# EXPORT GUIDE

Developed by the Market Promotion Division

IE Singapore

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# (1) Selecting your export market

Which country should you export to? Which market segment of your target country will get you the best returns?

**Importance of market research**

Each industry has its own unique characteristics. Even within the same industry, the conditions and ways of doing business may vary across different countries, regions and states. When you export to a new market, you will need to find ways of handling all these differences to maximise your chances of achieving long-term export success.

The success or failure of your export venture is largely determined by how well you perform your market research prior to exporting. You will need to thoroughly evaluate the pros and cons associated with various markets before the choosing the most appropriate market for your exports.

Often, sustainable export success comes down to your experience, personal network and your primary knowledge of the market. Such capabilities take time to build. You can start building your own market selection expertise by taking the first step – performing your own secondary market research before you invest further in gathering primary market data. Diligently carrying out secondary research on your markets will help you:

- Contrast and compare different markets
- Gauge the potential for business within a particular market
- Make informed decisions about the market you should approach
- Fine-tune your business decisions for your chosen market

**Identifying your market**

Identifying the market that best suits your product or service will be one of the most important internationalisation decisions that you will make. While regional markets may be easier and cheaper to enter, more distant markets may be more challenging but could yield higher returns. You will need to decide how you will strike a balance between available opportunities and chances of success.

Some factors about a market that you may wish to consider include:

- Its political stability, economic situation and security
- Its demographics, size and segmentation of your target consumers
- Its local market trends affecting your product or service
- Competitors' products or services and performance
- Accessibility of local distribution channels
- Import and entry regulations and procedures
- Common entry models of other importers
- Entry strategies that best fit your business

**Challenges and issues to be aware of**

You will need to consider all the possible challenges to exporting and whether you can overcome them. Some common challenges faced by exporters include:

- Existence of import barriers such as quotas and currency restrictions
- Customs tariff and duties
- Taxation on corporate entities and profit repatriations
- Health and safety regulations
- CE marking for exports if you are exporting products to Europe
- Environmental standards, industry regulations, quarantine and regulatory requirements
- Accreditation issues
- Payment methods
- Legal issues
- Intellectual property protection
- Accessibility of local logistics to distribute your products in the market

**In conclusion**

This section serves as a basic guide and is not exhaustive. You will likely find other influencing factors or issues not mentioned in this section. Whichever your industry, if you are exporting for the first time, a good way to begin will be to concentrate your efforts on one export market before expanding into other markets. Once you gain traction and confidence in exporting to one market, you will be better placed to build up your market selection capabilities for another market. Please refer to other steps of this guide for more tips and information to help you kick start your export journey.

# (2) Marketing and branding your exports

**Importance of having an export marketing and branding plan… and documenting it**

An export marketing plan acts as your blueprint for your intended export activities. It guides you in implementing your marketing strategies and executing the critical actions you need to achieve your export objectives.

When exporting to the international market, you will need to define your brand values with your overseas customers in mind, understanding their needs and wants in order for your export sales to be successful. As such, you will need to develop a branding plan to align your brand values to customer needs, aspirations and values. This will help ensure that you will be able to deliver your brand promise to your intended customers.

For lean enterprises, hectic day-to-day operations can consume much of your daily energy and focus. By pre-planning and laying out the implementation steps of your marketing and branding strategy before you execute, you can optimise your budget and reap cost-savings, and help yourself stay focused on your end goal as you adapt your actions to your daily business processes. When you document your pre-planned marketing and branding strategies in clear written form, you give yourself a quick reference guide that you can call upon as and when you need to modify your goal perspectives when making decisions during your hectic days. This will prevent you from straying from your intended path, ultimately helping you avoid costly detours that distract you from your export goals.

**Issues to consider when developing your marketing and branding plan**

When developing your own export marketing plan, some major issues you should consider are:

- Your export market size in terms of demand and consumer characteristics and your export market environment in terms of your potential competitors. Try to predict possible future trends. Have you done a thorough market research to better understand the market you entering?
- Your internal strengths and weaknesses. What are the opportunities and threats that you will encounter in your export market?
- Your marketing mix for your product or service in terms of channels, promotion and publicity. How are you going to execute each of them?

When developing your own export branding plan, some major issues you should consider are:

- Whether you should have a different brand for each export market
- Whether you should have multiple brands with different pricing either across all markets or for each export market
- What your brand values are and how you will be communicating them to your target customers effectively
- Whether your brand is localised to the local culture and is not offensive or intrusive

For more self-research on the major components of an export marketing and branding plan, you may wish to explore the examples published by the New Zealand government here: http://www.nzte.govt.nz/en/export/

**Marketing and branding tools you need**

For elements of a marketing mix, you may wish to read this:
http://www.nzte.govt.nz/en/export/

An important element of developing your own export marketing and branding plan is budgeting for it. Here, you can learn about the various actions you need to take to get this done: http://www.nzte.govt.nz/en/export/

**Resources to help you**

(i) Marketing and branding books, periodicals, websites, blogs and books such as "Export Now" by Frank Lavin, found here:
http://bookawards.smallbiztrends.com/marketing_2011/export-now/

(ii) IE Singapore's Export Strategy Workshop

(iii) Other government assistance, such as BrandPact.

# (3) Entering your selected market

**Time to choose your market entry strategy**

After you have done your market research and narrowed down your chosen market, the next step is to consider how you will enter your chosen market.

There are various methods of entering a market. Some common ones are:

- Direct exports, leveraging on trade shows, representative offices and e-commerce to market your product or service
- Indirect exports, through agents, distributors and franchising
- Branch or subsidiary, through acquisitions or joint venture partnerships

IE Singapore can assist you in each of these market entry methods.

**Types of market entry methods**

Direct exports

Most exporters usually begin by exporting directly. In this common scenario where a Singapore firm receives an order from an overseas buyer and subsequently sells directly overseas to that buyer, the Singapore firm gains the following advantages:

- A higher return as there is no cost of in-between agents brokering the deal
- The opportunity to establish a direct relationship with the overseas buyer
- The freedom to determine its pricing strategy
- The quickest way to sell into the overseas market

However, one disadvantage is that the firm will need to spend more time and resources to develop its relationship with the overseas buyer to establish and strengthen trust. Nevertheless, the potential higher returns and speed of getting into the market may very well justify this additional cost of relationship building.

