-- Speaker 0 00:03 Welcome to the trade security podcast. We live in a global economy in 2018 world merchandise exports group 9.8% to reach over $19 trillion U S on the global stage that year, Canada was number 13 on the list of largest merchandise X borders. Canada is definitely an exporting country and there is great opportunity for Canadian businesses to expand and prosper on the global stage. If you're thinking about taking your products and services to the world in this new decade, there are a number of things to consider and investigate. Welcome to the trade security podcast, a show where we help Canadian businesses grow safely and securely at home and abroad. On this episode we're looking at how to prepare and finance your export venture. I'm Janet Eastman and my guest today is John Middleton. He's president of global credit risk management, our receivables insurance broker and a member of the receivables insurance association of Canada. Hi John.
Speaker 1 01:03 Good morning, Janet. How are you today?
Speaker 0 01:04 I'm very good. Thank you so much for, for doing this for us. I think there's a lot of information you're going to be able to provide. So we'll jump right in. Um, there are a lot of things to consider when preparing to export your products, but before we get to those, can you just tell me how long that sort of investigation setup process can take when you start considering whether or not you want to export and what's involved in getting started?
Speaker 1 01:30 That's a good question. In emerging Xsporter and really needs to start by determining where opportunities could exist for their products and to try and narrow it down to a few countries and then initiate their research into those markets. The exporter will need to do some market research to determine, uh, the healthiest markets for their products and determined the number of competitors that might exist in those markets, the size of market share that exists in that market and how they might distribute those products into the new market. Uh, they should become aware of whether there's any business practices that might impact how they do business in that market. Uh, they would want to determine if there's any trade barriers or terrorists that will impact the sale of their goods. And it's likely that, uh, speaking to the Canadian trade commissioner for that country would be very, very helpful because that would allow the export or to identify any barriers to trade within a certain country.
Speaker 1 02:24 Um, at the end of the day, you need to determine if there is sufficient demand to warrant another competitor into that market. And if that is the case, can you price your goods reasonably to turn a profit? Um, and this research is going to take time. You can't do this overnight and you may need to visit the market and speak to potential buyers in order to obtain a better feel for that particular country and the market in that country. And this process, I think you should really start to think about taking a prolonged period of time. It could take up to six months to do the proper research and set yourself up in order to properly consider exporting to that market.
Speaker 0 02:56 Wow. Okay. So part of a market strategy, an export plan would be determining those best markets to get into. So once you've got that job done, what do you need to consider an investigate to understand how best to sell to those markets?
Speaker 1 03:10 Yeah, that's a, that's a tricky question because there's different ways to do that. And when you identify the market that you want to enter, uh, you do need to develop a distribution model and that model, uh, it can take different forms. You may want to deal directly with the buyer and take the credit risk on that buyer or you may want to use an intermediary in that and who a local intermediary intermediary who will take the credit credit risk on the end buyer. Um, alternatively you might develop a strategic partnership with another company in the market. It could be your eyes and ears on the ground and handle the sales force on your, on your behalf. There's different ways to look at it and it kind of depends on your risk appetite and, and the nature of the risk in that particular country that you're dealing with.
Speaker 0 03:52 I guess that would all be part of the research that you did initially on, uh, when you first started looking at ex boarding, right? I th --

-- ink so. Yeah. Okay. So what should you actually know about the market? You did mention it is possible and it might be a good idea to action, go actually go and visit it, but then how do you actually set that price for your product in that country?

Speaker 1 04:13 Yeah, so let's, it's really tricky. It's really hard to determine that when you're sitting on the outside looking in. Right? And, and really this is a point where you have to develop your formal marketing plan. Um, you've got to, you've got to obtain information about the country. Um, and there's different sources of for that information. You can look to the credit insurance. Uh, you could look to the Canadian trade commissioner, uh, you can do your own research, but, uh, but you've got to definitely establish a baseline of information. And the goal is really to identify, uh, the target market, determine your export goal, and determine what resources are required in order to achieve that export goal. And, and sort of try and get your head around what your anticipated results will be. Um, if you develop a plan, then it'll make you more focused and that will enable you to be more efficient as you try and enter that market.

