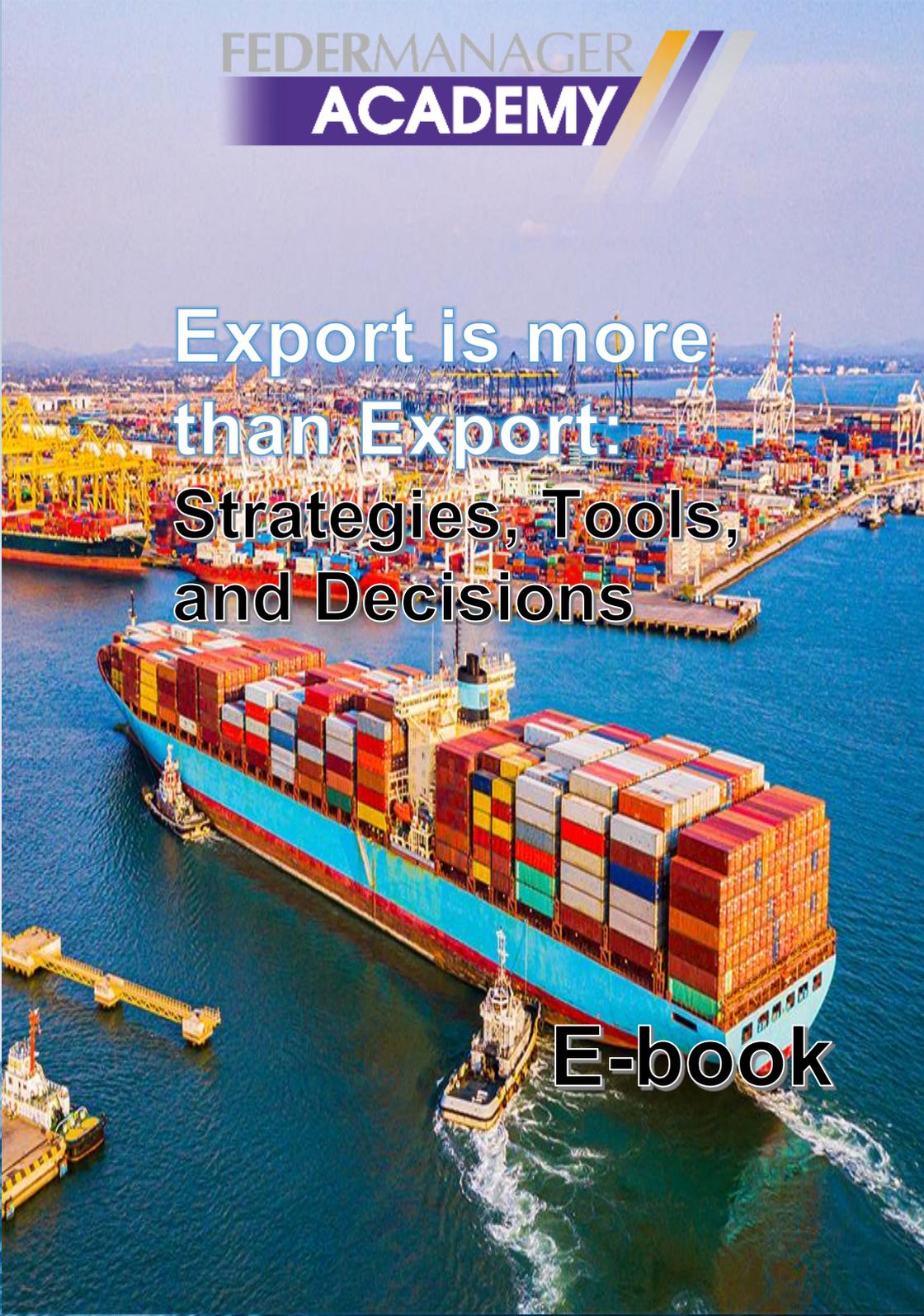


**Export is more
than Export:
Strategies, Tools,
and Decisions**

E-book



Massimiliano Di Pace

Foreword by Federico Mioni

**Export is more than
Export: Strategies, Tools
and Decisions**



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About the Author

Massimiliano Di Pace holds courses at Universities (Luiss, Ferrara, Rome - Sapienza, Roma 3, Marconi) since 1998. Since 2010 delivers the course on International Trade at Tor Vergata University in Rome (Master of Science in Business Administration), and from 2020 at the Chinese University Bistu - Beijing Information Science & Technology University (Undergraduate program of Economics and International Trade) where he is assigned overall of 4 courses relating to different aspects of International Trade and International Business.

As Professore Straordinario, he has coordinated for the University Marconi 5 degrees in different languages (Russian, Spanish, English), of which 2 Mba.

Furthermore Di Pace, who has worked in 16 foreign countries, in all 5 continents, has held roughly 1.200 seminars on several topics relating to Companies' Internationalisation, Business Law, Economic Policy, EU Policies and Law, directed at professionals, entrepreneurs, managers, governmental officials, as well as students attending vocational training courses.

On the publications side, Di Pace can boast 22 paper books, published by Buffetti, Eti – Il Fisco, Cedam, Maggioli, Zanichelli, around 50 E-books (Maggioli), and 1.200 articles, the majority on newspapers (chiefly in Affari e Finanza – Repubblica, and few in Sole24Ore), and the remaining ones on business magazines (Ipsos, Buffetti, Eti).

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Foreword: Why “Export is more than Export”

Nowadays, in the midst of a post-Covid emergency, and in an unexpected post-war scenario (see Ukraine and other geo-political crisis), Exporting is not any longer a traditional activity. The globalised World is becoming much more unstable and unpredictable, and the “export mission” of a single company is a tiny part of a much wider economic World scenario, where the shift from peace to war and vice-versa is the “new normal” and where a safe and “normal” worldwide situation can be abruptly shocked by a dangerous and aggressive way to solve economic and geo-political problems.

Export is not directly and uniquely based on the geo-political situation, but it bears a heavy pressure by this. Basically, and hopefully, we could say that doing Export is putting another brick in the building of a peaceful World. Managers can’t stop their own activities abroad, and they, to a certain extent, are also “ambassador”, so to speak, not only for their own companies, but also for a safer World.

The E-book drafted by Professor Di Pace, based on a microeconomic perspective, nevertheless aims to give a larger vision of the Exporting activities, because the main manager’s mission is to meet requirements, solve problems, provide ideas, for the company, and consequently for the civil society. You will find a whole series of steps needed to execute an Export operation, fulfilling at the same time a business Strategy: indeed, you can consider all the steps as a path to a successful Export.

Secondly, the focus is often on the “techniques” related to the several elements of this “Export Strategy”, and I could say that the focus is on the “tools” required for the single steps.

Finally, you will often find the words “choice” and “decisions”, because Di Pace’s arguments are increasingly focused on the role of the “human factor”: economic forecast, specific reports, Big Data and Analytics are needed in this new business scenario, but the “human factor” is still the pivot of the strategy.

In the last ten years, International scenarios have been at the core of Federmanager Academy mission (courses, events, International webinar, and six successful Study Tour in USA, China, Japan, and Germany): today, along with other courses focused most of all on USA (“Strategic Way to USA”), our management school likes to give this E-book to build a strong link with the “companies micro-system” of the “turbulent” time we are facing. Furthermore, Di Pace’s E-book is very useful either for the “Be Manager” certification promoted by Federmanager (profile “Manager for Internationalisation and Export Manager”), or “Rinascita manageriale” promoted by 4Manager all over our Country.

All in all, we may consider Di Pace’s work as a complete essay about Exporting in today’s business environment, as well as an analysis to be read in terms of “foresight”, and not simply of “forecast”, because these are very difficult times.

Federico Mioni,
Head Director of Federmanager Academy

Introduction

The strongest performance of the Italian economy stems from the exports side.

In 2021 the value of Italian merchandise exports achieved the record level of 500 billions Euros, and hence it is possible that the 7th position in the rankings of the most exporting economies in terms of volumes (after China, USA, Germany, Netherlands, Japan, South Korea), held by Italy in 2020, may scale up.

Considering that out of 130,000 Italian exporting enterprises, nearly 100,000 export merchandise for less than 750,000 Euros per year, it is possible to presume that there is large room for many Italian SMEs as to the improvement of their performance in foreign markets.

In such a framework this E-book is meant to provide a small contribution as to the understanding of export techniques, which may be helpful, obviously not to experienced Export Managers, since to managers and small entrepreneurs willing to accept the challenge of tapping new markets around the globe.

In this perspective the use of English language, even if the text addresses Italian readers, is evidently justified by the fact that it is not possible to imagine to run international operations just using Dante's idiom.

This E-book is made up of 9 Chapters, and the content is based on the teachings harnessed after 12 year of courses

delivery at Universities and professional seminars.

The first chapter outlines the main steps to be followed in order to start and close an export operation. Furthermore it is explained how to get from 2 internet sites international trade rules and customs rules for every kind of goods, exported to every country.

The second chapter illustrates how to conduct a market assessment, an activity aimed at choosing the most promising market. On the other hand it is not reasonable to imagine to start the internationalisation process, probing more markets at the same time. It must be acknowledged that the full master of this technique requires the knowledge of elements of Business Intelligence, which is something easy to show at lecture, but very difficult to put it down on paper. In any case Federmanager Academy offers a seminar on Business Intelligence, whose attendance will fill one of the few gaps of this work.

The third chapter tackles one of the most difficult activities when you deal with international sales, that is the scouting of potential customers and partners in foreign markets. After the analysis of possible profiles of customers and partners, some guidelines are provided, but as to the use of data banks for finding clients/partners in every country of the world, in every productive sector, the reader is again invited to join a course of Business Intelligence.

The fourth chapter is focussed on retrieval techniques of international trade rules, and on the consequent customs rules. All these very valuable pieces of information are provided by 2 pivotal internet sites: one of WTO (World Trade Organisation), and one of European Union.

The largest, and even most important chapter, is the fifth one, describing all the decisions to take in the framework of international marketing, namely on the product, price, promotion and place. The explanation of possible contents of marketing decisions is foregone by the definition of international marketing, followed then by considerations on the objectives of international marketing, and the conditions for an effective international marketing, which are proper market researches, from which to collect data for the decision-taking process, and a business strategy, which has to be the foundation for an internationalisation process.

The sixth chapter, conversely, may be the most interesting one, for it points out the negotiations process with foreign counterparts, as well as the guidelines on how to prepare and manage the negotiations. The chapter recalls also the possible outcomes of negotiations, and the ICC (International Chamber of Commerce) principles on business negotiations.

The remaining 3 chapters (VII, VIII, IX) expose the typical techniques required for exporting, that is international contracts, payments and transportation.

The seventh chapter sketches the contents of an international contract, in the short version, or order of goods, as well as in the longest version, which is used for largest business initiatives. Moreover the reader is guided through the several steps leading to the signature of an international contract.

The eighth chapter is devoted to international settlements, starting from the analysis of risks originated from a payment carried out from overseas, and going on with ways to hedge

those risks. The last topic is the outline of different payment methods, with a focus on the letter of credit, by far the most reliable international settlement mechanism.

The ninth and last chapter lays out the factors to be considered when it comes to choose the transportation means for the carriage of goods. After a necessary recall of different types of contracts of carriage of goods, the last theme of this chapter is Incoterms, the well known abbreviations used since decades at international level for determining the logistics tasks and the risks of loss and damage in charge of seller and buyer.

Chapter I

The steps for an effective export operation

1. A glimpse on the steps of an export operation

Selling goods to foreign clients is not a joke.

Being successful overseas is something very difficult, and requires a lot of preparation and planning.

That's why it is important from the very start to have a full picture of what has to be done in order to achieve the goal of having clients from other countries.

As a matter of fact, in order to execute a successful operation of internationalization, the following steps have to be performed:

- 1) assessment of markets, and consequently the choice of the most promising one;
- 2) identification of potential customers and partners (including local suppliers) in the foreign market;
- 3) understanding of rules of international trade, and consequently of customs rules, which represent the implementation at national level of international trade rules;
- 4) understanding of export techniques, namely:
 - a) international marketing;

- b) international negotiations;
 - c) international contracts;
 - d) international payments;
 - e) international transport and logistics;
- 5) assessment of potential costs, risks, benefits stemming from an internationalization process (in practice a costs/benefits analysis).

2. Overview of activities required for an export operation

The first step, namely the identification of a foreign market of potential interest is usually accomplished by:

- 1) choice of market assessment criteria, suited for the company's product;
- 2) collection of data relating to the chosen criteria for the market evaluation;
- 3) observation of the foreign market on the field, possibly starting with a visit paid to a local exhibition on the exporter's business sector.

The scouting of potential customers and partners in the foreign market can be made through:

- a) databases queries;
- b) contact with Chambers of commerce or other public

entities (e.g. governmental agencies for international trade);

c) experience of other enterprises;

d) exhibitions (i.e. browsing catalogues of exhibitors).

The knowledge of international trade rules can be achieved navigating in the site of the World Trade Organization, where you find texts of agreements (easily downloadable), where there are all rules relating to international trade, and illustrative materials on principles and rules.

From the operational point of view is sufficient for European exporters to access the EU database “Access2Markets”, for retrieving all the customs rules, which are applied for getting the customs clearance of any product in every importing country.

The understanding of export techniques means having the know-how relating to:

- 1) how to take correct international marketing decisions;
- 2) how to manage a negotiation with a foreign counterpart, with his/her specific mindset, due to his/her national culture;
- 3) how to draft an international contract;
- 4) how to choose the right clauses in the international contract;
- 5) how to organize the international payment;
- 6) how to cover the risks of counterparts' default;

- 7) how to choose the correct Incoterm;
- 8) how to organize the international transport of wares from the seller's premises to the buyer's location;
- 9) how to select the best shipper and/or carrier;
- 10) how to carry out customs formalities;
- 11) how to manage the relationships with a foreign customer along the duration of the contract.

The assessment of costs stemming from operating in a new market can be done through:

- a) analysis of local costs for all the productive factors to buy locally;
- b) estimate of costs for market tapping (relating to the set-up of first facilities, the fulfilling of formalities, the management of first operations);
- c) estimate of value of investments needed to operate in the foreign market;
- d) draft of a Business plan, outlining all the initiatives to perform in order to sell in the foreign market.

The assessment of risks stemming from operating in a new market can be done through:

- 1) analysis of exporting company's competitive edge vis-à-vis its potential competitors;
- 2) assessment of factors considered by the customers in

their purchase choices;

3) assessment of possibilities that exporting company's product is imitated by local producers, or that your trademark is registered by others, or even cloned.

The evaluation of potential benefits to expect from operating in a new market can be made through:

- a) evaluation of the market potential, and of its trend;
- b) estimate of the possible achievable market share;
- c) observation in the foreign country of the real situation in the business sector of interest;
- d) participation in an exhibition held in the country of interest;
- e) experience of other companies (from exporting company's own country), collected, for instance, through a businesses' association.

In this context, it is necessary the analysis of competitors, and in particular of their market strategies, which can be carried out via:

- 1) desk research on internet;
- 2) reading of market studies;
- 3) analysis of sales channels;
- 4) retrieval of information by specialized operators, expert in gathering information on companies.

Chapter II

Market Assessment techniques

1. The markets classification

The markets assessment is the first step of an export operation.

Actually it is advisable to start the internationalisation process with the choice of the foreign market (or markets) potentially most interesting, because from that choice all the next steps depend on.

For this purpose it is appropriate to bear in mind the classification of markets.

In fact, the markets of potential interest may be grouped in clusters which have similar characteristics. In this way the exporting company can prepare a specific entry strategy for each group of foreign markets, belonging to the same category.

Traditionally markets can be classified in 3 categories:

1) Traditional markets: these are advanced economies, open to international trade, with high Gdp per capita, but low real Gdp growth rate, accustomed to buy foreign goods, which compete with wares produced locally, and the ones imported from many other countries (generally they are OECD countries);

2) Emerging markets: these are developing countries, or

recently developed countries, with a medium-sized Gdp per capita, but an outstanding Gdp growth rate, eagerly looking for foreign goods, and with a relatively still low level of competition (even if increasing);

3) Risky markets: this category comprises politically unstable countries, which, on the other hand, can boast a high real Gdp growth rate, matched with a low Gdp per capita; the instability may be due to conflicts (i.e. military), or social/ethnic/religious clashes, or to a deep economic and/or political crisis, or simply to a not democratic regime; these problems may be overcome in the future, and changes may pave the way to a quick economic recovery in the medium term.

Examples of different categories of markets are the following nations/economic areas:

a) examples of traditional markets: EU, UK, USA, Canada, Japan, Korea, Australia;

b) examples of emerging markets: BRICS countries, the majority of Latin-American and Asian countries, and some African nation (i.e. Angola, Tanzania);

c) examples of risky markets: some Central-American countries (i.e. Nicaragua), several African countries (i.e. Congo, Mali, Sudan, Nigeria), some Middle-East countries (i.e. Irak, Yemen, Syria), few Asian ones (i.e. Myanmar, Turkmenistan); it has to be acknowledged that the level of risk may be very different from one nation to another one (i.e. Syria is by far riskier than Turkmenistan), as well as that sudden events may make a country enter abruptly this not enviable group of nations (i.e. Russia in 2022).

2. The market assessment criteria

Keeping the previous scheme in mind, it is now possible to start the activity of market assessment.

In order to make an evaluation, criteria are necessary. This principle can be applied also to the case of market assessment.

Actually countries may be assessed on the basis of many criteria.

The main criteria for classifying markets may be presented in 5 groups:

- 1) Criteria describing the Political situation;
- 2) Criteria describing the Economic situation;
- 3) Criteria describing the Social situation;
- 4) Criteria describing the Financial system;
- 5) Criteria describing the Laws and judicial system.

Recalled the 5 groups of criteria, it is possible to start with the first group outlining herewith the ones on the political situation of a country:

a) Government stability: it is important because it is difficult to run a business activity in countries where governments change frequently, for business rules may change consequently;

b) Majority political party's strength: it is a piece of information strictly linked to the previous one; if the majority party is politically weak, also the government will be so;

c) Political orientation of the majority party: the possibility of making business may depend on the political orientation of the majority party (right or left wing/conservative or progressive/democratic or republican), being the first usually more protective of workers, while the second typically more business friendly; in recent years it has to be acknowledged that right wing parties in many countries have supported nationalist stances, and promoted ideas contrary to free international trade, and this obviously may make exporting companies' activity more troublesome;

d) Social conflicts: the presence of frequently social conflicts may hinder the economic activity, blocking, for instance, movement of goods, production of merchandise, sales (i.e. see the effects of yellow vests protest in France in 2019-2020);

e) International relationships: alliances of the exporting firm's nation with specific countries may make easier to run a business in a foreign country, while strains between exporting and importing countries may determine hurdles for the enterprise on its way to internationalization;

f) Participation to international organizations: membership of exporting and importing nations in an international organization may facilitate the management of exporting activities; for instance, if those 2 nations are part of WIPO, and more specifically, both of them are signatories countries of the Madrid Convention, the protection of exporter's trademark will be much easier;

g) Implementation of laws and correctness of juridical decisions: this is a fundamental factor to be considered, because running a business in a country where the rule of law is optional, may turn the business activity in a nightmare, or condemn it to a sure failure.

The second group of criteria for assessing a foreign market is the economic one.

The criteria describing the economic situation of a country are the following:

1) Real Gdp growth rate: this is the most important indicator to assess the health of an economy; a strong growth (5-7%) means that the market is interesting and sale potentially satisfactory, while a lack of growth (0-1,5%) may anticipate difficulties for selling exporting company's products;

2) Level of Gdp per capita: this is another important parameter, signalling the ability of local buyers to purchase, being a sort of average income; anyway a high Gdp per capita proves that people in the foreign nation have enough financial resources for purchasing exporter's products;

3) Inflation rate: a frequent increase of prices may cause problems for the Price policy of marketing, which has to be updated frequently;

4) Public finance data: high deficit and high governmental debt entail (sooner or later) heavier taxation, and limited resources for infrastructures and public services; for sure this is not an ideal business environment for the exporting firm;

5) External debt, public and private: an indebted country, with

indebted people and companies, can be a bad client, and this may refrain enterprises from tapping that market;

6) Currency reserves: a customer located in a country with a limited quantity of foreign currencies may have problems to get the hard currencies required for paying the price of imported goods;

7) Trade and payments balance: it is better to sell to a country recording a surplus in the balance of payments (or with a surplus in the section of trade balance), because imports (usually) will not be restricted;

8) Openness to international trade: a client resident in a country not open to international trade is more difficult to reach and manage;

9) Exported and imported wares: it is important to know in advance what are the typical products imported, and also the exported ones, so as to avoid to try to sell products which may not be requested by the foreign market (being produced locally);

10) Leading edge productive sectors: it is a piece of information similar to the previous one; it is useless to try to export items in a country which has competitive producers of those same goods (a famous joke reminds us that you shouldn't try to sell ice to the Eskimos);

11) Natural resources availability: the easy access to commodities used for producing the exporter's items may represent an advantage to be considered (i.e. Ikea has an easier success in countries with a large availability of timber);

12) Unemployment rate: a nation with many unemployed persons may represent a good opportunity if the exporting company has to hire staff; on the other hand, unemployment means poverty, and therefore there will be less buyers of exporter's merchandise;

13) Currency exchange rate and its trend: a stable exchange rate between importing and exporting countries' currencies is the best condition for the exporter; otherwise it will be more difficult to decide the price, and how often to update it;

14) Interest rates: low interest rates make a more favourable environment for business, reducing the cost of loans; on the other hand, when the importing country features high interest rates, it may turn out to be more convenient to keep the cash flow from the sales in a local bank;

15) Infrastructures: a sound network of infrastructures is of utmost importance for operating in a foreign nation, for transport of merchandise, communications with local buyers, providers, and other parties, financial operations will be more effective and less costly;

16) Business climate: this term makes reference to business practices, that is to the way local companies and public administration behave, and it may be more business friendly when they are respectful of rules, laws, good practices.

The third group of criteria for assessing a foreign market is the social one.

The criteria describing the social situation of a country are the following:

a) Presence of different ethnic and religious groups: it is well known that a lack of homogeneity in the population may provoke clashes and social tensions, and in any case these differences affect consumption patterns, and product preferences, which have to be considered when tapping a new market and outlining a marketing strategy;

b) Presence of different languages: this makes marketing more difficult, being necessary to prepare commercials, advertisement, packaging different, and in multiple versions, as many as the different idioms spoken in the foreign country are; examples of this situation are Switzerland (with 4 different languages) and India (with more than 10 different languages and alphabets); as to packages and printed advertisement materials, a multilingual content may represent a more practical solution;

c) Social classes differences: this situation may turn the marketing strategy more complex, having to consider the needs and behavioural patterns of different social classes, when it comes to draft the marketing plan, which consequently will have to foresee different strategies, as many as the classes are;

d) Social cohesion: this possible feature of the foreign country may be considered the opposite of the 2 previous ones, and for sure it makes easier to conduct a business activity, having the potential customers practically the same profile;

e) Income distribution: when income is well distributed, and hence there are no few rich people, and many poor persons, it is easier to find clients, except for luxury goods which attract just the first group;

f) Wealth concentration: it is an indicator similar to the previous one, but in this case it is considered not a flow (yearly income), since a stock (value of financial and real estate assets).

