Atlantic
Trade
International

Frequent Asked Questions

N.B. Answers to some of these questions were drawn from material from a forthcoming publication of the International Trade Centre, Geneva on Export Development Companies.

What are International Trading Houses?

International Trading Houses are of various types and forms. They exist in a number of countries and their activities and organization vary according to the historical background and the scenario in which they operate as well as national priorities and government policies. They are known by different names in different countries.: Trading Houses in Canada and Hong Kong, Sogo Shosha (general Trading House) and Semen Shosha (specializing by product) in Japan, Comercializadoras in Latin America, OSCI (Opérateur Spécialisé en Commerce Extérieur) in France, EMC (Export Management Company) and ETC (Export Trading Company) in the USA, Export House in India, etc..

For example the Japanese Sogo Shosha, which have evolved organically over time are different to the Indian Export Houses which came into being comparatively recently as a response to policy initiatives of the government. And these, in turn, are quite different to the Export Management Companies of the USA or the Trading Houses of Canada, which grew out of the necessities of their own contexts.

There are, however, resemblance in certain important aspects in the organizational structures of most international Trading Houses which make it possible for them to be analyzed as one generic entity. It is thus possible to describe a typical international Trading House's activities and organization.

A definition that covers most cases is: International Trading Houses are commercial intermediaries specialized in the long term development of trade in goods and services supplied by other parties. They focus on exporting, importing and third country trading as their core activity and use overseas marketing organization and infrastructure as well as procurement networks to service suppliers and customers.

They procure locally and sell internationally, they procure internationally and sell locally and they also procure internationally and sell internationally. They have the flexibility and the agility to work in many markets with many products simultaneously as international marketing is their core business. They serve as commercial intermediaries between suppliers and buyers located in different countries. To this end they adopt the role of merchants, consortia managers and trade facilitators of various sorts. As merchants they buy and sell on their own account and earn a margin.

They may also act as agents on behalf of the manufacturers (most frequent) or on behalf of the buyer (sometimes), earning a commission for their various services. Agents do not take title to the merchandise.

They get deeply involved in trading activity by providing value-adding services. They are often certified by and registered with their governments or with Chambers of Commerce as organizations possessing requisite capabilities for performing their roles, and they sometimes receive special support from their governments.

They have a network overseas for marketing and are experts at sourcing and procurement. They also have specialist departments providing expertise in trade support services. They provide essential value-adding services economically and they serve foreign customers as well as manufacturers. They operate with low margins on high volumes and make their profits mainly by quick and frequent turn around of funds.

Some are supply-driven in the sense that they receive their impetus from manufacturers who wish to sell whereas other are demand-driven in the sense that they receive their impetus from customers who wish to buy.

These companies have contributed substantially to the growth of trade and to the economic development of their respective host countries.

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How do Trading Houses help manufacturers and foreign customers?

MANUFACTURERS	FOREIGN CUSTOMERS
Goods are collected and payments made at doorstep.	Proven record of reliability for quality, prices and delivery
Better price realizations because of overseas marketing organization	Lower costs thanks to a network of procurement facilities
All risks and hassles of exporting avoided.	One stop shopping facility.
Global network for techno-commercial information	After-sale services assured.
Market entry at lower cost	Lower transportation and handling costs.
Long term business perspective	Long term business perspective.

Trading Houses provide services both to suppliers as well as customers.

Suppliers benefit from getting at their disposal the facility of the vast international marketing infrastructure of the Trading House, its data bases and information networks, its expertise in specialized functions such as finance, procurement, technology, commercial and legal affairs. Also the Trading House looks after all matters relating to the interface with the buyer, from presenting the merchandise to realizing the payment. The Trading House because of its size can obtain the benefit of economies of scale in purchasing, transporting, shipping, insuring and borrowing funds. A part of this benefit is passed on to the manufacturer for improving competitiveness.

Customers benefit from dealing with a company which has a proven record of reliability in international trading as well as a commitment to long term relationships. Buyers thus get confidence regarding the supply of their goods in accordance with commitments of quality and delivery. Also since Trading Houses often deal in a range of products they provide a "one-stop" shopping facility. The Trading Houses organization overseas assures the foreign buyer of continued service in his home country.

