

operating as principal buys outright from the producer and, in effect, turns the transaction from the Canadian producer's point of view into a domestic transaction. Export merchants market the product abroad and normally accept on their own account all financial risks including credit, foreign exchange and shipping risks. Although export merchants often retain the freedom to buy from whomever they wish, in some cases Canadian export trading houses working on this basis will represent, exclusively, specific producers with whom they have concluded suitable contractual arrangements. An exclusive representation in some or all foreign markets is usually a prerequisite if product promotion such as advertising is to be undertaken.

3. Trading houses acting for buyers who are the principal. Foreign buyers often look to Canadian trading houses for assistance in sourcing their Canadian purchases. Although there are different types of trading houses engaged in this field in Canada, many enter it as a natural extension of reciprocal two-way trading arrangements with affiliated trading organizations abroad.

WHO USES TRADING HOUSES?

- Buyers in other countries seeking Canadian goods.
- Producers and manufacturers inexperienced in export.
- Producers and manufacturers who do not have the resources to establish their own export department, or who do not wish to do so because they are unable to determine whether a remunerative export market exists.
- Organizations already exporting but who wish to make use of an export trading company's contacts in a particular market, or markets.
- Organizations already exporting to major markets but who cannot justify the cost of servicing smaller markets. They wish therefore to take advantage of an export trading house's ability to "pool" marketing costs with other producers to service the smaller markets.

HOW TO CHOOSE A TRADING HOUSE

Since the relationship between a company and a trading house is a partnership, selecting a trading house is serious business. A proper match will not occur if there are

misunderstandings concerning the abilities and expectations of either party. The confidence needed for a beneficial partnership can be established only if both parties show they are serious and honest in doing business. We recommend that you consider the following steps in selecting a trading house:

1. Carefully define your exporting objectives. For example, what share of production can be committed to exporting on a regular basis? The capacity for occasional export activity is not enough to warrant vigorous support from a trading house.

2. Specify your needs. Decide which of the export tasks you wish to undertake and which ones you will be delegating to the trading house. For example, it may be in your best interest to identify the foreign markets which present the greatest sales potential for your products. This is a task that could be performed in consultation with trading houses covering several markets. Consultation with only one trading house might lead to undue concentration on the markets in which the trading house happens to be best established.

3. Define the nature of product expertise needed. This can facilitate the selection process, since possibly only a limited number of trading houses possess the required expertise or have the capacity for developing it quickly. In many cases, however, the requirement is for the trading house to provide market and exporting expertise, while the manufacturers provide product expertise.

4. Determine the size of transaction normally handled by the trading house. For example, if your company manufactures capital equipment which has a unit price in the millions of dollars, there is no sense in selecting a trading house that does not have the financial capability to provide the necessary performance warranty. Nor will a trading house that specializes in capital equipment be interested in handling consumer items selling at a few dollars each.

5. Length of experience. This is a definite sign of competence which should not be overlooked in selecting a trading house. International trade is a difficult area of activity. The trading houses that have been in operation for several years have obviously been operating in a competent and profitable manner.