

Introduction

An important stage after manufacturing of goods or their procurement is their preparation for shipment which involves packaging and labelling of goods to be exported. Proper packaging and labelling not only makes the final product look attractive but also save a huge amount of money by saving the product from wrong handling the export process.

Packaging

The primary role of packaging is to contain, protect and preserve a product as well as aid in its handling and final presentation. Packaging also refers to the process of design, evaluation, and production of packages. The packaging can be done within the export company or the job can be assigned to an outside packaging company. Packaging provides following benefits to the goods to be exported:

- **Physical Protection** - Packaging provides protection against shock, vibration, temperature, moisture and dust.
- **Containment or agglomeration** - Packaging provides agglomeration of small objects into one package for reason of efficiency and cost factor. For example it is better to put 1000 pencils in one box rather than putting each pencil in separate 1000 boxes.
- **Marketing:** Proper and attractive packaging play an important role in encouraging a potential buyer.
- **Convenience** - Packages can have features which add convenience in distribution, handling, display, sale, opening, use, and reuse.
- **Security** - Packaging can play an important role in reducing the security risks of shipment. It also provides authentication seals to indicate that the package and contents are not counterfeit. Packages also can include anti-theft devices, such as dye-packs, RFID tags, or electronic article surveillance

tags, that can be activated or detected by devices at exit points and require specialized tools to deactivate. Using packaging in this way is a means of loss prevention.

Labeling

Like packaging, labeling should also be done with extra care. It is also important for an exporter to be familiar with all kinds of sign and symbols and should also maintain all the nationally and internationally standers while using these symbols. Labelling on product provides the following important information:

- Shipper's mark
- Country of origin
- Weight marking (in pounds and in kilograms)
- Number of packages and size of cases (in inches and centimeters)
- Handling marks (international pictorial symbols)
- Cautionary markings, such as "This Side Up."
- Port of entry
- Labels for hazardous materials

Labelling of a product also provides information like how to use, transport, recycle, or dispose of the package or product. With pharmaceuticals, food, medical, and chemical products, some types of information are required by governments.

It is better to choose a fast dyes for labelling purpose. Only fast dyes should be used for labeling. Essential data should be in black and subsidiary data in a less conspicuous colour; red and orange and so on. For food packed in sacks, only harmless dyes should be employed, and the dye should not come through the packing in such a way as to affect the goods.

If you are exporting your goods, you need to ensure that your packaging and labelling suits the local market. For example:

- you should ensure your packaging and labelling complies with the regulations of the country you are exporting to
- you may need to translate your labelling into the local language or to mark the origin of your goods
- you may need to follow local customs to make your goods acceptable to customers - eg in some countries packaging containing food products carries a picture of the produce inside

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Your packaging and labelling also needs to withstand the rigours of exporting, especially if the products are fragile or perishable. As well as your usual product packaging and labels, you need to think about the packaging and labelling you use to transport the goods, eg pallets, shrink wrapping and cartons.

Your products may be transported using several modes of transport before reaching their final destination. Your packaging needs to be suitable for each mode of transport and withstand repeated loading and unloading. Clear labelling helps to prevent goods becoming lost in transit or delayed at customs.



Packaging and the environment

By considering the environment at the design stage you can reduce the cost of your packaging and minimise its impact on the environment. You can also make your product more appealing to consumers who prefer recyclable packaging or packaging from renewable sources.

You must ensure that the packaging you use complies with environmental regulations. The weight and volume of the packaging must be the minimum necessary, and the packaging must be recoverable by recycling, incineration or composting. There are also

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limits on the level of heavy metals that can be present in packaging.

You also have a duty of care for the waste you produce. The regulations require businesses to ensure that their waste is handled and disposed of or recycled safely.

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What you need to know about packaging and labelling

Under the Consumer Protection from Unfair Trading Regulations any descriptions of goods you trade must be accurate - it's a criminal offence if they're not.

This applies to both the writing and illustrations on your packaging and labelling. Among other things, you must not be misleading about:

- quantity or size
- composition
- method of manufacture
- place and date of manufacture
- fitness for stated purpose
- endorsements by people or organisations

The law applies to you if you sell goods to the public or manufacture goods.

Origin marking

In most circumstances, there is no legal requirement in the UK or anywhere else in the European Union for goods to be marked with an indication of their origin - but you can do so if you wish.

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However, if you do, the origin markings must be accurate or you will be committing a criminal offence under the Consumer Protection from Unfair Trading Regulations.

Pricing

Under the Consumer Protection from Unfair Trading Regulations, it is also an offence to give consumers a misleading price indication about goods and services, including immoveable property, rights and obligations. The regulations apply to any method used to indicate a price, for example in a written notice or verbally.

Check if special rules apply to your sector

There are many special rules regulating packaging and labelling. If you make or sell goods it makes business sense to check your responsibilities.

Goods covered include:

- Gold, silver and platinum - if you sell or offer to sell goods that are not hallmarked it can be an offence.
- Shoes - if you make footwear you must label your goods with the main materials from which they are made. It's also an offence to sell footwear without information about its composition.
- Property - if you're an estate agent or developer you mustn't make false or misleading statements when selling property or land.
- Food and drink - if you make or sell food or drink there are many special rules surrounding its proper labelling.
- Tobacco products - if you manufacture cigarettes or other smoking products containing tobacco, you must print a picture health warning on the packet. If you manufacture or import tobacco products, you must ensure they carry a picture health

warning. If you sell tobacco products, you can continue to sell cigarettes without a picture health warning until 30 September 2009 and other tobacco products without a picture health warning until 30 September 2010. After these dates, the products must carry a picture health warning..

- Toys - if you sell toys you must ensure they meet the requirements of the Toys (Safety) Regulations 1995. New rules also require producers and distributors of toys containing magnets to ensure that the toys display an appropriate health and safety warning explaining the risks posed by magnets.

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TAKING ADVANTAGE OF THE AFRICAN GROWTH AND OPPORTUNITIES ACT (AGOA)

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What is AGOA?

AGOA is a United States of American legislation that allows sub-Saharan African countries to export specified goods to the United States duty and quota free. It was signed into Law by the Clinton administration on May 18 2000 and covered an eight year period from October 2000 to September 2008. Following various amendments, AGOA has been extended to 2015. The aim of the bill is to promote increase in trade and investment between the United States of American (USA) and the Sub-Saharan African Countries by providing eligible African countries with unrestricted and liberal access to the US market. AGOA is the corner stone of the US trade relations with African countries. It seeks to stimulate economic growth, create jobs, and facilitate sub-regional integration and more fully integrate the Africa continent into the global economy. Essentially, all products of these eligible countries will have quota-free and duty-free access to the US market.

In the textile and apparel category, Nigeria was the first country to be granted the Category 9 certification by the US which allows us to export our African prints and other folklore and hand loomed fabrics to the US. This means that native Nigerian wares like Adire, Ankara, buba, kaftan, agbada and the likes can enter duty free to the US market.

Conditions for eligibility:

The US President is required under the AGOA act to conduct periodic reviews of country eligibility and determine if the country can continue to enjoy the benefits of the Act or if its eligibility would be withdrawn. For a country to be eligible for AGOA benefit that country must fulfill the under listed conditions:

- Have a Market based economy,
- Uphold of the rule of Law and political pluralism,
- Eliminate barriers to US trade and Investment.
- Institute sound economic policies to deal with specified social problems, such as elimination of child labour, a system to combat corruption and a system to protect workers right

Benefits of AGOA

- AGOA is an extension of the US Generalised System of Preferences
- Provides eligible countries duty free access to the United States market.
- AGOA affords the country the opportunity to increase its foreign exchange earnings, create more jobs, diversify export, increase global market share and achieve some level of poverty reduction.. Through AGOA, the US government also seeks to provide technical assistance and trade capacity building for beneficiary countries as essential components of its trade and investment policy. Furthermore, AGOA

establishes the US- Sub Saharan Africa Trade and Economic Cooperation Forum to facilitate regular ministerial level trade and investment policy discussions

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Who can take advantage of AGOA

Any exporter who is able to generate an order from a US firm on any of the eligible products under AGOA can take advantage of the duty free access. The exporter must however ensure that his goods comply with all the provisions of the rules of origin regarding that product and all sanitary and psytosanitary measures if the goods involve food/Agricultural products.