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What services do international Trading Houses provide to manufacturers?

Trading Houses vary considerably in their activities and functions. However typical Trading Houses would provide many of the following services:

- **Market selection and market research**
- **Customer identification and evaluation**
- **Commercial and technical negotiations**
- **Vendor development**
- **Product/packaging adaptation and technology upgrading**
- **Imports, particularly of items required for export production**
- **Financial arrangements including securing credits**
- **Counter-Trading**
- **Protection against export risks including insurance**
- **Ensuring payments**
- **Export documentation and shipping**
- **Managing crises and disasters**
- **Dealing with claims**
- **After-sale service and spare-parts availability**
- **Project exports, consortia and tender business**
- **Creating distribution networks abroad**
- **Special relations with the government**

Market selection and market research

Trading Houses have data bases and information networks as well as a presence in overseas markets. They use these continually to scan for opportunities world-wide. They search for demand/supply gaps, locate availability of finance, study the long term plans of organizations and governments, price trends and even political scenarios. Their play a key role in monitoring the competition. These companies therefore know which product to sell where.

Customer identification and evaluation

The Trading Houses' offices overseas collect information about potential customers and their credit worthiness, reliability and reputation. They closely study their customers, their current activities and future plans and make efforts to build with them relationships of confidence, trust and friendship

Commercial and technical negotiations

Trading Houses are efficient in making business offers through their marketing organization backed with their electronic databases, communication systems and networks. They have the experience and competence to carry out all the commercial work relating to export. The manufacturer makes the techno-commercial offer to the Trading House which then negotiates all the terms, secures the order, arranges delivery of the goods, pays the manufacturer and obtains the payment from the customer. Moreover the Trading House's presence in the overseas market enables it to obtain better prices and other terms.

Vendor development

The Trading House also has an organization in the home country comprising of geographically dispersed regional facilities to facilitate vendor development and procurement. This organization identifies and develops manufacturers and also ensures that the long term arrangements are satisfactorily implemented

Product/packaging adaptation and technology upgrading

Trading Houses continually keep associate manufacturers informed about developments in foreign countries related to the technical features of the product, production techniques, design changes and packaging methods. For this service they use their overseas network and specialized product experts who are well traveled and who attend the major international fairs and exhibitions.

Imports, particularly of items required for export production

Trading Houses use their foreign offices and networks for imports as well as for exports. They are able to negotiate favorable terms because of bulk buying and presence in the market. This helps manufacturers who generally require some imported components and materials for export production. Often these imported goods are stocked by the Trading House in customs bonded warehouses and supplied to the manufacturer when required.

Financial arrangements including securing credits

Trading Houses borrow in bulk from financial institutions at comparatively low rates of interest and help to finance the transaction with cheaper funds. Trading Houses also provide financial assistance to the manufacturer through arranging deferred payments, financial guarantees and advance payments.

Counter-Trading

Counter-trade leverages governmental, and sometimes other imports, to generate reciprocity by requiring foreign suppliers to buy products and services from the home country. Counter trade is best handled by Trading Houses because they have the size, range and infrastructure to deal with its diverse requirements. Counter-trade opens up new and large opportunities for manufacturers to have their products exported.

Protection against export risks including insurance

The risk in exports is a factor which inhibits manufacturers. Trading Houses are continually involved in ascertaining the risks in foreign trade and know how to minimize these risks. They have gathered rich and varied experience as well as expertise in risk management which no single manufacturer would have been able to accumulate. With their established track records they get better terms from insuring organizations. Also they have access to expert advice on currency exchange rate fluctuations and are able to minimize these risks as well.

Ensuring payments

Collecting dues is a regular activity of Trading Houses for which they have specialists. In fact with their experience, databases, and information networks, they are in a position to avoid the problem of bad debts. They are routinely in touch with major international credit rating agencies, banks, etc. for checking out foreign customers. Again, because of size they obtain these services at low rates.

Export documentation and shipping

Trade documents must be carefully prepared so that there are no problems in transportation, shipping, clearing customs, obtaining payment as well as handling any subsequent claims. Trading Houses have well staffed and well equipped documentation and shipping departments and this is a major service provided to manufacturers. They have knowledge and experience which enables them to select the best modes of transport in terms of cost and quality of service. They can consolidate cargo which may often be going to its own warehouse overseas, thus lowering costs.