To help you sell directly overseas, you will need to have some form of presence that enables you to attract global buyers to your product or service offering. You can begin by participating in trade shows, then setting up a representative office in your target export market. Or you can establish your presence on the internet through the use of e-commerce. Many exporters commonly start by employing all three methods.

*Trade shows*

Participating in trade shows is not a method of market entry. Rather, it is a means of giving yourself an opportunity to exhibit your products or services in your target market. Participating in the trade show allows you to meet potential buyers, agents or distributors, and you can meet your current agents or

distributors to build up relationships and update them about your latest products and services.

Singapore's trade associations and chambers organise many trade shows that you can participate in (check out their respective websites for their scheduled overseas trade shows). IE Singapore through its International Marketing Access Programme (IMAP) provides funding through the associations and chambers to assist companies to participate and defray costs in these trade shows. Check out IE Singapore's website for the list of IMAP supported trade shows. You can also tap on Double Tax Deduction to defray your costs of participating in trade shows.

*Representative office*

A representative office is an office which you establish in your target export market to conduct marketing and other non-revenue generating activities. A representative office is generally easier to establish than a branch or a subsidiary, as it is not used for actual business (e.g. sales) and therefore is less regulated. Your representative office can perform various marketing activities to raise the awareness of your product or service to your potential buyers.

To assist you in establishing your overseas representative office, IE Singapore is able to provide you some help such as in office rental and manpower. Please contact us to find out more.

*e-Commerce*

Amazon.com is a multi-billion dollar business conducting its business purely on the internet and selling directly to end consumers. There are also many world-renowned brands which exponentially increased their global market shares through selling their products, services and after-sales services directly to end users online. Some familiar names are Apple, Microsoft, and Dell, among others.

In this day and age of exploding online usage, not having a corporate website is no longer an option. In Asia today, there are one billion internet users, 273 million in North America and 77 million in the Middle East (figures extracted from Internet World Stats), and these numbers are growing. Through the web, millions of sellers and buyers have transacted across borders easily and instantaneously.

For businesses, having an online presence has become an essential, even compulsory, operational element. Electronic commerce, or e-commerce for short, is the buying and selling of products and services over the internet. With an online sales presence, you will expose your product or service to an immense global marketplace. Therefore you should not ignore tapping on the power of the Internet to sell directly to buyers around the world.

To begin, you need to set up a website that clearly states your products and services offerings and how buyers can contact you. Your website can also leverage on other websites to further market your products and services, such as through Alibaba, e-Bay, Gmarket and even Amazon. These web portals provide the necessary technical and software support which you can tap on to easily and quickly set up your presence on their platforms. Thereafter you can proceed to leverage on the traffic that their sites draw to start selling to the sites' visitors.

IE Singapore offers some assistance for you to set up your e-commerce capability. We conduct regular workshops on e-commerce which you can attend to learn more. Please check the IE Calendar of Events regularly for upcoming workshops.

Indirect exports

You can sell your product or services overseas through an intermediary, such as through in-market agents and distributors, and by partnerships through licensing or franchising. Compared to direct exports, you will need to incur the cost of commissions charged by your intermediary and you will not have the opportunity to build a direct relationship with your end buyers. However, the advantage is that you will be able to reduce resources as your intermediary will handle all licensing, shipping, distribution and logistics arrangements, and the cost of indirect exports is lower than fully funding a sales force in the market.

*Agents*

An agent will assist you to secure your sales in exchange for a commission. As in all business relationships, you are advised to do your due diligence. Choose agents who are knowledgeable about the market, with proven sales track records, have experience clearing your type of goods from Singapore through the local customs, and possess the network to the right customer segment.

*Distributors*

Distributors purchase your products from you and then resell them to their customers. In such an arrangement, the distributor will handle all sales enquiries, after sales service and price setting. You will have a lower profit margin, but you will enjoy more resources for carrying out after-sales service.

When selecting a distributor, due diligence must to be properly carried out. You have to determine whether your distributor has the proven sales track record, the commitment of its sales force to selling your product, its product mix (such as whether it is also carrying competitors' products), and its marketing plan to push your products. Having a checklist will help you in your selection process.

Alternatively, you may engage consultants who have the expertise and connection to assist you in sourcing for potential distributors.

IE Singapore is able to assist you should you wish to engage a consultant to help you source for distributors overseas. Please contact us to find out more.

*Franchising*

Franchising is the practice of using another firm's successful business model. As a franchisor you can build chain stores to distribute your goods. Your success will depend on your franchisees which you have to provide with the know-how, training and marketing to ensure their success. For more information on franchising, you can approach the Franchise and Licensing Association (Singapore) for assistance.

**Branch or subsidiary**

When your business has expanded to a profitable stage through the above market entry methods, you will have gained sufficient knowledge about your target market and financial and manpower resources to move toward establishing a branch or subsidiary directly in your export market to conduct sales operations. To establish a branch, you need to be aware of the market's legal, tax and profit repatriation regulations. This will require you to engage legal and financial advisers to assist you.

**In conclusion**

The market entry methods mentioned in this section are the most common types but the list is not exhaustive. You may very well have other ways of entering your chosen market. Whichever method you choose, IE Singapore is here to help you. Please refer to other steps of this guide for more tips and information to help you kick-start your export journey.

# (4) Logistics of getting your exports into market

**Why you should plan your logistics well ahead of transporting your goods to your export market**

All your efforts at ensuring the good quality of your products will come to naught if your products do not reach your intended customers. Determining and planning ahead the best mode of transporting your products internationally is fundamental to closing a successful sale.

**Methods of transporting your goods overseas**

There are four main modes of transporting your goods to your overseas export market, namely by air, sea, road and rail. Based on your customer's requirements and orders, you could work out your logistics plan by choosing one of the transport modes or use a mixture of them. In addition, it is important for you to factor in the possibility of delays during the journey.

This section discusses the four main modes of transporting your goods in terms of their respective strengths, cost and utility.

By air

Air transport is the fastest mode of delivery and therefore suitable for delivering goods over a long distance, when the goods are required urgently or perishable. It may be one of the most expensive modes of transport, but it is your best choice if delivery speed is your main concern.

By sea

Freight shipping is one of the most economical ways to deliver your goods, particularly for bulky items. However, this mode is also the slowest delivery method.

By road

Road transport by trucks or goods vehicles is best for delivering goods within a country, district or overland to the airport or port.