The fourth group of criteria for assessing a foreign market is the financial one.

The criteria describing the financial system of a country are the following:

1) Banking system: an outlook on local banks, including the possible presence of foreign banks, of public guarantee mechanisms for bank deposits, of practices for loans and investments, may be useful for understanding how to operate in a foreign country; these pieces of knowledge becomes fundamental above all when the exporting firm has to define payments methods with the foreign clients and partners (i.e. service suppliers);

2) Stock market: it may be of interest to know the global value and number of listed companies, so as to evaluate the possibility to list the exporter's securities in the nation where it operates; it stands to reason that this element interests just large exporting corporations;

3) Employment of savings: again this is a piece of information useful only for large enterprises, which may consider the possibility of getting finance via the issuance of bonds or other securities directed at local investors;

4) Liquidity levels: there are some monetary indicators, such as M1, M2, which gauge the amount of money circulating in a country, highlighting in this way the availability of resources

potentially addressing consumptions or investment goods; in other words, a high level of liquidity may represent good news, because it means that there is money to spend for purchases.

The fifth and last group of criteria for assessing a foreign market is the legal one.

The criteria describing the legal system of a country are the following:

a) Laws regulating the economy and business, such as customs law, taxation law, companies law, labor law, Ipr (Intellectual Property Rights) protection regulations, investment rules: the knowledge of these provisions is essential for acting properly in the foreign market, and for taking full advantage of opportunities provided by local authorities; if the exporter is just intentioned to sell products, it may be enough to learn customs law and taxation law (only indirect taxation, as Vat – value added tax);

b) Implementation of rules: it is important to know if there is a real rule of law, or whether it may occur that bills are not applied systematically; in such a case it is appropriate to investigate if cases of corruption may be encountered, so as to know it in advance, and decide beforehand how to behave in those circumstances;

c) International agreements: this is an indicator very similar to the one quoted among the political ones (international organizations); as already explained, the participation of exporting and importing nations to international conventions may facilitate the setting of some aspects of the international business;

d) Protection of foreign investments: there are few countries in the world (i.e. Venezuela in the recent years) which seized assets of foreign companies, and this is important to learn in due advance, before considering an entry strategy in a new market;

e) Juridical system and its working procedures: the enforcement of law and contracts is clearly important for businesses, but in some countries this is not something to be taken for granted; also in advanced economies, it may occur that long duration of legal proceedings burdensome administrative procedures, unreliability of courts' decisions, complicated accomplishments for complying with legal provisions may discourage even the most enthusiastic entrepreneur;

f) Efficiency of the arbitral system: it may represent a good alternative to the filing of a lawsuit against your foreign business counterpart, but usually it is costly, even if much quicker to get a solution to the litigation, and this is the reason for only large corporations insert an Arbitration clause in their contracts;

g) Operational ability of economic institutions (i.e. ministries, chambers of commerce, commercial courts): often it is helpful to address local authorities in order to solve practical problems, and their efficiency is a factor to be assessed in the framework of an evaluation of the potential interest of a foreign market;

h) Security (i.e. crimes): this topic is of utmost importance, because it is not pleasant, and often not even convenient, to operate in a dangerous environment, even if other market conditions may look attractive;

i) Cases of corruption and bribery: this factor has been already quoted, and it may represent a serious obstacle for operating effectively in a foreign country.

3. The choice of market assessment criteria

It is clear that collecting data on all those criteria may be a tiring out activity.

That's why it is advisable to choose just some of the criteria quoted in the previous section, but in such a case a new problem arises: how to select the most useful ones?

The answer to this question entails a choice of market assessment criteria, which should be based on the nature of exporter's productive sector and on the profile of potential customers.

In order to fully understand the method of selection of assessment criteria, some examples are herewith reported.

So, let's consider an exporting company selling medical devices.

In such a case, the most important indicators may be the number of physicians (for every 1.000 inhabitants), and the percentage of Gdp devoted to health expenditure.

Intuitively, the doctors are the ones deciding what medical devices the hospitals (private and state owned) and the National Health Service have to purchase, and the percentage of Gdp devoted to health expenses highlights the importance of the public service using those devices for

government and people of that country.

Another further example should help strengthening the understanding of the method of choice of criteria.

Let's consider now an exporting company selling clothing for young people.

In such case important criteria would be the Gdp per capita, the real Gdp growth rate, the percentage of population who is young, the urbanization rate, and possibly also others.

In fact, a high Gdp per capita indicates that the consumers of that country have, on average, enough money to buy products.

This piece of information would be more valuable if matched with an indicator of income or wealth distribution. In fact the same average, namely the same Gdp per capita, could hide 2 very different situations:

- 1) more or less all people can be placed in a sort of middle class, with a small differentiation between the richest and poorest members of the community;
- 2) the civil society is parted in 3 groups, that is a limited number of persons, very rich, a relatively small middle class, and a large part of the population poor and very poor.

The possibility to sell whatever product would be very different in the 2 situations, and would depend highly on the kind of merchandise.

As recalled, the real Gdp growth rate put in evidence the condition of well being of the economy. A percentage of

growth of 2-3% would be welcome by developed economies, while it would be disappointing for developing countries.

In short, it is easier to sell products in a growing economy, than in a country experiencing stagnation.

By the way, it is the case to underline that the Gdp per capita is obtained dividing Gdp by the number of inhabitants, including the ones not in the position to work (e.g. students, retired people).

Gdp is a measure of country's production, and therefore it is an indicator of the nation's ability to generate wealth. This parameter is measured in the framework of national accounts, and it's monitored by international organizations, such as IMF.

The demographic data, as the percentage of young people, together with the size of the population, will provide a precise picture of the potential number of customers, being the product directed at youngsters.

This first sizing of the market can be improved considering how many persons live in urban areas, which are the easiest to reach for the distribution of wares. Nowadays, this piece of information (dwellers in all cities and towns of a country) is less relevant, for e-commerce has allowed to bypass this distinction of consumers in the 2 groups, that is living in urban areas and in countryside.

The reader can now easily understand why for the following business sectors, the indicators to be considered are the ones recalled after each sector:

a) child care products: it has to be taken into account the birth rate, the number of children for every woman, and the Gdp per capita;

b) weapons: it has to be considered the situation of relationships with neighbouring countries, as well as the presence of clashes or tensions with other countries, and the percentage of Gdp devoted to military expenditure;

c) services for airports: it is advisable to collect data on the number of airports, flights, passengers, as well as the situation of other transports infrastructures.

All in all, the Gdp per capita is probably the most important indicator for the market assessment of many business sectors.

4. The sources of data relating to market assessment criteria

The assessment criteria, that is, the indicators useful for assessing markets, have to be filled with numbers, pieces of information, description of situations.

In other words, for every criterion there should be the corresponding data, retrieved surfing in reliable data sources.

It is very important that data are retrieved from official sources, which can offer reliability and correctness of the information provided.

The most reliable sources of data are the following:

- 1) Developed countries' governments and institutions;
- 2) International organizations;
- 3) Specialized private agencies.

The sources may provide 2 main type of data:

- 1) General data, covering more groups of criteria;
- 2) Specific data, relating to one or more indicators of just one group of criteria.

The internet sites containing both kinds of sources, providing all data referred to the criteria described in section 2, are shown in the framework of training courses on Business Intelligence. One of them is offered by Federmanager Academy, and delivered by the author of this E-book.

Chapter III

Customers and Partners scouting in foreign markets techniques

1. The different categories of clients

Finding clients, as well as local partners in the foreign market, helping the exporter to scout clients, is probably the most difficult and challenging activity of the entire internationalisation process.

Before examining the methods for scouting customers and partners overseas, it is appropriate to recall the different profile of clients (in this section), and of partners (in the next section).

As to clients, an exporting firm can have 3 major categories of them:

- 1) Natural persons, in their role of customers;
- 2) Businesses, in their role of buyers;
- 3) Governmental Agencies, in the framework of public procurement.

The category of client has an impact on:

- 1) Marketing mix, that is on:
 - a) Product policy: when the client is a firm (or a public administration), products have to be tailored to the buyer's

needs, while goods directed at consumers are usually standardized;

b) Price policy: in a B2B sale, price has necessarily to be negotiated, while in a B2C scenario, price has to be adjusted to people's purchasing power;

c) Promotion policy: when a product is addressed to natural persons, an adequate advertisement has to be defined, while when the client is a company (or a governmental agency), it is more important to engage in a good internet site design and in developing relationships;

d) Place policy: there is no need of such a policy when the client is a firm (or a governmental agency), being enough to arrange the shipping properly; on the contrary, sales targeting natural persons require an attentive choice of the market channel;

2) Choice of local partners: if the exporter sells to consumers, it is probably needed a distributor, a dealer, or a network of commercial agents, while if the exporter's target are firms, it's better to find efficient shippers/carriers and customs agents/brokers;

3) Costs for tapping the foreign market: starting the operations overseas is more costly when the end-users are natural persons, than in the case of buyers, and this is due to the fact that for handling a disseminated number of purchasers it is required a larger organization and more intense advertisement campaigns;

4) Planning time: the most committing situation is when the client is a foreign Public administration, which requires a

remarkable effort for lobbying and for creating links and relationships with people in the position to take a decision on the purchase, in the framework of the public procurement; at the same time it may take a long time also conducting market researches, that are usually advisable when potential customers are not well known, whose outcomes may help in designing a successful entry strategy in the new country.

2. The different categories of partners

An exporter can have a wide range of potential local partners, useful for operating in a new foreign market.

These are usually the following:

- 1) Distributor;
- 2) Importer;
- 3) Wholesaler;
- 4) Dealer/retailer;
- 5) Productive/Commercial Business Associate;
- 6) Agencies providing marketing, legal, and lobbying services.

A distributor is a company, located in the foreign market, which takes the commitment, in exchange of a percentage of sales value (typically around 20%, but it varies according the country, the product and the tasks carried out), to perform the following some or all of the next customary activities:

- a) customs clearance of goods arriving in the importing country;
- b) storage of wares, so as to be able always to respond to clients requests;
- c) information on potential buyers and markets trends;
- d) direct sale of products to clients;
- e) delivery of merchandise to the purchasers, or to the points of sale;
- f) assistance to clients for the use of the product;
- g) implementation of a marketing strategy for the products;
- h) market research on account of the exporting company.

An importer usually purchases goods from the exporter, and hence performs all the activities quoted in the previous points a), b), d), e) f), and g), but it can also act just on account of a dealer/wholesaler.

The main difference between a distributor and an importer, is that the first wire the money after the sales of the exporting firm's products are sold, while the second is the purchaser of items, and hence wire the money for the merchandise, according the arrangements taken at the moment of signing the contract, and there specified.

A wholesaler is a company purchasing the products from the exporting company (or from the importer) in bulk and sells them in relatively smaller units to clients in the foreign market.

Quite often importer and wholesaler plays the same role for the exporting company.

The importer, or wholesaler, gains from the difference of selling and purchasing prices, and it is in charge of all activities required for bringing the product to the end-user.

The distributor, as already explained, earns a sort of royalty on the prices of imported items, which are sold to clients by somebody else, that is dealers/retailers, such as shops, points of sale, supermarkets, department store, e-commerce platform, etc..

The latter (dealer/retailer) can also represent a potential partner for the exporter when it has a strong selling capability, and/or a recognized ability to scout for clients.

It must be admitted that when the exporter involves these operators in its entry strategy in a new market, it loses control of many marketing levers, not having direct contact with the end-users of its goods.

At the same time the exporting firm saves a lot of work and costs, not having to perform all the activities of a seller, which are more difficult when carried out overseas.

A Productive Business Associate is a local firm producing the same kind of merchandise as the exporter's ones, which is interested in improving and/or enlarging its production, making an agreement with a foreign company (the exporter), aimed at producing together a foreign-originated product, which is then marketed by the local Productive Business Associate.

In this situation, the exporter reduces its investment in the foreign market, as to production facilities, for it takes advantage of a local factory offered by the Productive Business Associate (where the exporter's merchandise is assembled), while the latter finds the arrangement convenient because it increases its know-how and expertise, and links itself to a foreign prestigious firm.

A Commercial Business Associate is a local firm already selling the same kind of goods as the exporter's ones, which is interested in widening its offer to its clients, proposing also a potentially highly requested imported product, such as the exporter's one, and for this purpose makes an agreement with a foreign company (the exporter), aimed at selling the exporter's product in its own market.

In this situation, the exporter reduces its investment in the foreign market as to the sale facilities, for it takes advantage of local points of sale offered by the Commercial Business Associate, while the latter finds the arrangement convenient because it increases its range of products offered to its clientele, and links itself to a foreign prestigious firm.

The Agencies providing marketing services are useful when the exporter has to define a marketing strategy for the foreign market, which is difficult to know in depth, without having operated there for long.

This collaboration is necessary when the exporter intends to manage directly the sales of its product in the foreign nation.

The Agencies providing legal services are useful when the exporter has to make a lot of contracts with local counterparts, which can range from labour contracts to sale

contracts, as well as from service-supply contracts to real estate contracts.

This collaboration is necessary when the exporter means to sell directly, and hence to hire sale personnel, to purchase facilities (i.e. a warehouse) and services in the foreign market.

The Agencies providing lobbying services are useful when the exporter targets a public administration, or a governmental agency, or even a large corporation in the foreign market, to which addressing its products.

This collaboration is necessary when the exporter aims to participate to a public procurement process, in which, usually, the direct knowledge of officials in charge of deciding the deal, is of extreme advantage.

3. The methods for scouting customers and partners overseas

Once a market is chosen, after a thorough assessment of the most interesting ones, it is necessary to get in touch with potential local customers and partners, whose profile and categories have been examined in the previous sections.

It is appropriate to remind that among local partners, there can be also suppliers, public administrations, consultants, agencies, considering that the exporting company may need them for operating in the foreign country.

Useless to deny that this is a very challenging activity,

because many exporting SMEs usually start from scratch, not knowing anybody in the foreign market.

The problem is therefore how to find all those counterparts in a foreign market.

A possible solution are databases, which allow to:

- 1) find potential interesting counterparts in the foreign market;
- 2) collect information on them, so as to assess their characteristics, and possibly, their reliability.

The internet sites containing all these databases are outlined typically in training courses of Business Intelligence, as the one provided by Federmanager Academy.

Another way to find counterparts overseas is to search the websites of Chambers of commerce in the foreign nation, which can be found via google, looking for "Chamber of Commerce" followed by the city name.

Chambers of commerce usually provide services aimed at scouting local companies which may help tapping the market, and/or facilitating business partners' matching.

Furthermore Chambers of commerce make help the exporter to get in touch with local service providers, such as lawyers, shippers, marketing agencies, translators.

These Chambers of commerce' services are usually payable, but the fee can be worthwhile.

There are also Chambers of commerce linking 2 countries,

located in both nations, such as the China-Italy chamber of commerce.

These institutions, easy to find in the web making a search on internet, are there to promote exchanges between firms of both countries and to spur business opportunities. Moreover they organize events where it is possible to meet interesting counterparts.

It goes without saying that English may be not enough to carry out these searches, because French, Spanish, Portuguese, Russian can be the only spoken language in many countries.

If exporter's staff is not fluent in those languages, it is of strategic importance to find a reliable and loyal translator helping the exporting firm to manage a business relationship in that foreign language.

Very useful are also the catalogues of exhibitors prepared by the organizer of trade fairs, and sometime they are downloadable from exhibition's organisers' internet site.

Browsing these catalogues it is possible to find local companies which may play the role of partners, as well as of competitors.

Regardless the way with which the search has been conducted, once the potential customers/partners have been found, it is the case to make some checks before contacting them.

These checks can be rapidly carried out through:

- a) customers/partners' internet site analysis;
- b) googling the name of customers/partners, so as to discover what is written about them;
- c) searching the name of customers/partners in social networks (Linkedin and others).

There are also databases, illustrated in course of Business Intelligence which allow for free, or a limited cost, to get a limited/full picture of the foreign customers/partners.

In this way it is possible to make a sort of first/full judgement on the reliability and operational abilities of the potential counterparts found.

Once this check is done, it is time to get in touch with them, and for this purpose the exporter has to decide whether to contact customers/partners directly, or through intermediaries.

Chapter IV

Retrieval techniques of international trade rules and customs rules

1. The retrieval of international trade rules techniques

The third stage of the internationalisation process is the retrieval of international trade rules and of customs rules, which are the logical consequence of the first ones.

First of all it is appropriate to remind that international trade rules are written in:

- 1) WTO agreements, and in particular in the Gatt agreement, which outlines the rules of international trade of goods;
- 2) Free trade areas agreement, such as the EU treaties, Mercosur treaty, ASEAN treaty, USCAM treaty (which has replaced NAFTA), RCEP treaty (the latest free trade area, uniting China, Japan, Australia, ASEAN and other countries);
- 3) bilateral agreement, as Canada-EU trade agreement.

It is evident that describing these agreement would require a very large text, and even an introduction would fill some tens of pages.

Putting aside any claim to tackle this topic, in this section it is just recalled the way for retrieving theoretically every Gatt rules, starting from the WTO internet site (www.wto.org).

Once you are in this site, the first thing to do is to ascertain

that the importing country is member of WTO. Otherwise, it is useless to learn rules, if those rules cannot be applied.

So the first web page to be read is the one relating to the list of member countries of WTO, which is easy to find, once you select “about WTO”.

After that, you have to put the mouse on “Documents, data, resources”, and then on “Legal texts”.

From that web page it is possible to download all documents relating to 6 WTO agreements, including the 3 parts of Gatt.

Useless to deny that it is necessary a pre-emptive knowledge of agreements, logics and main principles of international trade rules, which is possible to learn, reading the web page “Understanding the WTO”, you can access from “about WTO” menu.

In this framework it is possible to retrieve tariffs applied by member countries to the different products (indicated by the Hs code) going to <https://goods-schedules.wto.org/resources>.

Once you are here, you select “Documents&Links”, and then “Tariff Download Facility”, under the heading “Trade and tariff data”.

Following the indications in the Tariff download facility, you find a menu in which you can choose the country and the category of good you are interested in.

Once you made your selection, you get access to a file, in which you find listed all the specific kind of products part of

the HS code chosen, with the corresponding tariff to be paid in the customs of the chosen country.

2. The retrieval of customs rules techniques

International trade rules determine customs rules of every country for every type of product.

About that, it is appropriate to underline that for the same product, there can be customs rules which differ from country to country, as well as there can be customs rules which differ from product to product, for the same importing country.

Luckily European Union built a data bank containing customs rules for every product to be exported to every country of the world (including non WTO member countries).

This data bank is named “Access2markets”, and can be found googling this word.

The data bank can be searched also going to the internet address:

<https://trade.ec.europa.eu/access-to-markets/en/content>.

The most important pieces of information can be retrieved from the home page, querying the section “My trade assistant”.

In order to start a query, it is necessary to insert the HS (Harmonised System) code of a product, or the name of a product. The HS code, which is a string of numbers representing a specific product, can be found in the internet

site www.tariffnumber.com.

The HS code are roughly 55.000.

Typed the HS code, the exporting and importing countries, the search can be started, getting consequently a very valuable set of pieces of information.

As a matter of fact the feed back of the query contains the following data:

- 1) duties (or tariffs) to be paid for the import of that specific kind of goods;
- 2) customs procedures for importing all the main kinds of goods;
- 3) documents required for the customs clearance of imported wares;
- 4) specific requirements to be met for some specific kinds of goods (i.e. items originated from endangered species of animals, as a handbag made of crocodile leather);
- 5) trade barriers which may be encountered importing some specific kinds of merchandise (i.e. authorisations difficult to get);
- 6) data on trade flows (export and import, in terms of value and weight) between EU countries and third countries.

Usually tariffs are expressed in terms of percentage points (i.e. 10%, 15%, 24%), but they can be expressed also in money terms (e.g. 0.75 Euros per pair of shoes).

The customs procedures are described for categories of goods, so the reader has to browse the document till he/she finds the class of products he/she is interested in.

As to the list of documents necessary for the customs clearance, it is advisable to examine every document, reading the explanations about it, before deciding if it is necessary to prepare or not, being some documents mandatory, some an alternative to other documents, and some more, simply optional (i.e. certificate of origin).

Specific requirements are usually authorisations, permits, certificates, which are issued by special authorities of the importing or exporting nations.

As to the trade barriers, it is advisable that then exporter is aware of the problems it may encounter selling its product in the envisaged foreign country, so as to better plan its operations over there.

Also the data on the value of exports stemming from this platform, referred to a specific EU country, and to EU as a whole, may be very interesting for assessing the foreign market size, and its trends.

Chapter V

International Marketing techniques

1. The definition of international marketing

Chosen the market, scouted potential customers and partners, duly collected information on customs rules, better if backed by a sound learning of WTO international trade rules, which are the logical ground for customs rules, it is time to start planning the sale of exporter's products in the foreign market.

Hence, it is time to draft a marketing plan, tailored to the characteristics of the product to be sold, to the profile of potential customers, and to the features of the foreign market.

In order to do so, a comprehensive knowledge of international marketing is an unavoidable requirement.

Consequently, in this chapter international marketing, and all the main possible decisions to be taken in this framework, will be outlined, obviously in a concise way.

Let's start with some definitions:

1) Marketing: it consists in a set of decisions that influences the sale of products, and pre-emptively the perception clients develop about them;

2) Marketing mix: it is a group of different marketing decisions, which are coordinated, and taken together, in

order to sell efficiently a merchandise (or a service), or a range of items, in a specific market;

3) Marketing plan: it is a document where all decisions of a marketing mix are explained and motivated, and a forecast on futures sales is sketched.

It is important to stress that marketing decisions are taken by all economic operators, including microenterprises (i.e. the peddler selling street food), as well as large enterprises.

Even professional and self-employed workers take marketing decisions when they decide what service to offer (Product policy), at what fee (Price policy), the locations where they are available to sell their services (Place policy), the ways to get in touch with potential clients (Promotion policy).

At the same time marketing decisions may influence the business activity for a long term, or they can have short term effects.

In fact, there can be strategic marketing decisions, which refer to the kind of the product, its quality, its level of price, as well as the market channels to use for reaching the clients, and the main promotional initiatives to support sales, and there can be daily operational marketing decisions, which are related to the adjustment of product features, to slight changes of the price, and to other minor decisions of place and promotion policies (i.e. the set-up of a new point of sale, or the publication of an ads in another magazine).

International marketing is just marketing decisions addressing a foreign market.

It is appropriate to recall that before drafting a marketing plan for another nation, it is advisable to shape a company's international strategy, that is the purposes for entering new markets, and the means to deploy for the entry operation.

The reason is crystal clear: an internationalization process is a costly, time-consuming, and risky business activity, so a pre-emptive thorough consideration of firm's goals and means is a must.

International marketing is by far more difficult than the domestic one.

This is due to the fact that operating in another nation it is more difficult because consumption patterns, preferences, mindset of local consumers are less known, or even totally ignored.

Therefore it is less likely to guess the right decisions relating to the product characteristics (for different needs, habits, beliefs, etc.), to the price (considering that the average purchasing power may be different from country to country), to the promotion (being there different practices and preferences), to the distribution (existing different sale systems).

As it is well known, marketing decisions relate to 4 topics (4P):

- 1) Product;
- 2) Price;
- 3) Promotion;

4) Place.

Product policy comprises all the decisions relating to the characteristics, size and aspect of the item, including its brand, name, logo, packaging.