Managing crises and disasters

Export activity is dependent on number of variable factors many beyond the exporter’s control. This sometimes leads to unforeseen occurrences, for example the inability of a supplier to deliver at the last moment resulting in the Trading House having to locate an alternative source, or a buyer being unable to accept delivery of ordered goods requiring that an alternative customer be found soon. Trading Houses would have had experience of many such dangers and would have developed capabilities of dealing with them. Disasters that could have sunk a manufacturer are managed by a Trading House.

Dealing with claims.

Since Trading Houses are committed to international Trading on a long term basis they build credibility and a reputation for honoring their commitments, particularly with respect to quality and delivery. All precautions are taken by Trading Houses to avoid claims. However if a claim is raised they will ensure that it is dealt with promptly and efficiently.

There are sometimes frivolous or unreasonable claims made by unscrupulous buyers. Trading Houses have the expertise and the clout to deal with such matters, thus providing much needed protection to the manufacturer.

In many emerging economies and economies in transition there are bureaucratic hurdles involved in remitting funds abroad to settle claims or to reimport rejected goods. The governmental authorities are concerned that there could be misuse of this facility. Trading Houses, however, are recognized by the government as a trusted organization with a stake in developing long term trading, and therefore manage to obtain such approvals and permissions with relative ease.

After-sale service and spare-parts availability

Trading Houses often export items that require after sale service. They will ensure that adequate arrangements for after-sale service, and stocking of spare-parts and repairs and maintenance are in place before they export such products. Often it is the Trading House itself which creates the facilities abroad for after-sale service. Manufacturers who associate with Trading Houses are therefore saved from expense and effort by getting at their disposal the after-sale service facilities arranged by the Trading House.

Project exports, consortia and tender business

Trading Houses play a vital role when the foreign customers requirement is for goods and services to be supplied by a number of different organizations, often against a tender. Here the Trading House takes on the overall responsibility as Principal and subcontracts the supply of various products and services to a number of companies, including, if necessary, companies abroad. This is a function of the Trading House which is useful for manufacturers because often the manufacturers would not even know about the existence of a tender, particularly if the tender pertained to a large project or supply of a range of products of which the manufacturers product formed only a small part. Moreover the chance of success is much greater if a manufacturer ties up with a Trading House because of the latter's experience in dealing with project exports and tenders. A Trading House is dealing with such businesses continually and has developed the knack of assessing chances of success; it is unlikely to waste time and effort on bids that are not likely to succeed.

Creating distribution networks abroad

Trading Houses' long-term involvement with exporting carefully chosen products to chosen markets, makes it possible for them to go further than just doing one-off deals. In fact, even at the stage when the Trading House is preparing its market entry strategy for a product, it is already developing long term plans for selling the product through appropriate distribution channels. It chooses suitable locally available channels. For certain products it could create its own channels including a wareHouse for just-in-time delivery to customers. Such arrangements would be expensive for individual manufacturers.

Special relations with the government

Governments use Trading Houses for achieving national goals. In many countries committed and trusted Trading Houses work closely with the governments in formulating and implementing the nations trading objectives. Some governmental export promotion schemes, such as those for helping small manufacturers to export, can be efficiently handled using the organizations of the Trading Houses. This helps governments as they can pass on some of the administrative and monitoring work to the Trading House which has the requisite expertise and infrastructure. Since Trading Houses are selected after checking their track records, they can be relied upon to perform such tasks efficiently and with diligence.

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How does a manufacturer choose a Trading House

The manufacturer should consider:

- **Is it large or small?**
- **In which product is it strong?**
- **What is its market orientation?**
- **Which services does it provide best?**
- **The management's experience, quality and reputation**
- **Interest in the product?**

The compulsions of international trading are such that the Trading House, which is the manufacturers exporting arm, will need to act with considerable independence. Complete trust and understanding between the two will be required. For example, the partners will have to take decisions and make commitments very fast, often over the telephone, when they are thousands of miles apart. Therefore they must be able to rely on and trust each others judgement. So the choice of the Trading House is crucial for the manufacturer, and vice versa.

