

Looking for new outlets? Export can bring relief...

Due to the uncertain geopolitical situation, the Belgian economy was a while in a deadlock. But meanwhile the first signs of recovery are visible. Also for the food sector, it seems the worst suffering is over and the economic activity will increase again. Unfortunately, the national market turns out to offer but few new potential markets for many food companies. Export to other countries is the message, but this requires knowledge of numerous administrative affairs. In this article we offer a guideline to realize your export adventure in a successful way.

Food is a basic product; a human being has to eat to stay alive. Crisis or no crisis, difficult or rosy times, food is something on which the consumer (contrary to certain luxury products) cannot really save without endangering his health. But there is also a drawback to this important fact of the food sector. The consumer is after all, very sensitive to the representation of food; also here the Dutch idiom applies that all love goes through the stomach. After the food crises, a lot of Belgian companies experienced personally what a wrong image can mean for their turnover. Panic and disinformation can indeed have sometimes disastrous consequences and can seriously hinder the export of food products for a short or longer term.

50% of production to export

To place the export efforts of Belgian food companies in a framework, we first give you some figures. In 2002 (most recent data) the sector exported for 12.5 billion euro, that represents 49.5% of the total production of the food industry and 6.97% of the total Belgian export. With this, the food producers stand on the third place in the national export story. 84.6% of the exported food products were purchased in the EU, more specifically by France, the Netherlands and Germany (together making up a total of 60.1%). 13.4% went to countries outside Europe, of which the

United States, Japan and Russia are the most important ones.

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Flanders exports the most with 77.9%, then the Walloon provinces follow with 15.0% and finally Brussels with 7.1%.

Value added

About the tendencies in the export of food, we had a discussion with **Claire Bosch**, General Delegate of Fevia Vlaanderen. “Food is a rewarding product to export. It is, after all, very recognisable and about everyone associates food with enjoyment. Furthermore, our food products have abroad the reputation of soundness and gastronomic quality. A problem is that the profit margins are small in our sector and that the value added is relatively low, especially when you make a comparison with, for instance, the petrochemical industry. At the end of the 80s the Belgian food industry thought it had reached its limit as regards to the outlet. But we put our heads together and after a lot of brainstorming, a mentality change finally started gradually, in which increasingly more companies started to focus on export. Now we try to increase the value added through innovation. I definitely see even more possibilities for expansion. In the new countries of the EU, there is for example a growing middle class that aims at a standard of living that is comparable with ours. To offer the right products there, means immediately to conquer a share of the market!”

Crises lead to advantage

The Belgian dioxin-crisis, and to a lesser extent the BSE-crisis, have had

baleful effects on the field of export. Foreign competitors have used the situation to grab a part of our national turnover. In order to let the situation not get out of control, Fevia launched (together with the Belgian diplomatic representation abroad) a counteroffensive that consisted of enervating wrong information with facts. **Bosch**: “Our strategy of correct information has borne fruit, because the export is now again on about the same level as before 1999. Eventually, the crises have had even a positive effect, because through (particularly) the dioxin-crisis, food security is now much more strictly looked upon in Belgium than in other European countries. And exactly that has become the trump card of the export! The products of the Belgian food export that most catch the eye are at the moment chocolate and cookies, beer, deep frozen vegetables and processed meat products: so all food products with a high value added. A fairly new export product is the prepared meal, both fresh and deep frozen.

A closer juridical look on export

You have decided to export. The broad horizons are tempting already, but before you are getting started, you should ask yourself if there is no snake in the grass. What about the legislation, contracts, regulations, customs, etc.? When your company makes blunders, the export adventure will turn out to be a fiasco. Not only will your new customers no longer purchase the products, but you will also become liable to criticism. Moreover, competitors or customers can summon you, with all its adverse consequences. We discussed the juridical issues with **Koen Vanheusden**, Juridical Advisor with Export Vlaanderen. “On this field, Export Vlaanderen can offer a contribution to 3 areas. In the first place, there is the administrative part or the contacts that the exporting company has to maintain with the internal government and the foreign government for import duties, customs, taxation, environmental rules, certificates and all kinds of documents.

Then there is the contractual aspect. This concerns the relations between the companies themselves and include contracts, distribution, agency agreements, concessions, licences, investments, etc. Finally, we mediate in trade disputes caused by discussions about not fulfilled engagements and breach of contract. It is important to have a correct image of what export exactly is: it is not only about doing business, but it is *particularly* about getting your money from the foreign purchasers. And exactly that can sometimes cause tensions between the marketing department on the one hand and the financial and juridical departments on the other.”