Price policy determines the price of the product (including its currency), considering its relationship with the costs of production and the price of competitors' products.

Promotion policy is carried out through advertisement and initiatives aimed at increasing sales.

Place policy takes care of how to get the product from the production facility to the final buyers, and how to contact the latter (namely market channels).

2. The objectives of international marketing

The objectives of marketing (and of international marketing) usually are the following:

1) to sell products: this is the first aim, because it is useless to produce if you don't succeed in selling what you manufacture; that said, marketing can be based on 3 main strategies:

a) Product oriented marketing strategy: in this case the company bets on the competitiveness of its products, and the management, convinced on the good price/quality ratio of company's goods/services, looks for clients, highlighting the best products features, and therefore Promotion policy, and specially advertisement, is the main marketing leverage;

b) Sales oriented marketing strategy: under this strategy, the company relies on its sale network, which should be able to attract and convince potential clients about the convenience of company's products; hence, Place policy is the most important marketing leverage, and the focus is on building effective market channels which allow to reach efficiently potential clients;

c) Market oriented marketing strategy: such choice entails that the company commits to keep a stable connection with clients and potential clients, and it is ready to adapt its product to the clients' evolving requirements, so as to satisfy them in the best possible way; therefore, Product policy is the most important marketing leverage, and a lot of attention is paid on tailoring products to customers expectations;

2) to increase sales: this is the second objective, because a company cannot thrive without growing, and this depends necessarily on sales;

3) to satisfy clients: clients are the main asset of every company, and in specific situations this goal may become the most important one; in fact, a satisfied customer is the best guarantee that he/she goes on buying company's product;

4) to attract specific customers: this represents a secondary objective, which may be relevant when the product is directed at specific groups of clients; so, attracting a determined group of customers (i.e. wealthy people, young women), is the prerequisite for growing in the market, and increasing the profit margin;

5) to place own products in the right market segment: this secondary aim is similar to the previous one, and it can be

applied also in a B2B sale; the achievement of this goal depends on how the product is perceived; for example, when the product is appreciated as a low cost/low quality product, even if its features may place it in a higher segment of the market, the potential of the product may not be fully exploited on account of this (wrong) perception;

6) to keep clients tied to the company: customers' retention is one of the main aim of Promotion policy, and it is attained with different modalities, such as points collection through a card, prizes from lottery-like initiatives, increasing discounts based on the rise of purchases;

7) to change consumers' preferences according to company's marketing strategy: this is one of the most difficult objective a seller can try to achieve, and its success depends on the effectiveness of an advertisement initiative, which may hit clients' subconscious; an example is the first smartphone, proposed by Apple, led by Steve Jobs, who convinced hundreds of millions of mobile phone users that such a device could be used for many other purposes (i.e. taking pictures and footages, listening to music, play games);

8) to adapt the product to the customers' requirements: this is an opposite aim, vis-à-vis the previous one; in such a case, instead of convincing clients to buy your own product, you collect their expectations so as to produce what customers want; it is the case to highlight that the last 2 objectives are strictly linked to different marketing strategies, as illustrated previously;

9) to diversify market channels and markets: this is a typical aim of Place policy, and this objective may emerge when sales are weak, proving consequently that it is the case to

look for new markets, and new market channels, leading to new potential end-users of company's product;

10) to make company's products known in the market: this last aim is not the least important, for it is obviously difficult to sell something nobody knows; this goal is typical of Promotion policy, and it is achievable via suitable advertisement initiatives (i.e. commercials broadcast in tv).

3. The conditions for an effective international marketing: Market researches

Taking correct marketing decisions is far from being easy.

As a matter of fact there are 2 main conditions for having good chances to take effective marketing decisions:

- 1) to collect precise and useful information on potential customers, on the market, and on the country where the exporter means to sell;
- 2) to define a comprehensive company's strategy, in which the international marketing strategy is integrated.

The second condition is tackled in the next section, while, about the first condition it is appropriate to recall that it can be met choosing one of the following 2 options for the execution of data collection:

- a) self-managed search, using existing databases;
- b) assignment of the task to a specialized market research agency.

The first option has been explained in Chapter II describing Market assessment techniques, while it is appropriate to outline the basics of Market research.

Market research is based on the collection and analysis of data on the behaviour and expectations of consumers and competitors, and can be of 2 kinds:

- 1) primary, that is carried out meeting people outside the company;
- 2) secondary, namely made within the company, querying existing databases, or browsing internet for data collection, to be retrieved preferably from official sources (e.g. governments, international institutions and companies databases).

If the secondary research coincides practically with Market assessment techniques described in Chapter II, the primary market research can be classified in:

- a) Qualitative research;
- b) Quantitative research;
- c) Integrated research (qualitative and then quantitative research).

The qualitative research can be based on:

- 1) investigations on market trends and consumers' preferences;
- 2) studies on how people think and behave.

The qualitative research is carried out usually by psychologists through:

- a) individual interview, which is based on a list of topics to talk about;
- b) discussion group: 8 people talk together and with the interviewer, who has a list of topics to be tackled.

The first method facilitates the understanding of what people want or expect, while the second method let emerges the opinions, which are often shaped by the interaction with others.

The strategic importance of qualitative research is due to the fact that you can identify:

- 1) motivations of customers' purchases;
- 2) areas of customers' satisfaction/dissatisfaction;
- 3) differences between customers' expectations and the products/services offered by the company.

The main outcomes of a qualitative research can be:

- a) the opinion on the product customers have;
- b) the emotions spurred by the use of the product;
- c) the symbolic value of the product (e.g. Status symbol);
- d) the personal value associated to the product.

Moreover, qualitative researches may facilitate judgements

on the following themes:

- 1) Market structure;
- 2) Market attractiveness;
- 3) Market development;
- 4) Level of competition;
- 5) Acceptance of new products or new brands;
- 6) The right price, that is the one the market is ready to pay;
- 7) Customers' behaviour.

Market researches, and more in general data collection, allow companies to:

- a) produce goods and services that people want and appreciate;
- b) sell at market conditions and prices better than the ones offered by competitors;
- c) find a number of customers which make it possible to practice these prices;
- d) remunerate sufficiently the capital invested.

In other words decisions have to be taken on the basis of sound and complete information, for which are of utmost importance results of market researches, or data collected from official institutions.

Useless to say that getting information on foreign customers and on foreign markets is more difficult, also on account of the different culture, behavioural patterns, models of consumption, mentality, traditions, religion, business practices and regulations.

For this reason international marketing requires strong skills and abilities, and considerable experience.

All in all international marketing can be efficiently managed after a long experience in marketing at national level, and a long-lasting personal experience overseas.

4. The conditions for an effective international marketing: Business strategy

As anticipated, a correct setting of international marketing requires, not only proper information, but also a consideration of company's strategy, which depends on its structure and prospects.

In other words it is advisable, before deciding an international marketing plan, to answer to some questions, which are fundamental for company's strategy.

The fundamental questions are the following:

- 1) what is our business?
- 2) who is our client;
- 3) what is valuable for our client;

- 4) how should be our business;
- 5) how will be our business in the future?
- 6) who are our competitors?

After having answered to those questions, and consequently, after having thought over on the business' Swot (Strengths, Weaknesses, Opportunities, Threats), it is possible to design an international marketing strategy.

Once all previous conditions have been properly met, an international marketing strategy can be outlined, starting from the Product policy decisions.

5. The decisions to take for Product policy

The first decision to take in the framework of international marketing is about the product, that is what the company wants to sell to its clients overseas.

The set of decisions relating to the product are named Product policy.

The Product policy has to be intended not only as the choice of the class of product, and its characteristics, but relates to all aspects of the production and sale processes referred to the product.

The marketing decisions about products usually relate to:

- 1) product characteristics (in terms of performance, duration, quality, etc.);

2) product name (i.e. Panda for a car, Dixan for a detergent, Crazy horse for a fashion collection);

3) product size (weight of the item, minimum and maximum quantity of differently sized packages);

4) product packaging and labelling (colours, design, content of the label/tag).

Product characteristics are the result of material attributes (physical features of physical elements, such as ingredients and contents of the merchandise) and immaterial ones (services annexed to the product, guarantees, quality perceived, design, trademark), whose combination represents one of the 2 factors influencing consumers' choice (the other is price).

As far as quality is concerned, it has to be borne in mind that the quality taken into account by the customer is the perceived one, and not the effective one.

The effective quality depends on the materials used and on the production process.

The perceived quality depends on brand, advertising, price, and country of origin of the product, as well as on the moment a product is proposed in the market.

For instance, a suit is considered more in fashion if produced in Italy, compared to a same clothing manufactured in South Africa. Equally a traditional Italian cake, as the Panettone, is perceived better if offered in December, instead of August.

So, it is not wrong to state that many consumers (and

sometimes also economic operators) consider more the perceived quality rather than the effective one (lacking the ability to assess the latter).

Perceived quality varies greatly from market to market.

It may happen that the same product, with the same brand, is perceived differently by consumers living in two different countries.

This is usually the result of marketing initiatives, as advertisement (whose main mission is to improve the perceived quality) and Price policy.

An example is provided by the soda market, where Coca Cola and Pepsi Cola are among the major actors. In USA, due to higher price, widespread ads, and use in fast food chains, Pepsi is more rated than Coca Cola, while in Europe it is the opposite, due to the fact that Coca Cola entered the European market a couple of decades earlier than Pepsi, which chose to market its products in Europe addressing the segment of more affordable soft drinks.

Furthermore, it may happen that customers from different countries, expect, from the same product, different performances or features.

An example is offered by the automotive sector. For instance, 2-3 decades ago in Germany customers had more expectations about cars, and hence all car makers competed in the German market selling their models full optional, while in other markets, as in Italy, the competition was chiefly on the price, rather than on the technical content of the car. Hence, in Italy cars were, on average, less equipped than the

cars sold in Germany.

Today we have a similar situation for the engine (which can be full electric, hybrid, or working with traditional fuels), so in some markets the percentage of cars equipped with electric or hybrid engines on the total sold in a national market is quite different, depending that quota on purchasers' attitude to accept new technologies.

The quality of a product includes its performance, so also the item's duration, the service (i.e. assistance) and guarantee offered to product purchasers have to be decided, and these decisions may be different from market to market, not only due to clients' expectations, but also for the compliance with national laws (e.g. the duration of the guarantee).

In conclusion customers may have different needs and requirements (including standards), thus it is important to know in advance clients' expectations, so as to adjust the product features to their needs/expectations, deciding consequently the level of quality (perceived and real) of the product.

In order to execute a correct Product policy, it is necessary to devote resources for the product development, which contributes to the improvement of the effective quality, and for the promotion of the product (ads, commercials, sponsorships), which support the perceived quality.

Going back to the first decision to be taken in the context of Product policy, that is the choice of the product characteristics, it is to be kept in mind that this choice is the consequence of the choice of:

a) Productive factors (i.e. materials, machineries, technicians, workers);

b) Productive process (i.e. methods of production), including its location.

The decision on the product features has to consider clients needs and expectations, competitors' choices, and obviously influences other marketing policies (i.e. Price, Promotion).

A second important decision in the framework of Product policy is the choice of the name and logo (brand) representing the product.

Even if this choice is not necessary for every product (i.e. sugar), the next considerations may be useful for the choice (or change) of the name of the company.

Brands have actually some important functions:

1) product identification;

2) customer orientation (in case of market segmentation);

3) guarantee (for quality level);

4) distinction from competitors.

The choice of the brand should be made considering that:

a) it should recall the type of the product, and possibly its positive characteristics and benefits stemming from the use of the product;

b) it should be connected to the name of the company, and

consistent with its image;

c) it should be easy to recall and to pronounce for foreigner customers;

d) it should be legally protected (therefore it cannot be similar to existing brands);

e) it should be simple and written in an international alphabet;

f) it should stir emotions (due to the images recalled or to the sound of the words);

g) it should not recall bad concepts or things in foreign languages and cultures.

About the latter requirement it is of absolute importance that the word or the image does not recall something trivial or embarrassing for customers of a foreign market.

Some historical mistakes are funny and educational.

For instance, Estee Lauder (cosmetics producer) put on sale in Germany a product, with a romantic name: “Country Mist”.

But it was not considered that in German language “Mist” means “dung” (animals’ excrements which can be used as fertilizer).

It has also happened that on Microsoft’s app store there was a tablet app with a name that is the union of the words ink and calculator, whose result (which is easy to guess for Italians) has aroused laughter, so much to be replaced nearly immediately with the current name of Kanakku.

It happened too that Mitsubishi did not realize that the name of his off-road vehicle Pajero could mean an act of autoeroticism in Spanish slang.

Today that SUV model is named in the Iberian and South American market as Montero.

Even numbers can have meanings.

The Alfa Romeo became aware of this, having to replace the acronym Alfa 164 in a Alfa 168 in the Asian market, because, in some areas, the number of 4 is considered bad luck.

The number 164 was in fact interpreted as "widespread death", while 168 is intended as "widespread wealth".

The same happened for the Renault model car 17, which was renamed 177, being 17 an unlucky number for Latin populations (including Italians).

It is evident that decisions in this field should be taken with the assistance of persons coming from the foreign market at which products are addressed.

As to the logo, it is of utmost importance to pay attention to colours and forms, which should be chosen considering possible meanings for the foreign population.

An example stems from flowers, a classic symbol. In Italy chrysanthemum is a classic flower used in funerals, while the red rose is synonymous of passion. In Jewish culture the red rose is the symbol of sin. Similarly, white flowers, which in European culture represent purity, in India and other Asian countries they recall the mourning of dead people.

Same considerations can be drawn for colours. Generally it may be a good idea to use the colours of the national flag of the importing country, but this would be not a good choice when the quality of the product depends highly on the exporting country (e.g. foodstuff, fashion items).

More in general, a lot of attention has to be paid for the meaning of colours in different cultures. For example, in South Africa red is the colour of mourning, while blue in China means immortality.

Another important decision to be taken about the product is its “size”.

More precisely the choices on the size of the item regard:

- 1) the presence of packages of different weight or size;
- 2) the weight or size of various packages;
- 3) the maximum quantity of packages that can be sold to the public and/or to a single buyer;
- 4) the possibility to combine the sale of the product with other products.

These decisions should consider:

a) customers’ needs: the average number of components of a family may affect the pace of consumption; for instance in Latin America where families are, on average, made up of many individuals, the bottles of sodas (i.e. Coca cola) are larger than in Europe, where families are smaller; no surprise, then, to find in Mexico bottles of 3 litres, while the same soda is sold in Europe in bottles not larger than 2 litres;

b) consumers' habits of consumption: the use of a product can be frequent or less; for instance, in Italy we are used to eat macaroni often, but in Central America it is not so; again, no surprise to find in Guatemala packages of 200 grams of spaghetti, while in Italy it is normal to find rigatoni pack of 1 kg;

c) buyers' purchasing power: useless to deny that when local customers have little salaries it may be appropriate to sell small packages, because otherwise they simply could not purchase the merchandise; at the same time it cannot be ruled out that large packs may be welcomed if the price per unit is much cheaper than the one of smaller items;

d) product downgrade along the time: it is useless to offer an item, whose consumption cannot be completed in a short period of time, if it spoils rapidly; this is the case of many foods and drinks. For example items of butter are larger in northern Europe, than in southern Europe, where it is used more olive oil than butter. In fact, in Italy you find items of 125 and 250 grams of butter, while in UK you find normally packs of butter of half pound and 1 pound, which is nearly double than the Italian average sizes.

A last but not least decision of the Product policy is the one relating to the packaging of the product, which includes the label containing information on the product.

As to this decision, it has to be kept in mind that producers have to respect local laws and consumers' expectations.

That said, the decision on the packaging entails some choices:

- 1) the type of material for the outer packaging;
- 2) the drawings on the packaging (i.e. images to be reproduced on it);
- 3) the choice of packaging colours;
- 4) the contents of the label printed on the packaging.

These choices depend chiefly on:

- a) transport modalities (i.e. if the carriage is long, rough, and in variable conditions of temperature, the packaging has to be more resistant);
- b) safety, health and duration requirements;
- c) culture of the foreign population (as for the name and logo of the product);
- d) competitors' choices;
- e) local laws and practices.

In conclusion, decisions on Product policy should be taken considering the following factors, which are specific of each foreign market:

- 1) buyers' economic ability to purchase;
- 2) clients' expectations in terms of characteristics and quality of the product;
- 3) consumption habits and patterns;

4) prevailing tastes and preferences, including underlying meanings of words, and national interpretation of colours and symbols;

5) life cycle of the product;

6) competitors choices;

7) laws and practices (i.e. for labelling and packaging).

The purchasing power of local buyers obviously influences the final price to apply, and consequently the possibility to support high production costs.

Therefore the purchasing power may determine the choice of production factors and of production process.

More generally, the customers' purchasing power influences the decisions on the characteristics of the products (e.g. accessories and related services).

Furthermore, the purchasing power can also determine the size of the items.

As recalled, a modest purchasing power could suggest the sale of small (and therefore less expensive) packaging, or, conversely, larger packaging, whose product unit cost is lower.

Finally, the local purchasing power may suggest to differentiate packagings, to be put on sale with different prices.

The expectations of local customers in terms of product characteristics must also be considered when taking product

decisions.

In particular, these expectations must be kept in mind when deciding the characteristics of the product.

In some markets expectations may regard also the packaging (e.g. products used as gifts), so attention must also be paid to this aspect.

As explained, the consumption habits of local customers affect the decisions regarding also the size of packs, while local preferences essentially impact on the characteristics of the product and on the aspect of the packaging.

The cycle of life of a product requires a set of decisions on:

- a) Product adjustment;
- b) Market re-orientation;
- c) Set-up of promotion initiatives;
- d) Change of price;
- e) Brand re-positioning in the market.

Furthermore, tastes, that is national preferences versus specific product characteristics (i.e. the content of alcohol in a beer), as well as the underlying meaning of words, the preferred symbols and colours, all elements depending on local culture, will represent some driving factors for taking decisions relating to the features of the product, its name and its image (or logo).

Considering that the exporter has to face competitors in the

foreign market, all the decisions on the product above quoted cannot be taken without considering other companies' choices and behaviour.

Otherwise there is the risk that buyers are disoriented by exporter's product original features.

Finally, local regulations and practices may affect the characteristics of the product (e.g. provisions on safety, hygiene, transparency of the origin), its packaging, and labelling, and in rare cases, they may regard also the size of the packaging.

6. The decisions to take for Price policy

The second set of decisions to be taken in the framework of international marketing is the one relating to the price.

The main decisions for this set are 4:

- 1) the currency to use;
- 2) the relationship of the price with the costs;
- 3) the relationship of the price with competitors' price
- 4) the conditions for an active Price policy (that is, for changing frequently the price).

These are important decisions for, in case of a wrong price, there can be serious effects on sales. For instance, if the price is too high, sales can fall, while a too low price may bring about a loss of customers' confidence on the quality of

the product, and hence a progressive reduction of purchases.

Equally, a price changing frequently, and without apparent reasons, would disorient and annoy customers and potential clients, and therefore, the price strategy would become harmful for a profitable handling of sales.

That said, and starting with the first decision to take, it has to be admitted that an important role is played by the choice of the currency used for expressing the price of the items sold in a foreign market.

In some developing countries it may turn out to be the best choice, expressing the price in an international currency, because this would increase the prestige of the product.

On the other hand, considering that sometimes the exchange rate between a strong currency and the local currency of the targeted foreign market is unstable along the time, this choice may determine problems for the potential clients, who may find too expensive the imported merchandise.

It may also happen, conversely, that notwithstanding a high inflation rate experienced by the importing country, the currency exchange rate between a hard currency and the local one is relatively stable, and in such a case the decision to express the price in an international currency may turn out winning.

At the same time, expressing the price in the local currency may result successful, not only because this does not puzzle local clients, but also, on account of usually high inflation experienced by developing countries, or by emerging

economies, this would allow the increasing of the product's price at the same pace of inflation, making consequently convenient to set the prices in the local currency.

In practice, regarding the choice of the currency, there are generally 3 possibilities:

- a) the use of the exporter's own currency;
- b) the use of a local currency;
- c) the use of an international currency (e.g. Euro, USA dollar).

The advantage for the exporter of using its own currency is self-evident: the calculations and the convenience evaluations are immediate, and also there is no currency exchange rate risk.

Obviously this possibility is limited to exporters residing in countries issuing hard currencies.

On the other hand, the price adjustment in the future will be unlikely, given the possible low inflation experienced by hard currencies exporting countries, not to mention the expectations of local buyers to count on steady prices when expressed in foreign main currencies (€, \$).

The use of the local currency of the importing nation has the advantage that it is easier to compare the exporter's price with the local competitors' ones.

Furthermore, as already recalled, when there is inflation, it is possible to increase prices along the time, being local clients accustomed to the growth of prices expressed in their

currency.

More precisely, it can be said that when the exchange ratio between the exporter's currency and the local currency is relatively stable, while the local currency has high inflation, which allows rising prices, then it may be convenient to set prices in local currencies.

On the other hand, the use of a foreign currency makes evaluations and calculations more complex, and in addition there is the problem arising from the possibility of an unexpected exchange rate evolution (the so-called exchange rate risk).

The choice of an international currency is usually a must when the sale occurs between a seller coming from a hard currency country and a buyer located in a developing nation.

At the same time it must be recognized that Brics' currencies are gaining importance in the economic world stage, and they start to be used also in international sales of goods and services. As a consequence the concept of hard currencies may be enlarged, including also some Brics currencies.

The use of an international currency has the advantage for the exporter of shaping price decisions homogeneous to own products' prices applied in other foreign markets, or anyway more comparable with them.

Moreover, since payment is generally executed in the currency in which the price is expressed, the use of an international currency makes the payments easier.

In order to choose the most convenient currency for

expressing a price, it is advisable to query the site of www.xe.com, where it is possible to retrieve data on the historical exchange rates between all currencies.

Chosen the currency, it has to be decided the relationship between price and cost.

About that, there are 4 main strategies:

1) $P = C_u + \% \text{ (mark up)}$

2) $P = C_u$

3) $P = C_v$

4) $P \neq C_u$

where:

P = price;

C_u = full cost of an item (unit of goods);

C_v = variable part of the cost of an item;

Mark up = margin of profit from the sale of an item.

Let's examine the pros and cons of each strategy:

1[^] Strategy (the price is equal to the full cost of the product, plus a mark-up, namely the profit margin): this is the normal strategy, and the profit margin depends on the degree of competition in the market (e.g. less competitive the market is, the higher may be the profit margin), and the market share held by the exporting company (i.e. larger is the market

share, larger it can be the profit margin), and its intention (to increase the market share or not, and in the first case it should be accepted a lower mark up);

2[^] Strategy (the price is equal to the total cost of the product): this strategy can be used at the beginning of the exporting activity in a new foreign market, when the aim is to get the product known by local consumers, and to make the product attractive for them; hence a low-price policy can be instrumental to these goals (in fact, a low price and a new product are factors spurring the interest of purchasers);

3[^] Strategy (the price is equal to the variable cost of the product): it is an extreme strategy, which it is possible to implement only in a start-up phase, that is in the first days of the entry in a new market, or in a moment of crisis, when the choice is between exiting the market or remaining in it, and the only means to do so is to sell at very low prices; in any case it is a strategy that cannot last long; another situation which may suggest this strategy is the presence of a large stock of goods, for which it is not foreseeable their sale in the market, and the exporting firm wishes to get rid of the unsold items;

4[^] Strategy (the price is not linked to costs, in the sense that it is by far higher than costs): these cases are limited to luxury goods (e.g. Rolex or Breil watches), whose price does not depend on the costs (which are significantly lower, but not so lower considering the ads expenses), since on the fact that people, with high purchasing power, consider the product a status symbol (and they would not buy it if offered at a low price).

