MNDM's Logistics Newsletter

October. 2000 - March. 2001

TRADING HOUSES

What is a Trading House?

A Trading House is a company specialized in exporting, importing and trading between Canada and offshore countries, of goods and services produced or supplied by others. Trading Houses can act as merchants for their own account, or as agents for account of the manufacturer or service provider.

Services Offered by Trading Houses

A Trading House is an intermediary, specialized in international trade, which primarily assumes all or part of the risks involved in an international sale.

Trading Houses today offer services of which most people are unaware, such as:

- information research
- marketing consulting
- merchandising
- logistics
- after-sales service
- promotion
- development of packaging and labeling
- financing
- registration of trademarks
- Trading Houses act as specialized intermediaries/agents which Canadian companies can count on to create successful market diversification's strategies.

A Trading House can become an important part of a business by offering advise on a wide range of topics, including product pricing and recommended modifications, product presentation and promotional strategies.

When Should a Trading House Be Used?

The best time to consult with a Trading House is when a company is thriving and is looking to expand their market portfolio to limit its dependency on the domestic/US market place.

Trading Houses can help a business penetrate, relatively quickly, markets that would not otherwise be considered due to lack of familiarity, resources or time. A Trading House already has well-established contacts and client networks which a company can take advantage of, instead of starting from scratch on its own.

What are the qualities of a Good Trading House?

a) Clear Target Markets

Trading Houses are generally very familiar with the markets where they do business. They have been active in these markets for a long time, and have developed a network of contacts, which greatly minimize the risks involved in international trade.

b) Familiarity with Products

Well-established Trading Houses are specialized in certain product lines. In order to be successful, they must be familiar with the products they are selling and a business should be wary of Trading Houses that deal in everything without any real specialization.

c) Added Value

Since Trading Houses are service companies, the added value consists in the following:

- access to non-traditional markets (international markets)
- first hand information on how to commercialize products – i.e. product adaptation, marketing, laws, regulations etc.
- integration of specialized export services (logistics, documentation, customs, financing and collection)
- specialized related services (market surveys, after-sales service, technology transfers and training)
- assumption of risks associated with international trade.

Choosing a Trading House should not be treated lightly and exporters should devote as much time as they would in selecting an agent, distributor or partner.

What does a Trading House expect from a Manufacturer?

a) An Exportable Product

A Trading House will be looking for a product that is suitable for export. A product must be competitive in terms of quality, price and technology.

b) A Commitment to Export

A Trading House will invest time and money looking for a prospective market and needs a firm commitment from their client regarding their export activity.

c) Some Familiarity with Exporting

It is very difficult for a Trading House to deal with a novice exporter who cannot judge the nature and amount of risk involved. If the manufacturer minimizes the risks, he will not take full advantage of the Trading House and if he maximizes the risks, the conditions he imposes will make it difficult for an agreement to be reached.

d) Exclusivity

A Trading House will not invest in developing a given market only to be later bypassed by the supplier. A strong commitment of mutual trust must be generated or the protection of each party must be ensured.

e) Fair Pricing Agreement

Each of the parties concerned must take into account the tasks and costs involved for the other party. It is essential that a company who wishes to do business with a Trading House familiarize themselves with the procedures of setting an export price.

f) Long Term Partnerships

A Trading House is looking for the same thing as any other company doing business: a solid, long-term partnership that will allow both companies to profit from international business transactions.

Advantages of Dealing with a Trading House

a) Financial

A Trading House will assume all of the financial risks resulting from an international transaction, including:

- loss or damage during shipping
- payment
- modes of payment
- delays in payment
- risks connected with market fluctuations
- risks connected with political upheaval (embargoes, strikes, boycotts etc.)

b) Cultural

Doing business with a Trading House allows a company to:

- take advantage of a well-established network of contacts in non-traditional markets.
- rely on a specialist's expertise in the cultural aspects of negotiation.
- develop a merchandising plan that takes into account cultural factors. (i.e. taste, perception, consumer habits etc.)

c) Organizational

Trading Houses also provide a company with an export department that is specialized in certain markets, and a team of qualified personnel in areas of marketing, financing, logistics, negotiation/contracting and sales. Using a Trading House allows a company to develop new opportunities without investing as much of their company human and financial resources. A company can concentrate on developing its North American market and allow the Trading House to concentrate their efforts on the international trade.

The Ontario Association of Trading Houses (OATH)

Founded in 1995, OATH is a private non-profit organization, which represents some 450 Trading Houses in Ontario with the following objectives

- to increase exports through Trading Houses
- to promote Trading Houses in the private and public sector
- to familiarize the business community with the role of the Trading House
- to systematically integrate Trading Houses in an international marketing strategy for Ontario manufacturers
- to facilitate exchanges between Trading Houses and small and medium-sized enterprises in Ontario
- to develop Ontario Trading Houses
- to train qualified traders to meet the present and future needs on the industry
- to promote the trading profession.

It is beneficial to know the Ontario Association of Trading Houses, which besides helping a business find a Trading House, can also be a profitable, effective and useful source of reference material and can be reached at:

Ontario Association of Trading Houses (OATH)

PO Box 43086, 4841 Yonge St.
Toronto, ON.
M2N 5T0
Tel: (416) 263-3586
Fax: (416) 223-5707

Or visit their web site at: http://www.oath.on.ca

Last Modified: 25/11/02