Product of Interest

Some of the products which may be of interest to a Nigerian Exporter on which the MFN Tariff advantage for an AGOA exporter is high includes, Footwear, Apparel and Textile, Cereals, Beverages, Fruits and fruit juices, Cocoa and Cocoa products, Glass and Glass ware, Iron and Steel, Leather and Skins, Plastics, Rubber and Rubber products, Fish and seafood, Gum Arabic, Sesame seeds, Cashew nuts and Shea Butter.

Rules of Origin:

Rules of origin are important determinants of a product's eligibility in all reciprocal and even non reciprocal trade agreements. They provide the guidelines according to which the origin of the goods is established. In this case, they relate not only to the source from which they are shipped but also where the goods are *deemed* to have been produced. AGOA Rules of Origin are simple to comply with as compared to the Rules under the GSP and they also ensure that there is no transshipment of those products.

Apparel Rules of Origin:

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Separate rules of origin exist for Apparel export under the AGOA Act. With the expiration of the WTO multi fiber agreement in 2005, the US sought to protect the preferential benefit of sub-Saharan countries so that they can still be competitive in Apparel export. The AGOA Apparel Rules of Origin allows exporters to source for fabrics, domestically or from the US and from other 3rd country producers under the 3rd Country fabric provision, and the cloth will still be regarded as having originated from the exporting sub-Saharan African country. The Act however seeks to prevent transshipment from foreign destinations.

Apparel from U.S. fabric, yarn, and thread is provided with duty-free and quota-free access to the U.S. market without limitations. Apparel made from domestically produced fabric and yarns, or from fabrics and yarns produced in AGOA-beneficiary countries in Sub-Saharan Africa. Such market access into the U.S. is subject to a cap of 1.5% of overall U.S. apparel imports, growing in equal yearly increments to 3.5% of overall imports by 2008.

Manufacturers of apparel wishing to export duty-free to the U.S. under AGOA are required to "maintain complete records of the production and the export of covered articles, including materials used in the production, for at least 2 years after the production or export" (see page 14 of AGOA Legislation in Downloads Section). For this purpose, manufacturers are required to draw up and sign a "Certificate of Origin", a sample of which can be accessed in the [Downloads](#) Section.

Nigeria's implementation strategy

When Nigeria was admitted into the AGOA scheme, the Federal Government developed an implementation strategy which was focused on,

- Encouraging capacity building in existing manufacturing companies in the chosen sector to be able to produce larger

- volume and quality products to the standard specific to the US market
- Taking advantage of intra-AGOA trade by vigorous marketing to supply Nigerian yarn and fabric as production input to eligible Sub-Saharan African countries manufacturing for US market
 - Attracting new foreign Direct investment to Nigeria through either establishment of factories to produce or enter joint venture agreements to manufacture some of the products on the AGOA product list

Activities of NEPC

The Council as the agency of Government charged with the responsibility of implementing the Presidential strategy and helping the country benefit from the AGOA Act has focused on some specific product sectors of the economy:

A Textile and Apparel:

The presidential strategy that was developed for the implementation of AGOA in Nigeria was highly skewed in favour of developing the textile and apparel sector. This in part was based on the fact that most sub-Saharan African Countries that have benefited from the Act have done so in the Apparel sector. The aim was to encourage Nigerian Textile companies to shift focus from only producing traditional African prints to products required by apparel manufacturers in Nigeria and another sub-Saharan African Counties since AGOA encourages the use of 3rd party fabric sourced regionally in apparel production, and the WTO Multi Fiber Agreement was being phased out.

b. To further act as an incentive towards promoting the production of apparel for export, The NEPC set up a Human Capital Development Center as a model factory for apparel production and to train Nigerians in the art of commercial garment production. The center was commissioned in February 2007 and over 6 sets of

trainees have graduated from the center, while the seventh batch is currently being trained. The Center has also recently been commercialized under as a Public/Private partnership scheme and has successfully exported the first batch of apparel to the US under the AGOA scheme.

c. One of the major challenge identified in the implementation of AGOA in the Country was the redeployment and/or retirement of the Customs officers whose signatures had been sent to the United States Trade Representative as authorized officials for the issuance of textile visas, and the lack of adequate knowledge by the Nigerian Customs on how to handle the documentation for AGOA export. To remedy this, the Council in collaboration with USAID/WATH organized training for Members of the Nigerian Customs and members of the organized private sector on how AGOA exports should be documented.

d. Further more the Council in 2006 in collaboration with WATH and through the assistance of TWG organized for 4 Nigerian Textile Companies to participate at the Material World Show in New York so as to introduce Nigerian fabrics and yarn to the over 5000 companies that participate at the fair to source for fabrics for apparel production. As a result of their participation, the 1st batch of Nigerian produced African Print was shipped to the US under AGOA.

B Foot ware and Leather

a. Nigeria has both competitive and comparative advantage in the production of leather and foot ware and exports a major part of its leather to the European Union. In an effort to promote the development and export of quality foot ware, the Council in collaboration with UNIDO and the Abia State Government has set up a Common Facility Center in Aba with modern equipment for finishing of leather products.,

b. Working in collaboration with WATH, a US based consultant on Leather products visited 6 States in the country in May 2006 and

conducted training for manufacturer on how to access the US market and ensure quality control. After the visit, selected companies were sponsored to attend a further training in Accra Ghana where they met with major buyers in the US.

c. Some Nigerian shoes, bags and other leather product manufacturers were part of the Nigerian Delegation to the US in 2006 where with the assistance of TWG, they were introduced to major US buyers for their products. Some of these companies have subsequently received a grant from the Ford Foundation for one of the major us buyers to come to Nigeria and organize further training for local producers. Subsequently, several Nigerian Companies have successfully exported leather products to the US.

C Shrimps and Sea Food product:

a. In 2005, Nigeria was decertified from exporting shrimps to the US on the grounds that our trawling companies were not using trawlers fitted with Turtle Excluding Devices (TED). This meant that Nigerian shrimps which had hitherto been exported to the US could no more be exported. After several meeting with the relevant US Government Agencies, through the assistance of TWG, on January 7th 2007, Nigeria was recertified for export of Shrimps to the US.

b. Five Nigerian Sea Food exporters were part of the Nigerian delegation to the US for the trade mission where they were introduced to major US sea food experts and importers and given a tour of one of the largest seafood wholesale market in Maryland.

c. In furtherance of this, a Consultant from the US Food and Drug Administration visited the Country to hold training sessions on U.S food and health safety requirement for Nigerian seafood exporters.

d. So as to reintroduce Nigerian Shrimps into the US market and publicize the recertification of the Country's shrimps, arrangement was made for Nigerian Sea Food companies to participate in the Boston Sea Food Show in March 2007. Some of the companies did attend the show and have come back with positive results.

D Handcrafts and Handmade Products:

a. In order to promote the export of handcrafts, a US based consultant was invited into the country in collaboration with WATH to identify and assess the Country's producers of handcraft products. As a result of this, selected companies were sponsored to Ghana to attend a specially package training program and interact with producers from other countries within the region.

b. Selected companies also participated in the US trade mission where they met with major US buyers and visited retail shops in Washington. They also attended trainings and had roundtable discussion with buyers and product designers in the US.