Information is indispensable

A company has to guard its interests in each transaction. Imagine you have a good product that offers possibilities for export. Then the question is how you get these goods on the foreign market. There are several formulas: own selling, agency, distribution, licence, each with its own characteristics (*cf. infra – discussion with Freddy Jacobs, nvdr*). When the possible points of discussion (package, documents,...) are talked out in advance, issues between exporter and for instance distributor are rather exception than rule. A golden rule for juridical success is to find a balance in the relation. When both parties have the impression they get value for money, the will to work together remains and a lot can be realised. **Vanheusden:** “Moreover, the different regulations are quite good harmonized with each other inside Europe, so that there is little occasion to conflicts. Outside the EU, the situation is different, so that there can arise difficulties with certificates, documents, the specific legislation in the country of destination concerning packing, weight, labels, etc. Deliveries of the food sector are regularly checked by official authorities at departure. In this way, surprises that sometimes occur in other industries, can be avoided. The veterinary or fytosanitary certificate often avoids quality disputes that sometimes occur with other, for example industrial, goods.

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But never be smarter than your customer: inquire yourself thoroughly about the import rules, but do not exaggerate. When you are working with an importer, it is *his* task to inform you about that, because it is impossible that you collect this information for all the countries in the world. At Export Vlaanderen we have juridical basic information about every possible country and there are indeed sometimes regulations that look a bit odd at first sight. Everybody sometimes thinks there is too much free market in the own country and too little abroad. It is always searching for a balance between the protection of the own production and employment on the one hand and the liberation of the market on the other hand. Even inside Europe there remain quite a lot of restrictions and small harassments, but outside the EU it is much worse. In former days, countries protected their markets with import rights, after that they used quota, and now the new protection techniques are the regulations concerning the environment, the consumers interests and health!”

Good contracts

Trade obstructions are of all times. Regarding the concluding of contracts, the rule applies: the more there is in, the less occasion there is for misunderstandings and discussions afterwards. It is important to specify as much as possible, in this way each department inside your own company knows what it is up to. With an accurate contract you also avoid prejudice; everybody will fill in possible indistinctnesses in a way they like best. **Vanheusden:** “It is best to aim at a contract that regulates everything you know that can cause problems. *More* than that is not only unnecessary, it also carries the risk that it becomes an unreadable paper.” Classical difficulties in export contracts in the food sector are: the period of

conformity complaints, transport conditions, inspection, accompanying documents, perishability, weight loss or increase and labels. While drawing up a contract, it is not always advisable to start from a model contract, because you cannot break away from it. Although they offer the advantage that they are formulated precise, each situation is different. There does not exist a contract that is applicable in every situation. **Vanheusden:** “When you have to inscribe sector specific factors in an existing model, you often disrupt the logical coherence of the contract. It is best that the company first makes a list of anticipated problems, then writes a draft on that basis and only then tests it with a model contract. You do not always have to repeat this procedure: it is often sufficient to draw up the general conditions in this way. To that you add an order form on which name, identification facts, product, quantity and price can be added. In this way, you get a contract that is juridical all right and that meets possible problems.” Also with payment difficulties you can appeal to the services of the government. But there is one thing you cannot forget: the role of the government authorities is restricted to diplomacy, no UN soldiers are sent out to solve payment disputes. A mistake that often occurs, is the assumption that the law in the target country functions the same way as in Belgium. That is by no means the case: for example, the legislation on bankruptcy is very diverse from country to country. If there still occurs a problem, the first step always consists of checking whether the defaulter still exists and if there is a serious chance the money can still be recovered. Step two is then the mediation : both Export Vlaanderen, AWEX and Brussels Export (*cf. infra*) can intervene through their local representatives in an attempt to clear the troubled relation.

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Vanheusden: "They often have to calm down the feelings, because the longer the dispute has not been worked out, the more all parties are convinced they are in the right. Only when there is no willingness to compromise any more, the matter will be taken to court. But a lawsuit is really the last resort: each won lawsuit is, after all, a lost client!"

Support from the government

For an entrepreneur who has decided to take the step to export, there exist a lot specific organisations by the government, that offer assistance. In Belgium, export is a jurisdiction of the districts, so the Flemish, the Walloon and the Region of Brussels - Capital have an own structure to support export.

