

CHAPTER 3

THE NORTH AMERICAN MARKETPLACE

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Exporters to North America should view the marketplace in two separate but interrelated dimensions. The first is the business dimension -- how to understand the market, ensure product acceptance and achieve an adequate financial return. The second is the administrative dimension -- how to comply most effectively and efficiently with the import rules and regulations described in this guide. It should be re-emphasised in this regard that NAFTA is not a common market, and that each country is free to impose its own import policies on non-NAFTA exporters.

BUSINESS CONSIDERATIONS

The NAFTA market comprises three countries, each with a number of distinguishing characteristics including size, differing consumer preferences, cultural orientation, climatic considerations, and purchasing power. In the United States and Canada, and increasingly so in Mexico, both consumer and industrial markets are highly competitive.

Exporters approaching the North American market should be aware that while it displays a number of similarities, particular in the US and Canada, many regional differences need to be recognised. For example, Mexico is “young” country with 70% of its population under the age of 30. In contrast, the higher age demographic profile of the US and Canada embodies an active, older consumer group with much higher purchasing power. The large immigrant populations in the US and Canada also influence regional buying patterns.

Overall, buyers demand products at lowest possible prices accompanied by high functionality, high quality, reliability of supply, and quick response times to problems or unexpected demands. Commodity type products must fight for recognition in a highly competitive marketplace and normally must use distribution channels dominated by large, price conscious buying organisations. A market characteristic that is more apparent in recent times is decreasing buyer loyalty. It is therefore in the best interest of suppliers to keep in constant touch with their customers. Reliable communications and ready access are a must. North American buyers are generally very demanding and frequently impatient. Exporters must satisfy the demands of such an environment, regardless of how different it may be from their own.

In the United States and Canada, the market is supported by a highly developed infrastructure comprising state-of-the-art physical transportation and electronic communications systems, advanced business knowledge, and government support. Exporters can and must use this infrastructure to full advantage to stay competitive.

Developing a Market Strategy

As a critical first step, it is of fundamental importance that exporters to North America gain a thorough understanding of the target market in terms of its size, profile, regional differences, longevity, and financial implications. The absence of this obvious action, either in whole or in part, has been a major cause of business failure by corporations (some large and successful elsewhere) to achieve a successful, long term North American market presence. A sound market assessment may require the assistance of external resources experienced in identifying and resolving relevant market and business issues.

The conclusion of this research and analytical task provides an important decision point for the exporter -- do the facts suggest that further expenditures of time and money, followed by entry into the market, are likely to be profitable? If so, the second and equally important activity is developing the market plan -- the establishment of key business and financial targets, the recognition of risks involved, selecting the right distribution channel, and generally detailing the actions necessary to successfully penetrate the designated marketplace. Again, experienced assistance in the local marketplace is likely to benefit the exporter.

We stress these obvious steps because they are often the most critical factors affecting the success of exports into North America. They are frequently also the most neglected, as many exporters believe that their personal instincts for the market are good enough. While entrepreneurial instincts are indeed important, the North American economy demands that exporters have sound knowledge of their target market, and a clear business plan to approach this market.

ADMINISTRATIVE CONSIDERATIONS

There are a number of administrative considerations that exporters must address as a prerequisite to export development.

Two points should be noted in connection with exporter representation in the importing country:

- the US and Canada offer a wide variety of external business support services, either general or specialised, to assist exporters. Similar services in Mexico are adequate but less formalised. However, the Mexican business services sector is rapidly catching up to that of the US and Canada;

- although relationships with agents, distributors and other external services are normally bound by formal contractual relationships, those in which there is adequate trust and personal goodwill between the parties will be the most mutually beneficial.

Selection of the Right Distribution Channel

There are normally three distribution channel options open to exporters. These fall under the following general headings, although they may be used interchangeably:

Agent or Manufacturer's Representative

Agents differ in the extent of the services offered but generally can be considered as acting in the role of a local sales manager for the supplier. Agents may sell directly or through distributors, depending on the product/market characteristics. Normally they can enter into agreements on the supplier's behalf. Agents selected should be experienced in the product and the target marketplace, and should be active in assisting the supplier. Support activities may include making sales calls, providing sales leads, training sales people, and if necessary providing after-sales service.

The usual process is for the agent to inform the supplier of each sale. Delivery of the goods and invoicing is normally done directly by the supplier.

Agents may be compensated for their services under a variety of arrangements -- by straight commission, by retainer plus expenses, or a combination of both.

Distributor

Distributors are used frequently in the parts and accessories market. In this case the goods are purchased from the supplier and sold by the distributor's sales force. Distributors are experienced in their marketplace and maintain good product knowledge. They frequently sell related and possibly competing products to provide the ultimate customer with the right level of choice.

Broker

A broker is an intermediary, working in effect for both customer and supplier. Brokers normally request price and delivery quotations from the supplier but are free to accept a competitor's bid deemed more acceptable to the customer. Arrangements can frequently be made with brokers to take physical possession of the product and assume legal title.

Documentation

An essential requirement for an exporter is to ensure that product documentation conforms precisely to the rules and regulations of the importing country. Under NAFTA, documentation requirements are clear and it is customary to use the services of border customs brokers to facilitate the import process. Under Mexican law, all imports valued at more than US\$ 1,000 must be handled by a Mexican customs broker.

In particular, openness and full disclosure is essential when issues of product cost, pricing, or intellectual property payments arise. Customs authorities possess major review and enforcement powers.

Taxation

Tax regimes are country specific within NAFTA, differing in content and rates of application. Business taxation levels in the US and Canada may vary to some extent by state or province. Mexican taxes are different in a number of respects, but are gradually being harmonised in concept with the US and Canada.

It is essential that exporters retain the services of experienced legal and financial advisors on taxation matters.

Product Certification

Product certification by independent standards bodies is a well defined and prominent process in the US and Canada. The main objective of these bodies is to ensure product user health and safety. More emphasis is now being placed on ensuring that products are not only safe but are environmentally friendly, well designed, of high quality, reliable, and efficient.

To avoid the charge of hidden trade barriers, there is a trend to one standard, one test, and one certification mark. Already, a degree of integrated certification is operational between the US and Canada, and standards organisations in these countries are now working with emerging Mexican certification agencies to develop this approach further.

The two key product certification bodies in the NAFTA region are Underwriters Laboratories (UL) in Chicago and the Canadian Standards Association (CSA) in Toronto. Under NAFTA, UL and CSA certification are considered equivalent, and also valid in Mexico.

It is in the interest of exporters, when product certification is required, to obtain the mark as early as possible. The optimum time to start the process is during the design stage. To facilitate certification, a number of optional approaches are open to exporters including on-site testing conducted by the standards agency either alone or shared with the manufacturer.

Buying organisations in North America are now also attaching greater importance to products from suppliers who have achieved ISO 9000 quality registration. A number of Standards agencies possess authorisation to conduct quality audits of manufacturers and other suppliers and to award ISO 9000 registration.

PRODUCT AND MARKET SPECIFIC ISSUES

Section II of this guide discusses many of the above issues in greater detail. The individual chapters that follow on each major product group included in this guide provide more information on both business and administrative aspects of exporting these products to North America.