Names and addresses of Trading Houses, together with a brief description of their activities are available from trade promotion offices of the government. from chambers of commerce and from Trading House Associations.. The manufacturer has also to dig out further information about the Trading House, information of the kind that is not normally available in directories. The manufacturer would need to tap both formal and informal sources to find out about the reputation of the company, its track-record, its strengths and its limitations.

The manufacturer should be in a position to specify his needs and define his objectives and then match these with the attributes of the Trading House. The attributes that it may look at are, for example, size, product/market expertise, types of services offered, quality of management and reputation.

The manufacturer should consider:

Is it large or small?

A large Trading House may be suitable for an manufacturer involved in agro-products where the sheer bulk of the Trading House gives it an enormous clout in negotiating favorable terms. However a smaller Trading House would be more beneficial to an manufacturer involved in the production of fashion articles such as ladies handbags, where quick response and personalized service are important.

In which product is it strong?

Often a Trading House is oriented strongly towards a single product group, say engineering goods, while another is strongly oriented towards another product group, say textiles. The manufacturer should obviously choose the Trading House whose focus is on products similar to his own.

Product expertise is an important qualification of the Trading House particularly if the product of the manufacturer is technically sophisticated. Trading Houses themselves have specialists in various product groups and they should be capable of selling such products. In any case most enlightened Trading Houses associate the supporting manufacturer very closely in sales presentations, especially in respect of products with high-tech specifications.

What is its market orientation?

Trading Houses do not have equal strengths in all markets. They generally concentrate on a few types of markets depending on their main product orientation. For example a Trading House mainly exporting small-scale projects may have developed a deep knowledge only of emerging countries and may not be appropriate for an manufacturer who would like to export knitwear to Europe. Sometimes manufacturers who are already exporting use the services of a Trading House to enter another market. These manufacturers would obviously consider the Trading Houses strengths in specific markets.

Which services does it provide best?

A Trading Houses bias toward particular types of product groups would create an ability to provide certain services better than others. For example a Trading House which specializes in exporting vehicles and has therefore created an after-sale service organization in foreign countries would be attractive for a manufacturer of a product which also requires after-sale service. However the same Trading House may not interest an exporter of flowers.

The management's experience, quality and reputation

There are other important, though intangible, considerations that a manufacturer would do well to bear in mind while choosing a Trading House. These relate to the quality and the experience of its management as well as its reputation. With respect to quality of management there is not only the matter of competence and efficiency but also of the Trading Houses philosophy, vision and approach. It would make for a smoother working relationship if these were to match those of the manufacturer since the two would be working closely together and it is important that they should 'get on'.

The executives of the Trading House should be broadminded to appreciate the cultures, values and ways of doing business in different countries. Personal relationships are important in international Trading and the Trading House's executives should be strong in this area.

The reputation of the Trading House is not only important from the point of view of safeguarding the manufacturer but also for success in marketing its product. In the marketplace often a person is judged by the company he keeps, and so is the case with products. Since a manufacturer may be unknown in the foreign market, foreign customers would buy on the strength of the Trading Houses' reputation. The reputation of the organization presenting the product goes a long way in ensuring that it at least gets to be considered by the foreign customer.

Interest in the product?

Even if all the above attributes are present in the Trading House these will not add up too much if there is not an interest in the Trading House for the product. The manufacturer should particularly check whether the management of the Trading House is motivated by his product. If the manufacturer finds a lack of interest and commitment then it would be better to search out another Trading House.

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What makes a strong relationship between Trading House & manufacturer?

- **Memorandum of Understanding (MOU):**

The arrangement between the manufacturer and the Trading House will work only if their is mutual trust, an appreciation of each others point of view and a commitment to fulfill the respective roles. The best drafted agreement will fail in the absence of these preconditions.

Responsibilities

The main responsibility of each partner is spelt out and is known. Mainly the Trading House deals with the foreign customer and the manufacturer produces the goods. In the actual working relationship however, their are often instances of one party or the other shirking responsibilities and trying to pass the blame on to the other. These instances arise when there are problems, not when things are going smoothly. Mainly when prices have to be adjusted because of some unforeseen circumstances or when there are quality complaints.