By rail

Rail transport is a common for delivering goods within a country, or from country to country within the same continent. However, the use of rail depends on the infrastructure available and the country you are transporting to.

**Overview of Singapore's customs regime**

This section gives you an overview of Singapore's goods clearance regime, and points you to resource where you can obtain more knowledge on the different technical aspects of handling the logistics of exporting your goods.

The role of Singapore Customs

Singapore Customs is the government authority of Singapore on trade facilitation and revenue enforcement matters. It is responsible for the implementation of customs and trade enforcement regulations including those related to free trade agreements and strategic goods. You need to be registered with Singapore Customs before you can import, export or tranship goods in, out of or through Singapore.

Types of goods

Most countries restrict the movement of certain items such as pharmaceuticals, animals, explosives, etc. Governments issue permits to control the outflow of goods across their national borders. The Singapore government adopts the same principles and practices. If you are intending to import, export or transship goods which are restricted or controlled by Singapore, you may face more stringent requirements when seeking approval to do so.

*Controlled goods*

In Singapore, the import, export and transhipment of some goods are subject to the control of their respective controlling agencies. Some agencies require you to apply for a licence or obtain approval prior to the intended import, export or transhipment. You should submit applications to the relevant agencies through the TradeNet® system to obtain licence or approval before importing, exporting or transhipping the goods.

Please view here for the list of controlling agencies in Singapore.

Please view here for the list of controlled goods.

Please view here for the list of controlled exports.

For a more comprehensive list of items that are subject to control by the relevant controlling agency, please view here.

You can apply here for approval or licence from a controlling agency.

*Strategic goods*

The Strategic Goods Control List contains descriptions of items that are subject to control under the Strategic Goods (Control) Act. If you are intending to import, export or tranship any strategic goods you required to apply for a strategic goods permit.

More information on export of strategic goods can be found here.

Procedures

All imports, exports and transshipment of goods have to be done according to the standard procedures of Singapore Customs. Singapore Customs publishes its import and export procedures together on its webpage. It is important that you familiarise yourself with these procedures before attempting to move goods in or out of Singapore.

Permits

Permits are required for all movements of goods in, out or transshipping from, Singapore. The application processes for all three categories of permits are published together by Singapore Customs on its webpage here. All permit applications have to be submitted electronically through the TradeNet® system for approval and processing by Singapore Customs for moving goods via sea, road, rail or air in, out or through Singapore.

**Exporting out of Singapore**

Important background information before you start

*Singapore's export regulations*

The export of goods from Singapore is regulated under the Customs Act and the Regulation of Imports and Exports Act as well as their relevant subsidiary legislations.

*Customs excise and duties*

Generally, all goods (controlled or non-controlled) exported from Singapore are not subjected to GST and/or duty payment.

Verify the type of your goods

This is the first step you need to take. Prior to seeking any approval, you need to verify whether your goods are considered as controlled or strategic goods by the Singapore Customs, as more stringent restrictions will apply to the export of such goods out of Singapore.

Get your permits

Once you have verified whether your goods are restricted or not, next you will need to apply for an OUT Permit though TradeNet® whether or not your goods are controlled or non-controlled items.

As the exporter, you will be the party that issues the commercial invoice to your overseas customer. You are required to declare the FOB value of the goods in the export permit application. More information on export requirements can be found here.

**Importing into your target market**

Getting your goods out of Singapore is first half of your goods' journey to their destination market. The last half involves clearing them through the customs of their destination market.

The customs of one market differ from the next. In this section, we point you towards the customs authorities of the most common destinations where you can obtain further information and assistance.

- ***Indonesia***
  The Indonesian Directorate General of Customs and Excise is an authority under the Ministry of Transportation Republic of Indonesia. There are several forms and documents you need to complete when exporting to Indonesia, for example the Indonesian Customs Tariff Book (BTBMI) and the Customs Declaration for Importation (PIB). View the import and export regulations here, or refer to the Indonesian Customs Guide for more information.

- ***China***
  China Customs provides the customs policy and regulations for goods entering China, the import and export statistics of the country, and a guide to its formalities. For HS codes, tariffs, and service providers (logistics providers, distributors etc), please refer to the ETCN website for more information.

- ***India***
  The Central Board of Excise and Customs is India's government authority overseeing the collection of customs duties and administration of matters relating to India's customs. It is an arm of India's Ministry of Finance, Department of Revenue.

- ***Vietnam***
  Vietnam Customs is the main government body in charge of all import and export procedures and regulations of Vietnam. When importing goods into Vietnam, there are customs declaration procedures and several documents to submit, such as the import goods declaration forms, commercial invoice, bill of landing and more. It is important for you to understand the formalities and procedures before exporting to Vietnam.

- ***Myanmar***
  When exporting to Myanmar, you have to prepare a customs declaration form for clearance by the Myanmar Customs Department. The import documents required include the import license/permit, bill of landing, invoice, packing list and more.

The above information provided by the customs authorities of the various countries gives a general view of their respective customs procedures. You should always consult your appointed logistics provider for the latest updates from the ground in your export market.

**Increase your profit margins by reducing your export costs with FTAs**

FTAs are free trade agreements, signed between countries to lower or abolish tariffs on movement of goods between their borders. The aim of FTAs is to facilitate and encourage trade flows between two nations by lowering the costs for businesses trading between the agreement countries. Knowing what FTAs are and utilising them will help lower your costs, increase your bottomlines, and improve your ease of market entry. This is because FTAs are legally binding agreements made by two or more countries which result in benefits for your export business in terms of:

- Reducing or removing trade barriers such as tariff concessions for eligible exports and quantity restrictions for committed sectors;
- Facilitating cross border movements of goods and services between the territories of the signatory countries; and
- Establishing trade promotion initiatives by signatory countries such as safeguards against government expropriation, alternative dispute settlement mechanisms or increased convenience for business travels.

Singapore exporters can enjoy the highest number of trade benefits in the regions, with its 19 FTAs currently in force. Benefits range from preferential access to certain sectors, tariff concessions, easier entry into other markets and intellectual property protection. To know more about the benefits of FTAs and the latest FTAs updates, please explore the Singapore FTA website.

**Finally, remember to protect yourself against transport risks**

Many things can happen to your goods from the moment they leave your possession until they reach your buyer. The most common logistics risks usually are loss of goods or damage to goods occurring during transit, or goods being denied customs clearance at destination. Less common logistics risks occur when an unforeseen circumstance arise, such as theft, accidents, natural disasters or negative political events resulting in confiscation. Please refer to Step 7 of this Export Guide for some ideas on how you can reduce your transport risks.