Export Vlaanderen is an autonomous Flemish government service, which has its head seat in Brussels. In each Flemish province there is an 'export centre', where you get help with all kinds of questions. The advisors on the spot give information about the strategies and techniques to be followed. They know the possibilities in various countries, do limited market research and have lists of addresses with possible importers or foreign partners. In addition, they also offer information about actions, workshops and financial support measures. In actual practice, the support starts with the administering of an 'export measurer': an audit to estimate the export competence of your company. If it turns out that the company is not yet quite ready for export, then you get an export counsellor assigned, who will introduce an intensive programme to cram the firm. Afterwards, he will follow the company up when it makes its first steps in the new export market. Abroad Export Vlaanderen has a network of 76 economic representatives and trade secretaries. They not only defend the interests of the Flemish export at the local government and the business life, but also assist Flemish companies that are active in their region. Once a year, they return to Belgium to hold an information day about their region. Besides this, Export

Vlaanderen subsidizes specific export promoting activities, such as the establishment of an own or shared prospecting office, the participation at exhibitions abroad or training programmes, the prospecting travels and the purchase of a book of charges. These subsidies are directed at small and medium sized undertakings (the so-called KMO's) and amount up to 50% of the costs. Important is also that, because of a decision by the Flemish Minister of Economics, Patricia Ceysens, Export Vlaanderen and the Service Investing in Flanders will merge in term together into the new institute FIT/Flanders Investment and Trade.

And the French speaking part of the country?

The 'Agence Wallonne à l'Exportation' or AWEX is an autonomous Walloon government service, which has its head seat in Brussels and regional centres in 6 Walloon cities. Companies that want to export, can get a first contact in one of the regional centres, that often is followed by a company visit by the regional export responsible. In the first stage, the company has to fill in a questionnaire to map its export competence. These facts are put in a central, electronic databank, that is used as the starting point for further treatment of the file *and* is also used to send mailings about specific actions that can concern the company. Supplying information is the most important function of the regional centres. They help companies with the drawing up of files and applications for support, that afterwards have to be sent to the head seat in Brussels. A separate central service is responsible for the coordination of all transactions of promotion and commercial prospecting in this sector. The foreign network of AWEX counts 94 economic and commercial attachés, who assist companies during the prospecting and the concrete export efforts in their region.

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During the annual contact days in the Walloon provinces, they place their knowledge at the disposal of the Walloon company managers. AWEX also grants subsidies for various export enhancing activities: representative offices, participation in exhibitions and salons, prospecting, drawing up studies of feasibility for export projects, inviting foreign purchasers for salons in Belgium, etc.

Brussels is not left behind

Brussels Export consists out of a cooperation contract of three public and private institutes: the Direction of Foreign Trade of the Region Brussels - Capital, the Chamber of Trade and Industry of Brussels (K.H.N.B) and the Union of Companies in Brussels (V.O.B.). It functions as the sole office where entrepreneurs of Brussels can inquire about export. What is so specific about this institute are the three trade prospectors who visit companies in Brussels, with the task to create a clear image of their export efforts. Abroad, the institute has 48 official economic and trade attachés. Beside that, Brussels Export works together with Export Vlaanderen and AWEX for the regions where it has no representation of its own. The subsidies, which Brussels Export grants for export aimed activities, are only intended for small and medium sized undertakings (the so-called KMO's) and amount up to maximum 50% of the costs. There are subsidies for, among others, prospecting missions, participation at contracts, international trade expositions and training programmes, calling in experts in foreign trade, development of promotion material and temporary support for staff recruitment.

Export guidance through consultancy

Who has set his heart on foreign countries, gets a long way with the services of the government institutes mentioned above. But there is a limit to the guidance they offer; once your company is set on its way and has

got a boost by means of a number of subsidies, the concrete implementation still remains. In this stage, some companies feel they miss the necessary experience and knowledge of the target market to start the export of their products successfully. To negotiate this last obstacle, they can call in a consultant. **Freddy Jacobs, Managing Director of PBS Worldwide**, is one of the advisors. He applies himself on the agri-sector and is active in four continents “The structures of the governments work good, but often managers have too little patience to work with it or they do it in the wrong way. Export is a complex matter. The government cannot follow the implementation on the field, while we as consultancy can do that. Companies that dare take the step towards export on their own initiative, learn the tricks of the trade by trial and error. Often, it is the sales manager who gets the assignment to set up an export structure.



But that person has mostly a lot to do, so that results stay out. A consultant can get your internal and external organisation ready for export, without placing a load on the employees.”

Cultures differ

To show success, you need to call in an active, practically-oriented consultant. It has to be someone who actively assists your company in the selling itself and not only formulates advises. **Jacobs**: “We guide a firm from

the beginning; we are for a while part of the company. A crucial factor in export is communication. You have to have a thorough command and usage of the language of the target area, both in the own company, the documents and the internal processes, as well as in your contacts with the customers and suppliers. This is not an obviousness: to adapt your organisation you have to take into account a time period of 6 to 12 months. Therefore it is advisable to search local employees, because in this way the problem of cultural differences is also immediately solved.”

The message is to imagine yourself in the situation!

