which 20% are foreigners, mostly from the agricultural sector.

Organisation: First three days closed to the public, reserved for professional visitors. Separate sections for produce, materials, machinery and equipment. 20,000 sq.m. under roof, 30,000 sq.m. open air.

SESSION 8.2

EFFICIENT PARTICIPATION IN TRADE FAIRS

Objective: To enable participants to participate efficiently in international trade fairs.

Time: 2 hours.

Material: Exercise - "Letter to Tom".

Session Guide:

- 1) Remind participants about two of the prerequisites for participation in a trade fair:
 - A particular purpose (objective) must guide marketing efforts and participation in the trade fair.
 - They must select the right trade fair.

Explain that this session will deal with yet another prerequisite for success, the necessity for proper planning and preparations.

- 2) Distribute the exercise "Letter to Tom" to the trainees. Ask trainees to read it in groups and to list in the margin all the problems which arose during the trade fair described. Allow up to 30 minutes for this.
- 3) Reconvene in plenary and ask one of the spokesmen to list the identified problems on the blackboard/ flipchart. Ask the others to mention any others they can think of. A possible list will look as follows:

List of Problems

(The words between brackets relate to paragraph 6 below)

- Last-minute decisions. (Planning)
- Insufficient time for proper preparations. (Planning)

- Stand understaffed. (Staffing)
- Qualifications of staff inadequate. (Staffing)
- Absence of plan and budget. (Planning)
- Allocated stand area too large. (Stand)
- Inappropriate stand material. (Stand)
- Stand material not cleared through customs. (Stand and Customs)
- Demurrage to be paid. (Transportation)
- Material not fire-proof. (Stand)
- Ignorance of fair regulations. (Planning)
- Erected stand too prestigious and probably too expensive. (Stand)
- Stand not finished in time. (Planning)
- Quantity of exhibits insufficient. (Planning)
- Bags of spices torn, allowing spoilage. (Transportation)
- Bad layout of stand. (Stand)
- Goods exhibited out of visitors' reach. (Stand)
- Cans dented, blown and rusty. (Planning)
- Pictures decorating stand not related to products. (Promotion)
- Sales literature obsolete, not in the language of target market, insufficient quantity, distribution not controlled. (Promotion).
- Stand not attended at all times (personnel arrive too late, go for lunch, fail to report for work). (Staffing)
- Stand not attracting visitors. (Promotion)
- Inappropriate staff behaviour. (Staffing)
- Staff unable to give information requested by visitors. (Staffing)
- Prices c.i.f. and f.o.b. not calculated. (Planning)
- Technical information (product specification) not available. (Promotion)
- No free give-away samples available. (Promotion)
- No promotional material available. (Promotion)
- Joe made no attempt to sell to friendly manager of consumer co-operative. (Promotion)
- Sales of fruit juice samples may be illegal. (Planning)
- No refrigerator to provide cool juice. (Planning)
- Taste of product perceived by visitors as unpleasant.

- Visitors' record begun only on the second day. (Promotion)
 - No orderly and secure record-keeping. (Promotion)
 - Run out of business cards on second day. (Promotion)
 - Wrong (obsolete) address in fair catalogue. (Promotion)
 - Loss of visitors' address through negligence. (Follow-up)
 - Problem with customs authorities. (Planning)
 - Consumption of goods under "Temporary Admission". (Customs)
 - Follow-up, apparently never planned, becomes impossible due to loss of visitors addresses. (Follow-up)
 - Experienced personnel will not attend next trade fair. (Follow-up)
- 5) Ask trainees whether they know of other problems that have already arisen in trade fairs or problems that may arise in future. Examples: Sudden illness of staff; lack of cash available to pay for sundries; goods lost during shipment; exhibited goods not available for delivery (limited supply). Add cited problems to above list on chalkboard/OHP.

Question: Is it possible to avoid all these problems? How?

Explain that participation in trade fairs requires thorough organisation and timely preparation. Certain things must be done long before the fair starts, while others must be done shortly before the fair and during it. Afterwards, the results must be assessed and follow-up action taken. (Why?)

Explain that exporters from a developing country are usually grouped together in one stand and assisted by that country's National Trade Promotion Centre. However, such an umbrella stand should be conceived as a convenient way to showcase different enterprises exhibiting their products and not as a national stand displaying samples without reference to suppliers.

The active collaboration of the co-operatives' personnel is therefore necessary.

Remind participants of what they have learned about this subject while visiting their National Trade Promotion Organisation.

6) Demonstrate that all the problems in the case-study can be brought under a number of headings, such as:

- Planning and budgeting.
- Stand arrangements.
- Transportation and customs clearing.
- Staffing of stand.
- Sales promotion and selling.
- Evaluation and follow-up.

Divide participants into three groups. Each group should concentrate on two of the above headings only and prepare a check-list of all points to be considered before, during and after the trade fair. Stress that topics be listed in chronological order. Check-lists should be made in such a way that they can be easily used by a co-operative society when planning and organising participation in a trade fair.

7) Reconvene in plenary and go through the list produced by the groups. Nearly exhaustive check lists for each heading may look as follows:

Planning and budgeting

- Clearly define the marketing objective for the society's product(s).
- Select the right trade fair in the target market.
- Clearly define the objective of participating in the trade fair.
- Obtain the conditions for participation and the application forms in good time (deadlines run from three to seven months before starting date).
- Select products to be exhibited, making sure products actually are and will continue to be available for exports; decide on packing method.

- Estimate stand area necessary for effective exhibition.
- Estimate staff size needed.
- Submit application prior to deadline. Give full details on space requirements and goods to be displayed.
- Work out trade fair budget.

At this point, it may become necessary to explain to trainees that a budget should include the following items:

- Stand rental and construction.
- Stand decoration, equipment, maintenance, power, etc.
- Stand cleaning and security measures.
- Transportation, packing, insurance and customs clearance of exhibits and stand material.
- Sales literature, leaflets, advertisements, promotional material, free samples.
- Travel expenses, accommodation, allowance for staff.
- Provisions for visitors, press conferences, etc.
- Sundries, contingencies.

Make sure that required resources are available.