**Do it yourself or engage a service provider?**

When you arm yourself with basic customs knowledge, you are better placed to lever up your skills or those of your employees when taking care of your delivering operations. You will also be better placed to assess if you will be getting value for money if you decide to engage a logistics service provider, which will in turn help you fully maximise the services you paid for.

There are several logistics companies that you can engage for a one-stop service, and you may wish to consider establishing a working relationship with one or more of such firms to increase

your long-term operational productivity by reducing daily hassles. International logistics firms such as UPS, DHL or FedEx may be more expensive but possess a wider global coverage. In recent years, some Singapore logistics firms have become strong regionally and may cost less if your export strategy covers only the ASEAN region. Whichever provider you choose, you should always balance cost against utility.

**Resources to help you**

(i) Singapore Customs training programmes

Singapore Customs Academy is run by Singapore Customs to train Singapore-based businesses in customs procedures, customs laws and international regimes and more. Please check its training calendar regularly for the latest training programmes and updates.

(ii) IE Singapore's Export Clinics on market-specific logistics issues

Launched in 2012, IE Singapore has partnered with multi-national logistics firms to conduct Export Clinics which deliver detailed technical and administrative knowledge on exporting goods to various markets. These clinics provide Singapore business an interactive platform to help them address very specific and detailed customs and documentation issues of getting goods into individual markets. The proven success of our small classroom format encourages a high level of interactivity between participants and the logistics practitioner. Please visit our Calendar of Events regularly for our next Export Clinic on logistics.

(iii) Market-specific logistics overviews in IE Singapore's iAdvisory Seminar Series

IE Singapore's iAdvisory Seminar Series are market specific seminars targeted at delivering the latest, on-the-ground market intelligence for Singapore businesses by our in-market speakers and IE Singapore's Centre Directors. Beginning 2012, our iAdvisory Seminars incorporate presentation segments and panel discussions on logistics and customs issues of the market addressed by each seminar, where it is relevant to address the topic of logistics. Please browse through our all iAdvisory Seminar highlights for the market of your interest, or check regularly for updates.

# (5) Financing your export operations

Once you have decided to grow your business through exports, the next necessary step is to assess how you can finance it. You should review your business' financial capacity, explore all financing options, and subsequently determine the quantum of funds you will require for expanding your business by exporting.

**Reviewing your financial capacity**

Your financial capacity depends on the financial position of your business. In other words, the financial health of your business will affect your sources and access to funds. For example, if your business has insufficient equity capital or has already incurred a substantial amount of loan debts, your application for additional bank loans are unlikely to go through.

You may wish to approach your bank for an assessment of your business' current financial strength and eligibility for loans or credit facilities.

**Financing options available to you**

Here are some common financing options available:

Retained earnings

If your business is financially strong, this may be the best option for you as there will be no costs of loan interests and your cash flow will not be reduced by repayment commitments.

Bank loans or credit facilities

Typically, businesses rely on this mode of funding for all types of business expansion. Identifying the right bank and thoroughly planning the terms and conditions of your loan or credit facilities is crucial to maximising your returns on investment against your debt requirements.

Friends, relatives and family

In certain cases, friends, relatives and family can be supportive and help you finance your expansion at no cost for the loan. In some other cases, they may ask for share in the business. This option is most friendly and flexible, but note that you may put personal relationships at risks if your business expansion does not proceed according to plan or suffer losses. It is also wise to document the terms of such loans even if your personal contacts do not insist upon it.

Third party investors

*Angel investors*

Business angel individuals or groups are quite common in Singapore, more so than other countries in Asia. These investors look for good business models and ideas that they believe in and are willing to invest in the initial seed funding, often with little interest in taking an active management role in the business.

While the rates of return of investments required by angel investors are higher than the interest rates of bank loans or credit facilities, there are two advantages: one, there is no repayment schedule affecting cashflow, and two, some business angels may be interested to proceed to a full active equity stake when the business has matured to an acceptable stage, and this provides the business a potential source of future funding. You will need to thoroughly plan and carefully consider the exit or reinvestment mechanism of your angel investors, and in this respect you will need to hire a lawyer experienced in putting together an angel investment deal.

We have identified a website on angel investors which may be of interest to you here. The Singapore Venture Capital Association also provides a list of angel investors you may seek.

*Private equity and venture capital investors*

Commonly termed as PE and VC investors, such investors are either high net worth individuals or well-organised private sector firms managing a pool of funds from other investors. In the latter category, you will likely be dealing with professional investment analysts or fund managers. Do note that PE and VC investors are mostly active investors who take active management roles and, in many cases, eventual management buyout through public listing or acquisition. They will only be suitable if selling out to third parties is your eventual goal or, if you intend to go for public listing, their expertise and experience in management and operations will be invaluable. You will need to thoroughly plan and carefully consider the exit or reinvestment mechanism of your PE or VC investors, and in this respect you will need to hire a lawyer experienced in putting together a PE or VC investment deal.

The Singapore Venture Capital Association also provides a list of PE and VC investors you may seek.

Government assistance schemes for you

The Singapore government provides various financial assistances to support you in exporting or internationalising your business. These schemes are offered through IE Singapore, SPRING and Inland Revenue Authority of Singapore. They are not intended to finance you fully, but to give you a leg up in the forms of eligible expense subsidies, insurance and tax deductions.

- *IE Singapore's Global Company Partnership*

- ✓ Capability Building and Market Access – This assistance supports up to 50% of eligible expenses for your company to build business capabilities or gain access to global markets. For more information, you may click here.

- ✓ Loan Insurance Scheme – This assistance helps Singapore businesses secure short-term trade financing lines by getting them insured by commercial insurers against insolvency risks. The programme also comprises of LIS+ whereby the Government underwrites loans that are beyond the capacity of commercial insurers. For more information, you may click here.

- *Inland Revenue Authority of Singapore's Avoidance of Double Taxation Agreement*

  This agreement between Singapore and another country serves to prevent double taxation of income earned in one country by a resident of the other country. The agreements also provide for reduction or exemption of tax on certain types of income. Singapore has a comprehensive list of agreements with various countries. For more information you may click here.