Agro ailed Products

a. In the Agricultural sub-sector, the products lines focused on include Shea Butter, Cocoa, Cashews nuts amongst others.

b. In collaboration with WATH, a training program was organised in Abuja for West Africa Shea producers, five local producers were sponsored to attend the Natural products Expo and the Inside Beauty show.

c. Two major Nigerian Cocoa companies were part of the Nigerian delegation for the US Trade mission where they had meetings with the President of the World Cocoa foundation and Mars Inc.

Conclusion

The United State Government in its AGOA Competitiveness report has also identified the problems faced by Nigeria in its implementation of AGOA and proffered recommendations on the technical and financial assistance needed to make the country more competitive globally. In view of the importance of this legislation, the responsibility is for the Nigerian Private Sector players to avail themselves of the opportunities provided by the Act.

International Market Research: Identifying your Target Market

Market research can be an important contributor to international success. There are about 190 countries in the world, and you want to pick the right one(s) for your product or service.

To do this, you need information that will provide a clear picture of the political, economic and cultural factors affecting your operations in a given market. For example, you may already be aware of an opportunity in a foreign market, but need specific information to take advantage of it. Or maybe you have a target market in mind and you want more detailed knowledge of the demand for your product or service.

Understanding international market research

Market research is the key to understanding these opportunities. It can confirm that an opportunity actually exists in a particular market and can help you understand the market's characteristics. It can give you insight into how a new market can be developed. Most important, it helps you discover what is important to your potential customers and what may influence their buying decisions.

Although there is usually a lot of detail involved, the three basic steps of international market research are not particularly complex. They are:

Step 1: Screen potential markets

- Collect statistics related to your sector that show product or service exports to various countries.

- Identify five to 10 large and fast-growing markets for your product or service. Look at them over the past three to five years. Has market growth been consistent year-to-year? Did import growth occur even during periods of economic recession? If not, did growth resume with economic recovery?
- Select some smaller emerging markets that may hold ground-floor opportunities for you. If the market is just beginning to open up, you may not have as many competitors as you would in an established market.
- Target three to five of the most promising markets for further study.

Step 2: Assess target markets

- Examine trends that could influence demand for your product or service. Calculate the overall consumption of products or services like yours and identify the amount imported.
- Study the competition, both domestic and non-domestic. Look at each competitor's market share.
- Identify what affects the marketing and use of the product or service in each market, such as channels of distribution, cultural differences and business practices.
- Identify any foreign barriers (tariff or non-tariff) for the product or service being imported into the country, as well as any barriers (such as export controls) affecting exports to the country.

Step 3: Draw Conclusions

- After analyzing the data, you may decide that you should restrict your marketing efforts to a few countries. In general, new-to-exporting companies should concentrate on fewer than ten markets. One or two countries are usually enough to start with.
- With these conclusions in hand, you can then begin to develop your marketing plan.

Understanding market types

Markets are often categorized into three types. At the screening stage, understanding these classifications can help you focus on one (or several) markets. The types are:

Type 1: Fast-paced, competitive economies (e.g. United States, Western Europe)

- Efficient product and service delivery, excellent quality assurance and an in-depth marketing plan are critical to success.
- If you are not fluent in the language, you can work through a local partner to handle linguistic and cultural differences.

Type 2: Relationship-based, relatively affluent economies (e.g. some countries in South America)

- Interpersonal communication skills, cultural sensitivity and linguistic fluency are vital to developing a business relationship with a local partner.
- Initially, relationships need to be developed at a senior level.

Type 3: International Financial Institution (IFI)-funded economies (e.g. Africa)

- The economies are developing or changing.
- Market development takes time.
- Flexibility and political astuteness are important.
- It's helpful to have experience working with third-party funding organizations (e.g. NEXIM).

The kinds of market research

There are two main types of market research: secondary and primary. The second step of your international market research may take different forms, because there are many ways to study a market. You might sometimes rely on a "gut feeling," and at others use sophisticated statistical techniques. The more detailed your research, however, the less likely you are to overlook something important. There are two main types of market research: secondary and primary.

Secondary research

You do this in Nigeria, using data such as periodicals, studies, market reports, books, surveys and statistical analyses. Many of these are available through our NEPC, as well as through chambers

of commerce, economic development organizations, industry and trade associations, and Nigerian companies that are already doing business in your target market.

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Primary research

After completing your secondary research, you move on to the primary research phase. Here you collect market information through direct contact with potential customers or other sources.

Primary research almost always demands personal involvement through interviews and consultations. Your foreign or domestic contacts will be able to help you better if you state your company's objectives at the outset and present your questions clearly. For example:

- **Company Description** - give a brief description of your company, its history, industries/ markets served, professional affiliations (if any), and your product or service.
- **Objectives** - briefly list or describe one or more objectives for your planned export product or service, based on your secondary market research.
- **Product or service** - clearly describe the product or service you want to export.
- **Questions** - base your questions on your secondary research and be as specific as possible. You'll get a better response if it's clear that you've carefully researched your subject.

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Profiling potential markets

Here is a checklist to help you summarize what is prudent to learn about a possible market. After you have created two or three profiles, compare them to see which one(s) present the best overall opportunities.

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1. Market type

Specify:

- Type 1 (fast-paced, competitive)
- Type 2 (relationship-based)
- Type 3 (IFI-funded)

2. Political highlights

Describe:

- the government
- who's who
- major political themes
- relations with Nigeria, including agreements

3. Economic highlights

Describe:

- the domestic economy
- economic trends
- general imports and exports
- imports and exports to and from Nigeria

4. Business information

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Specify:

- the currency
- the language
- business practices and regulations
- any differences in legal framework
- government procurement practices
- work relationships
- office hours

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5. Partnering options

List:

- Nigerian firms doing business in the target market
- major firms from the target market doing business in Nigeria
- options for local partners

6. Support for market-entry strategies

Identify:

- industry associations
- trade events in the target market
- other networking options
- trade media
- research facilities
- market research sources

7. Cultural considerations

Specify:

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- greetings
- forms of address
- do's and don'ts
- cultural differences
- attitude toward Nigerians
- general tips

8. Travel tips

Describe:

- visa or other requirements
- work permits needed
- business support services
- suitable hotels
- telecommunications standards
- tipping customs
- electrical voltage
- religious holidays

Exploring foreign markets can take longer and cost more than expected. Be prepared for additional expenses for market research, product launches and personal visits.

PARTICIPATION AT INTERNATIONAL TRADE FAIRS AND EXHIBITION

Definition of Trade Fairs:

Trade Fairs are temporary markets where buyers and sellers meet periodically at recurring intervals. The primary objective is to disseminate information about, and displays the goods and services of competing and complementary companies. Target audience are selected concentration of customers, potential buyers, decision influencers and middlemen.

In brief Trade Fairs are promotional campaigns organised in order to gain public support or acceptance. It is therefore one of the best ways to initiate or extend export activities.

Types of Trade Fairs

Trade Fairs either domestic or international are categorized in to three groups namely:-

- Generic Fairs
- Specialised Fairs and

- Regional Fair.

