Managing seven key risks when trading overseas

Whether you’re importing or exporting there are risks as well as advantages in doing business with suppliers or partners overseas. The key to successful international business is to understand where those risks can arise, and having a risk management plan to deal with them.

Robust due diligence helps; that means doing as much research and analysis as you can on your suppliers or partners, the products, your markets and what financial and legal liabilities you’ll be facing.

**01**

Product risks

Product risk is anything to do with the product you're importing or exporting. It covers demand for the product, your competitors, pricing sensitivity and even packaging of the product.

If you are exporting, assess what demand there is for your product in the overseas market you're targeting, and whether you need to modify your product to suit the new market's needs; you can't necessarily rely on replicating exactly what works at home.

Part of your due diligence should be to do some market research to identify what your target market wants and then compare your findings to your existing product. [New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-for-your-markets/identify-your-target-market/) has some useful tips on market research.

If you need to change your product, determine whether that change is 'cosmetic' (which may mean changing the type of packaging you use for example) or 'profound' (which could mean changing the product itself).

You also need to be aware of any restrictions that may exist in your target market for the product you're selling. Check [New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-for-your-markets/standards-and-regulations-in-other-countries/) for different countries' regulations and standards.

Competitor activity

Keep an eye on what your competitors are doing in your target market. Go to trade shows and talk to customers. Visit your competitors' websites and keep up-to-date with who they're selling to, and any innovations they might be making. Be ready to alter your product or price to remain competitive. Check [New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-your-strategy/sources-of-information-on-competitors/) for more useful tips.

Pricing

It's important not to price yourself out of the market, so it's a good idea to do some research on what price customers might pay for your product. Factor in additional costs such as freight and insurance, tariffs and customs charges, regulations compliance, and exchange rate fluctuations.

Don't underestimate the cost of exporting, you need to make sure your business will be profitable once you've factored in all the associated costs. [New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-your-marketing-and-sales/sales-and-pricing/) has some useful information on sales and pricing.

Design and packaging

Packaging, design and brand name are other potential risk areas. It pays to research your brand name before launching it in an overseas market, and check that the colours and imagery you use don't have any negative or inappropriate significance in the local culture.

Make sure that the packaging and labelling you use on your product complies with country-specific rules and regulations. Product packaging and labelling regulations in most countries are designed to protect the consumer by providing essential information on the product, so make sure you know what's required for the countries you're trading in.

Similarly, you'll have to supply product information on transportation labels and packing lists, which will vary from country to country. Check up on the requirements early otherwise your product might be delayed at customs. [New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-your-operations/packaging-and-labelling/) has more information.

You may also need to barcode or tag your product so that you or your customers can electronically track your goods in transit. This is becoming standard for exporters so you'll need to be up to speed on electronic identification tracking technology. You can find out more about bar-coding for business at [GS1 New Zealand](http://www.gs1nz.org/get-started/).

When you're packaging your goods for shipment make sure you pack them securely enough to survive repeated loading and unloading, as well as bad weather and rough roads or sea crossings. Proper packaging will also lessen the risk of theft in transit.

You can check out the New Zealand Trade and Enterprise website which has lots of information on preparing to export, including packaging and labelling your product.

Transportation

Getting product to and from the market place in prime condition and in a timely manner is crucial to your ongoing trading relationship. An ASB International Business expert can introduce you to a suitable freight forwarder to support your needs.

Marine insurance provides an important way to manage the risks of importing and exporting. Providing protection for both the supplier and purchaser, it helps safeguard against damage incurred in transit - whether by sea or air. An [ASB international business expert](https://www.asb.co.nz/people/find-a-trade-finance-manager.html) can help you to identify a suitable marine insurance provider.

**02**

Cultural and ethical risks

Other countries may have a different business culture from what we're used to in New Zealand. It's important that you understand the people you're doing business with so you don't offend your overseas customers. Sensitivity to local customs can mean the difference between winning a contract or not.

[New Zealand Trade & Enterprise](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-your-operations/packaging-and-labelling/) has information on export markets, including some tips on country-specific culture and etiquette. They'll also be able to help with training programmes for doing business in various overseas markets, including help with cultural, ethical and language differences. You can also find some useful information on cultural awareness in business at [exportnz.org.nz](https://www.exportnz.org.nz/resources/cultural-awareness)

Business cards

Something small, like presenting or receiving a business card, could pose a cultural risk. In some cultures taking a business card without first studying it is considered disrespectful.

Business culture

Learn your intended market's business culture. For example, Japanese business etiquette means you may hear 'yes' as an expression of understanding, not necessarily in agreement. South Americans talk business "nose-to-nose" not "face-to-face".