- *SPRING's Angel Investors Tax Deduction Scheme*

  This tax incentive scheme aims to stimulate business angel investments into Singapore-based start-ups. This is targeted towards smaller businesses and is suitable if you are intending to fund your next stage of business by way of angel investment. For more information, you may click here.

- *Enterprise One*

  This portal was launched by the Singapore government to provide Singapore businesses a one-stop information portal for learning about all other financing assistances supported by the Singapore government. It covers loans, grants, tax incentives, equity financing to help you start and grow your business via developing new products, improving business processes, protecting your intellectual property, and venturing abroad, etc. To view the site, you may click here.

**Business plans and export strategy plans are essential**

Having a written business plan and export strategy plan is important to keep you on track towards achieving your vision when growing your business through exports.

Having these plans is important if you intend to seek bank loans or credit facilities.

Having them is a pre-requisite if you intend to seek angel, PE or VC investors. You need to put together a sound business plan to enable your bank or prospective investors to understand your business, and a sound export strategy plan to enable them to understand why you require funding for expansion. Your past financials should be included in your business plan. Your

export strategy plan should include financial modeling, projecting potential profits in best, worst and most likely scenarios.

**Determining the quantum of funds you need**

A financial forecast is essential in determining the quantum of funds you need. Upon drawing up your financial plan, you can now assess if the amount of funding required can be met by your company's financial capacity or eligibility for borrowing. You need to understand the costs of expansion to your business as opposed to the potential revenue it will reap. Basic components that you may have to include in your financial plan are:

- Sources of revenue in the foreign market – Price per unit of product at each year, projected sales in consideration of in-market competition and demand, and methods of collective revenue in the foreign market (i.e. cash in advance or letters of credit).

- Cost of funding – Interest charges, repayment terms and credit insurance.

- Cost of goods and sales – Cargo insurance, consular legalization, container loading, dispatch, export documentation and packing, import duties, truck unloading or wharfage, telecommunication costs and supplier terms of payment (*Non-exhaustive list*).

- Export promotion and marketing costs – Advertising, trade shows, supplies, travel, promotional materials, communication equipment *(Non-exhaustive list)*

- Export administration costs – Legal fees, commission fees, freight forwarder fees, insurance premiums, salaries, office supplies *(Non-exhaustive list).*

The above is a non-comprehensive list of components to be inserted into your financial planning. Other considerations such as foreign exchange volatility and taxes (i.e. transfer pricing, market's corporate tax, personal tax compliance) can also affect your cash flows drastically. For more information on potential tax issues, you may click here.

Regardless of your funding options, it is always advisable to approach an export consultant when drawing up your export operation financing plan.

# (6) Dealing with the legal side of export

**Steps to protect your transaction**

When you embark on exporting, your organisation inevitably becomes an international business entity, exposed to events occurring in markets beyond Singapore. This means that you have to identify external events that have potential effects on your business and take action accordingly:

Step 1 – Protect your confidential information and assets

Before any negotiation with your buyer, review your business information/assets to determine information which is sensitive, and information which is critical to sealing the deal. Sensitive information or assets include a new product or design in development, your financial information, your buyer and customer lists, your contacts, your price and costing lists, and your insider industry knowledge, which could prove detrimental to your business if leaked to your competitor. A common protection you and your potential buyer can adopt is to sign confidentiality or non-disclosure agreement between you before any party releases sensitive information.

Step 2 – Comply with Singapore law

Find out the laws and regulations and if there are any restrictions (i.e. bans, quotas or controls) imposed by Singapore upon exportation of your type of goods or services to your destination market. All exports laws, regulations and restrictions are administered by the Singapore Customs. Please refer to Step 4 of this Export Guide.

Step 3 – Comply with the law of your destination market

Find out the laws and regulations and if there are any restrictions imposed on importation of your type of goods or services into your destination market. A suggested line of basic inquiry into your destination market could be as follows:

- Customs regulations
- Import tax or tariffs
- Disclosure or declaration requirements
- Price controls (such as those related to anti-dumping or anti-trust laws)
- Currency exchange controls

Please refer to Step 4 of this Export Guide for the customs websites of various destination markets. For some markets, it would be prudent to make yourself aware of the foreign government's policies on nationalisation, expropriation and confiscation of foreign imported goods to determine the risk level for your export transaction.

Step 4 – Comply with regional laws

If your destination market belongs to a regional group, you need to find out if there are any regional law, regulation and restriction upon the export and import of your type of goods or services within that region. For instance, European Union rules bear consideration if you are exporting to an EU market and ASEAN rules if you are exporting within ASEAN. Your line of basic inquiry into this aspect can also take the same format as above.

Step 5 – Review your business structure

The licensing and import requirements, customs and excise duties in your destination market could be different for sole proprietorships, partnerships or corporations. If you are currently a sole proprietorship or partnership, now is the time to review if your export goals could be achieved efficiently under this structure. If not, you may wish to consider if your export goals will be better served by converting your business structure into a corporation.

Step 6 – Take advantage of internationally accepted uniform standards

Find out the international laws, regulations and conventions applicable to you. Increasingly, international agreements, treaties and conventions are exerting practical effects on cross-border private commerce instead of being limited to relationships between governments. There are numerous types of international laws in force today. You will benefit from having some knowledge of these:

- *Incoterms®* - Incorporating Incoterms® (international commercial terms) into your overseas sales agreement will help you avoid costly misunderstandings by clarifying the tasks, costs and risks involved in delivering your goods to your buyers.

- *Convention on Contracts for the International Sale of Goods (CISG)* - Small and medium enterprises are usually more disadvantaged in negotiating cross-border contracts as they have weaker bargaining positions and less access to legal advice causing more exposure to problems arising from different laws. The Singapore Academy of Law publishes a brief explanation of how the CISG applies to Singapore.

Step 7 – Protect your intellectual property

If you have spent intellectual effort to create a product for sale, you should protect your innovation. The law protects your innovation efforts by giving you rights of intellectual ownership over your creation. When diligently protected, maintained, accounted for, valued, monitored and managed, all your innovation assets can become formidable commercial assets that increase the total net asset value of your business. Here is a basic two-step approach:

- *Protect your IP in Singapore* - You should apply for trademarks to protect your branding and goodwill, patents to protect your technology and technological improvements, copyrights to protect your original creative works, and industrial designs to protect your product's shape, look and configuration. Each country has its own IP office to manage its national IP

registration system. In addition to managing Singapore's national IP system, the Singapore Intellectual Property Office (IPOS) offers an online introduction to Singapore IP issues. IE Singapore also organises workshops, clinics or seminars from time to time on intellectual property protection issues of specific markets. Please check our Calendar of Events regularly for the next event.