Speaker 1 05:05 And your export plan really needs to be detailed and, and provide information about the business practices in that country and the customs of that country and uh, and identify the buyers that you intend to connect with. And once you've identified those buyers, uh, initially you can make a telephone call to those buyers and explore opportunities with them and gauge the buyer's interest. And, uh, depending on how those conversations go, it may be prudent to follow that up with a formal meeting that their offices. Um, but as you gather more market intelligence, you'll be able to determine, you know, where you fit into the market, how you might assign a price to your goods and services. And then from that, determine if your business model is going to work based on the pricing model that you think you can, you can achieve in that, uh, in that, in that market. So it's really a, you know, it's really important that you do a lot of research at the get go and, and, and determine, you know, what is it, what price is going to be for your goods and services is going to be, can you establish in order to penetrate that market and be successful.

Speaker 0 06:06 <inaudible> and I guess you mentioned earlier that, uh, having a partner might be a good idea at certain points and I can see where that would be quite handy if there was a language barrier or something like that.

Speaker 1 06:18 Exactly. Yeah. And, and, and, uh, the other advantage of having a local partner is they may be able to help if there's, if there's problems with the, with the export transaction, um, you know, if there's a dispute or if there's a issue with the quality of the product, you've got someone local there that can visit the buyer and it might make it a little bit easier to sort things out and, and, uh, and figure out a remedy.

Speaker 0 06:42 Right. Okay. So how can you get the best insights on who your customer is and, and their market reputation really like, uh, can a credit insurance specialist really help you understand your risk there? What can they tell you?

Speaker 1 06:55 Yeah, I think a credit insurance underwriter is a good source of information there. Um, they have vast databases of buyers around the globe and so if we can try and tap into that information, it's really good. And I think as a broker we can help identify those buyers with our, with our clients and uh, take that information to insurance to try and obtain more information for our customers. Um, the beauty of the credit insurance models is that, uh, the credit insurers can provide macro economic information and political risk information. And, uh, with that information, there's a lot of good preliminary information that you can utilize to, uh, to understand that market better. Uh, for example, Colfax issues, an annual country and sector risk analysis of all countries in the globe. So this is a really good document and a really good starting point for researching foreign markets.

Speaker 1 07:46 And the other international credit insurers also have documents similar to this that you can, you can obtain through your broker. Um, and once you identify specific customers that you want to deal with in those foreign markets, then we can take th --

-- at information to the insurers and speak to the insurers and they can assist us with determining the amount of credit where they miss that they would be prepared to accept for that particular customer. And they can also help us establish the terms of payment that might be okay a prude in, in order to enhance the risk appetite of the insurer. So whether it be on a secure payment terms or oval or open payment terms, the risk appetite is the insurer might change. But at the end of the day we want to try and establish the relationship to get the sales started and then we can start working towards the enhancing the, the payment terms in order to take more market share.

Speaker 0 08:33 Right. Let's talk about payment terms. There are a variety of fun and you sort of mentioned a couple of them. Let's, uh, let's determine like let's, let's talk about them. And determine, you know, how you figure out which is best for you and your, your customer.

Speaker 1 08:48 Yeah. So there's a variety of payment terms that can be utilized and ultimately payment terms will impact your cashflow. It's really important to recognize that at the get go and determine what cash, what, what, what terms you require in order to manage your cashflow cycle. So, um, you know, at the end of the day you need to determine how quickly you're paid and you need to be paid. And once you've determined that, I may set you in terms of the guidance on the payment terms to use. Uh, the payment terms can vary from secure, uh, to open terms. And so you may want to start a relationship with a new buyer selling using the letter of credit, which is the most secure form of payment. And the letter of credit uses an official third party, typically a bank to guarantee payment. So this significantly reduces the risk of nonpayment to the Xsporter.