Language differences

Be very aware of language differences and colloquialisms. Some English words on your product label may mean something quite rude or distasteful in your target market's language.

Formality

Become familiar with how other cultures negotiate and make their business decisions. Some cultures regard business meetings as an opportunity to make small talk and get to know each other. Important decisions may be made much later in an informal setting, such as an evening dinner.

Top tips

* Do as much research as you can, including enrolling in training programmes on culture and business etiquette.
* Make sure you build relationships with the people you're dealing with overseas.
* Consider using interpreters and translators.
* Have a code of conduct in place, and stick to best practice.

**03**

Legal risks

Operating under laws that differ from New Zealand law can pose some risk for you. Follow these steps in each overseas market:

* Take out product liability insurance and make sure you're covered for your target market. You can search online for product liability information in your target market.
* Find out how long it takes to grant trade marks and patents and have a plan in place to register these early.
* Reduce the risk of someone copying the design of your product by registering your design.
* Register your trade marks; include brands, slogans, logos, smells, colours and sounds.
* Patents protect concepts, inventions and ideas, and can give you patent monopoly to commercialise for up to 20 years. You'll need to file the patent in all markets, not just New Zealand. The [Intellectual Property Office of New Zealand](http://www.iponz.govt.nz/cms/patents/overseas-patent-protection/filing-a-treaty-application-from-nz) has more information about overseas protection.
* Copyright protects unregistered Intellectual Property, and applies automatically to original works like literature, drama, music, art, sound recordings, films, and radio or tv or internet broadcasts. There's no formal system for copyright protection, so check what the copyright duration is in each market.
* If you're using an agent or distributor make sure you cover all your IP risks in the agency or distribution agreement. [NZTE](https://www.nzte.govt.nz/en/export/preparing-to-export/preparing-your-strategy/working-with-agents-and-distributors/) has some useful information on working with agents and distributors.
* [exportnz.org.nz](http://www.exportnz.org.nz/resources-and-tools/intellectual-property) and [NZTE](https://www.nzte.govt.nz/en/export/export-markets/greater-china/china/finance-and-legal/protecting-intellectual-property/) also have great information on why and how to protect intellectual property.

Product liability risk

This is harm to people or property caused by your product. You must be aware of potential product liability issues in your target market. Some countries are more litigious than others, so make sure you take appropriate measures to counter this risk.

Intellectual Property (IP) risk

Your intellectual property includes your product, your design and processes, your trade mark and patents, promotional material, user manuals, domain names and so on.

Your registered IP includes registered designs, trade marks and patents. Unregistered IP is intellectual property that hasn't been formally protected, such as copyright.

In some overseas markets, piracy and counterfeiting are a problem, so it's usually best to register your IP in the countries where you intend to trade. Be prepared, and take steps to protect your intellectual property.

Customs documentation risks

Make sure you're aware of import duties and tariffs, and any quotas that may exist. Most countries are very strict on import documents being accurate, and if your paperwork isn't complete or correct it may result in delays or even confiscation of goods. Check with the customs or border control agency to find out what documents you need to file and take the time to fill in all the paperwork properly. You can check [New Zealand Foreign Affairs & Trade](https://tariff-finder.fta.govt.nz/) for information on some overseas tariffs.

**04**

Political and country risk

Political, or country risks are things like non-tariff barriers to trade (NTBs), sanctions, central bank exchange control regulations or goods that are prohibited in some countries, for example products from threatened animal species.

Some things, like sanctions, will be out of your control and others you'll be able to overcome if you're prepared.

Exchange Control regulations

Many developing nations operate exchange control regulations which regulate the flow of money to and from their country. Find out if these are in place in the country you are trading with, as they could delay payment to you.

Prohibited goods

Make sure you're actually allowed to import or export the product you want to trade. Many products are restricted or prohibited in some countries, but not all, so make sure you know the rules set out both in New Zealand and in your target market.

If you're exporting, the Ministry for Primary Industries (MPI) may need to verify that your goods meet the requirements of the country you're exporting to and issue an export certificate. Customs will need to verify the details of your export certificate. You can find more information on these at [mpi.govt.nz](http://mpi.govt.nz/exporting/) and [business.govt.nz](http://www.business.govt.nz/laws-and-regulations/importing-exporting/overview-of-importing-exporting-regulations). Check with the [New Zealand Customs Service](http://www.customs.govt.nz/features/prohibited/Pages/default.aspx) and [MPI](http://mpi.govt.nz/importing/) to find out about importing rules, and prohibited [imports](http://www.customs.govt.nz/features/prohibited/imports/Pages/default.aspx) and [exports](http://www.customs.govt.nz/features/prohibited/exports/Pages/default.aspx).