Stand arrangements

- Study details such as assembly and removal schedules; official regulations concerning materials admitted for use; prescribed height and layout of stands; installation of power, water, gas and telephone facilities.
- Find out whether stands are provided by the fair's management, by promotion centres, or whether it is up to the exhibitor to make his own arrangements.
- Design layout of stand to give prominence to exhibited goods. Abstain from lavish prestige stands.

- Provide sufficient space for staff; a locked room for advertising material and business papers; refreshments.
- Include a conference cubicle with enough seats, and a hat and coat stand.
- If necessary, make provisions for special equipment such as a refrigerator, a typewriter, etc. which may be rented from the trade fair company.

Transportation and customs clearing

Before going into detail, explain to trainees that special freight forwarders under contract with exhibition companies can be of great help. Usually, upon written request, they will take care of deliveries to the stand, of the supply and removal of empties, and of the return of the goods. All goods (exhibits as well as materials for the stand) must be shipped and delivered in time so that all work on the stand is completed before opening. Allowance should be made for unexpected delays. Customs formalities should also be entrusted to forwarding agents. They receive a pro forma invoice in triplicate as advance notice. The exhibitors themselves arrange for temporary admission of the goods for the duration of the fair. A temporarily admitted consignment may not be sold or given away without prior notification of the forwarding agent or customs authorities. Always contact forwarding agent before shipment, as regulations may change on short notice.

Tell trainees that they will learn more about freight forwarders later on in the training course.

Sub-topics under this heading can therefore be restricted to the following:

- Obtain the name and address of a special forwarding agent under contract with the fair and exhibition company. Obtain from him all details on transportation, including schedules.
- Pack exhibits and material carefully.

- Ship exhibits and material in good time. This may save costs (sea transport instead of air freight).

Staffing of stand

- Choose the right people. The qualification required for stand personnel may be described as follows:
 - Experienced in export and commercial matters.
 - Fully familiar with technical details of products.
 - Informed about business customs of target market.
 - Conversant in the language of target market.
 - Informed about prices, custom duties, delivery capacities, delays, etc.
- Make sure that enough people are appointed to ensure a sufficient number of staff at the stand at all times.
- Appoint a stand chief responsible for the organisation and supervision of the team.
- Anticipate the last-minute defection of some team members.
- Train and instruct staff in specific tasks if necessary.
- On the opening day, have all staff at the stand before opening time of the fair.
- Draw up a timetable to make sure all staffers know when they are to be on duty.
- Make sure everyone is familiar with the procedures to be followed.
- Hold daily situation reviews to exchange experiences gained.
- If you already have an agent or distributor in the target market, have him attend your stand as often as possible.
- Always station one person in front of the stand to answer questions and discourage people who may want to steal small objects.
- See to it that staff who have performed well at a trade fair be appointed to other fairs in order to use the experience they have gained.

Sales promotion and selling

- Make sure that correct information (address, product classification) appears in the fair catalogue.
- Prepare sales literature, information material and price list well in advance and in sufficient quantities.
- Make sure that the translation into the language of the target markets is correct and that proper weights, measure and currency units are being used.
- Reserve advertising space in the fair catalogue and in trade journals.
- Send out invitations to those visitors you want to see at your stand.
- Make every effort to meet the wishes and answer the inquiries of customers, visitors and journalists.
- On opening day, have a photograph taken of your stand with all the staff for later use.
- Keep a register of names and ensure that all records are safeguarded and later taken back home.
- Hand out small, inexpensive leaflets to the general public but reserve catalogues and price lists for the interested business visitor.
- Make an effort to sell your product to interested visitors.

Evaluation and follow-up

- On closing day, see that all exhibits and materials are thoroughly packed and shipped back (or are disposed of in accordance with rules and regulations).
- Make sure that all bills are paid before leaving and that all deposits are collected after returning any material on loan. No matters should be left pending.
- Hold a closing meeting with staff for an on-the-spot evaluation of trade fair.

- If valuable contacts have been made during the fair, it may be profitable to spend a week or more calling on them.
 - If an agent was signed up, some time may be spent training him.
 - Upon return to the home country, send quotations to promising contacts. Supply any further details or sales literature that was requested.
- 8) Trainees will have included from 60 to 80 % of the above check list in their own list. Encourage the trainees to fill in the rest by posing leading questions, such as:

"What might happen if (the staff members are left to their own devices)?"

or

"In the case-study it was described how (a school class robbed the stand of all the sales literature). How can we avoid this?"

Make sure that all trainees agree to the importance of an item before including it in the check list.

Remind trainees of the "Letter to Tom". Question: Would a check list like this have helped to prevent all or most of the problems they found in it?

- 9) Summarise as follows:

Stress that the first decision to be made is whether to use trade fairs to promote sales on target markets abroad. This will be a question of the products to be sold and the channels aimed at; another factor is the availability of resources or outside (i.e. governmental) assistance.

The next step is the selecting of the right fair. The basic choice is whether to attend "general consumer exhibitions" or "specialised trade fairs".

Once the right fair is chosen, the whole matter becomes one of efficient organisation and participation.

The check-lists produced during this session should help trainees make a success of their co-operatives' participation in any trade fair if the latter was correctly chosen.

Exercise: "Letter to Tom"

Assignment: Read this letter carefully. In the margin, briefly identify all the problems which have arisen.

Dear Tom,

You asked me to let you know how we made out at the trade fair. Well, I must say, it was just great. As you know, this was the very first time we've been to a trade fair abroad, so of course we had some problems, but we had a great time over there and it was certainly worthwhile. People were very interested in our fruits and spices. However, many of our products were completely unknown to them and we had a hard time explaining how they were grown and harvested.

But let me tell you how things worked out day-by-day. It took our people quite some time to decide whether or not to go and which products to take along. In the end everything was rather hastily decided. Besides myself, there was Joe, our marketing man, and the nephew of an official. (You may know him: his name is Ben, he has studied history in the US.) At the airport, we were taken care of by a man from our embassy, who showed us to the hotel.