Generic Trade Fairs: General Trade Fairs are also referred to as horizontal fairs. At General Fairs participants are drawn from different parts of the world with different types of product groups and lines on display. Participants may be grouped by country under (National Pavilion) or by product sectors or categories. One of the features of General Fairs is that it attracts visitors of all ages, tastes and types. It is therefore a good place to showcase consumer goods or new products. The purpose of National Pavilion is to give a visitor a good idea about a country and also for exhibitors entering the market newly. Examples of Generic Fairs are:-

- (i) Kaduna, Enugu and Lagos International Trade Fairs
- (ii) Ghana, Zambia and Jeddah International Trade Fairs

Specialised Fairs: These are also called vertical fairs. It concentrates on products of a particular industry or group of industries. Specialised trade fairs enhance market entry and offers information on a range of products in specific sectors. The organisation and participation of specialised fairs/ exhibition demand skills and experience. Examples of Specialised Fairs are:-

- (i) Royal Agric Show London
- (ii) Handicraft Fair Ouagadougou B/Faso
- (iii) Food and beverage exhibitions (FOODEX) Japan

Regional Fairs: These are trade Fairs normally organised by particular section of a country or group of countries specifically to limit participation to cover only the member states. The aim however is to harness the opportunities, foster trade and encourages regional integration. Examples of regional fairs are:-

- (i) North- East joint Domestic Trade Fairs

- (ii) ECOWAS Trade Fair
- (iii) O.A.U/ A.U Trade Fair

Reasons for Participation at International Trade Fairs

1. **To test the Market:** The first time you enter a trade fair, you may not make many or even any sales on the spot. But showcasing your product can reveal out what agents, potential customers and competitors think about it.
2. **To learn about Sales Promotion Methods:** The new exporter can particularly benefit from finding out at a fair not only what products are offered by competitors but how they go about offering them.
3. **To make Sales:** A trade Fair fulfils its function as a market place best when it makes possible direct sales to customers. However, an exhibitor may also not make immediate sales, but his contact at the fair and the follow up (which is the most important) leads to generating orders later on.
4. **To study the Competition:** Walking around a well organised fair, looking at products displayed, talking to exhibitors and collecting their sales literature will give you a good idea of the competition that you will meet in the market. Information about prices, acceptable quality, and packaging will help in approaching market.
5. **To find a good Agent:** Agents and Distributors usually come to Trade Fairs looking for new Agencies to take on or new products to buy and distribute. They come not only from the country hosting the fair but from nearby or even distant places.

6. **To support an existing Agent:** If you already have an Agent and is keen about entering a fair and can convince you that, will mean more sales or acceptability, you might co-operate with him in putting display. The contacts he has already made will be useful and you will no doubt make many new ones.
7. **Acquisition of new technology:** This could be through the identification of producers of machineries and other requirements for production, improvement or compliment particular product.
8. **Establishment of Joint- Venture Partnership:** Trade Fairs mostly brings producers of similar and complimentary products, thus interested parties can negotiate Joint- Venture ship or partnership.

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How to effectively Participate in International Trade Fairs and Exhibition

Trade Fairs can be the most effective technique of market penetration programs, especially if well attended depending on one or all of the following:-

(i) **Market Identification:** Participation in international trade fair could be effective only when exhibitor identifies the market entry requirements. This should include the government regulation and barriers, the legal system, custom prohibition, weather condition, demographic and cultural environments

(ii) **The company's objective in participating at Trade Fairs:** An exhibitor needs to have a specific objective for attending a trade fair. Is it to explore the market opportunities by finding new

customers or to introduce a new product or to find an agent or joint venture partners or is it for market research or intelligence.

(iii) **Nature of Product Displayed:** The products are categorized in to manufactured, semi-manufactured and raw products with each requiring different promotional strategies with different type of exhibitions and expositions. The exhibitor should be able to know much about the supply capacity of his marketed product.

(iv) **Techniques to be used in attracting Customers attention:** The identification of appropriate promotional technique to be used to attract attention of customers is necessary. Is it through the product demonstration or distribution of product samples or through physical display of products or multimedia presentation or through catalogue/flyer advertisement?

(v) **Useful contact to be made during Fairs:** Participation in international trade fair will only be effective when useful and genuine contacts to make will be fully utilized. This is what leads to order generation.

Importance of Trade Fair participation

The role Trade Fairs played in the promotion of products shows that all form of promotional tools was combined, such as advertisement, face to face contacts, product demonstration etc.

- **Face to face contact-** This provides for an immediate and interactive relationship between two or more persons with each observing the others reaction.
- **Cultivation** - Trade fairs permits all kinds of relationship to spring up ranging from a matter fact selling relationship to deep personal relationship.

- **Flexibility** - Trade fairs has the advantage of being flexible in operation, as exhibitors can tailor their sales presentation to fit the needs and behaviours of individual customers.
- **Response** - The buyer has the opportunity to respond to listened sales talks or the product demonstration.

Finally, it is important for both the Government and participating companies to consider the appropriateness of any trade fair before exhibiting, so far as the desired objective need to be achieved. Specialised fairs should in no way be mistaken for general fairs.

Cost Concepts:

Some of the important cost concepts are explained below:

Prime Costs:

The term “prime cost” is used commonly to denote the sum of direct material and direct labour costs in the production of product. It is limited in its use to a manufacturing organization.

Overhead Costs:

Overhead is the term generally applied to those changes which cannot be traced directly to a particular unit of output.

Conversion Costs:

This term is used commonly to denote the sum of direct labour and overhead costs in the production of a product. It is the total cost of

converting a material from one stage of production to the next succeeding stage of production.

Distribution Costs:

Distribution costs include all costs incurred from the time the product has been put in schedule state until it is converted into cash. Thus they involve the functions of selling, storage, transportation, audit and collection. The major items of cost include advertising sales salaries and commissions, packing, storage, transportation, audit, collection and sales administrative cost.

Administrative Costs:

Administrative costs include costs of planning and of controlling the general policies and operations of a business enterprise. Usually all costs which cannot be assigned either to the production or sales division are considered as administrative cost. Typical are such items as fees of the Board of Directors, rent for general office and costs of general accounting department.

Joint Costs:

Joint costs arise when two or more products are processed at the same time or in a single operation or from a common material. If two or more products such as cotton seed and cotton fiber are produced from the same raw material, joint costs are incurred up to the point of separation.

Overhead Costs Allocation:

Overhead is that portion of period costs that cannot be objectively traced to particular operations, products or other profit segments. To determine a full cost, this overhead must be allocated to the profit segments on some basis. Overhead distribution involves assigning overhead costs to individual units within a profit segment, i.e. products, customers, etc.

Overhead costs are distributed to profit segments as a:

- Percentage of direct labour cost or time;
- Percentage of direct labour and direct material costs;

- Percentage of conversion costs;
- On the unit of product basis;
- On a machine hour rate method;
- On a functional basis;

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ROLE OF COSTS IN PRICING

Objective costs data are essential for deciding what price to set. By determining the difference between costs and price under consideration and then balancing that margin against the capacity necessary to produce the estimated volume, can the seller determine the value of the product in terms of its contribution to recover the seller's initial investment?

To get maximum practical use from costs in pricing, it is necessary to know the cost of:-

- Prospective buyers;
- Existing potential; competitors;
- Seller

Importance of costs in Pricing:

In traditional economic theory. Prices are set by the interplay of the forces of demand and supply. For the individual firm, costs play

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a role in deciding what to produce and how much to produce, given the market price. Customers seldom are concerned with what it costs the seller to be able to offer the product for sale. Hence it can be argued that to determine a “price that will sell”, the seller’s costs have relatively little importance. Despite this point, the most commonly used method to set prices is the cost plus or full cost method of pricing. Costs for pricing must deal with the future. Current or past information probably will provide an adequate basis for profit projections only if the future is a perfect mirror of the past.

To identify profit opportunities, management needs to know how profit changes in response to sales volume that occur when marketing expenditure change. It is therefore necessary to have cost information by:-

- Product;
- Market (sales territory, shipping area, advertising area);
- Channel of distribution;
- Class of customer (retailer, wholesaler);
- Size of customers;
- Key accounts;
- Average order size
- Type of marketing expenditure;
- Transportation mode;
- Physical facility.