In general, an aggressive pricing policy (namely, low prices)

should be implemented when:

- a) the exporting company wants to seize a larger share of the foreign market;
- b) the exporting company offers products complementing the range of own items;
- c) the exporting company means to harm competitors, or prevent they prevail in the market;
- d) the exporting company can obtain high economies of scale, with the growth of the production (fostered by the exports).

On the contrary, a high-price policy should consider before its implementation:

- 1) the level of existing competition;
- 2) the feasibility of segmenting the market, creating a niche based on a limited number of clients;
- 3) the possibility of incoming new competitors;
- 4) the clients' purchasing power.

As to the relationship between exported product's price and competitors' ones, which is the third decision to take in the context of Price policy, there are only 3 possible situations:

- 1) exporter's products prices are higher than competitors' ones;
- 2) exporter's products prices are similar to competitors' ones;

3) exporter's products prices are lower than competitors' ones.

The first case corresponds to the positioning of the exporting company among the most expensive players, the second case coincides with a positioning of the exporting firm in the intermediate cluster of operators (in terms of prices, or tariffs applied), and the third case represents the positioning of the exporter among the cheapest sellers.

In theory, each strategy has advantages and disadvantages, which it is important to weigh appropriately before choosing the right one.

Let's now examine them:

1) the advantages of the first strategy (prices higher than those of competitors) can be:

a) positioning in the top end segment of the market, acquiring consequently prestige, provided that the exporting company is in the position to offer high quality goods and services;

b) potentially higher profit margins;

c) larger room for using the price leverage;

2) the disadvantages of the first strategy (prices higher than those of competitors) can be:

a) risk of exiting the market quickly if the price is considered too high by nearly all customers;

b) difficulty in lowering prices later;

c) loss of customer diversification (only rich ones may be attracted);

3) the advantages of the second strategy (prices in line with those of competitors) can be:

a) possibility of creating a niche in the market, thanks to the average price and the use of other marketing leverages;

b) enhancement of other marketing strategies;

c) more possibilities to get balanced accounts for the product;

4) the disadvantages of the second strategy (prices in line with those of competitors) can be:

a) difficulty in standing out in the market;

b) reduced push for innovation, having limited profit margins;

c) limited links with customers not proposing a distinguished product;

5) the advantages of the third strategy (prices lower than those of competitors) can be:

a) possibility of obtaining economies of scale;

b) possibility to get an increase of the turnover, and hence higher chances of ensuring the company's growth;

c) simplification of the marketing strategy, not being there any need to push on other marketing leverages;

6) the disadvantages of the third strategy (prices lower than

those of competitors) can be:

- a) risk that customers perceive the product as a low quality one;
- b) limited profit margins (or even very low ones);
- c) risk of not being able to cope with sudden spikes in demand.

A fourth and last decision to be taken in the framework of Price policy is the possible frequent change of the price, namely to start an active Price policy.

Acknowledged that this is always something to be evaluated with attention, it has to be borne in mind that there are many factors to be considered before changing price frequently.

A variable (or active) Price policy can be conducted when:

- 1) products are not standardized and/or are sold under different brands;
- 2) market is segmented geographically, socially, ethnically, culturally;
- 3) purchasers have a different purchasing and bargaining power;
- 4) there are different seasons for the use of the product;
- 5) Promotion policy is very active;
- 6) inflation is high;

7) there are different channels for the sale of the product.

It is clear that a frequently variable price could produce some negative side effects, such as:

- a) anger from customers who realized they paid a price higher than elsewhere;
- b) complications in running the Price policy, with the possibility to make mistakes;
- c) transfer of customers from a place of sale to another (i.e. from shops to the internet platform);
- d) complexity in managing the bookkeeping and the financial statement analysis;
- e) loss of commitment of the sale personnel affected negatively by the variable Price policy.

Decisions on Price policy should be taken considering for the foreign market:

- a) the purchasing power of local buyers;
- b) the level of competition;
- c) the level of demand and its trends;
- d) the market share held by the exporter and targeted;
- e) the consumers' mentality;
- f) the existence of substitute goods in the foreign market;

g) the level of satisfaction of population's needs;

h) the elasticity of the product vs the price.

It goes without saying that higher is the purchasing power, the demand, the market share held, and lower the level of competition, the level of satisfaction of population's needs, as well as more limited the existence of substitute goods, larger is the room for setting higher prices, and more in general an active Price policy.

As to the elasticity of the product vs the price, an example will help recall the concept.

Imagine that the price of petrol grows from 1.5 € per litre to 2 € per litre (+33%).

We have elasticity of the product, if the sale of petrol plummets of 20% or more (theoretically from 33% or more).

We don't have a product "elastic" at the price, if the sale of petrol are more or less the same, as before the price rise.

In practical terms, with "elastic" products, an increase of price, even slight, may make the sale fall, while a reduction of the price, even if limited, may have a very positive influence on the quantities sold.

On the contrary, when the product is "inelastic", or rigid at the price, variations of the price will have little impact on the size of sales.

As recalled, price decisions must be taken considering a series of elements as a whole, which are often specific to the foreign market.

The purchasing capacity of local customers obviously influences the possibility of selling the product at a certain price. For example, low purchasing power will impose low, or in any case not high, prices.

The level of competition in the overseas market will also influence the pricing decision. If competition, for example, is high, it will push to offer low prices, otherwise, an exit from the market is likely. On the other hand a market with few competitors will allow a flexible Price policy.

Same considerations can be drawn as to the level of demand. If the request of merchandise in the exporter's business sector is growing, it stands to reason that there is room for increasing little by little prices.

The objectives in terms of foreign market share will also have their weight on the definition of prices. If the exporter is not aiming to acquire a large share, and it is satisfied with a limited presence (i.e. in a niche of the market), then the exporting firm can apply also high prices.

The mentality of local consumers also plays a large role in the choice of Price policy. If foreign consumers believe that price is synonymous with quality, then it won't make much sense to practice low prices.

The presence in the foreign market of substitutes (i.e. a clothing playing the same role as your item) should suggest to take more caution when it comes to increase the prices of your products. Indeed, too high prices could induce consumers to buy the substitute, if it is cheaper, and equivalent to the exporter's product. For example, if you sell coffee at a high price, consumers may decide to use tea

instead of coffee.

Equally, it is necessary to assess whether the level of satisfaction of local population's needs is high or not. If this level is low, it means that many customers want the product, and in such a case, relatively high prices can be applied.

As already explained, the elasticity of the product at the price in the foreign market is also very important.

This piece of information can be obtained by observing how consumers behave when product's prices change.

In general, it can be stated that when demand is elastic, the application of high prices may not be convenient, as the quantity of products sold will probably decrease significantly. Conversely, if demand is rigid, that is, if it does not react much when prices change, then a more selective Price policy could also be considered.

In this framework it's important to bear in mind that decisions on the Product and on the Price policies should change depending on the moment of life-cycle of the product, which can be one of the following ones:

- 1) introduction;
- 2) development;
- 3) maturity;
- 4) decline.

During the introduction stage, prices can be set even at a high level, because clients will prize the novelty factor, and

this is a reason to buy the product, regardless of its price.

Along the development phase, prices can be increased if the new and better product features explain (and justify) the higher price.

On the contrary, during the maturity period, prices should be competitive (possibly slowly decreasing), in order to stimulate the replacement of older versions of the product.

In the last phase of the cycle of product life, that is during the decline, prices necessarily fall, and there is little room for an active Price policy.

7. The decisions to take for Promotion policy

The third set of decisions to be taken in the framework of international marketing is the one relating to the promotion.

These decisions relate to the following topics:

- 1) Promotional initiatives;
- 2) Advertisement (including commercials);
- 3) Corporate communication.

These decisions should be taken keeping in mind that Promotion policy has usually the following goals:

- a) to increase sales;
- b) to get the company and its products (including their

features) known;

c) to distinguish its products from competitors' ones;

d) to inspire trust in the company by the public and interested third parties (stakeholders);

e) to segment the market;

f) to build customer loyalty;

g) to involve sellers in the company's success.

The first set of decisions is about promotional initiatives, which consist of prizes, discounts, incentives, usually directed at:

1) Sale personnel (employees and independent agents);

2) Traders (i.e. shop-keepers, supermarkets owners and staff);

3) Customers.

Promotional initiatives for sale personnel usually consist of:

a) economic incentives (i.e. bonus);

b) carrier development;

c) prizes (i.e. free travels), in case, after a contest, or goals achievements.

Promotional initiatives for traders usually are based on:

- 1) increasing discounts on purchased goods;
- 2) increasing fees on sales executed;
- 3) free travels and similar benefits;
- 4) free training and participation to conventions.

Promotional initiatives for customers usually foresee:

- a) discounts;
- b) sale of more products at a discounted price (i.e. 3 x 2);
- c) company's fidelity card providing benefits;
- d) collection of points for getting prizes;
- e) joint sale (i.e. the new product sold together with an old one).

Sales promotion activities targeting customers include also presentation of new products in stores, free samples, brand promotional products (advertising merchandise gifts as bags or t-shirts).

The promotional initiatives for clients generally offer incentives on a short term basis, so as to encourage the customer to purchase a specific product within a short deadline.

The promotional initiatives should be chosen with caution when directed to a foreign market, because, due to local culture, some initiatives could be misunderstood.

For instance, a discounted price may be interpreted as a consequence of a defective product, or of a lower quality.

Also the size of the discount has to be evaluated on the basis of local traditions. For example, it may happen that a 33% discount may seem strange, if local clients are used to discounts of 10%, 20%, 30%. Same consideration could be drawn for formulas as 3x2, which may sound weird, or simply not understandable.

Same caution should be taken when it comes to joint sales, that is the sale of 2 products together. If for Italians, the joint sale of macaroni and tomato sauce is natural, it may be surprising for countries where macaroni are eaten without tomato sauce (i.e. in UK).

Attention should be paid as well to the conditions for getting the incentive, which could be deemed tricky or unfair by local people. For instance, the request to fill a long form, with requests of pieces of personal information, which are usually considered in the foreign nation as confidential or privacy breaking, could lead to a failure of the promotional initiative.

The same precaution should be kept for the issuance of fidelity cards, which may entail a legal liability to stick to promises. Furthermore, this mechanism for client loyalty could be costly to handle, because it may require personnel in charge of interacting with card holders.

As to the carrier incentives, there could be limitations stemming from labour law rules. For example, in Italy the progress in carrier is usually outlined by nationwide collective labour contracts, so this incentive could be difficult to practice in highly regulated countries.

Another aspect not to be neglected is the possible comparison that different intermediaries could make among them. If in modern countries there is not a sense of belonging to a class in the social pyramids, in some important markets it's not so.

Thus, in India the incentives for traders should be attentively tailored according to the importance of different type of intermediaries.

Last but not least, before deciding the promotional initiatives, it is advisable to learn what is considered more interesting for actors of the foreign market:

- 1) an economic incentive (e.g. a discount or a prize);
- 2) a better product (e.g. an upgrade of the service);
- 3) a moral incentive (e.g. a vacation, a reward, a nomination).

The preference about the sort of incentive is especially important for the ones directed at sale personnel or at traders.

It is not surprising that for people living in a developing country the opportunity to travel to a OECD country, for instance, for visiting company's headquarter, is preferred in respect of a simple economic incentive.

On the contrary, for staff and operators located in advanced economies, an economic incentive is usually welcome, as well as an upgrade of the status in terms of carrier or work conditions.

Also fiscal considerations should be borne in mind as to the

nature of benefits, because the taxation may be different from country to country (from no taxation to a high tax rate).

The second decision to be taken for the Promotion policy is the advertisement.

This choice represents the core of Promotion policy. It consists of sending messages through different media to potential and existing customers.

Advertising is usually an expensive business initiative, and it has to be tackled on the basis of a cost/benefit approach.

Advertisement can have different objectives:

- a) to inform about the existence of a new product or a new product feature;
- b) to recall exporting company's presence in the market;
- c) to increase the purchase of the product;
- d) to invite to test the product;
- e) to highlight the differences between exporting company's product and the competitors' ones;
- f) to attract new customers (or customers with a specific profile, that is, belonging to a specific market segment);
- g) to strengthen the brand fidelity;
- h) to improve the image of the product or of the exporting company;

k) to spur the interest for the product or for the exporting company.

In order to carry out an advertisement, the following decisions have to be taken:

1) Target, namely the customer's profile (e.g. classified by gender, age, culture, income, wealth, profession, residence, hobbies, consumption habits, preferences); in fact it is necessary to understand who can be the most interested class of person interested in the product; once you focused on the right profile, it is necessary to know what that kind of person does, reads, watches, where he/she spends his/her leisure time; this is a necessary step for choosing the right media through which channelling the message;

2) Budget, that is the amount of money to be earmarked to advertisement: it's useless to plan an advertisement campaign, when afterwards you realize that it is too expensive; actually, advertising can be very expensive, even if the fees vary greatly from country to country, from media to media, and from broadcaster to broadcaster; hence, before even talking about the budget it would be useful to inquire about the costs of advertising in the foreign market of interest;

3) Element to advertise (e.g. trademark or product): as to this choice, it is a good idea to consider what competitors do; furthermore, it should be noted that brand advertising may have less effects on turnover, at least in the short term; on the other hand, once the brand is known, this could facilitate the sale of future products; in case you choose to advertise the product, you need to decide which or which ones, and usually you'd better take into account the ones promising a

higher profit margin; again, it is necessary to acquire, also through a market research, useful information for an optimal choice of the product to advertise;

4) Message, namely what characteristic of the brand or of the product has to be highlighted, and communicated: this is the most delicate part of the advertising decision-making process; the choice should be based on the expectations of local customers, who may consider a specific characteristic of a brand or of a product more important than others; at the same time, it's not possible to ignore the personality of the company, and therefore of the brand, as well as the best features of the product; however, you may decide to highlight not only the features of a product (i.e. it is fascinating), or of a company (i.e. it is reliable), but also the context in which the product should be used; some examples might be helpful to understand the possible messages; the message could highlight the sporty aspect of a particular brand, as it is purchased mainly by sport people (e.g. a luxury watch used often by golfers and sailors); or the advertising could highlight a peculiar feature of the product, such as the fact that it does not get damaged if wet with water (e.g. a smartphone, as a model of Samsung); at the same time, the message could indicate how a product should be used in special situation, as it is the case of a vermouth at parties (the famous No Martini, No Party message stemming from a videoclip with George Clooney); alternatively, you may underline how fashionable is to wear a specific accessory, such as a handbag of a famous fashion house (i.e. Gucci);

5) Media (i.e. internet, social networks, tv, radio, newspapers, magazines, billboards, brochures, flyers, emails): the choice of the media depends, first of all, on the budget, and then on the targeted people; actually it would be

useless to choose a media that is not used by the recipients of the message (e.g. a magazine different from the one normally read by the potential clients, or an internet site not frequented by potential users of the product); it is clear that the choice of media influences the realization of the advertising message; for example, if you choose TV, you need to make a video clip, while if you choose a magazine or newspaper, you need to create an image easy to be printed on paper; the most modern channel of advertisement is obviously the digital one, that is the use, sometimes based on Big Data, of internet and social media, not only via banners on specific sites, but also through pop-ups internet users visualize while navigating;

6) Advertising agency for creating the message (e.g. producer and broadcaster of video clip/radio message, banner, image for press), and for spreading it: this choice is of utmost importance when the advertisement campaign is carried out overseas; actually, in this case special attention has to be paid, in order to consider the different cultural, economic and social environment where the advertisement is executed; therefore, it is essential to choose the best local ads agency for creating and disseminating the advertisement; as a matter of fact only local agencies know the mentality and preferences of local customers, and consequently the best and most proper messages to be conveyed, the most appropriate media, the most reliable and effective message broadcaster;

7) Approval of the message (or the commercial): chosen the agency, the next step is to approve the proposal of advertising message prepared by the ads agency; the message is necessarily different, changing according to the media chosen; for example, a banner for a website will be

based on very simplified image, while an image for a high-level magazine must be very well detailed; attention has to be paid not only to the image, but also to the wording, because there could be hidden meanings or hints to something which is not pleasant; generally it is very difficult to shape a message with very few words, clear and not misleading; when it comes to the realization of the message, special care has to be devoted to the various phases of the creation, and a good suggestion is to ask for opinions of local residents in the foreign market, before authorizing the delivery of the final version of the video clip/radio message/image;

8) Choice of specific media where to channel the advertisement: once the media has been chosen, it is necessary to decide the channels, namely which TV or radio broadcaster, which newspaper or magazine in particular, which internet site, or which billboard (in which city and in which avenue); obviously, this choice has to be taken very carefully, considering the proposals of the ads agency, and verifying them through consultations with reliable local residents, and collection of different opinions before deciding;

9) Timing for the execution of the advertisement: actually there can be seasons in which potential customers' attention is directed at something else, so it would be useless to spread the message suggesting the purchase of exporter's product at that period of time; as a matter of fact some products or services are seasonal; on the other hand, the seasons may be different from country to country; once more, it is important to know local traditions and consumption patterns, before deciding the timing of launching an ads campaign.

The third important decision to be taken for Promotion policy is the content of Corporate communication.

Corporate communication consists of official statements, issued by the company, in order to get the addressee aware of the company's message.

This communication may be required by laws, by local business practices, or by corporation strategy, for it may be deemed necessary to interact with specific groups of people or entities, with whom/which it is required a good relationship.

Even if Corporate communication is usually carried out chiefly in the domestic market, it cannot be ruled out that it may turn out mandatory in specific situations when operating overseas.

The targets of Corporate communication are usually stakeholders, that is:

- a) Employees;
- b) Investors (e.g. shareholders) and Banks;
- c) Customers;
- d) Suppliers and Partners;
- e) Competitors;
- f) Financial bodies (i.e. authorities);
- g) Public Administration;
- h) Public opinion.

The communication to the employees concerns the style, the values, the working methods and procedures, the principles and rules to be followed while operating.

The aim of this communication is to involve workers to pursue a good performance, and to stimulate their effective contribution to company's success.

The communication to investors concerns usually the company's economic and financial data (reported in financial statements), and its prospects in the short and medium term.

This communication is legally compulsory when the company has issued securities (shares, bonds, equities), directed at the public.

The communication to the banks concerns the economic and financial data, as required by the loan agreement. As a matter of fact borrowers have to prove that they are in the condition to pay back the money lent, and hence, this communication is of utmost importance when the company relies significantly on external financial resources for operating.

The communication to customers is mainly carried out via advertising campaigns, but it can also be achieved with press conferences or dissemination of press releases and interviews on TV and newspapers held by top managers.

The objectives of this communication are usually:

- 1) to reassure customers;
- 2) to confirm company's reliability.

The communication to suppliers concerns the mechanisms of production processes, and has the purpose of involving them in the exporter's business success, which is likelier thanks to the promoted cooperation.

The communication to commercial and/or productive partners relates to the company's prospects, so as to strengthen the interest of partners in continuing the business relation with the exporting firm, as well as their confidence.

The communication to competitors is implicit with advertising, and has the aim of highlighting exporter's competitiveness. This communication may too stir occasions for a potential collaboration with competitors in some areas (i.e. the distribution).

The communication to Public Administrations concerns, in addition to fiscal data, a flow of environmental, labor and corporate data, which are forwarded to the various competent administrations, being necessary for verifying the compliance of company's activity to the different regulations.

The communication to the public takes place with press conferences, or the dissemination of press releases to TV and newspapers, as well as with interviews to media, and information provided via the corporate internet site, which are intended to communicate facts or events of public interest.

In brief, the main areas of Corporate communication are:

- a) commercial communication, which aims at increasing sale and company's credibility;
- b) institutional communication, which highlights company's

mission in order to get consent and support from public and stakeholders;

c) managerial communication, which relates to values and culture, and it's directed to workers, in order to encourage them to take the right attitude while working;

d) economic-financial communication, directed at investors, so as to raise (their) confidence and (exporting company's) credibility.

In conclusion, decisions on Promotion policy should be taken considering, as far as the foreign market is concerned, the following factors:

- 1) the level of competition;
- 2) the sensitivity of consumers to promotional initiatives and advertising messages, as well as the influence of incentives on sale personnel and traders;
- 3) the market rules and practices;
- 4) the level of development of different media;
- 5) the market potential.

The level of competition influences decisions on promotions and advertising campaigns. Where the competition is weak, initiatives may be limited, while if competition is strong, investments in this component of marketing must be significant, and justified.

The sensitivity of local customers, as well as of sale staff and intermediaries, respectively, to advertising and promotions,

and to incentives, may also vary from market to market, and therefore it will be necessary to evaluate country by country what are the most effective measures to be taken.

Even the legal regulations, as well as the commercial practices, which vary from country to country, will suggest how to behave in setting up promotions, advertising and Corporate communication.

The level of evolution of the different media influences their choice, as well as the content and means of Corporate communication. Where this level is high, more options are available.

Finally, the potential of the foreign market will be the compass to guide the setting of the Promotion policy right from the start.

8. The decisions to take for Place policy

The fourth set of decisions to take in the framework of international marketing is the one relating to place, that is to:

- 1) the choice of the market (where to sell);
- 2) the choice of the distribution (or market) channel (how to reach clients).

It is clear that these decisions can be taken in the best way only after it has been defined the target of people to be reached, in the framework of the Product and the Promotion policies.

Furthermore, a good knowledge of the foreign market is required before making effective choices.

The choice of the market implies the selection of cities, regions, areas where to sell the exporters' products. More precisely, the exporting company has to choose among the following possible solutions:

- a) to sell only in the capital, or in the largest city of the foreign market;
- b) to sell in 2-3 main cities;
- c) to sell in the most important cities and towns;
- d) to sell in the main regions;
- e) to sell everywhere in the foreign country.

If the exporter is a SME, most likely it will follow the sequence above reported.

This approach is inevitable if the overseas market is very large. In any case, the costs of distribution in a large area must be compared with the estimated potential sales originated from the different market areas (and its various sizes), and hence with the possible income stemming from those potential sales.

However, this decision cannot be taken independently from the one relating to the distribution channel (the second decision of Place policy), since, before deciding where to sell, it is necessary to verify that there are means allowing to reach customers in a specific area.

In any case this choice of the market to tap has to consider the following factors:

- 1) the size and abilities of the exporting company;
- 2) the size and the population's dissemination in the importing country;
- 3) the transport infrastructures.

The second decision to be taken for the Place policy, that is the one about the choice of distribution (or market) channels, consists of selecting the way for reaching the customers interested in purchasing the product.

For this purpose, there are the following options:

- a) Direct sale through points of sale (i.e. shops, showrooms);
- b) Direct sale through internet (e-commerce), via the company's internet site;
- c) Indirect sale through large scale retailers or distribution (supermarkets and department stores);
- d) Indirect sale through small-medium sized shops (owned by third parties), in case on the basis of a franchising contract;
- e) Indirect sale through an e-commerce platform (i.e. Amazon);
- f) Sale through commercial agents (independent professionals) going around looking for customers or intermediaries;

g) Representatives (company's staff) going around looking for customers or intermediaries (i.e. on the basis of a door to door strategy);

h) Wholesalers (traders) / importers;

i) Distributors.