- *Protect your IP in your destination market* - If you already have existing patents, trademarks, copyrights or industrial designs for your products in your home country, your next level of protection is to find out how to enforce your IP rights in your destination country.

**Some legal clauses used in international sales contracts**

International sales contracts contain many similar terms as domestic sales contracts. However, they also include certain clauses to deal with issues arising from having different laws and legal systems in a cross-border contractual relationships, for instance, the law of your counterparty has different implications on the transaction even if the same words are used. Arming yourself with a basic understanding of some legal clauses commonly used in cross-border contracts will better prepare you to negotiate your terms with your counterparty, avert conflict in interpretation to avoid causing misunderstanding, and communicate with your legal professional by enabling you to ask constructive questions and assess the quality of the advice you are paying for.

- Choice of language clause – choosing a common language for interpretation

  If you are contracting with a party whose official language is not English, it is best that your counterparty and you mutually designate one language as the official language for interpretation and dispute resolution to prevent misunderstanding through miscommunication.

- Choice of law clause – choosing the "proper", "governing " or "applicable" law

  It is also advisable to mutually agree on the dominant legal system. This is very important to any agreement which involves more than one legal system because choosing one law to apply to your overseas contract will help you avert misunderstanding rights and obligations that differ from country to country or conflicting laws that may be inconsistent with each other.

- Jurisdiction clause – specifying how, when and where to handle any disagreement

  The jurisdiction clause should also be instated at the outset, for parties to mutually agree on the court to which they would bring their lawsuits to if any. The decision should be made in tandem with the choice of law as it only makes sense to choose a law and a court of the same legal system.

- Force majeure clause – specifying how parties should fulfill their contractual terms in event of circumstances beyond their control or prediction

  A *force majeure* clause usually excuses affected parties from performing their contractual obligations under specified circumstances beyond both parties' anticipation and control (the Latin term *force majeure* means "superior power"). Some *force majeure* circumstances are natural disasters such as floods, storms, earthquakes, "acts of God", political unrest including war, riots, police action or strikes, even runaway inflation, dramatic currency devaluations or stock market collapse. It is important to specify a limit on excusing performance such as the length of time, severity of the occurrence, and separating obligations that could not be performed from those which could be. It is also important to expressly provide for recourse in the case of partial performance.

- Governmental approval clause – specifying the party responsible for obtaining licenses, permits, or government permissions

  Exporting your goods into a foreign market requires clearances from Singapore Customs as well as from the government authorities of your destination country. Practically speaking, your counterparty should be responsible for obtaining approvals and clearances from their customs authorities. Including a governmental clause will enable your counterparty and you to clearly list who should obtain which approvals from which authority, and avoid lapses in customs documentation, which may delay delivery and incur unnecessary cost.

- Terms of payment clause – specifying the currency, method of payment, bearer of charges and fees

  An overseas sale involves more than one currency and this gives rise to many practical issues. There will be currency fluctuations when payment is remitted to you. Your buyer's country may also have restrictions or prohibitions on remittances of its currency. There will also be costs of remittances incurred to consider such as fees, charges or transactional or service taxes, which banks typically impose on telegraphic transfers or letters of credit.

- Pre-shipment inspection clause

  Your contract should clearly specify a pre-shipment inspection arrangement. Such an inspection protects both the importer and the exporter by avoiding disputes arising subsequently over disputes over quality or identification of the goods. The inspection costs should be borne by the party which requires this clause, or mutually by both parties and be factored into the contract price.

- Delivery, acceptance and refusal clauses

  In a cross-border sale of goods, payment does not always occur at the same time as the physical delivery of the goods. Taking physical possession alone does not equal legal acceptance. Such issues can arise because most contract laws are slightly different in

deciding when and how acceptance and refusal has taken place. You should consult your legal adviser on the exact contract law on this issue applicable to your case.

- Intellectual property clause

  You should to specify how your intellectual property (IP) rights are to be handled in the sale to maximise the value of all your work done in acquiring IP protection. In your contract, you can specify how your seller is allowed to use the IP of your product, whether wholly or partially. You can also specify clearly defined scope of use for your product logo, images and other collaterals. If the sale includes a sale of your IP rights, you should review whether you have properly valued your IP to help you derive your sale price. You should consult a good IP lawyer to help you with this.

- International warranty clause

  Incorporating a warranty clause has two benefits:
  - ✓ Gives your buyer more assurance and added incentive to agree to your other difficult terms
  - ✓ Protects you against abuse by limiting the circumstances and types of defect or damage you will accede to for replacement.

  You should take into account convenience and cost when structuring your return or exchange policy, and then specify clearly in your contract how an exchange or return should be carried out.

**Familiarise yourself with common legal concepts to help you deal with potential risks**

Lastly, there are common problems that tend to arise in an export of goods, such as damage/destruction, complaints by buyer, payment issues and rights to legal actions. When you familiarise yourself with how the concepts and how they interact with one another, you can better determine the exact moment when your buyer takes legal ownership of your goods to help you resolve issues when they arise. The three most common legal concepts are title, property and transfer. Do understand what they are and how they work with the assistance of your lawyer.

**Do I need a lawyer?**

This is the most common question asked when exporters face with problem of dealing with legal issues. While you are deciding whether to engage a lawyer, we want to highlight some key reasons you should:

- Never reuse drafted agreements for past transactions
  You may have heard of the practice of modifying from previous agreements signed for future transactions. It is important to note that no two contracts are exactly alike, even if the transactions are of the same nature involving the same goods and parties. Rules, laws and customs may have changed without your knowledge. Your counterparties

have no obligation to alert you of these changes and you should never assume that they will.

- Focus on the business
  In the process of securing the deal, you will likely be occupied with looking after your business interests. Having a legal expert on your team to help you look after your legal interests while you take care of the business issues is an advantage that you should not overlook. This is especially useful if you are trying to secure a long-term arrangement in new market.

**Tips for getting a lawyer**

If you have decided that engaging a lawyer is right for you, be aware that the lawyer you engage will affect your future rights and interests. Whatever the size of your budget, your legal expenditure will form an important component of your total business expenses. We highly recommend that your prospective legal professional is one who specialises in overseas sales contracts for your destination market, and that you search for your legal expert prior to commencing negotiations.