Price Concept:

In setting selling prices, the manufacturing organization has several objectives, some of which are as follows:

- Satisfy key customers/distributors;

- Maintain market share (which often requires moving to pricing based on variable costing);
- Market penetration.

Both marketing and finance departments are involved in setting prices. The finance area is concerned with full cost and bottom line impact. Finance prepares cost data including variable cost data and makes a recommendation as to a price for the marketing area's review. The marketing area is concerned with gross margins based on full costs and usually follows the recommendations made by finance. The marketing division has a long history of using variable cost data in the pricing decision in situations in which non-cost factors are critical. These include:

- The decision to participate in a particular business;
- Attempting to isolate non-cost factors affecting competitors prices; and
- The decision to become more competitive.

Basic rules for pricing:

Many contemporary pricing practices are reactions to environmental pressures that have evolved over a number of years. In reaction to these environmental pressures, a near revolution in pricing practices was witnessed with implications for capital spending, the inflation rate, the development of global markets and the application of regulatory and legal policies.

Moreover, price has been recognized to be a key influence on investment decisions because of the direct link between price and net cash flow into the organization.

There are four basic rules for pricing. The four rules listed below are intended to capture the essence of the analysis necessary to determine and evaluate pricing alternatives.

i. Know your cost

An initial prescription is to determine the basic cost data necessary to know which costs vary directly with changes in

levels of activity and the underlying causes of the changes in costs. It is also necessary to identify the costs that are directly related to the product being costed but do not vary with activity levels- direct period or fixed costs. Furthermore, marketing and distribution costs should objectively traced to the products and not simply lumped into a general overhead category. Valid cost data provide an objective basis for choosing between pricing alternatives, determining discounts and establishing differential pricing alternatives. Furthermore, objective cost studies that are completed before the pricing decisions provide the organization with a valid justification for its price structure. Activity accounting approach is recognized today as closer to the realities for arriving at actual costs of production for making pricing decisions. When it is necessary to develop full cost data, the organization should avoid arbitrary allocation formulas particularly the fixed costs.

ii. Know your demand:

The organization should understand fully the factors which influence the demand for its products. Demand analysis is not as objective or as quantifiable as cost analysis, but it is critical. The emerging discipline of buyer behaviour has provided considerable information on consumer behaviour. Price and price differentials influence buyers perception of value. In fact many companies have achieved positive results from differentially pricing their products. Normally an organization will try to find a market position where their products have a unique application. Depending upon how price influence buyer's prescription of value, it is necessary to know how the buyers use the product. It is necessary to know how the buyers use the product. Is the product used as an input in the buyer's production process? If so, does the product represent a significant or insignificant portion of the

buyers manufacturing costs? If the product is a major cost element in the buyer's production process, then small changes in the product's price may significantly affect the buyer's costs and the resulting price of the manufactured product. If the market is sensitive to price increases, then a small price increase to a manufacturer may significantly reduce demand to the initial seller of the input material. Thus, knowing your buyers means also understand how they react to price changes and price differentials, as well as knowing the relative role prices plays in their purchase decisions. The seller also should know the different types of distributors if any and their functions in the distribution channel.

iii. Know your competition and your market:

In addition to the influence of buyers, it is important to understand the operations of both domestic and foreign competition, their rate of capacity utilization and their products. The current rate of capacity influences product supply. In many markets, the dynamic interaction of supply and demand influence prices. Moreover, changes in capacity availability due to capital investment programme will influence supply and prices. A second important aspect of knowing the market is the need to determine price- volume relationships. When scarcity of resources and or capacity is present, knowing price volume relationships facilitates the use of price to allocate these resources over products and to customers.

iv. Know your objectives:

Many firms stress the profit objective of return on investment. Other organizations stress the objective of maintaining specified profit margins. Still other firms seek to achieve market share goals. It is generally not necessary for each product to maintain the same product to

maintain the same profit margin in order to achieve a particular return on investment. Different margins on products may still produce an overall desired profit goal. Organizations stressing market share may build profits by reducing prices. The important point to remember is that differences in corporate profit objectives eventually will lead to differences in prices and the role of price in influencing actual profit. Thus, imitating or following the pricing practices of other companies is not necessarily in the best interest of any firm. Ultimately, regardless of the financial goal profits or break-even, the pricing objective is behavioral in nature. That is whether buyers buy more, whether non buyers decide to buy, whether buyers decide to purchase less frequently but in greater volume per order or whether buyers decide to pay earlier is influenced by the prices and price structure of the seller. Further, the degree that the distributors and dealers are co-operative and motivated to sell the firms products depends largely on the financial incentives provided by the suppliers' prices and price structure. Also, the sales forces motivation to help the firm achieve its financial objectives depends on their understanding and acceptance of the pricing strategy being followed. Price has an important role in the development of incentives of distributors, sales people and buyers to perform in ways that will be beneficial to the firm. Thus, it is important that the seller develops a positive attitude towards pricing leading to a productive pricing approach.

Pricing Methods:

The following are some of the important methods for pricing viewed by the sellers.

Adaptive Pricing:

Adaptive pricing explicitly recognizes the role of costs, corporate goals and competition as well as the effect of price and the total interaction of the marketing mix variables on demand when making prices decisions. Moreover, adaptive pricing provides for a formal mechanism to adopt to environmental changes.

Adaptive pricing provides for the use of (i) plans and standards of controls (ii) review and analysis of deviations between planned and actual results and (iii) an information feed back system providing for revision of plans, standards and policies. The decision to commit resources involves analyzing a variety of variables that interacts with price are: (a) product characteristics (b) price product quality (c) the distribution organization for marketing the products (d) advertising and other communicative efforts (e) the quality and nature of services to offer with the products. Changes in demand, legal and regulatory changes and changes in competitor strategies and products influence the firm to develop adaptive policies with respect to product quality, price, personal, selling, advertising and service.

The major features of adaptive pricing are:

- I. Demand and the responsiveness of demand to the marketing mix variables are explicitly considered.
- II. The constraining influences of competitive products and services and legal and regulatory prices are recognized.
- III. The necessity to develop a mechanism for adapting to changing market and environmental forces is considered. Hence a pricing goal exists only in the context of an adaptive marketing plan should determine future investments and cost behavior rather than the existing investment and cost behavior determining pricing and marketing decision.

Predatory Pricing:

This is the practice of selectively pricing a product below that of competition to eliminate competition while pricing the product

higher in markets where competition does not exist or is relatively weaker.

Pre-emptive Pricing:

The practice of setting low prices to discourage competition from entering the market.

Price Cutting:

The practice of reducing the prices of established products.

Price Discrimination:

The practice of charging different buyers, different prices for the same quantity and quality of products.

Price Bundling:

The practice of offering two or more products for sale at one price.

Price Fixing:

The illegal practice of two or more sellers agreeing on the price to charge for similar products or services.

Price Leader:

In competitive situations, the seller who normally initiates price changes in the market. In some instances, the leader announces the change after other competitors have made price changes. In this situation, the other competitors then adjust their prices to match those of the price leader.

Price Lining:

The offering of goods at a number of specific predetermined prices. Once set, the prices may be held constant over a period of time and changes in market conditions are counteracted by changing the quality of the merchandise.

Spot Pricing

Deciding on the spot the price at which a product can be sold. Spot price may be higher or lower than the cost of production but mainly depends upon the psychological attitude of the buyer's willingness to pay the price for product.

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Price Promotion:

The advertising of a price for a product. Usually the price being promoted is a reduction from previously established price and may take the form of a lower price, a coupon to be redeemed or a rebate to be received.

Quality Price:

The degree to which product quality covers the price.

Sensitivity Price:

A research method for establishing the range of prices that buyers are willing to pay.