When we arrived at the fair grounds the next morning - we still had one day to go until the opening - we found out that they had given us an area of 50 square meters for our national stand. We were quite surprised, as we had shipped material to build a stand of only 4 m x 8 m. Joe went off to the fair management to find out about our stand and there he learned that the material had already arrived ten days ago but could not be cleared through customs as the shipping documents were not in order. Besides, some demurrage had accumulated

more than \$150 by the time he checked about the stuff. But the fair management said that we couldn't use the material anyway, as it was not fireproof. Luckily, Joe met a representative of a firm which was building stands for other exhibitors. Joe made a deal with him for a real attention-getting stand with a plastic front and shelves and glass cabinets to put our products in; the name of our co-operative ran along the whole front of the stand, in big gold letters. The next day when the fair opened and all the big shots went around for the inauguration, along with the press and the photographers and some minister or other, the workers were still hammering and painting, but what really mattered was that the stand was ready by the time they opened the doors to the public. The constructor had really done a good job, although it didn't come cheap. Now the stand looked great, if a bit empty. Many of our small sample bags of spices had been torn during the shipping and unpacking. So we were rather lucky to have the glass cabinets, which put the goods out of reach of the visitors. The same was true for the canned fruits and juices. I just cannot understand how some of those cans got dented, blown or rusty. Some even had their labels ripped off.

Fortunately, we had brought photographs showing our office and workers in the fields as well as some of the large posters put out by the Office for Tourism. These we glued to the walls of our stand, where they looked quite good and attracted a lot of attention. We also had a package of our old brochures, the ones we printed for the agricultural exhibition last year. Although they were not translated, they disappeared like hot cakes because of the nice colour pictures. What a pity that a whole school class went by and picked up the last copies.

When we arrived at our stand on the second day, people were already walking around all over the fair grounds. Many people came over to the stand next to ours, which showed handicrafts, to watch the two craftsmen at work, one on a handloom, and the other hammering away at a piece of brassware.

As nobody was looking at our stand, we went around a bit to look at other stands. In one stand they were showing a film about tea, how it is picked, and the blending, packing and so on. It was quite interesting and we spent at least an hour there. When we finally got back to our stand we felt rather tired. At that moment a man came over and said "Hey, you're late, I've been looking for you all morning." Not very polite. He must have seen from our faces that we did not like the way he was talking to us, but gave us his card and said he wanted to buy spices. He was from a spice mill supplying butchers' shops and delicatessens. And then he started to ask us a lot of questions as to the oil content of this and that, and the age of certain spices, and finally he wanted to know the c.i.f prices. It was fun talking to him, even though Ben had to use his dictionary the whole time. We could not - tell him our c.i.f prices (whatever they are) but Joe calculated an f.o.b. price by adding ten percent onto the price we used last year with the wholesalers at home. That man also insisted on having some samples, but we told him to come back on the last day of the fair just before we were packing, and we would then give him some samples for free.

In the middle of our discussion, some other people came by, but when they saw we were busy, they walked away saying they would be back. But none of them showed up again, although we stayed at the stand until closing.

On the third day we started to have problems. First of all, Ben didn't come to work. He said that he didn't feel well after the local food he'd had the day before and that he wanted to do some shopping in town anyway. Then a man came by who turned out to be the manager of the local consumer co-operative. He knew a lot about our country and our co-operative movement. While we were chatting some more people turned up and wanted to taste our fruit juices. One of us borrowed some glasses from a restaurant and we sold quite a lot of juices. Many people said the taste was rather strange, and most complained that the juice was too sweet and not cold enough. Well, that's what mango juice tastes like. We started to take the names of all the people who asked about our prices and wanted further information. Five of them seemed really interested in some of the canned fruits and one of them even advised us on how we should change the labels. Unfortunately, we had no more brochures and not even enough business cards. So we told them that our address was in the fair catalogue, but that turned out to be a mistake, as the address given in the catalogue was the one for our former office. So we gave them our address, on a piece of paper.

Well, that day we found that it is easier to work at a stand when there are enough staffers to take care of the visitors. We were even asked how to prepare the canned vegetables by people who had never heard of them before. We told them that next year we would bring some recipes with us.

When we got to our stand on the morning of the last day, we had a rather nasty surprise. As soon as we wanted to put down the name of the first visitor we realised the list was missing. Joe remembered very clearly having left all the papers on a table, but the

cleaning people must have thrown all the old papers away. Fortunately, some of the visitors came back just before closing to get the samples we had promised them, so that we at least had their names and addresses! And that was a good thing, because when we were about to go home, a man from the customs office came around and wanted to be paid for customs duty and turn-over-tax for all the goods we did not re-export. He said that they had come in only on temporary admission and were not cleared for consumption. We gave him the list of names and address of the people who got the samples and he'll go after them now, I guess.

Of course, we have learned a lot at this fair and will avoid most of our mistakes next time. Well, actually next time other people from our co-operative will go to this fair, as everybody wants to go abroad at least once. And if you ask me, the going-abroad part is great, but running a trade fair display is a rather trying experience. And I really wonder whether it pays to go to such fair?

With warm regards,

Bill

topic

9

marketing research

Session 9.1 Export Markets:
What Should You Know?

Session 9.2 How Can You Find Out?

SESSION 9.1

EXPORT MARKETS: WHAT SHOULD YOU KNOW

Objective : To enable trainees to list the information needed about export markets and to explain why it is needed.

Time : 1 1/2 hours.

Material : Sample list of Information Requirements.

Session Guide :

- 1) Remind trainees that marketing means: to provide the right product, at the right price, in the right place, at the right-period, to the right people ("five P's")', maximizing consumer satisfaction and providing a fair profit for the producer. Explain that the marketing mix is the way in which all marketing ingredients (tools, variables) are mixed (used, altered) to achieve maximum consumer satisfaction at minimum cost.

Remind participants that the course has given them an opportunity to study and discuss all components of the marketing mix. Through case-studies and other exercises, participants have learned that it is necessary to make a number of decisions regarding each marketing mix ingredient. Decisions must be made regarding:

- Product : its function, what it is, its qualities, what it does.
- Packaging : presentation, preservation, protection, portability.
- Marketing channels : the intermediaries through which the product passes to reach the end-user.
- Promotion : publicity, personal selling, advertising, trade fairs; stimulating demand by a variety of techniques (marketing communication).
- Physical distribution : how the product is transported and stored.

- 2) Question: Is it easy to make these decisions if one has a relatively good knowledge of the market, as is often the case with the home market? (Designing the right marketing mix for the home market is not always easy, even if all the necessary information is available).