Trust

A recurring problem arising between manufacturers and Trading Houses is the suspicion that one party or the other will break the arrangement and cut out the other party. Then not only will the past investment made in developing the business go waste but considerable losses will result. This is the most serious threat to the relationship between the manufacturer and the Trading House and is mentioned invariably in almost all the countries that have these institutions.

Circumvention and short-circuiting

The fear of the breakdown is most often voiced by the Trading House which fears that the manufacturer will cut it out and go direct to the customer when the business is established. However manufacturers also have the concern that the Trading House, after having developed a niche market for their product will cut them out and establish other, or their own, sources for the product. The manufacturers fear that the Trading House may even register a brand name for their product and then the manufacturer would be completely at the mercy of the Trading House.

Pricing

The manufacturer may also fear that it may be exploited, given an unfair return or even "swallowed up" by the trader. Also, whereas the Trading House knows the manufacturer’s selling price the manufacturer does not know the Trading House’s selling price and may therefore carry the impression that the Trading House is making an exorbitant profit which is out of proportion to the services provided. The manufacturer would not like to be told that the Trading House’s selling price is none of his business.

Commitment

A concern of Trading Houses is that often manufacturers are not seriously committed to exports. They have come across instances when manufacturers have approached them for exporting their products only because of a temporary shortfall in capacity utilization caused by of some problem in the domestic market. As soon as the situation in the domestic market has improved these manufacturers have been known to renege on their export commitments. They are also concerned that manufacturers may divert finance or materials supplied to them for executing an export order to other uses.

Trading Houses are concerned that :	Manufacturers are concerned that:
Manufacturers would cut them out,	Trading Houses would cut them out,
Are not committed to exports,	Will make unjustified profits,
Will divert advances of finance and materials	Will not share market intelligence,
Will shirk responsibility for quality and delivery	Will not be sufficiently tough with customers on quality and delivery parameters

Mutual understanding

To overcome such problems it is essential that both the Trading House and the manufacturer understand each others situation. Particularly it is the Trading House which has to make a special effort to see things from the manufacturer's point of view. This is because in many countries there have been numerous cases of traders exploiting small manufacturers, since time immemorial. There is therefore a deeply ingrained idea in the minds of manufacturers that traders are not to be trusted. The modern forward looking Trading House which has no intention of exploiting the manufacturer has unfortunately inherited this legacy and has to find a way of coping with it.

Transparency

The enlightened Trading House has to conduct its affairs in a transparent manner to convince the manufacturer that it is earning margins which are commensurate with the services it is providing. This transparent style which also involves taking the manufacturer fully into confidence, is being adopted by some of the leading Trading Houses and the result is mutually beneficial long-term relationships.

Value addition

Enlightened Trading Houses have also sought to strengthen the bonds with the manufacturer by ensuring that they provide value addition to the export activity and do not confine themselves to merely finding customers for the manufacturer. These Trading Houses contribute to the exporting process by developing in-house design studios or R+D laboratories, by sorting, inspection and packing facilities, as well as developing warehousing facilities, after sale service centers and showrooms in the foreign countries apart from involving themselves in financing the transaction. These value-adding activities of the Trading House make the relationship strong.

Capacity to supply

Similarly smart manufacturers have ensured that they will not be by-passed by the Trading House. They do this by being efficient suppliers as well as being alert about their business interests. Trading Houses have often been reluctant to deal with some manufacturer because of his weakness in being able to fulfill order requirements, but at the same time they have also realized that working with an efficient manufacturer can be quite rewarding for them, particularly if it is a small concern. Many large manufacturers create their own export departments and do their own export marketing. Therefore Trading Houses are increasingly having to offer their services to small manufacturers. Moreover association with small manufacturers provides scope for greater value addition in export transactions and hence for better margins. Many Trading Houses see much of their future growth developing from small manufacturers.

Long-term relationship

So a Trading House having found an efficient manufacturer would be loathe to leave it. Efficient manufacturers are hard to come by, and the manufacturer who performs well is unlikely to be by-passed. Therefore it is important for the manufacturer to supply goods as per commitments. Also the manufacturer should describe the product accurately to the Trading House indicating its advantages as well as its limitations.