Speaker 1 09:39 Um, however, it's important that there are, um, discrepancies that can appear on a letter of credit. And when you have a discrepancy, it is possible, uh, that the, the, the buyer's bank may not, um, may not honor the, the letter of credit and uh, that can create problems when you're trying to collect under a letter of credit. So that's, that's a concern for an emerging export or it's tricky to make sure you have letters of credit that have no discrepancies and so you need to be mindful of that. And so often companies prefer to go to the next most secure form of a payment terms, which is selling on cash. Again, documents and, and cash and doc cashing and documents works in the following manner. You ship your goods to the buyer and you forward the documents that are required for the, uh, for the, for your buyer to import the products into their country.

Speaker 1 10:29 You forward those documents. And that would be copies of the invoices, bill of lading, any health certificates that are required, a product of original documents, that type of thing. You afford those documents to the collecting bank. And in order for the buyer to paint the documents to enable them to import the product into their country, they must pay the collecting bank. And so that has to happen. The funds get paid to the collecting bank, the documents get released, and then the I the important can happen. So you have a bank that's helping you get the money into your bank account and this is a commonly used approach to conducting businesses with risky foreign markets. It takes away the issue of discrepancies and allows you to control the documents with your bank. Um, it should be noted that more liberal type payment terms, uh, or the more liberal the payment terms are then the longer period of time it is to collect the money.

Speaker 1 11:20 So that will have an impact on your cashflow cycle. And you know, if you move forward to the next most riskiest form of payment, that would be open account terms where you're providing credit specifically to your customer, whether it be on net 30 net, 60 and at 90 days, but that's going to lengthen your cashflow cycle. Uh, however, some of our clients like to use open terms and export markets because it helps them to gain, um, market share because it allows them to offer a little bit longer in terms of payment and that may give them an advantage over competitors and as long as you can finance that and typically you need a, you need an operating line of credit to do that, um, then you may be able to use open payment terms with credit insurance wrapped on those terms to, uh, --

-- to obtain more market share.

Speaker 0 12:06 Okay. So there's a lot of opportunities and I just dumped on you though. No. So there's a lot of opportunities for you to do business and to get paid. Um, but it's still probably a pretty scary venture. You can insure that risk though, can't you? So let's talk about how you do insure that risk. What happens if you've done all these things and you're still not able to get paid? How do you ensure that?

Speaker 1 12:33 Yeah, definitely you want to look at insurance risks, especially if you're, if you're new to exporting and new to this market and accounts receivable insurance will provide coverage for insolvency of the buyer. So the buyer just becomes insolvent or nonpayment of the buyer, so they aren't actually insolvent. They just don't have the cashflow to pay you. It'll also cover repudiation and political risk. So there's a number of elements that can go wrong and uh, and we can ensure that risk for the export or in order to increase the probability of them being paid for their sale. Um, when, when establishing a new buyer relationship, uh, we can work with the insured to determine the maximum payment terms, incredibly limit. The underwriter is prepared to ensure, and it may be that the insurer will want to sort of work with the Xsporter to help them start selling on more secure terms.

Speaker 1 13:23 So maybe on a cash against documents to start off. And then once they've done a number of transactions on cashing his documents terms, then maybe the insurer will become more comfortable with, uh, enabling the export or to then switch to open account terms and provide, uh, coverage on that basis to enable them to continue to grow their, uh, their relationship with that buyer. So, uh, I guess my point here is that we work with the insurers and the exporters' to try and help them find ways to, um, develop the relationship with the buyer and enhance the relationship with the buyer over time, uh, and assuming that the client can finance it, uh, try and open up a more secure or more, uh, favorable payment terms with the buyer in order to secure that business and, and, and increase their, their export volume.

Speaker 0 14:10 Okay. I'm going to ask you a couple of questions about this, um, because I'm wondering if people really know what it means when you say repudiation. So what does that actually mean?