Elicit in a discussion some factors that make export marketing more difficult than home marketing:

- the distance between the producer and consumers;
 - the buyers' ignorance of the foreign country and its exporters;
 - the producers' ignorance of the foreign buyers and consumers;
 - language barriers;
 - cultural barriers;
 - tariffs.
- 3) Emphasise that certain information is needed to make sound marketing decisions on each ingredient. Ask trainees individually to list all the items of information which they think are necessary to enable somebody to select for a foreign market the right product with the right price, packaging, promotion, distribution channels, transport and storage facilities. Trainees should as much as possible keep their own products in mind when compiling the list. Allow up to 20 minutes for this.

Ask for one information item from every list and continue until nobody has any more ideas. Write all information items on the chalkboard/OHP under the appropriate heading of the marketing mix. To illustrate what is meant by each, distribute the "Sample List of Information Requirements", which provides some examples related to coffee. Question: How might this information aid in making the right marketing decisions?

- 4) Make sure participants understand the usefulness of each information item.

Remind participants of the problems encountered while working on product adaptation, selection of marketing channels and selling.

Emphasise that information must be obtained for various markets (countries) separately, because consumer preferences, purchasing power, rules and regulations, etc. can vary greatly from country to country. This is particularly true of eating habits that affect all food and most agricultural exports.

By comparing the differences between various markets one may find that some markets present better opportunities for selling a given product than others.

Summarise that marketing research should assist an exporter in determining:

- what to sell
- where to sell
- to whom to sell
- how much to sell
- at what price to sell
- how to sell
- when to sell
- general marketing policies

The knowledge obtained through marketing research helps to avoid costly mistakes and therefore should be carried out before starting to export.

Sample List of Information Requirements

MARKETING INGREDIENTS	INFORMATION REQUIRED	A CERTAIN FOREIGN MARKET MIGHT FOR EXAMPLE YIELD THE FOLLOWING FACTS
PRODUCT	<p>Who needs the product?</p> <p>Consumer characteristics to consider:</p> <ul style="list-style-type: none"> - income - consumption habit - taste - groups - product variety preferred - packaging used for same or similar product - consumer preferences as to size, material, shape, colour, handling, storage - cost and feasibility of packaging alternatives 	<p>All income groups drink coffee.</p> <p>Most consumers drink coffee at breakfast. In the evening many will drink coffee without caffeine.</p> <p>Most consumers like a blend of Arabica/Robusta coffee.</p> <p>The average man consumes 20% more coffee than the average woman. Consumption of 30% of all coffee drinkers is classified as "heavy", 70% "light" or moderate".</p> <p>More and more consumers prefer pre-ground coffee. Instant coffee also becoming more popular.</p> <p>Coffee is sold to the ultimate consumer in carton boxes, paper packets, glass jars, vacuum packed, etc.</p> <p>Consumers prefer packages of 250 g. But there is a growing preference for economy size packages of 1 kg. The "gold" colour on coffee-packings is usually associated with high quality coffee.</p> <p>Local packaging firms do not have the equipment for vacuum packaging of coffee. The cost of acquiring it is X-dollars per ton of processed coffee.</p>

MARKETING INGREDIENTS	INFORMATION REQUIRED	A CERTAIN FOREIGN MARKET MIGHT FOR EXAMPLE YIELD THE FOLLOWING FACTS
PROMOTION	<ul style="list-style-type: none"> - consumer values, education, interests - consumer tastes and preferences - possible promotion channels and techniques, their cost and effectiveness 	<p>Consumers are very sensitive to chemical and artificial treatment of foodstuffs. Advertising therefore often emphasises the "natural" blending and roasting processes of "fresh" coffee.</p> <p>Coffee-drinkers are usually very sensitive to the smell of coffee.</p> <p>T.V., radio, magazines, newspapers, advertising boards etc.</p>
MARKETING CHANNELS	<ul style="list-style-type: none"> - consumer shopping habits - existing distribution channels for some or similar products, their effectiveness, margins, customs, purchasers, their purchasing procedures and conditions 	<p>Most consumers buy their coffee as part of their weekly shopping in the local supermarket.</p> <p>X% of the coffee sold in the area is sold through supermarkets. The average margin taken by the supermarkets on coffee is y%. They usually buy from the big blending and roasting companies and pay within 30 days of delivery.</p>
PHYSICAL DISTRIBUTION	<ul style="list-style-type: none"> - existing transport and storage facilities that could be used; their operation, efficiency, cost and conditions. - seasonality in demand or consumption 	<p>Coffee deliveries to overseas blenders are mostly made under c.i.f. conditions.</p> <p>Demand and consumption of coffee is quite steady throughout the year with slight increases in consumption during winter months (Nov. - Feb.).</p>
PRICING	<ul style="list-style-type: none"> - production and marketing costs of the product - competitors' prices for same or similar products - required profit margin 	<p>The average price for 1 kg of coffee on the shelf is \$6.00.</p> <p>We need a 5% profit margin on the business.</p>

SESSION 9.2

HOW CAN YOU FIND OUT

Objective: To enable participants to explain the various types of desk and field research used for collecting different types of data and information about the market and the consumer.

Time: 1 1/2 to 2 hours.

Material: Mini Case-studies 1 to 6 - "Marketing Research"

Session Guide:

- 1) Ask participants to recall some of the information items of the previous session and to indicate how they would proceed to obtain the required information.

Examples

- (a) Income: Statistics on the income distribution of the population are published in great detail by most countries. These and other market statistics are available in all Trade Information Units of the National Trade Promotion Agencies.
- (b) Consumer taste preferences: It may be necessary to have some consumers sample different varieties of the product and to record their preferences.
- (c) Consumption and buying habits: It may be necessary to review a certain number of end-users on their usual buying behaviour.
- (d) Packing, Prices: It may be necessary to make and record observations in the retail shops of the target market.
- (e) Distribution, Storage, Transportation: It may be necessary to interview a number of intermediaries, such as importers, wholesalers or retailers, in order to benefit from their experience and knowledge of the particular market situation.

Spend a maximum of 15 minutes on eliciting as many examples as possible, preferably related to participants' own products. Illustrate how these examples relate to and confirm the need for information about three distinct market aspects, i.e.

- the acceptability of the product to the consumer and the market in general;
- the efficiency and availability of distribution channels;
- the potential of and access to a given market.