The first step in deciding the export strategy is the choice of the market, that has to be investigated in depth. Except collecting figures, you have to execute a qualitative market research. **Jacobs**: “You have to be active in the market and carefully start to sell. Only with the impressions you gain in this way, it is possible to develop a marketing plan. We make a kind of ‘empathize’ journey with our customer for one week. First we prepare the field by local people who make a market study. Then we leave for an intensive journey to the export country, where we pay 6 to 7 company visits a day. Afterwards, our customer has an accurate image of the local market: he has an idea about how to deal with the companies over there, which company culture is prevalent, etc. After the return, the company has to take care of the observance of everything of course: maintaining contacts, offer feedback on questions, drawing up offers, etc.”

Half the work

The next step consists out of choosing the sales structure: selling yourself or working with commission agents, agencies or distributors. **Jacobs**: “Actually, the choice depends on the nature of the product and the target area, as well as on the efforts you want or are able to make. The advantage of a commission agent is that the final customer remains yours: you only pay a commission on the transaction. If you work with an agency or a distributor, you are dealing with an organisation

that acts as a buffer between the own company and the final customer.

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With a distributor you have no contact at all with the final customer, with an agency there is a bit more relational alliance. The disadvantage of both formulas is that you immediately loose your customers when there is a possible split between both parties and that it often leads to lawsuits. Selling directly is another option. It concerns a quick, but expensive method: you second someone or hire a local employee, so that you maintain control over your employees and customers. You find agents and distributors who go to expeditions, advertise and do networking. The search for the right people is often half the job! Of primary importance is that you make clear agreements from the beginning. It is advisable to always build breach clauses in the cooperation agreement, because in this way you save yourself a lot of trouble afterwards. Recommendation of a jurist is certainly not a luxury here! Because, when it comes to a court case in a foreign country, you mostly have no control at all on the outcome.”

Captain may I sail across?

In actual practice, you can only think about the own distribution when you have a minimal outlet volume. With basic products such as milk, it is often necessary to produce locally or to find a partner, else your profit margin will be creamed off very strongly. Luxury products, on the other hand, can easily be distributed worldwide, but that demands a lot of time and energy. **Jacobs**: “Food producers who want to export, have to take into account the transport, the freshness or storage life of the product and the margin for the agent or distributor, which mostly amounts to 5 till 20 %. Export inside Europe is the easiest, due to the free traffic of

products and the quick transport. The rest of the world, that's a horse of a different colour; customs, transport and default make the matters twice as tough. You have to make clear agreements – especially about payment – and to insure your goods. Ideal is that you are paid at forwarding. Do not forget that you have to work with letters of credit and bills of exchange: these are special techniques with which starting exporters are not immediately familiar. These are learned in an easy way through the bank, but that demands time, of course. Another obstacle is that sales, backoffice and accountancy have to be most familiar with the mechanisms of the international payments. Formulation is very important: it often depends on a comma. There belong specific documents to a letter of credit, in which your financial institution asks the corresponding bank for the money. When there is no 100% similarity, the payment will simply be refused. Also make sure that you never ship out after the expiration date of the letter of credit, because then, strictly speaking, the other party does not need to pay! To cover yourself, it is best to shift as much as possible the risk of non-arrival of the load towards the client. Through international transport agreements or

Inco Terms, there exist special techniques for these matters. Another thing is to always try to get a payment in euros, then the risk of the exchange rate lies with the customer. That is not so easy, but still negotiable. When non-payment occurs, you have to undertake the collection of accounts: a good start is to take out an insurance against default. Do not forget that it often takes half a year or even longer before you see any money: so there always can occur liquidity problems. It is also important to know the different transport methods: the road, the air, by railway, and by ship. Each has its own characteristics, consider the one that fits best with your product. Also make use of carriers and cargo traders for documents and other formalities, because that is their purpose!”

Rome and Paris...

According to **Jacobs** the setting up of a successful export story takes on average about one year. The building up of a good relation with an agent or distributor takes about two years. And after three years, the efforts really start bearing fruit. “Export is a gradual process. You constantly have to keep an eye on the activities and where

necessary you have to adjust. There is no such thing as a standard budget, everything depends on the possibilities. Even with a relatively low investment, a company can export; it will only take a little while longer before the results will be visible. Export is very labour-intensive, because you have to be present on trade expositions, do prospecting and do promoting. It is actually like setting up a second business. A marketing plan is lovely, but actually you need a business plan. You have to do research about competition, unravel the market, choose a sales structure, draw up an implementation plan, collect financial data. It is pioneering work, you can easily call it a second start in the company!”

More information:

www.fevia.be

www.export.vlaanderen.be

www.awex.be

www.brussels-export.be

www.pbsworldwide.com

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