Speaker 1 14:22 Yeah, so we see a lot of a repudiation claims in our office, and what that is, is a typically involves a losses resulting from sale of commodities. And, uh, if you think about it, if you're selling a commodity to someone on the other side of the globe, it's going to take some time for that good to arrive at the, uh, at the buyers, um, port of entry. And so what can happen is the buyer, and during that time when the goods are being shipped, the buyer may decide that, Hey, I don't want these kids anymore, and the demand in my market disappeared. Or perhaps the commodity price has changed and I don't need these kids tomorrow. Maybe I can refuse to accept these goods and buy them from somebody else at a cheaper price. So sometimes we find that the goods are not accepted when they arrive at the, a, at the exporters' or at the importers port of entry.

Speaker 1 15:09 And so then we've got an export or who's got a product sitting in a port, uh, somewhere around the globe and they've got to find a new buyer for that product. And so, uh, we work with the ex boarder and the insurer to try and find a new home for those goods. And once the goods are armored sold, they're going to be sold at a loss. And that's a loss that the insurer would indemnify at 90%. So, uh, we do see a lot of those types of claims in, in our office and, um, and especially if you're a commodity trader, it's something to be very mindful of.

Speaker 0 15:41 Okay. And then just very briefly, just give me the, the background on what Apollo, what is considered a political risk?

Speaker 1 15:49 Yeah. So political risk involves a number of elements. It can be a result of a cancellation of an import or export permit. So for example, um, you may recall many years ago there was the avian flu that happened, uh, with Canadian poultry. And so some of the markets closed their doors to Canadian poultry and people had product that was being exported and it was on the water, uh, on, on we, on route to their destination. And all of a sudden the port of entry --

-- is canceled, uh, canceling in the permit. And so that product has to go to another country and so it has to be diverted. So we've seen things like that happen in the past. Uh, losses can also result from currency devaluation. So if, uh, say the buyer has to convert their, let's say Mexico, they have to convert pesos into U S dollars in order to purchase the product.

Speaker 1 16:39 And there's a, there's a shortage of U S dollars, uh, the, and, and so the bank cannot release a U S dollars to the buyer. Um, then the insurer would step in there and, uh, and, and cover that because of a devaluation in that currency. Uh, so you know, that type of risk can exist in the marketplace. And then finally, losses resulting from a war Silicon motion. Um, that can also happen. Recently we had a client who had a container and, uh, there was, um, there was an uprising in the, uh, the city where the container was being delivered and, um, and so, uh, some damage was done to that particular shipment and, uh, the insurance stepped in and, and, uh, and covered that as a, as a political risk event.

Speaker 0 17:27 Hmm. Okay. So, um, thank you. Setting up exporting to grow your business costs money. So how do you actually plan your cashflow and what should you actually consider?

Speaker 1 17:39 Uh, that's a great question. And a really, once you've developed your export plan and your marketing plan, you also need to develop a financing and cashflow plan. Uh, there's definitely going to be a turnaround time. Your cash as the buyers may pay more slowly and your suppliers will still want to be paid on the same, on a timely basis. So there's gonna be a gap that you need to cover. And so, um, you know, you've got that risk and then you know, to your point about political risk, there can be also currency devaluation. So you have to be mindful of that in your pricing formulas and uh, and that can have an impact on your cash flow. Um, but you can't really predict the turnaround time it's going to take for your, for payment to arrive from your customer. And you need to access cash or not green line of credit in order to act as a cushion until such time as you're paid by the ultimate buyer.

Speaker 1 18:27 Um, so it's really a good idea to develop a cash flow budget so you can see the stress on your cashflow from the time you pay your suppliers to the time you see casts from your customers. Um, and you may also, depending on the nature of your business, you may need to, to finance a, a capital expenditure for equipment in order to help you, uh, manage the export demand. And so you may have to build some costs to the financing of equipment into your cashflow model as well. So you need to be mindful of all of those things as, as you build out your, uh, as you build out your model.

Speaker 0 18:58 Okay. So it looks like your bank is going to play a big role in this. Um, what can you actually do, uh, to help make their support more easily achievable?