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Structure Price:

Some combination of the time and conditions of payment, the nature of discounts to be allowed the buyer, and where and when title is to be taken by the buyer.

Threshold Prices:

The lowest and highest prices that buyers are willing to pay for particular goods.

Proactive Pricing:

The managerial practice of deliberate analysis of the factors that influence prices before setting a price. Normally, a proactive price establishes specific objectives to be accomplished by the prices and then proceeds in the development of specific prices.

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Product Line Pricing:

The setting of prices for all items in a product line.

Rate of Return Pricing:

A method of setting prices by adding a market which will produce a predetermined return on investment.

Sellers Discretion Pricing:

The difference between the direct variable costs of producing, marketing and distributing the product and the highest price that buyers are willing to pay for the product.

Single - Zone Pricing:

Setting one price for all buyers regardless of their distance from the seller.

Target Return Pricing:

A pricing method that develops the mark up over costs based on a percentage of the amount of money the company has invested in the operations. The target monetary return is divided by the expected sales volume to determine the per unit market over unit costs.

Transfer Pricing:

The pricing of goods which are sold to controlled entities of the same organization e.g movement of goods within a multinational or global corporation.

Value/Demand Oriented Pricing:

A method of pricing in which the seller's attempts to set the price at the level that the intended buyers are willing to pay. Also called value in use pricing.

Strategic Pricing:

Planning and directing of the whole operation of the pricing policing.

Barter Trade Pricing:

The practice of exchanging goods for other goods rather than money.

Base-Point Pricing:

A variation of delivered pricing. The base-point is a city where the product is made and from which transportation charges are determined. But in a base-point pricing, the product actually may be shipped from a city other than base-point.

Competitive Bid Pricing:

Firms submit offers (or bids) that detail the product specifications to be delivered at a stated price.

Contingency Pricing:

The setting of a price based either on actual costs incurred after the product has been manufactured or on the measured value the buyer realizes from the product.

Contribution Pricing:

A method of determining the price of a product through a relation between the direct or indirect traceable costs and the relevant costs of production and sale of the product.

Cost Plus Pricing:

A method of determining the price of a product that uses direct, indirect and fixed costs whether related to the production and sale of the product or not. These costs are converted to per unit costs for the product, and predetermined percentage of these costs are then added to provide a profit margin. The resulting price is cost per unit plus the percentage mark up.

Counter trade Pricing:

The practice of requiring some of the payment for products to be in other products or services rather than money.

Customary Pricing:

The price of establishing a price for a product and not changing it over a relatively long time. Prices are changed by varying the quantity or quality of the product rather than the monetary value.

Delivered Pricing:

The practice of quoting a price that includes both the list price and the transportation costs from base point to the buyer. In such cases, the prices are quoted as free on board (f.o.b.) destination meaning the manufacturer bears the responsibility of soliciting and paying for the method of transportation of the product.

End Pricing:

The prices of the lowest and the highest priced products in a product line.

Experience Curve Pricing:

A method of pricing where the seller sets a price sufficiently low to encourage a large sales volume in anticipation that the large sales volume would lead to a reduction in average unit costs. Generally this method of pricing is used over a period of time by periodically reducing price to induce additional sales volumes that lead to lower per unit costs.

Free on Board Pricing (F.O.B.):

Quoted price without delivery i.e. it is the buyer's responsibility to select the mode of transporting the goods, choose the specific courier, handle all claims and pay all shipping charges.

F. O. B. with Freight allowed Pricing:

A form of delivered pricing where the buyer arranges and pays for the transportation but deducts these transportation costs from the invoice total and remits the net amount.

F. O. B. Origin Pricing:

A method of pricing where the seller quotes prices from point of shipment.

List Pricing:

The selling price for an item before any discounts or reduction in price.

Loss Leader Pricing:

The featuring of items priced below cost or at relatively low prices to attract customers to the seller's place of business.

Mark-down Pricing:

The reduction in the amount from selling price.

Mixed Bundling Price:

The practice of offering for sale two or more products or services either at individual prices or for one single price. The single price for the “bundle” is usually less than the sum of the individual prices.

Multiple Base-point System:

A method of pricing in which several locations are designated as base-point and the price is determined by the point that yields the lowest delivered cost to the buyer.

Multiple-Zone Pricing System:

A pricing system in which prices are uniform within two or more delivery zones.

Odd-even Pricing:

A form of Psychological pricing that suggests buyers are more sensitive to certain final digits. In odd pricing, the price ends in an odd number (e.g 1. 2, 3, 5, 7, 9) or just under a round number (e.g 99, 98). In even pricing, the price ends in a whole number or in tenth (e.g 4.5, 5.10, 5.90)

Parallel Pricing:

Following the pricing practices of other organizations particularly competitors

Export Finance

The EXPORT *Finance Guide* helps small businesses understand and access information tools relating to exporting at each stage of the export transaction cycle, from getting export ready, opportunity identification and preparing your business for the tender/proposal and contract award stage, and finally to the production and then payment stage.

This tool will help you determine what kind of financing you need, and where to find it. Export finance solutions from both **public** and **private** sector institutions are provided, as well as risk mitigation solutions and other relevant information to your export finance needs at the appropriate stage.

Your requirements for [Export Financing](#) as a Nigerian business may depend on some of the following questions:

- Do you require financing before being able to refine or adapt your product or service for export?
- Do you have a production and distribution process in place domestically, but require funds to prepare for exporting?
- Have you opted to do business in a part of the world that is subject to political and economic uncertainty?
- Have you shipped the goods, granting extended payment terms to your buyer and now require short-term financing until payment is received?

Financing requirement and options are available from both public and private sector providers who typically focus on:

- Providing cash flow or working capital
- Providing financing based on the expected completion of an export sale or shipment
- Providing credit to a buyer, to make the transaction more attractive
- Facilitating or expediting the payment of funds

- A variety of complex risks inherent in international trade, such as non-payment, political or foreign exchange risk, and loss or damage of goods in transit.

An awareness and understanding of export risk, coupled with the appropriate risk strategy, will contribute to the success or failure of your venture, and will largely define your financing options. The solution is a well considered approach to export finance, using all the mechanisms available to make sure that any potential risk of the proposed transaction is well and effectively managed.

Getting export ready is a planning stage. It involves assessing your export potential, and determining what the potential sources of assistance for export finance are.

Bonding Products

As a condition of being able to bid on a contract, or even to be awarded a contract, your buyer may request that you post a guarantee of your performance. Being able to fulfill this request will be key to your company competitiveness at the tender stage.

What is a bond?

A bond is a guarantee to your buyer of your performance, usually in the form of a letter of guarantee from your bank, or a [surety bond](#)

issued by a surety company. A bond can be issued to cover bid, advance payment, performance, warranty, etc. Letters of guarantee act like a certified cheque - the buyer can demand that this bond be cashed without taking any prior action or explanation, whereas with a surety bond, the buyer can't demand payment against the bond without proving that the seller defaulted on the contract.

What will bonding products accomplish in the eyes of your buyer?

- It protects the buyer should the seller fail to complete a project due to lack of funds and unforeseen costs.
- Without a [guarantee](#), the buyer may not be able to get the seller to perform warranty obligations on faulty equipment.
- Should the seller back out of the deal after it has been awarded the contract, the buyer is protected.

How do I get a bond?

- Approach your bank, a surety company, or a surety/insurance broker.
- NEXIM has [several products](#) that can assist an exporter with either bank guarantee or surety bond requirements.
- Large banks that also operate in Nigeria can use their broad international network in the buyer's country and issue the bonds locally, helping to ensure that your interests are protected and that the bonds are issued quickly.