Political risk

A risk you can't control is sanctions. Sanctions restrict activities with certain countries, goods and services, or persons or entities. They can range from economic and trade sanctions, to arms embargoes, travel bans and financial or diplomatic restrictions.

If your potential target market is subject to current sanctions make sure you get independent legal advice because the penalties for non-compliance may be severe. You can check the [Ministry of Foreign Affairs and Trade website](https://mfat.govt.nz/en/peace-rights-and-security/sanctions/) for more information on current UN sanctions.

**05**

Credit and settlement risks

If you're exporting goods, particularly to a buyer you haven't worked with before, non-payment is a significant risk.

Trade credit insurance

Trade credit insurance helps mitigate credit and settlement risk, enabling an exporter to recover up to 90% of the sale or invoice value of goods if the buyer defaults or there is a contract dispute. This includes protracted defaults - where debt remains unpaid for some time and contract repudiation - where the buyer refuses to accept your goods without just cause.

An ASB international business expert can introduce you to specialists in trade credit insurance.

Documentary letters of credit

While trade credit insurance provides a direct way to mitigate risk, this can also be done indirectly through ASB using Documentary Letters of Credit and Without Recourse Finance.

Also known as an L/C, a Documentary Letter of Credit is a guarantee from your buyer's bank that payment will be made on presentation of compliant shipping documents at the agreed maturity date. There are [different types of letters of credit](https://www.asb.co.nz/international-business/trade-finance-tools.html) for different situations.

Without Recourse Finance

To mitigate risk further, ASB can provide Without Recourse Finance which protects the exporter against the issuer of the L/C (i.e. the buyer's bank) failing to pay. Without Recourse Finance might be a good idea if you're unfamiliar with your buyers' bank or you are trading in a country where political risks are significant.

Whichever way you decide to protect your business against credit and settlement risk, an [ASB international business expert](https://www.asb.co.nz/people/find-a-trade-finance-manager.html) can help.

**06**

Market risks

When you're trading overseas you'll most likely be using a foreign currency, which exposes you to currency and exchange rate risk.

The foreign exchange (FX) rate changes with domestic and international market pressures, these include:

* The difference in inflation and/or interest rates between the two countries.
* Difference in economic performance between countries.
* Political stability.

If you're an importer you're probably buying goods priced in a foreign currency, and if you're exporting you're probably receiving payment in a foreign currency. Fluctuations in the exchange rate can affect the final amount you pay or receive in New Zealand dollars, and this can potentially wipe out your profit.

While exchange rate fluctuations are not something you can control, there are ways you can reduce your exchange rate risk.

You can:

* Transfer the risk to your supplier by asking them to quote in New Zealand dollars.
* Protect yourself from fluctuations in the exchange rate by taking out [forward foreign exchange](https://www.asb.co.nz/international-business/trade-finance-tools.html) cover. This is a foreign exchange contract whereby we agree to exchange your foreign currency for New Zealand dollars (or vice versa) at an agreed rate on an agreed date in the future.
* Cover the risk yourself by adding an exchange rate risk to your margin.

**07**

Operational risks

Operational risk is any other kind of risk we haven’t already covered. It includes breakdowns in internal processes and procedures, human error and imperfect systems.

There are operational risks both in the actual production of your goods and in the paperwork and documentation you’ll have to produce.

You can manage operational risk in the actual production of your goods by:

* Making sure that your production processes (how you use your raw materials, machinery and manpower to create your product) are efficient. This will help reduce your costs and means you’ll be able to achieve economies of scale.
* Having an emergency and business continuity plan. It’s a health and safety requirement to have an emergency plan, and having a continuity plan will help reduce potential risk to your business after an emergency. The [business.govt.nz](http://www.business.govt.nz/laws-and-regulations/health-safety/keeping-your-business-healthy-safe/emergency-continuity-planning" \t "_blank)website has some information on emergency and continuity planning.
* Have a long-term business strategy or business plan. You can check out the [business.govt.nz](http://www.business.govt.nz/starting-and-stopping/business-planning-101/how-to-create-a-business-plan) and [nzte.govt.nz](https://www.nzte.govt.nz/en/export/planning-for-success/) websites for tips on creating a business plan.

There is also operational risk in the paperwork and documentation you’re required to submit, whether you’re importing or exporting. It’s very important that import and export documentation is accurate, otherwise there may be delays.

* Check what documents are required in your target market and take the time to fill in all the paperwork properly.
* Similarly, make sure you complete all the shipping documents that are required by the Ministry for Primary Industries and New Zealand Customs (see country and political risk above).
* You’ll reduce your operational risk if you’re thorough and accurate with all the paperwork.