Speaker 1 19:10 Yeah, it's really important that you develop a strong relationship with your commercial account manager. We spend a lot of time talking to bankers and trying to work with them and our clients to help make sure we can get adequate financing for our customers to achieve their export goals. Um, the good thing about the banks in Canada is that they're, you know, we are an export economy and so they're quite familiar with the needs of the customers in order to do, uh, get export business and the banks able to provide products to help you finance your export expansion. So if you can attain support via, uh, issuance of letters of credit from your bank, uh, they can act as we, uh, collecting bank when you sell on cash against documents, payment terms, and obviously they can provide a line of credit when you need assistance financing the cashflow cycle of your export business.

Speaker 1 19:56 Uh, the other things they can be done is you can work with your bank access financial guarantee products that are offered by export development Canada, and those products will enable your bank to lend you more money on the same asset base. So, uh, that's an interesting, uh, way to try and leverage more out of your assets. And really, I think the key is to work with your bank and share your export strategy with them. And, uh, they should, uh, they should be very keen to help, uh, help, uh, provide support and help you grow into, uh, into becoming a more expe --

-- rienced the export export in the Canadian market.

Speaker 0 20:31 So, John, there's a, there's a lot of work to setting up an export business and I don't want to scare people off because it seems like a lot of heavy lifting, but if done right, the payoff is significant. So can you share some just general stories about how has ramped up some of your client's businesses?

Speaker 1 20:51 Oh, absolutely. I mean, we're, we have an exciting business here in that, uh, we're really helping Canadian companies grow and, uh, achieve more on the international stage. So it's, it's really fun and, and we see it from year to year because as we provide our, uh, insurance with renewal information from our customers, um, we see year over year the growth in the sales that they, they're doing internationally. We see the new markets that they, uh, are starting to penetrate each year. And we can see that their, you know, their, their spiderweb is sort of expanding as they, uh, enter into new markets. So, um, most of our clients, when we, when we work with them on renewal of their contracts, we see growth in the volume of sales that they're doing. And we see, uh, additional new markets being added to their policy because they've had opportunities to expand into new markets, which have been supported by the insurers during the, the policy year.

Speaker 1 21:45 So really, uh, you know, the pick one specific event, I can't really say I, I'd say it's more just a, you know, people buying people that utilize the strategy and recognize that it's a valuable strategy and utilize the strength and information available to them from the insurers in the marketplace. They really, uh, they can really do well and grow their business and, uh, you know, rely on brokers like ourselves to help steer them in the right direction and provide them the adequate information they need in order to, to, um, to get the information to enable them to, uh, to be successful on the international stage. So it's, it's not a specific to one company type scenario in our office. It's, uh, it's a, it's a reality of the customers that we're working with that, that, uh, there'll be more successful. Their businesses are growing and, uh, they're flourishing in the international market. So it's a great story for Canada. And I think with the, uh, with the new trade agreements that, uh, the Kenyan government is answering, uh, there's going to be more and more opportunity for Canadian companies to take advantage of this. And, uh, and we should see less reliance on the U S market over time as companies will start to think about other places to export.

Speaker 0 22:52 That's, yeah, that's great. And I think that there's so much information out there for people to access from brokers, from insurers, from the Canadian trade commission, et cetera, that there's, there's ample information out there to help you get this done. Right. So, Jay, John, thank you so much for your insights on this. It's been really helpful.

Speaker 1 23:12 Yeah, no problem. General school speaking with you today, I really appreciate the opportunity.

Speaker 0 23:15 Oh my pleasure. John Middleton is the president of global credit risk management. That is our show for this week. Trade securely podcast is brought to you by the receivables insurance association of Canada. Our member brokers and insurers are helping Canadian businesses succeed and grow by enabling them to trade securely at Holman abroad. For more information to help you grow your business, check out our Twitter and LinkedIn feeds and subscribe and share this podcast with your friends and colleagues through iTunes, Google play, Spotify, or download the trade podcast streaming up from our website and you can always contact any one of our member brokers that is listed on receivables insurance canada.com until next time, I'm Janet Cheesman. Thanks for listening to the trade security podcast.

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