The role of the last 2 classes of operators has been outlined in section 2 of Chapter III.

In any case, channels are usually managed by a branch of the exporting company located in the importing country, but it may happen that some channels can be handled directly from the exporter's headquarters.

The presence of a branch in the foreign nation would ensure a more performing marketing mix, but at the same time it would entail costs that only few exporting SMEs could afford.

The choice of the channel has to consider the business and commercial practices and regulations in force in the foreign market, which may be different from country to country.

Setting up a proprietary network of points of sales (showrooms, shops, stores), which is the first possible market channel, is a prestigious solution for entering a foreign market, but it is very costly, and requires a complex management. Hence this solution is not advisable for exporting SMEs.

Selling through the web, the second possible market channel, is certainly the cheapest way to get in touch with customers residing in a foreign market. However, this

solution has the possible disadvantage that customers in the foreign market, not having a local reference to address, may be discouraged. Furthermore, selling via web from overseas entails a very good logistic organization, and this is not something to take for granted, especially when the exporter is a SME. Moreover this solution requires an excellent ability to communicate in the foreign language, and if linguistic errors are made, that would show a lack of professionalism of the exporter.

On the other hand the internet site is always useful when it complements other market channels.

The third solution, that is selling through large-scale retailers, represented by supermarkets and large department stores, is a valid market channel when the exporter produces consumer goods. This is a solution similar to the use wholesalers (traders/importers), but potentially much more promising.

In fact, large-scale retailers allow a widespread presence on the territory, and the possibility of reaching a large number of potential customers. In this case, marketing decisions are taken together with large retailers, but the latter have usually a big stake on the decisions, counting on a strong bargaining power.

The fourth option, namely, selling via small/medium shops could be a valid one, if other market channels are less operational.

More precisely, shops represent an effective market channel, especially when large-scale distribution operators are very few, as it may happen in some developing countries.

Managing relationships with stores keepers requires a remarkable work, which is usually assigned to a network of agents, or exporter's representatives, together with an on-site facilities (offices and warehouses).

In this case, the marketing mix must be decided by the exporter. Also with this solution the costs are limited to the set-up and management of few facilities in the foreign market.

No doubt that in this situation it would be a good idea, if the exporter has a sound and well known brand, to tie those shops by means of a franchising contract.

The franchised stores are owned by the franchisees (local operators), who is linked with the exporter (the franchisor), by an agreement foreseeing rights and obligations for both parties.

This is another solution potentially convenient for exporting SMEs, because the investment for setting up a network of points of sale is limited (being the latter in charge of franchisees), and at the same time the exporter maintains a control on marketing leverages, being these strictly regulated in the franchising contract.

The fifth market channel, that is, the e-commerce platform, is for sure a choice which exporting firms nearly never regret. On the other hand being present in worldwide platforms, as Amazon, and Alibaba, may represent a real challenge form many exporting SMEs.

Before choosing this channel, it must be borne in mind that, due to the steep competition, and the fee to be paid to the e-

platform administrator, the margin of profit could fall, and become bewilderingly slim.

Commercial agents (the sixth option) are independent professionals who seek customers, and execute sales in the name and on behalf of the exporter, earning a commission proportional to the value of the sales. This solution usually requires the availability of an on-site facility, in charge of interacting with agents, and of managing relationships with end-users of the product, so exporter's office and warehouse should be necessarily present in the foreign market.

The advantage of this solution is that the marketing is under the full control of the exporting firm. Obviously it is appropriate to compare the cost (and the complexity) deriving from the creation of local facilities with the benefits esteemed from the sales.

All in all this may be a relatively inexpensive solution for operating in a foreign market.

Very similar solution to the previous one is the setting up of a network of exporter's representatives (the seventh solution), who are exporter's employees, usually hired on the place, and managed by a local branch of the exporter.

The sale staff are assigned of scouting customers, and, together with a salary, they usually benefit of a scheme foreseeing prizes on the basis of the sale volumes.

Wholesalers are local operators who act as dealers, buying the goods from the exporter, and selling them on its own behalf and name to buyers located in its territory. This commercial channel is ideal for exporting SMEs, as it greatly

limits the commitment and investment required for operating in a new foreign market.

Conversely, this solution prevents the exporting company from controlling the foreign market, and consequently from exploiting its full potential. Under this scheme the exporting company has little control on the marketing mix.

Wholesaler may act also as importers, selling imported products at its name, but on exporter's behalf. In this case, the risk of being unsuccessful is in charge of the exporter.

Moreover this choice is also a risky solution if the wholesaler/importer has the exclusivity of sales in the foreign market, because, in case of its bad behaviour or low performance, there would be heavy consequences on the size of sales, jeopardizing even the exporter's chances to stay in the foreign market.

The last market channel is represented by distributors, who are local operators, taking the commitment of moving the goods from the customs till the points of sale, or directly to the buyers.

Distributors take in charge the goods, and when they sell, they do so on behalf of the exporter, and in some cases even at its name (but not necessarily).

In general, the exporter obtains revenues only after the sale of its merchandise to final customers, while the distributor gets, as remuneration, a percentage of the sales value.

The agreement between exporter and distributor should define who does what relating to the marketing mix

decisions.

Also this solution may be convenient for exporting SMEs, as it greatly simplifies the management of the foreign market, as well as it reduces the financial resources to be invested. At the same time this solution too could be risky, whereas the distributor is exclusive, and acts incorrectly.

In conclusion every distribution channel has its advantages and disadvantages, and its choice cannot however be made without taking into consideration exporter's capabilities and foreign market conditions.

For example, in Japan the only commercial channel available to foreign operators is the trader, who in turn makes use of distributors (with a rather long logistics chain), while in the USA the commercial agent, franchising and large distribution operators (i.e. supermarkets) are usually winning solutions.

Conversely, in Russia there are mainly wholesalers and distributors, while in China it is mandatory to get a contract with an authorized importer (possessing the import-export licence). In many countries (but not all) the sale through a website is nowadays a must.

On the whole, decisions on the Place policy should be taken considering, as to the foreign market, the following elements:

- 1) the prevailing distribution system (which can be based on small or large retail outlets);
- 2) the location of targeted clients;
- 3) the consumption patterns, purchasing habits and

preferences of local consumers;

4) the level of competition;

5) the market rules (in particular the ones established by laws);

6) the distribution of wealth.

The exporter cannot ignore the local distribution system for deciding how to reach the end-users of its products.

In practice, the exporter will have to understand the distribution mechanisms of the foreign market before deciding what is the best commercial channel for itself.

Also the location of potential and actual buyers is important to consider. So, if they are located chiefly in the capital, or in main cities, there is no need to create a very extensive retail network. On the other hand, if many clients are disseminated out of main urban areas, it could be a good idea to bet on an e-commerce platform.

Consumption patterns, purchasing habits and preferences of local consumers are all elements to be considered. If, for example, there are many internet users, then the website will surely be a channel to favour for selling.

At the same time, if consumers prefer to buy the product little by little, this would suggest to prefer shops and large scale retailers. Likewise, if the product sold by the exporter is purchased almost exclusively in large-scale distribution, it will be enough to focus on this commercial channel.

The level of competition must be considered when choosing

the areas where to sell and the corresponding commercial channels.

If there are still "virgin" areas in the foreign market, it will be appropriate to focus on them. On the other hand, if all competitors make use of a specific commercial channel, it is likely that alternative choices could prove to be ineffective.

Commercial rules have to be considered, as in defining the contractual relationship with intermediaries, those rules must be necessarily applied (and therefore they must be known in due advance).

The distribution of wealth in the foreign market determines the choice of places to sell. If this is concentrated in the main cities, it would make little sense to organize a sales network throughout the entire foreign country.

Chapter VI

International Negotiation techniques

1. The international business negotiation process

After the choice of the foreign market, the identification of potential customers/partners, and the definition of the marketing mix (based on appropriate data), it is time to start operating in the new market, and to this aim it is essential to interact with potential customers, partners, suppliers and other parties useful for tapping the new foreign market.

In order to perform efficiently this activity, it is important to know in advance negotiations techniques.

The first topic to be tackled in this framework is the negotiation process, which is made up of several stages:

- 1) preparation for negotiation, including the decision on the place and time of the meeting;
- 2) presentation of the exporting company and definition of the business proposal;
- 3) management of negotiations;
- 4) conclusion of negotiations (possibly with an agreement).

2. The preparation of an international business negotiation

The first step for a successful international business negotiation is its appropriate preparation.

In order to get ready to deal with foreign counterparts for a business goal, it is needed:

- 1) to establish the goals of the negotiation;
- 2) to define a model of the contract (or order form);
- 3) to highlight the key elements of the agreement (possibly deciding in advance thresholds not to be overcome);
- 4) to train in the counterpart's language, or hiring of an experienced interpreter;
- 5) to learn mindset, culture, habits, business etiquette of the counterpart's country;
- 6) to decide on time and venue of meetings;
- 7) to plan logistics for reaching the location of the meeting;
- 8) to print materials to be used at the meeting (i.e. slides, proposals, brochures).

The starting point is to focus on the objectives of the negotiation.

The goal is generally the conclusion of an agreement (i.e. a contract), but there could be also different goals. For example, at an early stage of the foreign market entry, it may

be helpful just to understand what are counterparts' expectations in that country. Another aim could be to comprehend the functioning mechanisms of the foreign market channels.

As to the model of the contract, it is advisable to have ready a version in English, possibly using the models provided by International Chamber of Commerce (ICC), and adjusting it according to main requirements stemming from the specific business relationship to build.

As to the key elements of the agreement, it is the case to recall those, which are usually the most important ones:

a) price: it has to be defined the threshold not to pass (i.e. the minimum value), and its variation, according to the quantity and quality of goods ordered;

b) quantity: minimum and maximum size of the order has to be made clear;

c) timing of delivery and payment, which may turn out to be decisive for the success of the export operation and consequently of the negotiation;

d) modalities of transport and payment, which have to ensure both parties;

e) guarantees, on the product and on the payment, which may be essential for closing the negotiation.

As to the counterpart's language, it may be enough to learn few basic words, which are usually welcome at the beginning of the meeting. Useless to underline that a good knowledge

of counterpart's language may represent a winning factor.

In any case, except for the case negotiators have a good master of counterpart's language, it is highly recommended to hire a professional interpreter, to be chosen addressing renowned agencies.

The interpreter has to be able to translate the technical terms to be used during the negotiations. As a second choice, if possible, it can be used English (or another international language) during the negotiations, if the counterpart agrees on that.

Another step to be followed is to get acquainted with the counterpart's culture, in order to shun misconducts and misunderstandings

A previous stay of negotiators in the counterpart's country would be a great idea.

Otherwise it is advisable to get a briefing from a person who lived in the counterpart's country, and as last resource, to spend time reading a travel guide and business reports on that nation.

As to the choice of the venue of the meeting, it may be advisable for many reasons to propose to have the meeting at the counterpart's headquarters.

The reason for doing so is that in this way it is possible to check the real operational capability of the counterpart, as well as its existence (never to be taken for granted).

Even if the venue of the meeting is elsewhere (i.e. a hotel

hall), it is advisable as soon as possible to pay a visit to the counterpart's premises.

As to the moment of the meeting, it is a good idea to verify that it is not arranged during counterpart's national holiday.

At the same time, as to the schedule, it is convenient to make a pre-emptive estimate of the duration of the negotiations.

In any case, once place and time of meetings have been arranged, a lot of attention has to be paid to all logistical aspects of the negotiations (travel, hotels, restaurants, devices and materials to be taken for the meetings).

In this framework, it is fundamental to get the proper materials printed, on paper or in pdf file, as well as putting in the case notebook, smartphone, plugs adaptors, bilingual dictionary, foreign currency, credit cards, ID documents, printed tickets, vouchers and visas, maps.

A good idea is to download on the smartphone the app maps.me (which works also off line), and then pinpointing the places of interest (hotel, meeting place, city centre, subway stations).

Among the materials, there should be a company presentation, a proposal presentation, the main negotiators' presentation (that is who are the members of the negotiating team presenting the proposal), business cards, catalogue of products, draft of the contract, and other documents (i.e. a sample of letter of credit), all at least in English, and possibly in the counterpart's language too.

It may turn out to be a good idea to collect some presents

recalling the exporter's country to use as gift for counterpart's representatives (i.e. wine, food, small pictures, accessories, handcrafts or typical objects).

Of course, it is the case to bear in mind the local culture so as to avoid inappropriate mistakes (e.g. presenting a bottle of wine to a Muslim counterpart).

Once the goals of the bargain, the model of the contract, and its key elements have been defined, the next step is to define a business proposal, which should comply as much as possible with the following requirements:

- 1) it has to be understandable for the counterpart;
- 2) it must be convenient also for the counterpart;
- 3) it should be easy to transfer in a contract or in an order;
- 4) it should be short enough to be treated in meetings;
- 5) it should be accompanied by sound elements proving its feasibility (starting from the exporter's ability to implement it).

3. The management of an international business negotiation

Once the meeting with the foreign counterpart has been organized, it is time to think of the negotiation's management.

In this phase it is necessary to take advantage of the collected pieces of information on the correct methods of greeting, behaving, thinking of the counterpart's country,

being always aware of the local culture, values and practices.

In other words, the counterpart's business etiquette has to be followed strictly, being ready to appreciate the counterpart's effort to do the same.

Even if in the international business community it is used as reference the Anglosaxon approach, it must not be underestimated the importance of the local culture background, which influences behaviours and demeanour of exporter's counterparts.

In practice, when it is time to greet, the normal handshake is the most common way to introduce yourself, but at the same time it is appreciated to comply with local habits (i.e. to put a hand on the heart, as Muslims do, or to bend steeply with the back as Japanese do, or to join hands in front of the face, and bending a bit, as Indians do).

It must be borne in mind that woman behaviour change dramatically according to the culture. So, in many Asian and African countries it is not expected the handshake between a man and a woman.

At the moment of greetings, trying to say some words in the counterpart's language is a good idea.

During this first minutes of the meeting, the exchange of business cards is normal. In this moment a short presentation of yourself and of your company is welcomed. But it is not the case to exaggerate on the merits of both. In short, understatement is a must.

It is also important to learn how to pronounce the

counterpart's name (and get trained to read it), and, except for Anglosaxons, it is better to wait before using the first name.

In general, it is an expression of respect to pay all your attention on what the counterpart says.

Before starting to tackle the business agenda, a period of social talk represents a good manner at every latitude.

So, it may be nice to recall your own experience in the counterpart's country (obviously, without complaints), or the wish to visit his/her country, as well as to answer politely to counterpart's questions.

If the counterpart is clearly keen to talk, some more questions can be posed when it is your turn to speak, and in this context it is polite to ask whether the counterpart knows your country.

About that, it must be borne in mind that the concept of privacy is a western one. Therefore it may happen that an Indian man may ask a western woman if she is married, or if she has children, and in case of negative answer, asking surprised why.

On the other hand in many countries there are forbidden topics, as politics, so the western counterpart, used to discuss about it, should shun to introduce those topics (i.e. the level of democracy, human rights, president ruling for many years). Equally, it is not advisable to inquiry on the counterpart's economic situation.

The duration of these moments of social talk varies largely, depending on the culture.

Latin people (i.e. Italian, French, Spanish, South Americans) as well as Africans tend to be more wordy than Anglosaxons. Also Asian people like to discuss, even if they are shy than Europeans.

When the presentation of the business proposal begins, it is advisable to express yourself with calm, and to act professionally, for instance, using a power point presentation, helpful to support a clear, complete and precise explanation of the proposed agreement.

When the counterpart expresses his/her comment, notes have to be taken (also as a sign of respect).

When the exchange of views is underway, it is very important to refrain from stopping the counterpart's explanation, while it is a good idea to keep track of questions arising in your own mind during the counterpart's presentation or comments.

After the end of the presentation and comments, it is time for posing your questions.

When people from different countries meet, it is normal not to understand each other fully, and therefore, after waiting for the right moment, it is advisable always to ask the counterpart to repeat a concept, when it has not been fully understood.

In these situations it is not forgivable shyness, and misunderstandings have to be cleared asap, for serious consequences can ensue.

Other tips for managing correctly a negotiation are the following:

1) pose only questions strictly linked to the discussed topic, shunning to change continuously theme before achieving a conclusion;

2) avoid to contradict yourself (i.e. to state something, and later the opposite);

3) don't shout, or use bad words (you may do for showing off that you are fluent in the foreign language); on the other hand do not react in such situations, being normal for some populations to do so (i.e. Latin ones);

4) don't leave the table, except for personal needs;

5) don't answer to the mobile phone when others talk;

6) don't eat something during conversation, except for invitations to do so; at the same time don't reject offered food and beverages.

When the negotiation is underway, it may be advisable to try to arrange first the most important elements of the agreement, such as product characteristics and price, terms of delivery and payments.

After an agreement on the most important aspects of the business has been achieved, it is possible to go ahead discussing all the other points.

The duration of the negotiation depends on several factors:

a) the need for each party to close the deal;

b) the contractual strength of each party;

- c) the culture of each party;
- d) the character of each party;
- e) the experience of each party.

In any case, it is recommended to:

- 1) keep yourself relaxed, calm and bright;
- 2) show no haste or stress;
- 3) respect deadlines previously agreed;
- 4) control yourself (no theatrical postures, insults, blackmails, ultimatum), even if you experience frustration.

4. The outcomes of an international business negotiation

After having devoted all your energies on the negotiation, a wrap up has to be drawn at the fixed deadline.

At that moment there can be these alternative possible situations:

- 1) an agreement has been substantially achieved;
- 2) it is possible to achieve an agreement, but there is yet a negotiation work to be done;
- 3) it is unlikely that an arrangement can be agreed, and it is best to admit the failure of the negotiations.

In the first case, it is advisable to arrange a road map for closing the agreement.

The plan should include how to complete the formalities for getting the contract signed. About this there are 2 modalities:

- a) joint signature of the contract in 2 copies, 1 for each party;
- b) exchange of letters with the contract attached, always in 2 copies, signed separately.

In the second case, it may be advisable to establish a new deadline for closing the negotiations, and drafting a document recalling what has been already agreed, and what has to be arranged yet is a good idea

In these situations quite often a memorandum of understanding is signed (about this see section 3 of Chapter VII).

In the third case, it is important to learn the lesson, striving to understand what went wrong, so as to avoid another failure in future negotiations.

5. The ICC principles for international business negotiation

Before closing the topic of international negotiation, it may be worthwhile to recall ICC (International Chamber of Commerce) principles on international negotiation.

As it will emerge next, many concepts and suggestions have already been considered, but having a quick look at the

suggestions more recommended by this well known and prestigious international organization is not a waste of time.

ICC recommends to apply the following principles when you run international business negotiations:

- 1) prepare everything carefully;
- 2) take cultural differences into account;
- 3) make early agreements with a negotiating partner about a process to guide the logistics of the negotiation, which paves the way for making agreements about more substantive topics;
- 4) allocate appropriate human and technical resources to a negotiation;
- 5) aim to develop an open and reliable working relationship with a negotiating partner;
- 6) behave with integrity;
- 7) manage your emotions;
- 8) be flexible;
- 9) make realistic commitments;
- 10) confirm the agreement, so as to ensure a common understanding;
- 11) be ready for the case where negotiations do not succeed.

Chapter VII

International Contracts techniques

1. The two main aspects of international contracts

There is no international trade without a contract.

More in general, there is no business without contracts, so this is a topic not to underestimate when it comes to plan an internationalisation process.

After having conducted successfully the negotiations with the foreign counterparts, it arrives the time of drafting a contract, and for this purpose it is advisable to keep in mind the most important pieces of knowledge relating to the content and structure of an international contract.

International contracts can have 2 different aspects:

- 1) orders of goods;
- 2) contracts.

Orders are simple forms where essential elements of the transaction are reported, namely seller, buyer, goods, price, way of shipment and payments, guarantees if requested, timing of production, shipment and payment.

More precisely the order has to specify:

- a) parties' data (including the banking ones) and representatives;

- b) object of the contract (kind of merchandise or service sold, its main features and quantity);
- c) precise characteristics of the products;
- d) price (amount, currency);
- e) terms of delivery (time, means of transport);
- f) payment terms (time, method);
- g) invoicing method;
- h) parties' responsibilities and penalties for non-compliance;
- i) procedure for submitting complaints to the counterpart;
- j) cases for the termination of the contract and those of force majeure;
- k) procedure for disputes resolution (court to address) and jurisdiction (applicable law);
- l) guarantees;
- m) signatures of the legal representatives.

The order must be written, even when local laws do not require a mandatory form.

In fact, a written order is an evidence of the agreement.

Its validity starts since the contract proposal, explicitly presented as binding and not retractable by the bidder (e.g. seller), is accepted unconditionally by the offeree (e.g.

buyer).

Usually international contracts are used only for long-lasting operations (e.g. distributorship contract, agency contract, contract for the sale of intellectual property rights), or for complex operations (e.g. Joint venture), or when the amount of the value of transaction is very large (e.g. more than some millions of Euros, or less according to the business sector).

Otherwise, for the simple sale of goods of limited value (some tens/hundreds of thousands of Euros) to a foreign customer, it is enough an order, which is a printed form, to be filled in its various parts (the ones already mentioned).

In conclusion, international contracts may be drafted in few lines, as it is the case of a simple order of goods forwarded by the buyer to the seller (who made a proposal), as well as in many pages, depending on the complexity and type of the business operation, its duration, and its value.

Generally speaking, the contract has to explain how the parties have to behave in all possible circumstances the business relationship may determine, and this perspective is of utmost importance when the seller and the buyer come from different countries.

2. *The contents of international contracts*

An international contract consists of several components:

- 1) title of the contract;
- 2) details on parties of the contract;

3) introduction or recitals;

4) definitions;

5) articles containing:

a) general conditions (e.g. rights and duties of the parties);

b) specific conditions (e.g. applicable law).

In the next pages some considerations for each component of the international contract will be outlined.

The title of the contract defines the type of the operation or transaction (e.g. sale, trademark license, distributorship).

It is necessary to ensure consistency of the title with the content of the contract.

The rule is that the content prevails over the title.

For instance, if the title of the contract is “Leasing”, but the articles foresee the definitive transfer of a machinery from an owner to another subject, even if the latter rents it for a precise time span, this contract may be considered in some countries as a Sale contract, and not as a Leasing contract.

Moreover, it may happen that the name of a business operation has a meaning in a nation, and a different meaning in another nation.

For instance, in Italy, the contract of leasing means that the renter may sell the object rent to the user, after a certain period of time. In other countries leasing has the same meaning of renting.

Even the correct identification of the contracting parties is fundamental.

It is therefore necessary to pay attention to the name of counterparts, as resulting from the Business register, their correct address and identification number (i.e. the Vat code), the name and title of the legal representative.

In addition, the role of each party in the contract (e.g. seller, buyer), and the abbreviation used in the subsequent text, must be specified, so as to avoid the quotation of the full name of the parties every time they are quoted, which, in some cases, may be very long.

With regard to the legal representative, it is advisable to:

- 1) understand the rules on representation, which vary according to national legislation;
- 2) verify the documents that define the powers of the representative (e.g. proxy or mandate);
- 3) check that the signature of the contract falls within the powers of the representative.

