

## 6. Investigate the reputation of the trading house.

- ascertain if the trading house has been accredited by the Council of Canadian Trading Houses (CCTH);
- contact the trading house's banker to determine how well they manage their banking activities;
- seek a list of manufacturers now represented by the trading house, ask them if they are satisfied with the services they are receiving (and expect the trading house to contact some of your clients, or in some way seek evidence of your dedication to having your product exported);
- contact the trade commissioners, in the areas in which you wish to market your product, to see how well the trading house is servicing those markets on behalf of Canadian exporters; and
- request a Dun & Bradstreet report.

**Motivation.** Assess whether a trading house is highly interested in investing the time, energy and money required to develop the sale of your products abroad. The level of motivation will usually be reflected in questions about the products, visits to the plant and responses to corporate requests.

## WHAT TRADING HOUSES LOOK FOR IN A MANUFACTURER

The success of a trading house depends, to a large extent, upon how well it locates, develops, negotiates with and retains reliable sources of competitive products. For trading houses that deal exclusively with commodities, sourcing requires finding and bargaining among many to find the lowest cost for the commodities. For trading houses that deal with manufactured products, sourcing requires finding manufacturers, with a marketable product, who are interested in having their product exported.

The trading house will look for:

**An Exportable Product.** The trading house must be sure that the manufacturer's product is appropriate for export. It may be that the product is well-suited for the Canadian market, but cannot be competitive in overseas markets.

**Commitment to Export.** Trading houses look first for a real commitment to exporting from the manufacturers. Exporting must not be viewed by the manufacturer as a part-time occupation or as a means of using up excess production. The trading house will be investing time and dollars in teaching the manufacturer about product preparation for external markets and helping the manufacturer prepare the product for overseas sale. The trading house must have the confidence that there will be a constant supply of the product with reliable support service.

**Exclusivity.** In balancing the requirements of the trading house and supplier, one of the most common problems is exclusivity. Trading companies will not willingly invest resources to develop a particular market only to have the supplier deal directly with the market or use another channel. Mutual trust must be established to help ensure that this does not happen. In many cases it is realistic to have a written agreement between the trading house and the supplier outlining the responsibilities and obligations of each party.

**A Fair Pricing Arrangement.** The supplier wishes to increase profit by achieving incremental sales in conjunction with a trading house. The trading house is equally interested in profit. Each must recognize the tasks and costs to be met by the other. There would be no incentive to export if there were no profits. Negotiating a satisfactory pricing arrangement is a make-or-break prerequisite for an export transaction. In domestic transactions the manufacturer covers marketing and selling costs. If the trading house covers these costs for export transactions then the manufacturer should deduct these costs when calculating the selling price to the trading house.

Mutual understanding plays a large part in the success of the relationship between a trading house and a manufacturer. Both sides must understand and appreciate the other's legitimate concerns. The manufacturer should expect the trading house to look for an exportable product, a real commitment to exporting, a willingness to grant exclusivity and a realization by the manufacturer that products sold to a trading house cannot be priced at the same level as for domestic sales.

A manufacturer and trading house that are well matched and that work together honestly and diligently can increase the strength and profitability of both companies.