Elicit that such information:

- (1) May already be available either in published or unpublished form, entailing desk research.
- (2) May have to be retrieved from the field, either by observation, test, survey, interviews or other means of investigation. In other words, field research is necessary.

Question: Which of their examples involve desk research and which field research?

- 2) Distribute Case-studies 1 to 6. Split participants into groups of 3 or 4 people and ask them to read the case studies carefully. For each case, they should be able to answer the following questions:
 - a - What was the information required? In which of the categories did it fall?
 - b - Why was this information necessary? What kind of decision had to be made?
 - c - How did the co-operative obtain the information? Was it possible to obtain the same information in a cheaper or easier way?

Allow from 30 to 40 minutes for this assignment.

- 3) Reconvene in plenary and ask the spokesperson of one group to comment on Case # 1. After the discussion of Case # 1, ask the other group representatives to comment on the remaining cases.

Guide discussions along the following lines:

Case 1, "Selling Mangoes in Industria"

The co-operative needed to know which variety of mangoes, X or Y, was preferred by the consumers in Industria. The information was obtained through field research, in this case a taste test involving more than 1,000 consumers. It showed that variety Y was liked by twice as many people as liked X. Only a taste test run on the actual market could have produced this result. Making the test with fewer people would have been cheaper but certainly less reliable.

Ask participants to suggest alternative solutions for the organisation of such a preference test. Sampling of products in stores, visiting people at home (household interviews), and test marketing in different stores are various ways to test consumer preferences. Can they be conducted easily by the staff of the co-operative in a foreign country, speaking a foreign language? Conclude that field research in a foreign country can be conducted only by people with a perfect knowledge of the language and cultural background of this country.

Case 2, "Future Prospects for Turmeric Sales"

The manager of the ASCS knew that turmeric was one of the flavouring ingredients in curry powder, but he had never realised that it could be used as a natural food colourant to replace synthetic colourants. He now wanted to know which were the major turmeric importing countries and whether there was a noticeable trend showing increased consumption of this spice. As it turns out, only the statistics of Japan show a true increase in imports of turmeric. Is this the most promising market? What he should do now is find out in which country the reported legislation has actually

been or is likely to be introduced. Then he must try to identify potential users of food colourants, such as food processors, canning factories, etc. The easiest and cheapest source of statistical information is usually the national trade promotion agency. If information on a foreign country is needed, one may also approach the commercial attaché at the embassy of the foreign country, or write to one's own embassy in the country. Many developing countries also operate Overseas Trade Centres in major markets, from which pertinent information may be obtained.

Case 3, "Handcrafted Cushion Covers "

The Women's Co-operative Union had to determine the characteristics that would make their product acceptable to the target market. Research was necessary because the product did not sell well in its present form. It had to be adapted to the consumer's tastes and habits. The co-operative obtained the information by analysing the competition. To study competing products and to improve on them is one of the cheapest and easiest research methods. A personal visit to a target market is often the most effective way to assess the market; it can easily be combined with a visit to an overseas trade fair to study the quality, design and packaging of competitors' products as well as their sales promotion techniques. Often the needed information can also be provided by a consultant or trade expert, preferably from the target market.

Case 4, "Exporting Cut Flowers "

The manager of the OGCS had to compare costs and prices in order to find out whether direct marketing of the co-operative's orchids would be more remunerative than to sell the flowers to an established exporter. He also had to decide whether his co-operative had the necessary administrative capabilities to go through all the required steps of effective export marketing. Much of the needed information must be obtained from his own records, but most of what he needs to know about the export marketing and distribution of orchids can be found in the publication he received from the International Trade Centre UNCTAD/GATT, in Geneva. This or-

ganisation has commissioned many studies and surveys for most of the typical products exported by developing countries and thus can provide a wealth of information. If the local or national trade promotion agency cannot provide the needed information, ITC will nearly always be able to do so or at least indicate the source where the information can be found. The same is true for the Trade Information Service of ESCAP, in Bangkok.

Case 5, "Marketing Avocados"

The manager of the FGCS wanted to learn more about the characteristics of avocado pears that appeal to Industrians. This information would determine which variety should be cultivated, when they should be picked, how they should be graded, packed, stored, transported, etc. and finally, what the future prospects were. The manager of the FGCS obtained the desired information through interviews with the traders whom he visited during his trip to Goldtown. Combining his presence at the trade fair with a survey of the market was a cheap way of doing this and saved extra travel costs. He might have obtained the same information by reading a Geneva ITC survey report on tropical and off-season fresh fruit and vegetables, but by visiting importers, wholesalers and buyers of co-operatives he gained an opportunity to make personal contacts with future customers. It certainly gave him a better feel for the market than reading a report could have done. Another drawback of published reports is that because they are very often outdated by the time they are consulted, they should be supplemented with a personal visit to the market if possible.

Case 6, "Alternative Basketware Marketing"

The GACS needed the addresses of basket importers in the USA. Selling their entire production to a single customer presented a great risk: If this customer stopped buying, they were totally deprived of their income. It was therefore necessary to diversify their market. The European market being saturated with cheap basketware from socialist countries, they theorised that the USA would probably be the most promising market. Addresses of im-

porters can be obtained from various sources, such as the commercial representations abroad and the chambers of commerce of the countries concerned, banks, the national trade promotion agencies, import/export or trade directories. The International Trade Centre UNCTAD/GATT has issued a great number of monographs on trade channels, which include lists of traders in foreign markets (agents, importers, buyers, major users, etc). Each of these monographs covers a given product group in a given market. Additionally, useful recommendations designed to help exporters to penetrate the markets in question are offered.

Emphasise that in all cases information was collected not just for the sake of stocking file cabinets but rather to a well defined goal. Even in case 2 (turmeric), the manager was exploring new options with the intention of acting on his information should it prove worth his while.

- 4) Summarise the foregoing by saying that participants can engage in desk research by seeking out and reading published market information in the form of surveys, reports and statistics; and/or they may undertake field research on foreign markets by interviewing middlemen and consumers/end-users, if their knowledge of the foreign language is up to it.

In many cases, however, they will lack the necessary finances or the know-how to be able to undertake such research successfully.

What should participants do in that case?

- They should apply for assistance from the national trade promotion agency or from an international organisation.