Defray the cost of engaging a lawyer

The government have grants in place to support you in this area. Legal fees form one of the supportable internationalisation activities under IE Singapore's Global Company Partnership.

**Hiring a lawyer does not help stretch your dollar unless you have done your homework**

You will be in a stronger position to stretch your legal budget if you are able to determine which issues you could resolve on your own without incurring professional cost. Such a skill can help you minimise the scope of legal services which you have to pay for. Here are some examples (non-exhaustive) of issues which you should be able to resolve on your own without expensive hired help:

| | |
|---|---|
| Commercial issues<br>*Examples:*<br>• Understanding market needs and risks<br>• Buyer agenda<br>• Pricing | You can verify these issues by your own market research and due diligence on your counterparty. To help you gain understanding of your market, IE Singapore offers you market specific iAdvisory Seminar Series and Export Clinics, and Market Research Technique Workshops where you can learn how to perform your own market research. |
| Management issues<br>*Examples:*<br>• Internationalisation will<br>• Staff strength<br>• Financial considerations | You can resolve these issues by discussing with your management the pros and cons of expanding your business overseas through exporting and what you need to do so. To help you analyse your case for your management, IE Singapore offers a free online Export Readiness Assessment |

| | |
|---|---|
| | which you can use to base your analysis on. |
| Operational issues<br>*Examples:*<br>• Production capacity<br>• Lead time for delivery (dependant on production capacity)<br>• Product quality | You can resolve these issues by reviewing your production capacity and making your own management assessment. For a more in-depth self-assessment, IE Singapore offers a free online Export Readiness Assessment which you can use at your own time. |
| Compliance issues<br>*Examples:*<br>• Local policies<br>• Product regulations<br>• Goods conformity | You can verify these issues by asking your counterparty, doing your own in-market research, or asking from your business associates who had experience with them. You may also ask your lawyer but do not assume that he or she will always be able to drill down to such technical levels. |

The business considerations behind hiring a legal professional are no different from those for engaging other third party vendors. Having a broad understanding of international business law, common legal concepts in international trade and their practical implications on an export operation will help you more effectively assess your potential legal candidates as you discuss your requirements with them.

**Resources to help you**

1) Relevant law firms for your consideration at the online directory of Law Society of Singapore

2) Know the rules, requirements and restrictions of Singapore Customs on your export

3) Learn how to take advantage of Free Trade Agreements

4) Learn some international trade terms in Incoterms® 2010

5) Get to know the Convention on Contracts for the International Sale of Goods (CISG) and see how it applies to Singapore

6) Other UNCITRAL standards on other aspects of international trade such as International Payments, International Transport of Goods and Electronic Commerce

7) Get a handle on your intellectual property rights with Singapore Intellectual Property Office (IPOS)

8) Get your export agreement right with our Export Strategy Workshop

# (7) Getting a handle on export risks

**Importance of developing an export risk management plan**

Even if you have successfully handled the risks of doing business in Singapore, it does not mean you will also successfully handle the risks of exporting. Exporting will expose you to a different set of risks which are likely more difficult to assess and manage than the domestic risks you are used to. However, you can manage risks well with good prior planning. Risk management is not about removing risks altogether. It is about putting yourself in a better position to handle risk when a risk event occurs.

To develop your own export risk management plan, you need to identify the risks first, and subsequently assign a weightage to each risk subject to the potential effect of its occurrence, on your business. For certain types of risks, you can buy insurance coverage such as credit risk cover, country risk cover and transit risk cover. For other types of risks, you can adopt business practices to mitigate the impact of unfavourable incidents.

**Potential risks you may encounter**

We highlight only the most common risks which exporters are likely to encounter. In addition to relying on this guide, you should also do your homework by:

- Reviewing your own unique situation;
- Identify any risk you will likely encounter which is not covered by the scope of this guide;
- Assess these risks; and
- Incorporate them into your risk management plan.

Your objective is to develop a risk management plan which is customised to your own unique business, and is as comprehensive as possible.

Risks can be classified into the following types:

- Country risks

  War or conflict could cause your buyer to default on payment, your goods to be delayed, destroyed or even lost. Strikes or other social unrest affecting ports, shipping lines, airports and rails could cause your goods to be trapped at customs. Unforeseen regulatory changes could result in the sudden confiscation or rejection of your goods. The political stability of the country you are exporting to is of paramount concern as, rules and policies in some foreign countries can change overnight.

  *Tips for countering country risk*

- ✓ Your best defence is to keep yourself constantly informed and updated of the economic and political situation of that country, especially its trade, customs and exchange policies which will affect you as an exporter. In this way, you can change your tactics accordingly and take preventive measures. To keep yourself forewarned and forearmed against the instability of your target market, the types of information you seek should relate to the following aspects of your export country:

| **Political and social news** | Stability of government | Consistency of national policies | Income distribution | Military activities | Leadership quality |
|---|---|---|---|---|---|
| **Economic and financial** | Exchange rate restrictions and volatility | Debt burden of the government | Economic diversity | Balance of payments stability | Foreign reserve cushion |
| **Market potential** | Recent economic performance | Long-term forecast | Short-term forecast | Speed of GDP increase | Size and openness of the economy |

Some information sources and ideas to help you keep abreast of the latest developments in your export market:
- News agencies (i.e. CNN, ChannelNewsAsia);
- Updates from your banks;
- Updates from in-market business partners, local workers or agents;
- Credit ratings of the government of your target market (i.e. S&P, Moody's); and
- IE Singapore (i.e. iAdvisory Seminars)

- ✓ As a last resort, you may consider purchasing political risk insurance (PRI) from providers like the Multilateral Investment Guarantee Agency, an arm of the World Bank. IE Singapore can also assist you with its Political Risk Insurance Scheme. These schemes should only be used for higher risk countries, in consideration of the additional costs.

- Business risks

- ✓ *Failure to meet demand due to inadequate production capacity* - This is the biggest and most common risk first-time exporters usually face. Once you fail to fulfil a customer order, your credibility will be damaged; hence you should always review and determine if your production capacity is able to meet the demand before agreeing to the sale.