It is generally the Trading House's performance in obtaining continual, and the manufacturer's performance in executing orders which stabilizes the relationship.

THE TRADING HOUSE NEEDS TO WATCH:

Payment terms:

If the manufacturer is selling a large proportion of its production through the Trading House or is otherwise open to pressure, then the latter may be tempted to dictate payment terms that are advantageous mainly to itself. Moreover sometimes Trading Houses use the manufacturer's weakness to delay payments beyond contracted dates, to improve their own cash flows.

Marketing:

Trading Houses should have strong international marketing capabilities backed by a presence in overseas markets. Many Trading Houses economize on the creation of overseas infrastructure and their only contribution to the marketing effort is the fortuitously obtained name and address of a foreign customer. If they do not add value to the transaction the relationship will be short lived.

Margins:

If the Trading House is not adding value to the transaction it will try and "make hay while the sun shines". It will do this by making as much money as quickly as possible before the manufacturer and the foreign customer find each other and cut out the parasitic intermediary. For creating long term business association the Trading House will need a different policy altogether.

Fair Practices:

Some Trading Houses use their manufacturer associate as a stepping stone to start a business of their own. While marketing a product abroad they may give it their own brand name, which is fair enough if this has been discussed with the manufacturer, but unfair if it is done without the manufacturer's knowledge and is not mentioned in the MOU. If this is later followed by cutting out the manufacturer completely from the production and starting, or shifting to, another manufacturing unit in which the owners of the Trading House have an interest, then this is an unfair practice.

Sometimes Trading Houses get samples developed by one unit and then give the Purchase Order to another unit from whom they get a better price or in which they have some other interest. This is particularly damaging when the samples contain some special designs created by the first manufacturer.

Communication:

Enlightened Trading Houses will ensure they communicate well with suppliers and give constant feedback on export efforts as well as pass on relevant and interesting information on market developments. This binds the supplier closer to the Trading House and the manufacturer does not feel taken for granted.

THE MANUFACTURER NEEDS TO WATCH:

Fair practices:

After the product has been established in a foreign market with the services of a Trading House, some manufacturers are tempted to try and cut out the Trading House and they try and approach the foreign customer directly. Such practices undermine the relationship.

Quality and delivery:

It is the manufacturer's responsibility to execute the Trading House's purchase order according to its terms. Substandard quality or late delivery will again undermine the relationship.

Advances:

Often Trading Houses make advance payments to manufacturers, particularly small manufacturers, to enable them to procure inputs for the export production. Sometimes the Trading Houses actually supply the inputs to the manufacturer particularly if these are imported inputs. It is incumbent on the manufacturer to ensure that these advances are not diverted to other requirements.

Memorandum of Understanding (MOU):

The Trading House and the manufacturer working together as a cohesive team contributes to making a success of the venture. It is helpful to discuss all the issues involved in the relationship beforehand and make a written Memorandum of Understanding. This serves to clarify matters and avoid misunderstandings later . The Memorandum of Understanding between the Trading House and the manufacturer tries to cover all the eventualities. But there are "grey" areas particularly those that arise due to unforeseen circumstances. Here the only thing that can save the relationship in each party's commitments to accepting the spirit of the agreement and a sense of fair play.

Most problems that occur between Trading Houses and manufacturers are generally concerned with immediate or short term situations. In the "heat of the moment" either party is likely to loose sight of the long term objectives because of short term problems. What will ultimately carry the relationship between the manufacturer and a Trading House through times of stress is mutual trust, an appreciation of each others point of view and a commitment to fulfilling the respective roles. It is the maturity and the vision of the management of the Trading House and of the manufacturer, which will enable them to ride over the rough patches which inevitably crop up in business relationships.

Transparency, frankness, trust and fair play on both sides as well as a commitment to achieving the set goals through the partnership will create the appropriate atmosphere.

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How is understanding reached between Trading House and manufacturer?