Mini Case-Studies - Marketing Research

1. "Selling Mangoes in Industria":

An agricultural research project had demonstrated that two different mango varieties could grow exceptionally well in the area cultivated by the members of the Fruit Growers Co-operative Society. Both were of similar appearance (size, colour, shape) but tasted different: variety X had a sweetish flavour, while variety Y was slightly acidic. Variety X was largely preferred on the local market. The co-operative was seriously considering exporting mangoes to Industria, but before investing any money in new plantations or marketing, the manager of the co-operative wanted to find out which variety, X or Y, the Industrian consumer liked better. So he took advantage of the presence of a large National Consumer Fair in Goldtown, the capital of Industria, to organise a "taste test" among people visiting the fair. Samples of both varieties were given to visitors and their preferences were recorded. Out of the 1,060 visitors who tasted the mangoes during the fair 309 preferred X, 655 preferred Y, 65 liked both equally well and 31 didn't like either of them. The manager was now quite confident that he had a pretty good idea as to which mango-variety was preferred by the Industrials.

2. "The Future of Turmeric Sales"

The manager of the All Spice Co-operative Society liked to read Spice World, a magazine specially written for spice producers and spice traders. As he browsed through one issue, he came to an article on the moves the major developed countries were making to ban the use of synthetic colourants in processed food. The article forecasted that world demand for turmeric, a spice produced by the manager's co-operative, was likely to rise because of its increasing use as a natural food colourant. The manager immediately went off to the National Export Development Authority Documentation Centre to have a look at the import statistics for the major turmeric importing countries. After some hours of research he was able to compile the following table:

Turmeric Imports 1976-1980, in metric tons

	<u>1978</u>	<u>1979</u>	<u>1980</u>
Iran	2569	2194	1704
Japan	1789	2429	2564
USA	1839	1540	1549
UK	1961	2411	1360
Federal Republic of Germany	616	822	577
Netherlands	316	379	312

3. "Handcrafted Cushion Covers"

The Women's Co-operative Union produced handcrafted cushions of rectangular shape, 50 x 25 x 25 cm, and filled with kapok. The cushion cover was handwoven on traditional looms, with a maximum warp length of 8 meters and maximum weft of 80 centimeters. The women used synthetic fibres dyed in bright traditional colours. The average weight of one filled cushion was about 3.5 kilogram. Although great efforts had been made to export the cushions to some developed countries and to market them through alternative trade channels, the results were less than satisfactory: The high transportation costs for the heavy cushions brought their retail price up to \$ 40 and consumers in Europe did not take to the rectangular shape, the bright colours, or the hardness of the kapok filling. Observation of similar products sold in the European market showed that the average cushion in the shops was square shaped about 40 x 40 cm and woven with pastel coloured cotton yarn. Buyers usually filled their cushions with polyurethan foam, which was light and soft. Further inquiries showed that the import of cushion covers made out of cotton was not liable to customs duty, while for cushions made out of synthetic fibre, duty had to be paid. Now, square cushion covers, 38 x 38 cm, made out of pastel coloured handwoven cotton fibre are being successfully exported.

4. "Exporting Cut Flowers"

The Orchid Growers Co-operative Society used to sell quite an amount of cut flowers to a private company which then exported them

by air cargo to various European countries. One day, the manager of the OGCS came up with the idea of bypassing the middleman to export the orchids directly, but of course he needed to do some homework first. What flower variety should the co-operative sell, to whom and at what prices? What were the airfreight rates, the customs regulations and the usual terms of delivery and payment? He decided to write to the International Trade Centre in Geneva for information, and they sent him a booklet called "A Survey of the Market for Floricultural Products in Western Europe". In the 254 pages of this publication, which was specially prepared for exporters from ESCAP countries, he found most of the information he needed to know, even addresses of the principal European importers of cut flowers.

5. After having conducted his "taste test" for mangoes at the Goldtown Consumer Fair, the manager of the Fruit Growers Co-operative Society decided to find out what middlemen thought about avocados. He contacted the buyers for some importers, wholesalers and consumer co-operatives and asked them a number of questions. The replies were carefully recorded on questionnaire forms, which he had prepared in advance. Thus he learned that most European consumers show a preference for bright green, pear-shaped avocados, typified by the Fuerte and Ettinger varieties. Varieties with large or loose stones were not considered acceptable. Buyers insisted that avocados should arrive in a firm, slightly unripe condition and that the fruit should be accurately size graded. Avocados of between 250 and 350 g were favored in most European markets. Shop sales were relatively slow so the fruit must have a long shelf life. If stored at temperatures between 5 and 10 °C avocados lasted from 2 to 4 weeks. Although sales in the Industria market were still very small compared with neighbouring countries, avocado imports had increased almost threefold during the last five years, and this trend was expected to continue. The most widely used type of packing was a single-layer carton containing 4 kg of avocados (or 12 to 16 pears per layer).

6. "Alternative Basketware Marketing"

The Gamma Agricultural Co-operative Society Ltd. was regularly selling 10,000 handcrafted baskets per year to one foreign importer.

Knowing that they could easily increase production by raising payments to members to \$ 3.20 per basket, Mr. Lu, the manager of GACS, thought that they could also diminish their commercial risk by diversifying their market. He wondered how he could obtain the addresses of importers who would also be interested in smaller quantities of baskets, of, say, 2,000 to 3,000 baskets per shipment. He was particularly interested in selling to the USA. Would it be necessary to visit this country to make contacts with potential buyers? There was not much profit in baskets and the small quantities he expected to sell would hardly justify the expenditure of an extended trip to the USA. When he wrote to his national trade promotion bureau for advice, they sent him copies of two very interesting brochures belonging to a series called monographs on trade channels. One provided names and addresses of alternative trade channels in the USA, and the other one was about handicraft marketing. Now he had more than enough addresses. He sent them all good sales letters with photographs of his baskets enclosed, and soon he had a new problem, namely filling the orders that started to pour in.

topic

10

export marketing applied

Session 10.1 The Export Marketing Plan

Session 10.2 Action Learning and Commitment

Session 10.3 Programme Evaluation and Conclusion

SESSION 10.1

THE EXPORT MARKETING PLAN

Objective: To enable trainees to prepare a complete export marketing plan.

Time: []

Session Guide:

1) Question: Can trainees recall all components of the marketing mix? They are:

- Product
- Distribution
- Selling
- Promotion
- Pricing

Remind trainees that each of these have been covered in the course of the programme. The aim of this session is to provide an overall picture of the export marketing plan as well as to give trainees an opportunity to familiarise themselves with export marketing plans as they are prepared in reality.