While **SME's** do not usually pursue opportunities that require complex project finance, a number of Nigerian firms-often professional services firms such as engineering and architectural consultancies-have successfully closed export sales in this area. Whatever your involvement may be in an export transaction requiring project finance, as an entrepreneur or **SME**, you should strongly consider securing assistance from project-finance experts at the very early stages of assessing the opportunity.

What Does Project Finance Involve?

Project finance involves longer term funding, and often requires detailed and comprehensive structuring of the project, together with the financing techniques and mechanisms that will apply.

The outcome can be a package that amounts to financial engineering, using every traditional form of funding and some relatively complex types of international project financing techniques. Financing of this type is sometimes referred to as "structured **trade finance**".

These types of financing usually involve "deal teams" from financial institutions, with representatives from areas such as corporate banking, **trade finance**, loan syndications, and industry sector specialists.

Who Needs Project Finance?

Project finance applies to large-scale infrastructure or capital

projects, and may arise under a variety of scenarios, in any part of the world.

Typical project finance models involve the repayment of financing through the expected revenue stream of the completed project over an agreed period. Such models are favoured in that they explicitly avoid relying on the balance sheet of the purchasing organization.

The projects normally financed under such packages involve a large group of sponsors and stakeholders, including a syndicate of bankers and investors. Financing is provided on the basis that rigorous analysis of the project is to be done, to understand the risk and accurately estimate the revenue stream and timeline associated with the project.

Project finance is typically on a "[*limited recourse*](#) basis". The cost of financing depends on the rate of return objectives of the financiers, given the project's risk and timeline.

How do I get Project Finance?

- NEXIM is a leading provider of project finance in Nigeria and should be consulted if you are considering pursuing export business of this nature.
- Contracts may be secured through international financial institutions, where the funding is bundled together with the contract. This is often the case in international development work.
- Project financing can also be obtained from your bank.

As a Nigerian exporter, you have access to a wide range of support and financing in support of new export ventures. Financing at this

phase of business is usually needed for operating capital requirements in support of the export venture or strategy, or be more structural in nature, to assist your business in developing new products, or modifying existing products for new markets.

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What are my main financing options?

Type of Financing	Definition or Example	Key Characteristics
Bank Line or Facilities	Operating <u>Line of Credit</u> or Loan	<ul style="list-style-type: none"> □ Familiar tool and application process □ Security requirements may be stringent □ Cost of borrowing may be significant
Government Facilities	Financing, cost-sharing and others	<ul style="list-style-type: none"> □ May be longer term □ Often comes with consulting or advice
Investment Capital (Equity or other)	Preferred shares, common equity, term loans from specialized Finance companies	<ul style="list-style-type: none"> □ Generally for medium to long-term □ May or may not involve some form of ownership in your business □ Generally expensive, but a way to share the development or start-up costs of your venture

Bank Lines / Facilities: Financing provided by banks and financial institutions can be used to fund the development of export business. Whether you seek a generic financing facility, or support for a longer-term export strategy, available financing will depend as much on the nature of the opportunity, as on the type of

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relationship you have with your bankers. It will also depend significantly on the type of Banker you are working with.

Banks & Financial Services Providers

It is useful to ensure that you have access to [trade finance](#) professionals as part of the services provided by your bank and that your trade bankers understand the markets you expect to operate in, as their help in securing and managing [trade finance](#) may be required.

Banks committed to supporting Nigerian businesses in export development will offer a suite of related services and will maintain a strong network on international banking relationships (referred to as correspondent banks), which directly affects your overseas ventures.

Centralize or Diversify?

As an [SME](#) or entrepreneur, should you maintain a variety of banking and financial services relationships, perhaps even separating your domestic banking from your international and trade-related banking business?

Arguments in favour of diversifying international banking relationships:

- Financial flows are easier to understand, attribute and track if domestic and international banking are managed separately.
- Domestic business assets and receivables are less likely to be used as security against (typically) higher-risk export finance facilities.

Arguments in favour of centralizing your banking relationship:

- Your export business is not distinct from your domestic business, unless you have explicitly structured your company in that manner. A banker with a comprehensive understanding of your needs can be a strong ally.
- While the nature of export finance allows trade bankers to make credit decisions based on the characteristics of a specific transaction, more complex deals may be easier to close if you have an operating [line of credit](#) in place with your bank.
- Security or collateral requirements can be managed to mitigate exposure on your domestic business and assets.
- Managing [working capital](#) between export and domestic facilities may prove useful to your business.
- Integrated banking tends to encourage a relationship approach rather than a transactional approach from your bankers, and will likely benefit your business in the longer term.

Diversifying your sources of export finance is prudent and wise, and does not require that you centralize your banking with one financial institution. As your exports grow over time, you may require the services of a global bank, or one that is based in a key market that you service, in addition to those of your primary financial institution.

Whatever your level of experience as an exporter, you need to be aware of the issues, complexities and options in export finance. This is required at a very early stage when developing an export strategy or specific export marketing plan.

Planning your Export Finance Approach

When trying to secure financing, you should be prepared to provide information on:

- The export sale
- Buyer risk, including relationship history
- Contract terms
- Payment arrangement
- Timeframe
- Risk mitigation plans
- Production plans & timeframes
- Contingency plans

Think ahead. You may need financing to sustain operations or ensure adequate working capital between the time a deal is closed and the goods are shipped to the buyer. Optimizing cash flow may depend heavily on the agreed terms of sale. Identify appropriate payment and financing options at the early stages of the sales effort:

- Ascertain the credit needs of your buyer
- Understand the shipment and insurance terms
- Identify any cash flow gaps that might affect your business in the course of this transaction
- Identify which financing options offer features that can be triggered after shipment - letters of credit issued on a term basis (payment due in the future) can often be discounted after shipment is sent

Steps to take upfront in order to obtain export finance for large-scale projects:

- Learn about the characteristics of the project or contract
- Secure professional advice early

- Identify financing structures and models that might apply, in order to offer the best possible terms to your buyer, and to maximize your return (and risk mitigation)
- Understand that providing financing to your customer is fundamentally a part of the export sale under such deals, which range from medium-term commodity exports, to capital goods exports and full-scale projects

Services

Securing export finance is complicated enough when you want to export tangible products that can be assessed by conventional banking standards and are subject to long-established trade agreements, export regulations and familiar security arrangements. The export of *services*, however, brings its own unique set of additional challenges:

The intangible nature of the export raises issues around financial security requirements:

- Commercial banks recognize the unique challenges of what are referred to as "knowledge-based" businesses or industries, and have special groups to assist businesses and entrepreneurs in these areas. Businesses seeking to export their services should obtain the necessary support and counsel from such specialists, in conjunction with help from [trade finance](#) professionals. Security arrangements related to services exports are especially important to understand and define up front. Service exporters must be prepared to provide appropriate security to their bankers, in support of export finance arrangements.

The export regulation framework affects trade in certain services:

- Specifics such as the use of [performance guarantees](#) and the costs related to liability insurance may affect your ability to get export funding. Trade regulations related to professional equivalencies may imply additional costs that must be incurred in preparing to export services. Such considerations may need to be addressed as prerequisites to export finance.

NEGOTIATION STRATEGY

You are negotiating the content of your contract. What issues pertaining to financing need to be addressed at this stage? This section provides an overview of negotiation strategy, legal issues, risk management and payment terms, all of which are important factors to consider at the contract award stage.

Proper contract negotiation is an integral part of risk mitigation, as the time you invest up-front in negotiation can save you money and headaches down the road. Have you thoroughly thought through your approach?