The Trading House and the manufacturer should discuss their working arrangement and prepare a Memorandum of Understanding (MOU). The drafting of the MOU can result in contentious arguments but it is useful to get all points clarified and reduced to writing before the start of business. If there is a spirit of mutual give and take and if both parties are looking for long term gains from the partnership then most issues do get resolved, often through compromise.

The MOU should cover all the important matters relating to the arrangement, particularly:

- **Territories and Products.**
- **Goals**
- **Definition of responsibilities**
- **Exclusivity/Non-exclusivity**
- **Sharing of expenses and of income**
- **Payment terms**
- **Validity period and termination arrangements**

Territories and Products.

The parties list the countries to which specified products may be exported. Here conflicts may arise because the manufacturer may not be ready to "put all its eggs in one basket". It would like to keep the number of territories and products to be covered by the arrangement to a minimum, and keep its options open for the future.

The Trading House, on the other hand, is keen on getting the maximum number of territories and products covered by the arrangement since it is going to be spending money up front on market development and would like to improve the chances of earning its money back by having the possibility of dealing in a larger number of products to many markets.

The manufacturer would like the Trading House to handle the most difficult territories and products and to hold back the easier ones, perhaps with the intention of handling these itself directly. The Trading House would naturally have different views on this matter.

Goals

It is essential that the Trading House and the manufacturer are on the same wave length as far as the issue of goals and approaches is concerned. The manufacturer would insist that goals are quantified and with time limits and would like a systematic monitoring mechanism to be in place. The Trading House would prefer flexibility and fewer commitments.

The manner in which the goals are to be achieved should also be discussed with the manufacturer and its approval obtained so that its supportive backing is available for all the programs.

Definition of responsibilities

This part of the MOU deals with the manner in which the work of the team is to be organized, particularly the sharing of specific responsibilities and tasks. The major division of responsibilities would be that the manufacturer, by and large, looks after the manufacturing and the Trading House after the exporting.

All tasks involved in the exporting process should be listed and responsibilities assigned.

Exclusivity / non-exclusivity

This part of the MOU deals with whether the manufacturer and the Trading House would deal with other organizations in the same markets and same products?

This point causes much argument. The Trading House of course would insist that it should have the exclusive right to handle the manufacturers products in the specified markets. The manufacturer prefers flexibility and does not want to tie itself down to an exclusive arrangement which has not yet proved its viability.

This issue becomes particularly ticklish when the Trading House insists that the manufacturer exports to a particular market only through it while it is not able to reciprocate by promising that it will not obtain such products from other manufacturers. The manufacturer perceives this as unfair while the Trading House points out that the manufacturers capacity may not be sufficient to meet large orders.

Sharing of expenses and income

This subject can generally be dealt with in quite a straight forward way by listing out the heads of expenses and income and the manner of sharing them. But here too there are often gray areas and it is useful to cover as many eventualities as possible during the negotiations stage to avoid misunderstandings later. Such eventualities include times when for example, costs of product development, of promotion or of sampling are unusually high or when there are quality or late delivery complaints due to controversial reasons.

Payment terms

This part of the MOU deals with when and how the manufacturer will be paid.

The Payment terms clause is significant because it has a direct impact on the cash-flow situation of both the manufacturer as well as the Trading House. The payment terms incorporated into the MOU should be such that the partnership obtains maximum advantage from the strengths of the two parties while the disadvantages of the weaknesses are minimized.

If the Trading House’s cost of funds is cheaper than the manufacturer’s it is economical for the production to be financed by advance payments from the Trading House to the manufacturer. In such cases the Trading House assumes a quasi banking role and becomes concerned about matters such as collateral, guarantees, etc. Sometimes manufacturers, particularly small manufacturers, have access to subsidized credit and this would be taken advantage of in the payment terms.

Another aspect to be considered is the financial position of the two parties.

Validity period and termination arrangements

Here again there is often a clash of interests with the Trading House preferring a longer validity period so that it can reap the rewards of its investments and efforts over a longer time span, and the manufacturer preferring to get back as soon as possible the option of being able to decide on a future course of action for a market.

As mentioned earlier, contentious arguments would take place while making the MOU but it is better to have these sorted out before hand rather than face the possibility of a break in the relationship at a later date when problems arise which are not covered by an understanding reached earlier