2) Display the visual aid "Integrated Marketing Plan", and explain that research is the first step in coming up with an export strategy.

After detailed analysis of the research data and information, the definition of an overall marketing objective becomes necessary.

Remind trainees that a marketing objective, like all other management objectives, should be quantified in terms of volume and value and should have a time limit.

Elicit from trainees some examples of correctly formulated marketing objectives.

An example may be as follows:

"Sell during the cropping season 1982/1983 the total production estimated to be between 5,000 and 6,000 t of product A and approximately 750 t of product B at an average ex-plantation price of not less than \$100 per ton for product A and \$250 for product B, whereby priority is to be given to the needs of the domestic market estimated to be 2,000 t of A and 300 t of B during the season 1982/83".

3) Question: Why is the overall marketing objective so very important?

- The overall objective will form the basis of the objectives and plans of the individual marketing elements:

Product objective: What are the features and characteristics expected from the product so that it can be sold at the indicated price in the local and export market? How should it be presented (packaged) to meet the standards of prospective customers? Which are the standards it should meet?

Product plan: What is to be done and how, in order to meet the product objective? When exactly will indicated quantities become available for marketing and delivery? What amount of sources should be allocated to carry out the plan?

Distribution objective: How much of the product should be sold through which channels at what time? Which channel will provide maximum consumer satisfaction at minimum cost?

Distribution plan: What is to be done and how in order to meet the distribution objective? How can channels be found and contacted? How is the product to be injected into channels? How can channels be induced to carry product A and B? How will the product be shipped (ocean or air cargo)? Is special packing required? Are the services of a forwarding agent required? What resources have to be allocated to carry through the plan?

Selling objective: How much of what product has to be sold, when, under what conditions and to whom?

Selling plan: Are agents or representatives to be used or should the product be sold through established exporters, traders, sales missions, exhibitions? Should geographically limited sales quota be imposed or allocated? Which sales arguments are to be used? How are the agents and/or representatives to be remunerated for their services? How much of available resources should be allocated for personal selling?

Promotional objective: What should be accomplished through the use of publicity and advertising? Are prospective buyers aware of the society's products? Should the products be explained? Is the aim to create goodwill? Or should existing customers just be reminded of a reliable and friendly source of supply?

Promotional plan: What has to be said, to whom, how and how often? Which media should be used and when? Which part of the expected sales can be allocated to carry out the promotional plan or should resources be allocated on some other basis?

Pricing objective: In the global objective, only the minimum explanation price has been indicated. It is obvious that a sound pricing objective should be determined not from the actual cost of the goods but according to the prices the market is willing to pay. Various prices must be fixed for small and large quantities, for different terms of delivery and different terms of payment and perhaps also for different grades of quality. The total income from sales, however, must meet the anticipated average price and must also cover the cost of marketing.

Pricing plan: Will rather be a statement of pricing policy and contain all detailed prices, credit policy and acceptable terms of payment, including interests to be charged for delayed payments, discounts to be allowed for large quantities or long-term contracts, adjustments to be conceded to settle commercial disputes in case of quality complaints, etc.

4) Question: How can trainees find out whether things are going according to plan or not?

Clearly, when objectives (the "should be" situation) are compared to realisations (the "as is" situation), it becomes quite easy to detect any deviations.

Question: What lies behind deviations? The reasons can be numerous. One might be an unrealistic objective (for example, an overly-optimistic sales forecast). In such cases the objective must be adjusted to realistic dimensions.

Other reasons for deviations may be:

- inadequate plans;
- insufficient resources (human or financial);
- changing market conditions;

Question: What are some possible solutions to these problems?

- inadequate plans must be revised;
- resources must be reallocated, increased or improved;
- market conditions should be observed continuously so that occurring changes can be recognised and reported in time and plans adjusted accordingly.

Question: Must changes in market conditions necessarily have negative consequences? Some changes may represent great opportunities but these can be exploited only if known in time.

5) Question: What other functions should be incorporated into the marketing plan?

- Obviously, the control function is also necessary to provide permanent observation of the market and to compare action plans with actual achievement. In this way, a marketing plan does not remain just a piece of paper providing only guidance but becomes a valuable management tool, helping its users achieve results and meet objectives.