Types of Risks and How to Manage Them

Engaging in and financing exports involves a number common and well-known risks, which can be addressed in the financing phase. While some of these risks relate broadly to international trade, rather than specifically to export finance, certain financing options and payment techniques do allow for the mitigation or optimization of such risks. These risks can be viewed in four broad categories:

1. Commercial (Buyer) Risks

These relate to a foreign buyer's or supplier's performance under a commercial contract. These include risks related to payment or performance according to the terms of the commercial contract. Buyer risk includes the risk of devaluation of the importer's currency, which may be so severe that it results in [default](#) on a payment.

Managing Commercial (Buyer) Risk

Your assessment of foreign buyer risk may lead you to a variety of risk management strategies. At the extreme, you may choose not to pursue business with a particular buyer. Alternatively, some form of insurance scheme or secured payment option may be required. Or, the results of your risk assessment may suggest that this is a fairly secure and low-risk trading partner, and that a straightforward, usually less costly transaction structure may be acceptable.

2. Political or Country Risks

Refer to the risks of doing business in a particular country or region. These include the possibility that import or export permits may be revoked, that war or civil unrest may break out, or that the free flow of funds may be disrupted as a result of exchange controls, boycotts, or international payment moratoriums. For exporters operating overseas, this category includes the risk of expropriation by a foreign government.

Country risk assessments are most important for exporters dealing in higher-risk countries, where risks or losses could result from political actions or circumstances such as civil unrest, war, economic crisis, or restrictions in the flow of foreign exchange or international payments.

Besides country risk assessments, you should also consider overall political and economic stability, the strength of democratic institutions, protectionist tendencies, as well as basic economic factors such as GDP growth, inflation, and unemployment.

Due to the wide variety of factors, and the complexity involved, country risk analysis is part art and part science. Seek the opinions of experts at government agencies, banks, credit agencies and other sources.

Managing Country Risk

As with buyer risk, the options related to country risk range from deciding not to export to a particular area, to obtaining appropriate insurance and mitigation assistance from your export finance service providers.

3. Foreign Exchange Risk

This type of risk involves transactional exposure resulting from (sometimes volatile) fluctuations in exchange (FX) rates. Significant currency rate fluctuations can have adverse effects on foreign receivables and can easily affect profit margins.

Foreign exchange risk (or "FX risk") involves the fluctuation of the value of one currency relative to another. This can occur due to a variety of factors and may happen over short periods of time. When transactions are based on foreign currencies, these fluctuations can represent significant risks (or opportunities), which must be well understood and appropriately managed.

As a Nigerian exporter, you may find yourself negotiating a contract payable in U.S. dollars, 60 days after the shipment of merchandise. If the Nigerian Naira decreases in value relative to the U.S. dollar, your export receivable will be worth more to you once converted to Nigerian naira.

If the Nigerian naira appreciates, or increases in value, however, the U.S. dollar payment will be worth less in Nigerian dollar terms. If the exchange rate fluctuations are significant, they may seriously cut your profits.

There are three main kinds of risks with foreign currency exposure:

- **Transaction exposure** relates to the effect of FX fluctuations on transactions that have been initiated but not completed. This type of risk affects cash flow and occurs when, for example, an exporter holds a foreign-currency receivable and finds that the currency of the receivable has devalued against the Nigerian naira.
- **Translation exposure** refers to the effects of foreign exchange fluctuations on financial reporting, for your taxes and financial statements. Foreign currency accounts may be "translated" or converted into Nigerian dollars using historical FX rates and/or current rates, thereby generating paper gains or losses for the exporter.
- **Economic exposure** relates to the impact of economic conditions on future cash flow. A Nigerian exporter may be severely affected by a significant appreciation of the Nigerian dollar against foreign currencies, given that the relative cost of the goods increases in the foreign market.

Managing FX Risk

A variety of tools and techniques are available to manage and optimize foreign currency exposure. The most common include:

- **Forward contracts** are contracts with commercial banks, in which an exporter agrees to sell a fixed amount of foreign currency at a fixed price, at a mutually agreed

future date. Such contracts eliminate the uncertainty associated with FX fluctuations. But the exporter also does not benefit from any favourable "upside" in the foreign currency rates. Forwards are entered into independently of the export contract.

- **Exposure netting** relates to the practice of matching foreign currency inflows with outflows in the same currency, to eliminate or "net out" the exposure. Depending on the nature of the transactions and the financial facilities used, traders may achieve near-perfect netting.
- **Currency options** are contracts that confer the right (but not the obligation) to buy or sell foreign currency at a specified price, within a defined time period. Unlike forward contracts, options offer the possibility for exporters to benefit from favourable fluctuations in FX rates. They are also useful in the event that an exporter wishes to mitigate a potential (or contingent) FX liability.

4. Other Risks

Other risks Nigerian exporters face includes the risk of being the target of fraud, as well as the possibility of loss or damage of exported merchandise while in transit overseas. The risks related to legal jurisdictions governing the terms of an export contract are critical in the event of a disagreement or dispute. These risks are best addressed up front by the trading partners and their legal or trade advisors.

You have signed a contract, but require additional funds to expand operations or acquire new assets in order to fulfill the contract. Where is the money? This section can help you access the tools

needed, such as long-term financing, working capital, and pre-shipment financing.

You are ready to produce, but you lack the long-term financing to implement your export contract (i.e. financing for your larger purchases). Where's the money? Term financing is made for this very purpose. Term financing for your business is really about achieving the right capital structure for your business (including different types of debt and equity. As such, all forms of long term capital should be considered when seeking support for new capital investment in your business. One of the best places to start to get the support and advice you need is with your local bank or credit union.

Working capital can fuel the growth of your business. It represents the cash flow that bridges your team from production to payment, a period length which can at times be unpredictable, but that is typically short-term. Do you have enough cash to last? If not, where is the money?

What is Working Capital?

In this context working capital means the amount of cash your business has for day to day operations and filling contracts (as opposed, for instance, to building production facilities)

What are the sources of Working Capital?

- Cash you have available in the bank.
- The following table represents a brief outline of additional funds that may be sourced from your bank or credit union):

SOURCE	CHARACTERISTICS
Line of Credit	<ul style="list-style-type: none"> • Extended on an as-needed basis • Flexible repayment schedule • Variable rates & service charges • Secured against inventory or accounts receivable
Overdraft Protection	<ul style="list-style-type: none"> • Secured through personal guarantees • An expensive, short-term solution
Credit Card Line of Credit	<ul style="list-style-type: none"> • Secured through personal guarantees, therefore availability depends on your personal finances • Monthly invoices, high interest rate for overdue payments
Working Capital Financing	<ul style="list-style-type: none"> • Complementary to existing line of credit • For needs such as increasing inventory, R&D, product development or modification, marketing or implementing quality solutions such as ISO.

Make sure that you take the time however to shop around for competitive interest rates, both for secured and unsecured options. In most cases, there will be no set-up fees, and provided you have prepared the necessary supporting documentation, it can take only a single visit to any bank to get a financing decision.

What should I do to obtain working capital?

Be prepared! A well thought out business plan describing your business structure and management team will increase your chances of obtaining [working capital](#).

Document everything! Prepare your portfolio, including amongst other things your education / training, business experience, financial reports, and what you can offer as business collateral.

What if my financial institution is not willing to provide working capital?

Government facilities may be able to help. By providing a guarantee to your financial institution, the Export Guarantee Program could help you access financing to support export-related activities and/or foreign investments. The security of this guarantee encourages the bank to advance working capital loans to you, often in excess of what they would normally have been able to do on their own.

What are the benefits of Export Guarantee Program?

- Access to [working capital](#)

- Your existing [line of credit](#) is not affected

Timely payment from your buyer may not be a factor you can depend on. In the meantime however, you may have obligations of your own that need to be met, such as credit lines or loans. Where is the money? How can risk at the payment period stage be reduced? Options such as short-term financing, post-shipment export finance, or accounts receivables insurance may be the solution you need.

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