- ✓ *Rejection of goods due to price tactics of unscrupulous importers* - Some buyers employ the tactic of rejecting the shipment of goods due to poor quality, in order to pressurise sellers into negotiating lower prices. Thus, a good practice is to ship samples of your goods to your buyer to ensure that he agrees to the quality of goods. By specifying that you will be producing the main consignment to the same standard as the sample, it will be difficult for your buyer to reject the consignment later.

- ✓ *Misunderstanding due to cultural and language differences* - Many exporters assume that other cultures understand business and conduct business the same way, especially seemingly similar countries like China and Malaysia. The best way to minimise misunderstandings is to gain a full appreciation of the differences through frequent visits to your intended country of export.

- ✓ *Fraudulent enquiries or offers* - Remember the old adage that "if it looks too good to be true, it probably is too good to be true". Many unsolicited enquiries or offers may be from competitors or rivals previously unknown to you and their motives may range from wanting to benefit from your efforts to covert attempts to discover information about your manufacturing secrets, quality control or pricing. Be extremely selective when dealing with unsolicited enquiries or offers. Some steps you may take are:
  - Request a copy of the enquirer's business licence
  - Request a copy of the enquirer's certificate of import/export authority (only available from certain countries)
  - Ask for references from businesses the enquirer has dealt with
  - Check out the enquirer's website
  - Conduct searches on the enquirer through the Internet or your known business associates in that market
  - Commission a credit report to verify the enquirer's operations, territory and payment history.

  If in doubt, you should turn down the enquiry or seek professional advice.

- <u>Financial risks</u>

  When financial risks occur, they directly affect your cash flow and destroy your potential revenue.

  - ✓ *Unfavourable currency movements* – Exchange rate movements directly affect your cash flow, profit, and balance sheet. You should be aware of the following kinds of currency risks:

    - *Competitive risk*: If you are exporting to a developing or emerging market, the strengthening of the Singapore dollar will make your goods more expensive and hence decrease your price competitiveness in that market.

    - *Transaction risk*: When you sell goods on extended payment terms in a foreign currency, the conversion of your buyer's currency into Singapore dollar during the transaction will incur the risk that your final cash receipt may not exactly the amount that you contracted for.

    - *Currency translation risk*: There is no exchange risk if you do not convert your foreign currency receipts or cash-at-bank. However, once you convert them at the

year-end for financial reporting, sell your assets or repay your liabilities, you will incur the risk of adverse translation rates which decreases your final revenue figure.

– *Risks arising from price list exposure*: Prices you publish on e-commerce websites may be denoted in the currency of the target export market in order to better reach out to your potential buyers. Hence, any strong adverse currency fluctuations will affect your eventual profit.

✓ *Hedging considerations* - As you mature as an exporter, you may wish to consider developing a proper hedging strategy to minimise your exchange rate losses. There are several hedging techniques available. We recommend that you seek proper financial advice when you begin to develop your hedging strategy.

✓ *Payment defaults* - Your payment risks will arise on two fronts: from the buyer and from processes. Fraudulent buyers will cause you not only monetary losses but also reputational damage, especially if the in-market retailers are counting on your buyer to distribute your products. Recommended verification and background checks are:

– Perform credit-checks on your buyer. You can engage commercial firms which provide assistance in credit-checking foreign businesses to do this. Your banker is a good reference for such firms. For no-fee ratings, you may search the published list of Standard & Poor's rated corporates or those of Moody's and Fitch to check if your buyers are already rated.

– Put in place a credit risk management policy. This is a cost-efficient risk management approach as it reduces the resources required to assess buyers on a case-by-case basis. It will also help you apply a uniform best practice when dealing with a new counterparty for the first time. For new exporters, a best practice credit risk management policy should cover the following basic areas:
  - Counterparty initiation policies – this requires background checks on new proposed counterparties through available public information, credit agency reports and counterparty financials before agreeing to transact for the first time.
  - Credit authorities and limits – set different credit limits for different credit ratings of your counterparties.
  - Transaction approval process – establish a verification process to ensure that counterparty initiation, contracts, collateral provisions and collection comply with authorities and limits before a transaction is executed.
  - Reserving and capital policy – for instance, covering expected credit losses by taking a charge against earnings which you can reverse if the expected losses do not materialise.

– Take up the Trade Credit Insurance Scheme from IE Singapore to protect yourself against default by your counterparty.

- ✓ *Payment delays* - Even if the buyer is genuine and a good paymaster, payment delays can still arise through poor processes. Delays in payments negatively affect your cash flow and thus your production cycles. Some ideas for tightening your processes are:
  - Centralise all your letters of credit activities with one relationship bank.
  - Insist on freely available letters of credit during negotiations. This gives you the freedom to present documents to the bank of your choice. With this option, you engage your relationship bank to help you reduce processing time.
  - Improve your letters of credit processes. Experienced exporters often establish a set of internal practices while negotiating letters of credit to reduce discrepancies.

- <u>Logistics risks</u>

  Logistics risks can occur if you do not plan and prepare the transport of your goods in advance. Please refer to Step 4 of this Export Guide. Some ideas on how you can reduce your logistics risks are:

  - ✓ Establishing close communication with your buyer and choosing a proper logistics advisor;
  - ✓ Adopting operational safeguards such as proper packaging for vibration sensitive goods;
  - ✓ Financial mitigation through proper insurance;
  - ✓ Specifying legal clauses to avoid dispute.

- <u>Legal risks</u>

  Legal risks arise when there is no proper contract signed between the exporter and the buyer or if the contract is inadequate in scope. Signing a comprehensive export sales agreement can help you manage, protect yourself against or even avert many types of risks. The most common legal risks which may arise are:
  - ✓ Intellectual property rights infringement
  - ✓ Confidentiality breaches
  - ✓ Misunderstanding of contractual conditions

  Please refer to Step 6 of this Export Guide.

- <u>Risks from unforeseen circumstances</u>

  Such risks include natural disasters, accidents, national disease emergencies, theft and in the recent years, financial collapses of banks and governments. While they do not occur often, it is impossible to avoid them altogether. You can, however, manage them in certain ways, particularly their consequences:
  - ✓ The financial impact of such risks can be countered by taking out proper insurance coverage.
  - ✓ In your contract, you can also specify in your force majeure clauses how your buyer and you should respond and bear the consequences in event of such circumstances. Please refer to Step 6 of this Export Guide.
  - ✓ Operationally, you can put in place emergency response practices.

**Resources to help you**

Most of the ideas and tips in this section are further elaborated in the practical financial and credit risk management tips in the website QFinance.