The introduction (or recitals) of the contract describes the goals of the parties, their operational framework, their reasons for the contract, the previous agreements (if any), and the practices between the parties.

If this introduction has to be binding for the parties, the first article of the contract must state that the introduction is an integral and substantial part of the contract.

The main role of the introduction of the contract is a reference

for the interpretation of contract's provisions.

For instance, if the seller states in the contract that its aim is to satisfy its clients, then, when the contract is carried out, the seller cannot refuse without any motivation a client's request, such as an explanation on how the product may be used.

The definitions are equally important for the same purposes.

As a matter of fact they help to avoid misunderstandings, and to facilitate the implementation of the contract, explaining how the parties must interpret the contract (i.e. what the term 'parcel' means), and therefore how they are expected to behave as to 'parcels'.

The definitions, whose first letter is normally written in capital letters, generally concern:

- a) Products;
- b) Transports;
- c) Guarantees;
- d) Payment methods;
- e) Abbreviations.

Actually, the same word can have different meanings in various countries.

For example in Southern Europe, when you refer to shoes, you use this term, but in Anglosaxon countries, that term is replaced by "footwear", which is the term used in a business

framework.

It is well known that also in the Anglosaxon world the same concept (i.e. the last part of a car) is expressed with different words (boot in UK, trunk in USA).

Passing now to the main part of a contract, it is important to stress that the text of the contract should be outlined in light articles (with headlines), divided into paragraphs, both of them numbered.

In this main part of the contract, parties should strive for clarifying their rights and duties.

For this purpose each article must be devoted to a specific topic (e.g. shipping, payment terms).

The articles containing the general conditions regulate the main aspects of the transaction or of the business operation.

Taking into consideration the most used contract, that is the international sale of goods contract, in this part of the contract the following aspects of the relationship should be ruled:

- 1) characteristics of the goods (or services);
- 2) terms and methods of payment (including forms of guarantee);
- 3) date of delivery of the goods;
- 4) Incoterms, which implies the choice of transport modes and place of delivery;

5) billing (or invoicing) methods;

6) duration of the contract, and the cases leading to its conclusion or termination;

7) responsibilities of the parties.

The characteristics of the goods include:

a) the type and quality of the goods;

b) the price (unit price and total, with specification of the currency);

c) the documents accompanying the goods.

Terms and methods of payment are an important reference for evaluating buyer's performance, and its possible default.

The guarantees, both for the seller (for ensuring the buyer pays), and for the buyer (for making sure the seller sends the requested goods), are defined through appropriate payment methods, such as letter of credit, letter of warranty, etc.

The date of delivery of goods is also relevant for assessing the seller's performance, in the event of its possible default.

The Incoterms are abbreviations (i.e. FOB, CIF, DAT, DDP), which unequivocally define the seller's and buyer's logistic tasks and responsibilities as to the transportation of goods. The Incoterms will be described in section 4 of Chapter IX.

The billing methods can be different, and depend on both the shipping and payment methods (one invoice per shipment, or a pro-forma invoice per shipment, followed by an invoice

billing a set of shipments).

For example, the parties could agree to issue a proforma invoice that accompanies the goods, so as to allow them to pass through the customs of the importing country, while, as to the request for payment, it can be foreseen the forward of a commercial invoice every quarter, or every semester, comprising all shipments which took place from the last commercial invoice.

The duration of the contract must be decided, if the commercial operation is based on a supply lasting a period of time (and not being a one-off sale).

In this case it is also important to define the conditions that lead to the termination of the contract before its foreseen deadline.

The responsibilities of the parties have to be defined in terms of fulfilments of activities, and of consequences of non-compliance, so that each party has clear ideas on what tasks are in charge of each party, and what happens in case of non-execution of those tasks.

It would be a good idea report in the contract the provisions of CISG Convention (also known as Vienna Convention 1980) which outlines rights and obligations of seller and buyer in an international sale of goods.

It is appropriate to recall that Vienna Convention applies automatically if both parties of the contract reside in signatories countries, otherwise those rules can be pasted in the contract, and hence they are in force, even if one party is not located in a signatory nation.

Besides, it may happen that some conditions (e.g. the price) are placed in attachments, so as to make it easier to change them along the time.

In fact, in this way, there is no need to rewrite and officially re-sign the contract, but it would be enough an exchange of letters, accepting the new price conditions.

The second main part of an international contract is made up if articles containing the specific conditions, which regulate particular aspects of the business relationship.

These aspects concern:

1) Specifications:

a) applicable law;

b) competent court;

c) alternative ways of resolving disputes (i.e. arbitration);

d) channels of communication between the parties;

e) people representing the parties for official notices;

2) Exceptions:

a) definition of non-performance;

b) consequences of non performance (e.g. consequences of delayed delivery and delayed payment);

3) Derogations:

- a) cases of force majeure (so-called hardship clause);
- b) sudden and unpredictable changes that make execution of the contract no longer convenient (so-called frustration clause).

The choice of the applicable law constitutes the first specification.

It involves the decision on the legal system to be used for the resolution of disputes.

Being the contractual parties from different countries, the problem arises when it is necessary to make reference to a legal system for enforcing laws and procedures.

In this regard, there are 3 options:

- 1) the law of the seller's country;
- 2) the law of the buyer's country;
- 3) the law of a third country.

The choice depends on parties' contractual strength.

Obviously, every party will try to propose as reference the national law of its country, and for this reason sometimes the solution can be the legal system of a third country.

Lacking indications in the contract about this provision, usually it is applied the discipline of the seller's country in case of a B2B sale, and vice versa, of the purchaser, in case of a B2C sale.

In reality, this choice should be made at beginning of negotiations, since from this choice could stem limits in the contents of the contract (e.g. if the parties choose the law of an Arab country, where Sharia is in force, then the parties cannot foresee high interest rates as a penalty for non performance of the contract, being these contrary to Koran).

The choice of the competent court constitutes the second specification.

It consists of choosing the court to address in case of dispute between the parties.

As for the decision of applicable law, the choice of the court in charge of settling the dispute depends on the contractual strength of the parties, preferring each party obviously its own court.

In fact, it is much easier to start a legal procedure addressing a court located in your own city, where the company's lawyer can easily file the lawsuit, than to seek a foreign attorney, in order to assign him/her the case, to be treated in a foreign court, in a different language, and according to procedural mechanisms very difficult to learn and understand.

Also in this case there are 3 choices:

- a) the court of the seller's country;
- b) the court of the buyer's country;
- c) the court of a third country.

This choice, however, is closely linked to the one relating to the applicable law, as it must be borne in mind that a court

cannot apply the rules of another country, when these are contrary to the national ones.

It should also be noted that, even in the case of choice of your court, it is still there the problem of recognition of your court ruling in a foreign country.

In fact, there is no international convention that ensures the implementation of judgments issued by a foreign court.

As a matter of fact, even if there is the 1971 Hague Convention on the recognition and implementation of judgments of civil and commercial courts, it has never been ratified, and therefore it did not enter into force.

It is the case to recall that if the counterpart is located in a European country, then the Lugano Convention, signed in 1988, and renewed in 2007, which regulates jurisdiction and the recognition and enforcement of judgments in civil and commercial matters between countries, can be summoned for parties located in the EU and EFTA (Iceland, Norway, Switzerland).

Anyway there can be bilateral agreements between countries concerning the recognition and enforcement of judicial decisions, and therefore this possibility must be ascertained by the parties of a contract (just in case).

In conclusion, these are choices that, from the practical point of view, are of little relevance, since it is unlikely that two SMEs from different countries will start legal disputes against each other.

A possible third specification concerns the arbitration. This is

an alternative to the court, as a means of resolving disputes.

In fact it is possible to assign to an arbitration board (or panel), made up of professionals expert in international commercial law (so-called arbitrators), the task of resolving the disputes arisen between the parties to an international contract.

The arbitration has the advantage of being a fast process, and the disadvantage of a higher cost, due to the remuneration of arbitrators (or referees), who will assess the dispute, taking the decision aimed at solving it.

That said, it must be considered that the decision of the arbitrators is not always automatically enforceable, for in many countries it requires anyway a judge's sentence.

In fact, only in the countries adhering to the 1958 New York Convention it is possible to seek the recognition of arbitral decisions.

Therefore, if seller and buyer are resident in countries signatories of the New York Convention, then they will be able to file an application for the execution of the arbitral decision (otherwise they will not be in the position to do so).

As a matter of fact, in order to enforce the arbitrators' decision, it is necessary to address the court in the country of the losing counterpart of the contract.

Only in this way it is possible for the winning party to get what the arbitration board awarded.

In conclusion, the decision to give the arbitrators the task of

settling disputes can be appropriate when the contract is of great value, and when the parties are medium-large companies.

In order to assign the task of settling disputes to arbitrators, it must be inserted in the contract the so-called arbitration clause.

The arbitration clause must define:

- 1) the choice of the Arbitration Chamber, where the arbitrators are listed (the main Chambers of Commerce have one);
- 2) the number of members of the arbitration panel (that is the arbitrators);
- 3) the procedure for selecting the members of the arbitration panel;
- 4) the professional requirements of the members of the arbitration panel;
- 5) the powers of the members of the arbitration panel;
- 6) the arbitration procedure.

Among the Arbitration Chambers of longest tradition, there are Paris, Frankfurt, Geneva, London, Lugano, Milan, New York, Stockholm, Vienna, Zurich.

The number of members of the arbitration panel must obviously be odd.

If the contract value is not high, the arbitrator may be unique,

otherwise they should be 3 (or 5 in the most complex business operations).

Regarding the selection methods of the components of the arbitration panel, there are various options:

- a) the choice is left to the Arbitration Chamber to which the arbitrators belong;
- b) the choice is made jointly by the parties;
- c) each counterpart chooses one or more arbitrators, and the last one is chosen by a third party (i.e. the Arbitration Chamber, or other subject indicated in the arbitration clause).

With regard to the professional requirements of the arbitrators, membership of an Arbitration Chamber may be sufficient, as well as proven experience in the productive sector where the parties operate.

Arbitrators may have powers that include:

- 1) possible appointment of experts for the examination of technical aspects;
- 2) collection of opinions;
- 3) choice of procedures for hearing the parties involved.

The arbitration procedure is based on an iterative process, in which every conflicting party is heard, and requested to present documentation to support its own reasons and points.

The duration and phases of this process can be freely

decided in the arbitration clause.

The last specifications to be reported in the specific articles of an international contract concerns subjects and methods of communication between seller and buyer.

It is important actually to define the communication channels between the parties, for, it may happen that an important message could be lost, or not considered, if forwarded through a not proper means of communication, or by someone who has not the power to take commitments for his/her own enterprise.

It is therefore necessary to arrange timely communication channels, which at the same time guarantee reception of messages.

A solution could be registered email, or other appropriate settings of emails.

Equal importance has the identification of people, who can make official notices on behalf of the parties.

In fact, it could happen that those who forward communications to the counterpart do not know the real situation, or simply that they do not have the powers to commit their company.

Consequently, it is advisable that communications relevant for the implementation of the contract are issued for each party by just one person (usually the program manager in charge of the operation).

Examining now the topic of exceptions, the first one to be

fine-tuned is the definition of non-performance, that is the description of the situations that determine the claim of non-compliance from the counterpart harmed by the non-performance.

In other words, it is necessary to decide whether a delay in delivering the goods, or a delay in settling the payment beyond a certain number of days (i.e. 5), can be considered a default, or not.

Likewise, it should be decided the level of tolerance on the characteristics of the products shipped by the seller.

For example, if there are 29 pairs of shoes of size 43 instead of 30 pairs, is this a non-performance?

In this case it is parties' experience to suggest what could be their own margin of error, in order to establish a tolerance to be reported in the contract.

After clarifying the conditions for the recognition of parties' failure to fulfil their obligations, the consequences of the non-performance remain to be established, representing a further topic of exceptions.

Generally these consequences consist of compensation of an economic nature.

When it is the seller not performing its duties, it is possible to imagine a discount to be applied to the price of goods delivered not in compliance with the agreement (e.g. as to time of delivery or quality of goods).

On the other hand, when it is the buyer not performing its

duties, it is possible to imagine the application of interest on the sum unpaid, and therefore an increase in the price of the goods applied to the buyer in default.

It goes without saying that the solutions must be reasonable, and proportionate to the nature of the non-performance.

Maximum tolerance levels can also be defined, beyond which the termination of the contract is triggered.

The termination of the contract for non-compliance of one party can give rise to a summons in court, but, as already mentioned, this is an unlikely event, chiefly for small and medium sized companies.

The impossibility of implementing the contract may depend on causes beyond parties' control.

These causes are generally referred to as "force majeure", and represent the first derogation to be arranged in the contract.

In other words, it may be convenient to establish exceptions to the contractual provisions for both parties, preventing in this way a request of compensation, if the default is not due to one party's fault.

The typical causes of force majeure are:

- a) strikes;
- b) civil unrest;
- c) wars;

- d) fires;
- e) accidents;
- f) natural disasters (earthquakes, volcanoes eruptions, floods, hurricanes);
- g) acts of terrorism;
- h) decisions taken by public authorities (e.g. embargoes, currency restrictions).

These situations could prevent the implementation of the contract, and determine the end of the obligations of the parties, without consequent penalties for the non-performing party.

To offset these situations, parties may insert a clause (so-called hardship clause) that provides for:

- 1) list of events representing force majeure;
- 2) procedure for notification of the event.

Regarding the procedure of notification, it is necessary to decide how to notify and prove the event.

The communication must take place by a means allowing proof of receipt of the message by the recipient.

The event can be proven with a newspaper article, or with a communication notice from public authorities.

A second derogation may be given by cases that do not constitute a force majeure, but which determine a situation

making impossible, or seriously inappropriate, implementing the contract (the so-called frustration clause).

These cases consist of sudden and unpredictable changes of the economic situation, for example on the price side, or a technological evolution, which makes the execution of the contract no longer convenient for one party (or both of them).

In this perspective it may be useful to point out in the contract cases of frustration, which, even if improbable, cannot be ruled out (see as example the sudden rise of fuel price in March 2022, as effect of the war Russia-Ukraine).

3. The process of international contracts

To prepare an international contract is not an easy process, and several steps have to be followed in order to achieve a satisfactory outcome.

The usual stages for preparing a good international contract are the following:

1) to collect information on the legal framework: it is important identifying the best legal system applicable to the agreement with a foreign counterpart, as well as the most appropriate court to be addressed in case of a dispute; it is also advisable to verify whether there are any restrictions imposed by the laws of the country of the other party;

2) to draft a written agreement: it is wrong the widespread opinion, according to which, a not written agreement is not legally binding, being on the contrary true that doing so, you

do not know the obligations you are subject to;

3) to decide the official language of the contract: translation into other languages can bring about multiple interpretations, and therefore it is highly recommended to use an international language, as English, so as to put the parties on an equal position;

The life cycle of an international contract is made up of different stages:

- a) proposal;
- b) negotiation;
- c) agreement;
- d) drafting of the contract;
- e) execution of the contract;
- f) termination of the contract.

The starting point of the process is to prepare a winning proposal. To this aim it is advisable to:

- 1) collect information (types of contract suited for the business operation, applicable laws and international conventions, safe methods of international payment);
- 2) create a team, in charge of the contract drafting, with different competences (production, sale, finance, legal affairs);
- 3) single out the most delicate aspects of the contract, so as

to provide proper solutions for potential issues;

4) draft the proposal according to the best practices;

5) clarify the limits of prices and features of the product which cannot be exceeded during negotiations.

The proposal must be:

a) clear;

b) precise;

c) complete;

d) understandable;

e) binding for the proponent.

A good idea is to use the ICC (International chamber of commerce) model contracts (available on sale on the internet site).

You find them at www.iccwbo.org. Another source to be considered for downloading model contracts is www.globalnegotiator.com.

It goes without saying that the content has to be tailored to the specific situation.

Hence, while reading the contract you have to change the text for tackling all possible situations that the specific business relationship may arise.

The ICC model contracts implement the concept of Lex

Mercatoria (not written official rules, but implemented in practice), that is a system of uses, behaviours and traditions followed in the international business environment.

All that said, some practical suggestions for preparing a proposal are the following:

- 1) to use ICC contracts, adapting them to the specific situation;
- 2) to draft light articles;
- 3) to draft changeable conditions in attachments;
- 4) to draft a complete and self-sufficient text.

Negotiations, the second step of the process of international contracts, whose techniques have been described in Chapter VI, have to be managed carefully because they can bring about a pre-contractual responsibility.

Special attention has to be devoted to documents which are drafted during negotiations, such as letter of intent and memorandum of understanding.

As a matter of fact breaking these pre-agreements can pave the way for a lawsuit.

The letter of intent is aimed at defining:

- a) the framework of negotiations (what has to be agreed in the future);
- b) the purposes of contracting parties.

The memorandum of understanding is aimed at stating:

- 1) the commitment to agree a contract under specific conditions;
- 2) the aspects and rules already agreed and to agree.

Furthermore parties have to behave correctly (principle of good faith), and to provide proper and complete information (principle of due diligence).

The third stage of the process for making an international contract is the agreement, which is influenced by the legal systems of the parties.

When law systems are different, it goes without saying that time to be devoted to negotiations is longer than in the case of a contract signed by parties located in the same country.

The agreement can be reached in 2 ways:

- a) signature of the contract in the same moment by both parties' representatives during a meeting;
- b) exchange of mail containing the contract (the more frequently used method).

The second solution presents a weakness stemming from the uncertainty about the moment from which the contract enters into force.

For many legal systems (including the Italian one: art. 1326 c.c.) the agreement is reached when the proponent is aware of the approval of the business proposal from the counterpart (but the counterproposal means that there is no acceptance

of the first proposal).

The date of the agreement is relevant for the start of consequent activities.

Specific rules on the validity of contracts relating to international sale of goods are spelt out in Vienna Convention 1980.

According to art. 25 of CISG Convention, the agreement is reached when the acceptance of the proposal arrives at proponent's headquarter. But the proposal has to be precise, addressed to determined subjects, and binding for the proponent.

UNIDROIT principles specify that the agreement is reached not only when the counterpart accepts, but also when the behaviour of parties are conclusive, that is when the will to implement the contract is shown by both parties.

In both cases the agreement is valid when the proponent is aware of the acceptance.

If there is a counterproposal from the buyer, the contract is closed if the seller shall execute the order, even without the explicit acceptance of the counterproposal, being enough acting in conformity with it.

A problem could rise from the withdrawal of the proposal, once it is accepted.

The solution is that the proponent must pay off damages borne by the acceptor, if he/she has started to implement the contract, before knowing the withdrawal.

When all the content of a contract is decided, the next step is drafting the text.

In this respect the choices are the following:

- 1) language;
- 2) applicable law;
- 3) jurisdiction and Court of justice, or arbitration.

As far as language is concerned, it's advisable to use English.

About applicable law, there are 3 possibilities:

- a) exporter's law;
- b) counterpart's law;
- c) a third country's law.

The choice should be made before drafting the contract, so as to ensure that contents of articles are compliant with the legal system chosen.

The Rome Convention (1980, recognised by the Italian law 218/95), which is applied only to EU countries, states that the choice is free, and if there is no choice, the law to be implemented is the one more linked to the content of the contract.

Usually it's recommended to choose the national law, but in some situations it could be convenient to choose counterpart's law, or even third countries' law.

This is not true for the choice of the Court, being always advisable own Court for many reasons (i.e. known lawyers, procedures easy to understand, reduced costs).

The contracting power influences the choice of the law and of the Court.

The choice of the law determines also the choice of the jurisdiction (but this consequence is not automatic). In case of choice of other countries' jurisdiction, guarantees from the counterpart are advisable.

The choice of the Court means that you have to point out which is the city where it is located the tribunal to address for solving the dispute.

This implies that the Court will enforce the law of its own country, which, in some cases, cannot be overcome by agreements convened by the parties (i.e. another nation's law).

Another problem is the enforcement of Court ruling in other countries (that is in the counterparts' country), depending on bilateral agreements between the respective countries.

As already recalled the Hague Convention, signed on 1 February 1971 on the recognition and enforcement of foreign judgments in civil and commercial trials at the international level, has not been ratified.

An alternative to the Court is the Arbitration. Arbitration is faster than Court ruling, but it is more expensive.

The execution of a contract, which is the fifth phase of the

process of an international contract, can be carried out in 2 ways:

- 1) in one moment;
- 2) along the time.

A problem which could arise is the change of situation, which could produce the impossibility, or a serious difficulty to implement the contract.

For this purpose it is useful to insert in the contract some clauses:

a) hardship clause: it describes situations (i.e. strikes, fires, natural disasters, accidents, wars, civil disorders) which could hinder the implementation of that contract, determining therefore the end of obligations, without any penalty for the party in default; it's important to specify procedures to notice the hardship;

b) price update clause: it allows to change prices according to specific conditions;

c) frustration clause: it allows to terminate the contract when economic conditions vary wildly.

The termination of a contract, evidently the last stage of the process, can occur in the following circumstances:

- 1) fulfilment of the performance foreseen by the contract;
- 2) parties' will;
- 3) expiry as foreseen in the contract (i.e. terms of validity,

facts leading to expiration, such as impossibility, or the so called force majeure, and frustration, the latter based on change of economic conditions which make not any longer convenient the execution of the contract);

4) withdrawal of one party (having a reason, and noticing it in advance);

5) default or non performance, without any reasons communicated by the party;

6) change of counterpart on account of merger or acquisition, or insolvency, if the performance is strictly linked to the ability of persons or characteristics of the product (it's the so called *intuitus personae*).

Chapter VIII

International Payments techniques

1. The risks stemming from international payments

International payments is very likely the most delicate aspect of an export operation.

The reasons are easy to understand:

- 1) seller and buyer have opposite requirements (the first wants the payment before the shipping, the second is available to pay after the arrival of goods);
- 2) the transfer of money from a country to another may be subject to various risks.

Hence, before deciding the methods and the means of payment it is advisable to have full awareness of the risks.

These risks may be originated by 4 factors:

- 1) client's reliability;
- 2) changes in currency exchange rates (only if payment is executed in a foreign currency);
- 3) certainty of the money transfer;
- 4) validity of guarantee for the payment.

With regard to the client's reliability, the risks may stem from

different situations:

a) commercial risk: the foreign customer can not pay the debt, even in part, on account of events depending on his/her situation (e.g. insolvency, breach of contract);

b) political risk: it may happen that government's decisions prompt restrictions to capital flow, expropriation of assets, embargoes, all facts which hinder the customer's payment;

c) destruction risk: it refers to events of force majeure, such as accidents, natural disasters, civil unrest, which may affect the possibility to pay for the client;

d) risk of undue enforcement of the guarantee by the client (e.g. claims arising from the work, deemed not compliant with the contract).

The second source of risks related to the international payment is originated by the possible change of the currency exchange rate, which may determine a loss directly proportional to the change of the rate.

For instance, if your currency is Euro, and you use Us dollar for selling your products to a foreign customer, and Euro appreciates against the USA dollar, the value in Euros of your sales will decrease.

Let's consider this example to facilitate the understanding.

An Italian company sells a machinery at a price of 100,000 USA\$ when the exchange rate €/USA\$ is 1.10 (you need 1.10 \$ to get 1 €).