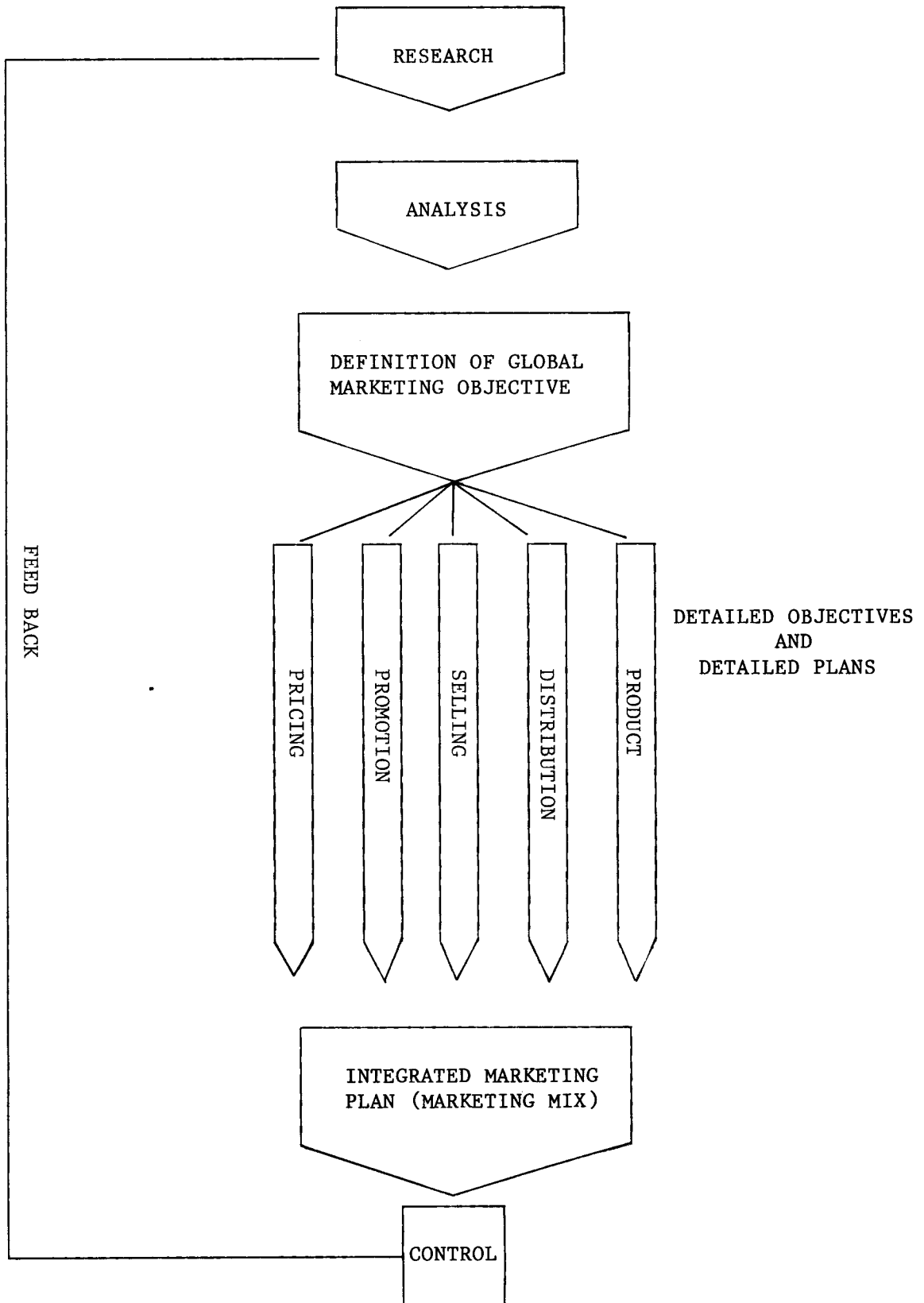
6) Contact a co-operative or other enterprise:

- which produces and sells products similar to the ones presently marketed by the trainees' co-operatives;
- which is exporting some or all of these products abroad.

Invite a representative (preferably the marketing manager) from the enterprise to the programme and ask him to present the marketing plan for one of the export products of his enterprise and demonstrate how it has been designed. Ask him to limit his presentation to 45 to 50 minutes.

The presentation should be followed by a discussion with the theme "Preparing Export Marketing Plans in Practice". The trainees might use the list of questions on each marketing-mix ingredient, prepared at the beginning of the session, as a guide for the discussion, which should not take longer than 45 to 60 minutes.

THE INTEGRATED MARKETING MIX



SESSION 10.2ACTION LEARNING AND COMMITMENT

Objective : To enable trainees to apply what they have learned in previous sessions to solve an export marketing problem or to develop an export marketing opportunity in their own society.

Time : Depends on number of trainees (3 to 5 hours).

Material : "Action commitment" papers produced by trainees.

Session Guide :

- 1) Ask trainees representing co-operatives which are not yet exporting their products why they are not exporting.

Ask trainees representing co-operatives which are involved in exporting why they are not exporting more.

Give trainees five minutes to write down individually their answers, which are likely to include the following reasons:

For not exporting

- Have never thought about it.
- Have never found out the needs of overseas markets/consumers.
- Do not have the right product.
- Do not have contacts/access to right distribution.
- Overseas markets and consumers do not know our product.

For not exporting more

- Have not explored new markets.
- Have not bothered to improve or diversify our product.
- Have not explored new distribution channels.
- Overseas markets and consumers probably do not know our product as well as we would like.

For not exporting

- Exporting business is too complex: we do not have the kind of staff who can organize and manage export business.

For not exporting more

- We are already having a hard enough time coping with the present export business.

- 2) Remind trainees of their obligation to make an "action commitment" at the end of the course, that is, to decide on some step they are going to take as a result of the course and to commit themselves to do it by a certain date.

During the course, trainees should have been continually reminded of their responsibility to identify an existing problem or an area for development or improvement in the export business of their society.

Elicit the recognition that trainees' individual answers to the questions "Why are we not exporting?" or "Why are we not exporting more?" should give them some ideas as to what export problems could be solved or what export opportunities could be developed in their respective societies, and how this could be done. Working alone, trainees have up to one hour:

- to identify and formulate an export problem or export opportunity existing in their society;
 - to plan the solution to that problem; alternatively, to plan the development of the export opportunity;
 - to describe how they want to "sell" their plan to their committee, colleagues, etc.
- 3) Allow trainees up to 15 minutes each to present their action commitments. How do they propose to "sell" the plan?

Inform trainees that, if at all possible, the instructor

has indicated for completion of a particular stage in his action plan. The objective of the visit will be to measure the effects of the course itself, not to evaluate the trainees.

SESSION 10.3

PROGRAMME EVALUATION AND CONCLUSION

Objective: To enable trainees to comment on the programme in order to improve it; and to reaffirm their action commitments.

Time: 1 to 2 hours.

Material: List of trainees' names, addresses and action commitments. Complete programme timetable or evaluation sheet.

Session Guide:

- 1) It is important that this last session should be seen not as the end of a training course but as the beginning of a sustained programme of individual improvement to be carried out by each participant on his return home. Eliciting trainees' reactions to individual parts of the programme is of value, but it is far more important for participants themselves to realise that their own success, and that of the programme, will depend not on what they say now but on what they do in the forthcoming months.
- 2) Distribute the programme timetable or a specially prepared evaluation sheet. Ask trainees to rank each of the sessions of the programme on the scale from: 1 = excellent to 4 = poor. Invite trainees to give a fairly rapid appraisal rather than to attempt to go into too much detail. The completed rating should not be identified by name. After completion they should be collected. After the course, they can be summarised and used to analyse the performance of individual instructors and the effectiveness of the sessions.
- 3) Distribute the paper with names and addresses of all the trainees and summarising the details and anticipated completion dates of their action commitments.

- 4) If possible, arrange for a brief follow-up session to be held at a convenient time and place about six months after the course. This can provide .an opportunity (i) to share the experiences the trainees have had in attempting to apply what they have learned; (ii) to describe the progress made in implementing action plans and (iii) to exchange ideas for more effective marketing in the future.