
Since trading houses function as intermediaries between supply and demand, they stand to make larger profits (as do their suppliers) or commissions when demand exceeds supply — depending on the level of competition in the market. Conversely, when the market is tight, trading houses and suppliers must adjust to the situation by shaving their profit margin or commission. Trading house commissions and profit margins will range from a fraction of one percent for commodities up to 15-18 percent (and sometimes more) for end-products. It should be noted that these levels cover some or all of the services and risks reviewed above. For example, in many cases the costs absorbed by the trading house will include the delay between their payment to the manufacturer and the receipt of payment from the overseas buyer.

Suitable export pricing implies proper adjustment to market conditions, as well as co-ordination between the exporting manufacturer and its trading house. Both may have to make concessions in order to remain competitive and profit from favourable market conditions.

3 When Should Trading Houses Be Used?

Manufacturers and producers can be grouped into three broad categories: those seeking their first export markets; those already engaged in exports who are interested in diversifying their export markets; and mature exporters seeking further international expansion.

Starting to Export

Manufacturers and producers may find market potential in the United States or some other destination. In the first case, although Canadian trading houses may occasionally be helpful, manufacturers are more likely to approach the market directly since it is easily accessible and has business practices comparable to those of Canada. For other destinations, especially less-developed and socialist countries which — because of cultural and administrative barriers — are more difficult to penetrate, trading houses will constitute a major cost-effective alternative to manufacturers' attempts to export on their own. The cost of using a trading house must be compared with what it would cost to develop an international marketing capacity and a potential clientele.

As one might expect, the trading house contribution to Canadian exports is strongest for non-U.S. destinations. Most manufacturers or producers do not have the necessary resources to cultivate such markets successfully. Trading houses, on the other hand, will have established their networks in these markets so as to spread their operational costs over a larger array of products than could be provided by any single manufacturer.