So the Italian company expects to get 90,909 € ($100.000/1.1$)

from the sale of the machinery at the moment of signing the contract of sale.

But time passes by before the payment is executed.

As a matter of fact a lot of time is needed for producing the machinery, for shipping it to the buyer's premises, and only after an agreed delay from the issuance of the invoice the payment is usually carried out (i.e. via a money transfer).

All those stages may last few months.

If, in the meanwhile, the €/USA\$ exchange rate moves from 1.1 to 1.2, this would entail that the 100,000 USA\$ stemming from the sale of the machinery will determine the inflow of 83,333 € ($100,000/1.2$), instead of the expected 90,909 €.

In other words, the risk of changes in currency exchange rate determines in this situation a loss of 7.576 € (equal to 8.33%).

A third risk inherent in international payments is represented by the possibility that the money, even if wired, as proven by a bank receipt, does not arrive at the seller's bank account.

This may occur for many technical reasons, which may be due to the fact that buyer's bank and seller's bank don't participate to the same financial communication network.

In this case they may use financial intermediaries, which may be not so reliable.

A last risk of international payments is hidden in the trickery jungle of clauses and rules relating to the guarantee which has been agreed between seller and buyer.

As a matter of fact the guarantee should cover the risk that the delivery of goods is carried out before the payment (in such a case the risk is supported by the seller), or, on the contrary, that the payment is settled before the delivery of purchased goods (in such a case the risk is supported by the buyer).

But sometimes things go differently from what the seller and the buyer expected.

2. The methods and instruments for covering international payments risks

There are various methods and financial instruments to cover the different kinds of risks, and they differ in the mechanisms, cost, and level of risk coverage.

To cover the first risk mentioned in the previous section (client's reliability), a first possibility is to take out an insurance policy.

The cost of the premium foreseen by the insurance contract depends on:

- 1) the country in which the customer (debtor) is located;
- 2) the creditworthiness of the foreign customer;
- 3) the amount insured;
- 4) the duration of the credit, or of the contract.

In some countries there are public and private companies

insuring export credits (e.g. Sace in Italy, Eulerhermes, Atradius, Coface in Europe).

These insurance companies provide different types of financial contracts covering many kinds of risks, that change for modalities of subscription, size of sums insured, risks covered, and other elements of the insurance policy.

Some internet sites of these financial companies are very interesting to surf.

For instance Eulerhermes provides not only insurance products for hedging the risk of not cashing the credit originated by an export, but also countries' risk assessments.

Another interesting site is the Coface insurer one, where you can find economic studies, riskmap, and a description of different solutions for credit insurance.

Also the Italian State owned Insurance for export Agency Sace-Simest provides useful information at its website (www.sacesimest.it) as to insurance policies and countries risk assessment (only after registration in the site).

Another possibility to hedge the risk of non-payment is factoring, namely the transfer of a credit from the holder (i.e. the exporter) to a financial company (the Factor).

Factoring is the sale of receivables to a financial company, at a price lower than the official value of transferred credits, and it is similar to invoice discounting.

When the transfer regards credits originated from exports the same operation is named forfaiting.

The transfer of credits from export can be executed in 2 different ways:

a) Pro soluto: in case of debtor's default, the financial company bears the loss;

b) Pro solvendo: in case of debtor's default, the financial company asks the credit transferee to pay back the sum of money previously provided.

Both solutions (insurance and factoring) have the advantage of:

1) eliminating or reducing the possibility of loss;

2) facilitating the focus on the business;

3) reducing the financing needs (by cashing the credits sooner);

4) containing the administrative activities (e.g. management of payments, reminding for settlement deadlines, paperwork for accounting).

To find a list of financial companies operating in the different sectors of risks hedging in several countries, you have to surf on the website www.globaltrade.net, and in particular the web page <https://www.globaltrade.net/global/Banking-and-Finance/expert-service-provider.html>.

The disadvantage of both solutions is the reduction of profit margins.

One more solution is the guarantee of payment. To protect against breaches of contract, and thereby to reduce the

possibility of litigation, it may be advisable to use the letter of guarantee (LG).

This document is issued by the buyer's bank, who agrees to pay a certain amount of money, which corresponds to the line of credit granted by the seller to the buyer, in the event of default, or non-payment, of the buyer.

The letter of credit (LC), however, is the most widely used instrument for guaranteeing the buyer's payment.

The LC, issued by the buyer's bank, is used in export operations when the buyer wants to assure the seller as far as the payment is concerned.

The mechanism of the LC is outlined in detail in section 4, and for the time being it is enough to recall that the scheme of LC foresees that the seller receives the money only under certain conditions agreed in the contract of sale (usually the delivery of a set of documents, allowing the buyer to get the customs clearance of the purchased goods), and it is up to the buyer's bank to verify seller's compliance with the set forth conditions.

In practice, the buyer's bank has the obligation to check the correctness of the documentation provided by the seller, and, if the check's outcome is positive, the bank has to transfer the amount indicated in the letter of credit to the beneficiary (the seller).

The documentation consists mainly of commercial invoices, certificates of origin and of compliance to standards, shipping documents supplied by the carrier.

The second risk, that is the volatility of currency exchange rates, can be covered substantially in 2 ways:

a) making use of your currency when prices have to be agreed (e.g. Euro);

b) using a financial instrument to offset the exchange rate risk (eg. Swap, Future, Option, Covered Warrant).

The latter are the so called “Derivatives”. They are financial contracts aimed at determining, now for the future, the exchange rate to be applied for converting in national currency the sum of money received in a foreign currency.

As to derivatives, it is appropriate to remind that:

1) The Future is a standardized contract, which entails the purchase or the sale of a standard quantity and quality of a commodity (or another financial instrument, such as currencies, stocks, bonds, indexes) at a specified price, to be applied in a specific future date (delivery date);

2) The Option is an agreement that provides the holder with the right (but not the obligation) to buy (call option) or sell (put option) a commodity (or a financial instrument, a currency) at a certain price at a future date; the counterpart is instead obliged to comply with the request of the holder of the option;

3) The Swap is a contract that foresees the exchange of cash flows between two parties, and establishes the dates on which payments will be made and how they will be calculated; it may have as object interest rates or currencies, and the goal is usually the hedging of the risk arising from unexpected movements in interest rates or currency

exchange rates;

4) The Covered Warrant (CW) is a class of investment security that gives the holder the right, but not the obligation, to buy or sell an underlying asset (currencies, stocks, bonds, indexes) at a specified price on, or before, a specified date; the covered warrant is usually issued by financial institutions; as options, they can be “put” or “call”.

As far as the risk relating to the transfer of money is concerned, which is the third risk connected with international payment, it is important to remind that the seller has to ask the buyer which financial channel his/her bank is about to use to wire the funds to the seller's bank.

In order to neutralize this risk, the payment must be made through the system SWIFT "Society for Worldwide Interbank Financial Telecommunication".

All banks linked to SWIFT have a control code that guarantees the authenticity of the message, and make operational the transfer of money. If the payment is made in a foreign currency, you have to know in advance the exchange rate to be applied by the bank receiving the transfer of money (namely the seller's bank). Actually rules on this matter may differ from bank to bank.

Finally there is the problem of the effectiveness of the guarantee.

The guarantee can be aimed at ensuring the payment, as well as the delivery of goods, respectively, when the payment is delayed in respect of the shipment, or anticipated.

In fact, one of the most serious problem businesses face in overseas sales is the "safest way" to obtain payment for their supplies, preventing and/or reducing the risks associated with customer's default, or delayed payment, or even seller's unreliability when the payment is anticipated.

Useless to deny that the requirements of buyer and seller in payments are conflicting:

- a) the seller will propose a payment before the delivery;
- b) the buyer will try to delay payment with respect to the delivery of goods.

The arrangement on payment (in advance or delayed) will depend on:

- 1) the commercial risk (insolvency of the parties);
- 2) the political and economic situation of the parties' countries (country risk);
- 3) the relationship and the degree of knowledge existing between the seller and the buyer;
- 4) the parties' bargaining power and the practices in the business sector.

When the payment is anticipated, the buyer can protect himself from the risk not to receive the goods, asking the seller to open for buyer's benefit a guarantee for the advance payment.

This guarantee is named "Advance payment bond", with which the seller's bank commits itself to return the advance

payment to the buyer in case goods are not delivered.

When payment is carried out after the delivery of goods, the seller can insure its credit at an insurance company, or ask the buyer to make his/her bank issue a guarantee (payment guarantee), so as to cover the risk of non-payment (i.e. a Stand by Letter of Credit).

The choice of guarantees will depend on:

- 1) the contractual strength of the parties;
- 2) the reliability of the parties;
- 3) the political and economic situation of parties' countries;
- 4) the relationship and the degree of knowledge and trust existing between the parties;
- 5) the practice in the economic sector and in the countries where the parties operate.

3. The methods and instruments of international payment

The payment methods are a central aspect of the negotiations between seller and buyer in the framework of an international contract.

Their choice is the result of the mediation between the parties, and the instruments chosen represent a sort of balance of their contractual power.

Payments are strictly linked to risks, as outlined in the section 1.

Seller and buyer have opposite risks, and therefore opposite requirements or expectations:

1) for the seller the risk consists of the non-payment by the buyer, which could happen for different reasons (i.e. lack of will, financial default, unforeseen events); therefore the seller will propose a payment in advance;

2) for the buyer the risk is above all in the phase of the delivery of the goods, as it could happen that the goods do not arrive, or that they do not comply with the order; therefore the buyer will propose a payment postponed to the delivery of goods.

The topic is so important that there are 3 main international conventions ruling international payments:

a) United Nations Convention on Independent Guarantees and Stand-by Letters of Credit (New York, 1995);

b) United Nations Convention on International Bills of Exchange and International Promissory Notes (New York, 1988);

c) ICC Uniform Customs and Practice for Documentary Credits (UCP 600, Paris, 2006).

About international payments there are 3 major aspects to be considered for their choice:

1) the timing of the payment;

2) the place and the currency of payment;

3) the method of payment.

About the timing of payment, the options are the following:

a) in an entirely anticipated manner with respect to the delivery of the goods;

b) partly anticipated with respect to the delivery, and partly after the delivery;

c) after the delivery;

d) postponed to the delivery, within an agreed deadline (so-called open account method of payment).

When the payment is anticipated, the buyer can protect him/herself from the risk, asking the seller to issue a guarantee to repay the advance payment in his/her favor in case of seller's default (Advance payment bond).

Thanks to this guarantee, the bank pays to the buyer (the beneficiary of the Advance payment bond) the money paid in advance to the seller in case of non-delivery of the goods, or in case of proven non-compliance of goods to the ordered ones.

When the payment is postponed, the seller can take out an insurance policy for his/her credits, or request the customer to issue a guarantee from his/her bank (payment guarantee), so as to recover the sum of money due by the buyer for the delivered goods.

The second aspect to be considered is the place and the

currency of payment. Normally the place of payment is the seller's country (in practice seller's bank).

The currency used is often an international one (Euro, USA dollar), and in this case the exchange rate risk is borne by the economic operators who have a different currency.

But it could be decided differently (i.e. the buyer's currency, the seller's currency, or a third country's currency).

The firm that bears the exchange rate risk can cover it by stipulating with the bank a financial contract (futures, options, swaps, covered warrants, known as derivative contracts), which allow to fix in advance the purchase or sale price of an amount in foreign currency, to be applied in a future purchase or sale of currencies.

As to the payment methods international payments can take place with different means:

- 1) Money Transfer;
- 2) Check;
- 3) Bill of Exchange;
- 4) Promissory Notes;
- 5) Documentary Credits.

The easiest payment method is the Money Transfer, through which the buyer orders his/her bank to transfer a sum of money to the seller's bank.

For this purpose, the bank account details of the payee and

of the payer must be provided.

More precisely, it should be pointed out in the order of money transfer the following pieces of information:

a) data on the seller's bank, such as bank name, branch address, account number (in EU, the IBAN code), and person to whom the account is entitled, SWIFT code, or IBAN code and BIC code if the payer and the payee are in Europe, or in countries joining the IBAN system;

b) amount and currency of the payment;

c) reason for the payment (e.g. purchase of goods, indicating the details of the contract and of the invoice).

The money transfer is the simplest, cheapest and fastest payment means.

This method of payment can be used for an advance, as well as a postponed, payment.

In the first case, the buyer wires the money together with the order, or after it is accepted by the seller. However, the buyer must verify the seller's reliability.

Normally the advance payment concerns only a percentage of the value of goods sold, being the remaining part of the sum paid upon arrival of the goods.

Postponed payment requires considerable confidence on the buyer from the seller' side.

The Check is issued by the buyer (drawer) to pay the seller (payee), and consists of an order to his/her bank (drawee) to

pay the amount indicated in the check to the beneficiary.

The drawer writes in the check various data, including the amount, the date of issue, the name of the beneficiary, and the signature, ordering the own bank to pay the beneficiary.

The check differs from the transfer of money for the fact that, in order to obtain payment, the payee must present the check to his/her own bank.

The check is a less secure method of payment, not guaranteeing the collection of the sum written in the document representing the check, being the credit to the seller's account of the sum from buyer's bank (issuing the check) subject to effective collection.

For this reason, it is now scarcely used for international payments, also because the collection costs are very high.

Moreover, in some countries the check is not an independent and executive instrument empowering the holder to seize debtor's assets, but only a probative document (for which the payment can be blocked by the debtor for disputes regarding the supply, its quality, or other aspects relating to it).

A type of check that ensures that the sum is available at the moment of presenting the check for the collection of money, is the Certified Check or Cashier's Check.

In this case, the issuing bank verifies that there are sufficient funds in the drawer's accounts to honour the check at the moment of issuing it, and delivering it to its client (the buyer).

These funds are set aside until the check is cashed by the

beneficiary. So the certified check cannot be “bounced”. The term “certified check”, or “cashier’s check”, must be indicated in the check.

The Bill of Exchange is a written order issued by a seller (drawer), which commits the buyer (drawee) to pay the amount indicated, on a specific date, and in a specific place.

There must also be the place and date of issue, in addition to the signature of the drawer.

Obviously the bill of exchange must be "accepted" by the buyer with his/her signature.

The advantage of the bill of exchange stems from the fact that in many countries it is an enforceable instrument, in addition to being transferable, namely, allowing the transfer of credit, through the endorsement of the bill of exchange.

The Promissory Note is a similar instrument to the bill of exchange, since it is enforceable as well, and it can be transferred, and then used for the assignment of credit to the transferee.

In this case it is the buyer (issuer) who writes the promissory note, committing him/herself to pay the sum indicated at a specific date, in a given place, and to a specific beneficiary, that is the seller.

The Documentary Credit is based on the assignment, operated by the seller to his/her bank, of the mandate to collect the amount of the money from the buyer, against the delivery of commercial documents (e.g. invoices, transport documents, certificates relating to the goods).

The bank of the seller (remitting bank) transmits the documents delivered by the exporter (principal or seller), to a bank on the buyer's place (collecting/presenting bank), on the basis of the instructions received, relating to the delivery of the documents only against payment (D/P), and/or only against acceptance of the debt (D/A).

The banks involved in the transaction do not assume any responsibility for the success of the transaction, nor, let alone, commit themselves to pay. Therefore, the documentary credit does not constitute a form of secure payment for the seller.

Much surer it is, instead, the Letter of Credit, which constitutes a specific variant of the documentary credit.

The documentary credit and the letter of credit are internationally regulated by an agreement signed in the framework of ICC (International Chamber of Commerce), known as ICC Uniform Customs and Practice for Documentary Credits (UCP 600).

4. The letter of credit

The method of payment that offers the best guarantees to the seller, as well as to the buyer, is the Letter of Credit (LC).

In short, the LC is a letter issued by the buyer's bank, directed at the seller, which guarantees the payment foreseen by the contract of sale signed by the buyer, under the condition that the agreed documents representing the goods are delivered to the buyer's bank.

The bank acting on behalf of the buyer, and issuing the LC, is defined as issuing bank, while the bank acting on behalf of the seller is defined as advising or confirming bank.

When the seller's bank is advising, its activity is limited to authenticating the letter of credit issued by the issuing bank to avoid fraud, and to notifying it to its client (the seller).

When the seller's bank confirms the LC, it checks the correctness of the documents on behalf of the issuing bank, and pays the seller (its own customer), sending all the documents to the issuing bank, in order to receive the funds from it (anticipated to the seller, which is its client).

To obtain confirmation from the seller's bank, the issuing bank must be considered "acceptable" from the confirming bank, that is, reliable and solvent, and that the country in which it is located is an insurable country (that is so reliable, that an insurance company may issue an insurance policy on a credit stemming from that country).

For the seller, getting the confirmation of its own bank is very convenient, for it must not interact with a bank located in a

distant country, but the cost of the service (of confirmation) must be compared to the benefit stemming from the confirmation.

The bank issuing the LC takes a commitment vis-à-vis the buyer (who is its client) to pay only after verifying the correctness of the documentation sent by the seller.

At the same time the issuing bank takes a commitment with the seller to pay once it has received the documentation agreed with the buyer (and reported in the LC), and verified it is as foreseen.

The LC can be revocable or irrevocable.

When the LC is irrevocable, the commitment of the issuing bank cannot be cancelled (as a rule, it is so, but it must be specified).

As a matter of fact, the irrevocable LC, with confirmation from its own bank, represents the safest form of payment for the exporter, especially if it sells goods in risky countries.

The LC is the best payment method also for the buyer, having the guarantee that he/she will be charged the amount to be paid to the seller, by his/her bank, only when it has the certainty that the documents representing the goods are available and as expected.

In fact, the buyer has the certainty that these documents are valid (having been checked by his/her own bank), and that therefore he/she can receive the goods at the place of delivery (the headquarters of the carrier, or the customs, or buyer's premises).

The payment envisaged by the LC can be made using the following payment instruments:

- 1) money order;
- 2) issue of a bill of exchange or of a promissory note.

The payment envisaged by the LC can take place on the following time schedules:

- a) without delay, or at the end of the checking of documents by the issuing bank;
- b) after a deadline, which triggers from the moment documents are received.

After having outlined the mechanisms and functions played by the LC, it is time to describe its contents.

The data to be reported in the LC is usually the following:

- 1) name of the issuing bank and of the seller's bank;
- 2) date and place of issue;
- 3) location and other data relating to buyer and seller;
- 4) quantity and quality of the goods shipped;
- 5) amount, currency and date of payment;
- 6) terms of the shipment and Incoterm (means of transport, places of delivery and final destination of goods);
- 7) list of documents requested for the payment;

- 8) confirmation (in case) of the seller's bank;
- 9) special conditions (e.g. the presence of an insurance policy).

The required documents are usually the following:

- a) Commercial Invoice: it contains the information of the transaction between seller and buyer, including the type and value of the goods, which is the piece of information necessary for the estimate of duties by the customs authority;
- b) Packing list: it is the document that contains the details of the transport, and it is necessary for the customs clearance (above all for the weight of the goods);
- c) Air Waybill: this is the transport document used in air cargo;
- d) Bill of Lading: it is the document that proves the reception of goods by the carrier (obviously it is an alternative to Air waybill) and represents the contract of carriage of goods by sea;
- e) Road/Rail Waybill: this is the document that proves the acceptance of goods by the land carrier;
- f) Certificate of origin: it is the document declaring the country of origin of the goods, which determines the identification of the duties to be applied (which change from country to country of origin of goods);
- g) Insurance certificate of goods (if required);
- h) Certificate of quality stating the compliance with standards

by third-party certification bodies.

The process for a payment based on a LC is the following:

- 1) signature of the sale contract;
- 2) buyer's request to his/her bank to issue a LC;
- 3) notification to the seller of the issuance of a LC in his/her favour;
- 4) seller's decision to request confirmation from his/her bank;
- 5) shipment of goods;
- 6) transfer of documents to the issuing bank (of the buyer), or to the confirming bank (of the seller);
- 7) control of documents by the issuing bank, or the confirming bank;
- 8) payment by the issuing bank, or by the confirming bank, to the seller, following the arrival and check of the documents to the bank (buyer's or seller's, if there was no confirmation, or there is);
- 9) transfer of documents to the buyer and simultaneous charging of the amount to his/her account;
- 10) collection of goods by the buyer through the documents presented to the customs (or to the carrier).

Let's examine now more in detail this process.

The first step is the definition by the parties of all aspects

featuring a LC, and in particular, the requested documents, and the date within which it will have to be notified to the beneficiary (seller), so that the latter can execute the purchase order.

The LC agreement must be included in the contract (or in the order, with an attachment).

The seller will have to verify that the documents to be forwarded are actually under his/her control.

It is up to the buyer to give instructions to his/her bank to issue the corresponding LC in favour of the seller, according to the agreements arranged with the seller.

Obviously, the buyer's bank will be willing to open this documentary credit only in the presence of appropriate guarantees offered by the buyer (i.e. provision of funds).

The issuing bank will open the documentary credit in favour of the seller, transmitting it to the bank indicated by the seller, which usually is in the location where the seller is resident.

Therefore the issuing bank will forward the letter of credit to the bank indicated by the seller.

The seller's bank, received the message of issuance of the letter of credit for the benefit of its customer (seller), will transmit it to the seller, after verifying its authenticity.

After receiving the letter of credit, the seller must check that it has been issued according to the agreements signed with the buyer, and in particular that the documents to be delivered are as arranged.

If the seller believes there is an error in the conditions indicated in the letter of credit, then he/she will have to contact the buyer asking him/her to order his/her own bank to change the LC.

The modification will be considered valid and effective only when it will be accepted by all parties (including banks), and communicated in writing to the seller.

The next step is the decision of the seller whether to get confirmed the letter of credit by his/her own bank.

It will be necessary for the seller to evaluate the advantage of receiving money immediately (from his/her bank), with the cost of this operation.

The seller's bank can decide, in case of request from its customer (the seller), whether to confirm the letter of credit (and a positive decision is not to be taken for granted).

In case of acceptance of the confirmation by the seller's bank, the irrevocable commitment to execute the payment to the beneficiary (seller) is assumed by the seller's bank, provided that the documents presented by the seller comply with the LC conditions.

Therefore, in case of confirmation of the letter of credit, it will be up to the seller's bank to verify the correctness of the documents forwarded by its client (the seller), and to credit the amount to the client's account, which will be reimbursed by the buyer's bank (or issuing bank), after the transfer of documents to it.

Once the goods are produced and sent to the buyer, the

seller must prepare the documents indicated by the letter of credit in the requested form, and deliver them to the bank chosen (own, or buyer's), within the deadline date, in order to obtain the payment.

Once the documents have been sent to the bank (issuing or confirming bank), the latter must check the documents within a deadline (usually 7 working days following the day of receipt), to ascertain their formal compliance with the terms and conditions established by the letter of credit.

If irregularities are found in the documents, the bank notifies the seller, who will have to find a solution to the problems ascertained.

If all goes well, the bank, that received the documents and approved them, will make the payment, and it will debit the amount on the buyer's account (if it is the issuing bank paying the seller), or request it from the issuing bank (if it is the confirming bank paying the seller).

Then the buyer will receive the documents, with which he/she can obtain the goods, after clearing them at the customs.

Before ending the topic of international payments, it is the case to highlight that there is a different version of a letter of credit, namely the Stand by letter of credit.

It is a particular type of documentary credit, which does not constitute a direct commitment of the bank (issuing and/or confirming) to pay, but a guarantee of payment that the bank issues to the beneficiary (seller) on account of the debtor (the buyer).

This guarantee consists in the irrevocable commitment taken by the bank to perform the payment promised by the buyer, but only in case of default of the latter.

Obviously, the seller has to prove with documents the buyer's default, and this may result somewhat tricky, depending on the class of documents required to prove this event.

All in all, the Stand by letter of credit is a means of settlement similar to a payment guarantee.

Chapter IX

International Transportation techniques

1. The choice of means of transport

The last topic to be tackled for completing the process of an export operation is the transportation (or carriage) of goods from the exporter's factory (or warehouse) to the foreign buyer location.

The means of transport and its modalities are decided in the framework of the international contract.

It is up to seller and buyer to choose the means of transport, as well as the Incoterms, that is the internationally accepted rules governing the delivery of goods.

The first step is usually the choice of the following aspects of the transportation:

- 1) the freight forwarder;
- 2) the mode of transportation (sea, air, land);
- 3) the carrier (after having decided the mode of carriage of goods).

The freight forwarder, or freight agent, is a professional, or a firm, able to organise the freight of goods, availing different carriers and other service providers (i.e. insurance company).

The freight forwarder may act too as customs broker, or customs agent.

Usually it is up to the freight forwarder to propose to clients (seller or buyer) the most suitable way of transportation (sea vessel, air cargo, railway, truck), and consequently the best (or most effective) carrier operating in the preferred mode of transportation.

The carrier is the owner of the means of transport.

Before selecting the carrier it is appropriate to decide the way of transportation, considering their advantages and disadvantages:

1) Air: very fast, but very expensive; it's suitable only for small and worthy merchandise, to be delivered in short period of time (i.e. valuable perishable food, jewels, samples for exhibitions);

2) Sea: it is very cheap, but slow; it's the only way when shipment has a very far destination, or has to reach another continent, and the shipment consists of bulk loads (i.e. commodities), or merchandise settled in containers;

3) Land: there are 2 different means via land:

a) Rail: it has characteristics similar to sea transportation, even if it may be faster than sea vessels, but it represents an option to be considered only if there is an efficient railway; under this condition it is the best solution for heavy and large goods to be transported in medium distances, without hurry;

b) Truck: it's faster but costlier than railway, and it's advisable

when the points of departure and destination of goods are far from railways stations; in any case it's the easiest and reliable way of transportation if there is an efficient network of roads and highways, or when the railway is not efficient; for sure it's the best solution for short distances.

In principle it can be stated that the criteria for the choice of the way of transportation are:

1) product value: the higher the value of the product, the higher may be the costs of carriage of goods acceptable;

2) quantity of product: if the amount is suited to fill a single means of transport (i.e. a truck, a container), it may be a good idea to choose that one, otherwise you'd better address a freight forwarder organizing shipping in groupage mode (LCL - Less Container Loaded);

3) frequency of shipments: the higher the frequency, the more convenient is the choice of that way of transportation;

4) destination of the product: more ways of transportation there are, wider is the choice of means of transport, so the other factors will be the decisive ones.

Selected the way of transportation, the next step is the choice of the carrier, which depends on:

a) weight and size of merchandise;

b) timetable foreseen by the contract of sale as to the delivery of goods;

c) type of means of transport available (sea, air, land);

d) destination (what country and what route).

It is appropriate to remind that some international carriers may take care of all shipment, so seller and buyer have just to choose the right carrier.

Made a short list of carriers, the selection of the best one should be based on 3 main aspects of the service of carriage of goods:

- 1) cost-effectiveness;
- 2) timing;
- 3) safety.

The cost-effectiveness is measured by the costs of carriage, which normally is inversely proportional to the level of quality of the service.

The exporter (or importer) should consider the impact of transportation costs on the final price of the product.

The timing is meted by the number of days (and hours) taken for the carriage of goods, which is typically inversely proportional to the cost.

The exporter (or importer) must consider the impact of a timely transport on the overall framework of obligations foreseen in the international contract of sale of goods.

Safety is assessed by the level of risks to be borne during the transportation of goods (i.e. accidents, theft, natural disasters), which is typically inversely proportional to the cost.

The exporter (or importer) will have to consider how much it might cost the non-performance within the overall framework of obligations foreseen in the contract of international sale of goods.

Usually it's not difficult to find a carrier expert in carrying a specific kind of goods to a specific country of destination, but it is more difficult that you can get the expected (or wished) characteristics of the service of carriage of goods (e.g. in terms of costs, expertise for a specific product/country).

It must be borne in mind that some carriers use all means of transport, and they can carry the goods to every country in the world, while others are specialized in specific ways of shipment and for specific destinations.

You can find carriers googling these words in a search engine (i.e. "international transportation carriers in").

2. *The contract of carriage of goods*

Once the carrier has been chosen, the next stage is the signature of the contract of transportation, namely of carriage of goods.

The contracts of carriage of goods has a different name, which varies according to the means of transport:

- 1) Bill of Lading: carriage via sea vessel;
- 2) Air Waybill: carriage via air cargo;
- 3) Rail Waybill: carriage via train;

4) Road Waybill: carriage via truck.

The contract of carriage of goods involves at least 3 parties:

a) Consignor: it is usually the shipper of the goods (the seller), that is the firm which delivers the exported wares to a carrier for transporting them to a consignee;

b) Consignee: it is usually the buyer (or a party named by the consignor), to whom the exported merchandise have to be delivered at the point of destination;

c) Carrier: it is the owner of the means of transport, which is in charge of moving the goods from a point to another.

The contract of carriage of goods may include different services:

1) loading;

2) stowage;

3) shipping;

4) unloading.

Under the contract of carriage of goods, the carrier has 3 fundamental obligations:

a) to receive the goods;

b) to transport the goods to an agreed place, and at the agreed time;

c) to deliver the goods to the consignee in the same condition

they were received.

These obligations imply 2 basic services:

1) the physical movement of the goods, which involves providing all the requested means of transport;

2) the care and preservation of the goods during the carriage; to this purpose the carrier has to know the nature of the goods, being this information delivered by the consignor at the moment of passage of the goods to the carrier, and reported in all the related documents.

If goods require special care, it is consignor's obligation to inform the carrier, and to provide the necessary instructions for the carrier to fulfil its duty of care and conservation of the cargo.

It is logical to assume that in case of requirement of a special care of goods, the price of freight may increase.

The contracts of carriage of goods has a different contents, which varies according to the means of transport:

As already anticipated, the contract foreseeing the shipments of goods by sea is named Bill of Lading.

The bill of lading is a document issued by the sea carrier to the consignor upon delivery of the goods for shipment. It contains the details of the international transportation of goods by sea.

The bill of lading is a document entitling the ownership of goods, thus the holder is the owner of goods.

If goods are shipped by sea without a document of title to goods, the document is named Sea Waybill.

No specific form is required, provided that the document corresponds to the applicable international conventions regarding both form and content, which in practice leads to a standardised form.

The bill of lading is required for customs clearance, and it is prepared by the carrier (or his agent), as a clean or unclean bill of lading.

A clean bill of lading states that goods are received by the carrier in apparent good order and condition, whereas a unclean bill of lading indicates that goods received are damaged, or in bad order ("g.b.o.").

The bill of lading is usually issued in English, in 3 full sets, each containing an original and several copies.

The bill of lading states the quantity, weight, measurements, and other pertinent information concerning the goods shipped.

More precisely, the typical content of Bill of Lading is the following:

- a) name and logo of the shipping line;
- b) name and address of the consignor and of consignee;
- c) name and the number of vessel;
- 4) name of the port of loading;

- 5) name of the port of discharge and place of delivery;
- 6) marks on the pallets and container number;
- 7) package types and container description;
- 8) total number of containers and packages;
- 9) description of goods in terms of quantity;
- 10) container status and seal number;
- 11) gross weight in kg, and volume in terms of cubic metres (cbm);
- 12) amount of freight paid or payable;
- 13) shipping bill number and date;
- 14) signature and initials of the Chief Officer, or of the agent of the carrier.

The functions of a bill of lading are multifold:

- a) it serves as an acknowledgment issued by the carrier that it has received the goods for shipment;
- b) it is the contract of carriage of goods, or evidence of a contract of carriage;
- c) it is negotiable, as it usually happens in carriage by sea (except for the case it shows on its face that it is not negotiable), and hence the ownership of the shipped goods can pass to a subject different from the consignee (if the latter agrees);

d) it proves the possession of the goods, and it is one of the indispensable documents in financing the movement of commodities and merchandise throughout the world.

The contract foreseeing the shipments of goods via air is named Air Waybill.

The air waybill is the contract for air transport of goods concluded between a shipper and a cargo airline.

The airline commits to move, from one place to another by air, certain goods for delivery to the addressee or consignee, after complying with the provisions of customs laws.

Therefore it is a document containing the details of the international transportation of goods by air, and it proves the transport contract between the consignor and the carrier.

It is prepared by the carrier (or his agent), and no specific form is required, provided that the document corresponds to the applicable international conventions.

The airline members of IATA agreed to introduce a standard form of air waybill for international carriage of cargo by air.

This has become adopted as international norm, because its layout and wording enables the incorporation of all the particulars required by the various international air conventions.

The air waybill is usually issued in English, and consists of a set of forms, three of which are originals, and the rest are copies.

The first original (usually green) is kept by the carrier, the

second (red) is intended for the consignee, and the third (blue) is for the purposes of the shipper.

The air waybill serves to perform the following functions:

- 1) it is a proof of receipt of goods for shipment;
- 2) it contains the list of goods shipped, as well as all documents accompanying the shipment;
- 3) it is the invoice for freight and corresponding fees charged by the airline;
- 4) it is a commercial document required for customs clearance;
- 5) it is a commercial document required for the payment by letter of credit;
- 6) it is used to comply with the rules of origin when there are tariff preferences.

The contract foreseeing the shipment of goods by train is named Rail Waybill.

The rail waybill is a document containing the details of the international transportation of goods by railway.

The contract of international carriage of freight by rail is governed by the CIM Uniform Rules in Western and Central Europe, Near East and North Africa.

In Eastern Europe and Asia, international carriage of freight by rail is governed by the SMGS Convention.

The rail waybill is known also as rail consignment note, and it confirms that the rail carrier has received the goods, and that a contract of carriage of goods by train exists between a consignor and a carrier.

It is prepared by the carrier (or his agent) in 6 copies.

The rail waybill is not a document entitling the possession of goods, which means that this transport document is a non-negotiable one.

As a result, rail carriers are allowed to deliver goods to the consignee without requesting the delivery of an original copy of the waybill.

For this reason exporters and banks have to be very careful when working with a letter of credit foreseeing the delivery of a rail consignment note, because neither exporters, nor banks, could make sure to be entitled of shipped goods.

The contract foreseeing the shipments of goods by truck is named Road Waybill.

The road waybill is an agreement about the freight between a consignor and a carrier, and it represents the shipping document used for the transportation of land freight via road.

It is often named road consignment note, and it has the function of confirming that the carrier (i.e. the road haulage company) has received the goods, and that a contract of carriage of goods exists between the consignor and the carrier.

As in the case of carriage via railway, the road transport

document is not a document entitling the ownership of goods, which means that road transport document is a non-negotiable one.

The consequences are the same as the ones described for the rail waybill.

The road waybill content has to comply with the provisions of the CMR Convention (Convention on the Contract for the International Carriage of Goods by Road), which regulates various legal issues concerning the transportation of cargo via road among the signatory states of the Convention (among them, most of the EU countries).

The road waybill is named also as "CMR International Consignment Note", or simply CMR, or CMR Note.

The CMR transport document is an international consignment note used by drivers, operators and forwarders alike, that govern the responsibilities and liabilities of the parties of a contract for the international carriage of goods by road.

The road waybill is prepared by the exporter (or the freight forwarder), and is addressed to the importer and the carrier.

3. The basics of international logistics

The management of overseas shipments of goods might be complex, if the carriage requires more means and/or ways of transport, and goods have to remain, during the shipment, in several areas (e.g. customs, warehouses).

In this case it is appropriate to use the term “International Logistics”, which entails the performance of several tasks, including the choice of a set of services, that may be provided by more companies.

International logistics management entails some choices to be made, as the following:

- 1) human resources in charge of it (who have to perform many tasks such as the filling of documents required for carriage and customs clearance);
- 2) packaging (which depends on the means of transport chosen, and on national regulations of the importing country);
- 3) insurance company for taking out a policy aimed at offsetting risks related to the international payment;
- 4) software for the logistics management;
- 5) customs brokers (or agents);
- 6) Incoterms.

The choice of human resources must take into account that, in addition to specific skills (foreign languages, master of technicalities, expertise on geography and technical terms), needed for unfolding the required paperwork and red tape activities (e.g. contracts management, customs formalities), staff must have the ability to manage relationships with business units in charge of production and sale, in order to coordinate their operations.

The choice of packaging has to take into account its function of:

- a) protecting goods;
- b) safeguarding merchandise characteristics;
- c) adapting to spaces of the means of transport;
- d) respecting customs rules, in order to get customs clearance (i.e. ensuring compliance with requirements in terms of information provided).

The choice of the insurance company should be based on:

- 1) the type of risks to be covered;
- 2) the countries where risks may stem from;
- 3) the costs of hedging risks.

The choice of software for logistics management depends on the choice of the carrier, or of the freight forwarder.

Actually software has to communicate and keep a constant “dialogue” with the carrier’s (or freight forwarder’s) software, so as to handle efficiently the requests of shipping.

The choice of the customs broker (or agent) is often a consequence of the choice of the freight forwarder/carrier, because in some cases the latter can be in charge of the customs clearance.

In other cases the importer appoints a customs agent for handling the bureaucratic formalities required for the customs clearance of goods.

As to Incoterms, read the next section.

4. The Incoterms

The transportation, or carriage, of goods is a very complicated activity, chiefly when executed in the framework of international trade.

This complexity would be more intense if seller and buyer could not rely on internationally agreed terms as to the division of tasks relating to shipping, of risks bearing, and of delivery rules.

These terms are known as Incoterms (International Commercial Terms).

Incoterms are used for determining, in the framework of an international sale of goods, the mode of transportation, the place of delivery, the charges included in the price, the logistic duties of parties of a contract of international sale of goods.

In practice Incoterms spell out rights and obligations of the parties of an international contract of sale of goods with respect to the delivery of goods sold.

In fact, Incoterms rules indicate:

- 1) where and how the goods have to be delivered;
- 2) consequently, when the risk (relating to the loss or damage of goods) passes from one party (seller) to the other (buyer);
- 3) how costs of shipment, insurance and duties are allocated

between seller and buyer;

4) who is in charge of choosing the carrier, in case the insurance company too, filling the customs forms, taking care of delivery, etc.

Incoterms, drafted by ICC, help avoid legal uncertainty by defining clear responsibilities between the seller and the buyer in cross-border sales contracts, and have been endorsed by the UN Commission on International Trade Law (UNCITRAL).

They have been foreseen the first time in 1936 and renewed in 2020 (8th edition).

The document specifying in details rules on Incoterms has to be purchased from ICC.

Incoterms contribute to:

a) protect parties' interests (making clear which is the place of delivery, when and where there is the transfer of risk stemming from the international transportation of wares);

b) reduce risks and uncertainties (entailing agreed modalities of shipment).

Furthermore Incoterms are the trade-union between the sale contract and the transportation contract with the carrier, and between the sale contract and the insurance contract.

As a matter of fact Incoterms are inserted in contracts as a clause, but it's up to the parties to decide whether an Incoterm has to be used as a provision of the contract.

Once an Incoterm is adopted, the rules to be respected are the ones indicated by ICC .

It goes without saying that the Incoterm adopted must be compliant with other clauses of the contract (i.e. place of delivery, means of transport).

The Incoterms are 11, of which the first group of 7 are independent from the way of transportation.

This first group is made up of the following Incoterms:

- 1) EXW (Ex Works);
- 2) FCA (Free Carrier);
- 3) CPT (Carriage paid to);
- 4) CIP (Carriage and insurance paid to);
- 5) DAP (Delivered at place);
- 6) DPU (Delivered at place unloaded);
- 7) DDP (Delivered duty paid).

The remaining 4 Incoterms, which are specific to transport by sea cargo, are the following:

- 8) FAS (Free alongside ship);
- 9) FOB (Free on board);
- 10) CFR (Cost and freight);

11) CIF (Cost insurance and freight).

Let's examine shortly the meaning of every Incoterm.

After the abbreviation EXW you have to point out the place of the factory (or the warehouse) where goods have been produced or stored.

Under this Incoterm the seller delivers the goods at his location.

Therefore the buyer has to collect the goods with his own carrier, and pays all expenses for the transportation, and has whole responsibility for the shipment.

The seller's main obligation is just to keep goods ready for loading, and to prepare the proper documentation.

The risk is on buyer's charge since the delivery to the first carrier (chosen by the buyer).

EXW is the Incoterm most beneficial for the seller, and it is usually chosen when the seller is a small company and the buyer a large company. It is recommended for commodities or semi-manufactured products, for which there is price competition.

Under FCA Incoterm the seller delivers the goods to the carrier's premises (named by the buyer), and therefore costs and risks are borne by the seller till the delivery of its merchandise to the first carrier's custody.

The buyer pays freight and insurance, while it's up to the seller to take care of paperwork and duties for export formalities (that is for the customs clearance in the exporting

country).

The seller has to verify that packaging and means of transport are fit for the nature of merchandise.

After the abbreviation FCA you have to point out the place where the seller delivers the goods to the buyer's carrier.

If the Incoterm CPT is chosen, the seller pays for the freight to the agreed point of destination, but risk passes to the buyer when the goods are handed over to the first carrier.

This term differs from the previous one for the fact that the seller has to pay a part of the shipment.

After the abbreviation CPT you have to point out the destination where the seller has to deliver the goods.

In case CIP is the preferred Incoterm, the seller pays for carriage and insurance to the named destination point, but risk passes to the buyer when the goods are handed over to the first carrier.

After the abbreviation CIP you have to point out the destination where the seller has to deliver the goods.

With DAP Incoterm you have to specify which is the place of destination. The seller delivers the goods to the buyer at the named place of destination. The place can be also a terminal, such as ports, airports, railway stations, logistic centres.

Under this term the goods are placed at the disposal of the buyer on the arriving means of transport, ready for unloading at the named place of destination.

The risk passes to the buyer when the carrier has arrived at the place of destination, and the goods are made available for unloading to the buyer.

Under this term the seller supports part of the costs of transportation.

The DPU is a new Incoterm, stemming from the new version of Incoterms 2020, and replaces the DAT term foreseen by Incoterm 2010.

It is similar to DAP, but in this case it is up to the seller to unload the goods at the place of destination, and furthermore it has to face the burden of customs clearance in the exporting country.

The seller covers the same freight costs as it would do under a CPT arrangement, but unlike this term, the seller has agreed to bear not just cost, but also risk up to the arrival of the cargo at the agreed place.

The risk passes to the buyer when the carrier has arrived at the place of destination, and the goods are made available to the buyer after unloading.

If DDP is considered by the parties the right Incoterm, the seller pays for all transportation costs and bears all risk until the goods have been delivered to the buyer at its premises, and has got the customs clearance in the importing country (paying therefore the duty).

You have to specify which is the place of destination, which usually is the buyer's premises.

This is the most comprehensive term for the buyer, and on the other hand it's the most expensive for the seller.

In most of the importing countries, taxes, such as Vat and excises, should not be considered prepaid, being handled as a "refundable" tax (Vat and excises usually are not a direct cost for the importer, since they will be recovered against the sales on the local market).

FAS Incoterm is only for maritime transport, and it is typically used for heavy-lift or bulk cargo.

The seller must place the goods at the docks alongside the ship at the named port.

The seller must clear the goods at the customs for export, and it bears risks until the merchandise is placed next to the ship, ready to be loaded.

FOB is only for maritime transport, and it is one of the most used Incoterm.

The seller must load the goods on board the ship nominated by the buyer, which is in charge of cost and risk once the goods are loaded on board of the vessel.

The seller must clear the goods for export at the customs of the exporting country, while it is up to the buyer to take care of customs clearance in the importing nation.

The buyer must instruct the seller on details of the vessel and port where the goods are to be loaded.

CFR is another Incoterm only for maritime transport. In this case the seller must pay the costs and the freight to bring the

goods to the port of destination; this entails that the choice of the carrier is a seller's task.

The risk is transferred to the buyer once the goods have crossed the ship's rail. Insurance is at buyer's charge, but it must receive the bill of lading from the seller.

CIF is the last term directed at maritime transport, and it is one of the most used Incoterm.

The seller must pay the costs, including insurance and freight, and it is in charge of delivering goods to the port of destination.

The seller has to choose the carrier and the insurance company. The risk is transferred to the buyer once the goods have been loaded in the ship.

Before closing this topic it is appropriate to highlight that the choice of the proper Incoterm by the seller and the buyer depends on the technical capability of the companies to organize and manage an international shipping.

As it results from the above description, there are Incoterms which are more convenient for the seller (as EXW), and others more comfortable for the buyer (as DDP).

It stands to reason that more advantageous is the Incoterm for the seller, lower it will be the price it can apply, as well as more convenient is the Incoterm for the buyer, higher it will be the price to be paid.

Every party has to carry out a sort of cost/benefit analysis, including the risks hovering on the parties, according to the

chosen Incoterm provisions.

In general, it can be stated that, smaller is the party, more convenient it should be the adoption of an Incoterm more favourable for it, even if this circumstance reduces the profit margin stemming from the operation.

In the next page, a table illustrates the different tasks which are in charge of each party according to the different Incoterms.

INCOTERMS® 2020



	Seller / Shipper		Loading	Origin Carrier	Origin Terminal / Customs	On Board	Freight	Destination Terminal / Customs	Unloading	Buyer / Consignee
EXW	Ex Works [... named place of delivery]	Costs								
FCA	Free Carrier [... named place of delivery]	Costs								
CPT	Carrier Paid To [... named place of destination]	Costs								
CFR	Carrier & Insurance Paid to [... named place of destination]	Costs								
DAP	Delivered at Place [... named place of destination]	Costs								
DDP	Delivered at Place Unloaded [... named place of destination]	Costs								
DDP	Delivered Duty Paid [... named place of destination]	Costs								
FAS	Free Alongside Ship [... named port of shipment]	Costs								
FOB	Free on Board [... named port of shipment]	Costs								
CFR	Cost & Freight [... named port of destination]	Costs								
CFR	Cost, Insurance & Freight [... named port of destination]	Costs								
CFR	Cost, Insurance & Freight [... named port of destination]	Risks								

RULES ONLY FOR SEA & INLAND WATERWAY TRANSPORT

RULES FOR ANY MODE OF MODES OF TRANSPORT

Seller's Costs / Risks (Orange) **Buyer's Costs / Risks** (Grey) **Critical transfer point** (Light Orange) **Costs** (Light Orange) **Risks** (Light Orange)

That point is transit where the seller's responsibility ends and the buyer's responsibility begins

All costs relating to the goods until such time as they have been delivered in accordance with the applicable INCOTERMS® 2020

Any event that may occur and cause loss / damage to the goods is the risk

* CO - If delivery occurs at the seller's premises, the seller is responsible for loading. If delivery occurs at any other place, the seller is not responsible for unloading

** DPU - calculated from arriving vehicle



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