

## Due Diligence:

Due diligence is essential in conducting business with prospective partners internationally. However, unfortunately we at TFO Canada do not have the capacity to actually carry out such investigative work ourselves (in fact, we do not get involved in any actual inter-business interaction, relations or negotiations of any kind). We do provide here some suggestions for you on how to go about checking on the companies at question.

One key to ensuring payment is to build in all your safeguards in a mutually agreed upon Contract that would bind you both in the event of non-payment, product damage, shipping delays etc. However, before you get to that point you will have some initial investigation into the company to determine whether you want to do business with them at all.

Once a potential supplier has shown you what they are capable of producing (samples with quality certificates etc.) and the initial price points are agreeable, you may wish to provide them with information similar to that which you expect to receive from them. This includes, among other things, references, import experience (for them, of course, their export experience), financial standing, awareness of Canadian importation and market requirements for the product at question (labeling, product adaptation, packaging, production order guarantees etc.) and other such details.

Perhaps you can request a complete Company and Product profile (I attach an example of the one we use to register exporters with us) and in turn supply them with your Company Profile. Then you can check that information against what other information you may be able to find from other sources such as the ones listed further down – specific to China.

Credit and other business background information on buying companies can be found (purchased) from:

1) Dun and Bradstreet Reports (Canadian and international companies)

- <http://www.dnb.ca/> or, for non-Canadian companies;
- D&B Reports via EDC Export Check (See below) or;

2) EDC Export Check Reports (International – Non-Canadian buyer information)

- <http://www.edc.ca/EN/Pages/default.aspx> (Click on “**EXPORT Check**”)

You may wish to check with your nearest Canadian Embassy or High Commission’s Trade Office to see if they can help you locate information on the company. You can find their locations and contacts at <http://www.international.gc.ca/international/index.aspx?view=d>

Conversely, your trade service in Canada (the Trade Section of your embassy in Ottawa or Consulates in Toronto, Montreal, and Vancouver etc.) may be able to help you investigate the company further or otherwise help you in your efforts. You may be able to locate these offices via: [www.embassyworld.com](http://www.embassyworld.com)

*Hint: Performing a simple google.ca search on a company is a good idea as you may come across some hits on things such as court/legal proceedings, Trade Shows they have attended or otherwise participated in etc.*

Regarding actual payment terms, I provide for you here and excerpt from Export Development Canada's (EDC's) "ExportWise" – Spring 2005 Edition (intended for the Canadian exporter but is relatable to your enterprise)

Keys to assessing credit risks and to negotiating agreeable payment terms:

- The four C's of credit management:
  - Conditions of business: Is the company (buyer) profitable and growing?
  - Character: Does the company pay on time?
  - Capacity to repay: Financial performance? Is the company liquid?
  - Collateral: Does the company have available assets in the event of bankruptcy?
- Check buyer's credit and business history:
  - Ask them for company information up front;
  - Obtain trade references (talk to other suppliers);
  - Review financial profile;
  - Determine their level of experience (year established, years of trading);
  - Review payment history and credit reports (see more further down – EDC and D&B).
- If first-time buyer, exporters may try to negotiate pre-payment or partial payment up front – usually followed, after positive payment history is established, by more generous payment terms (LOC etc.)
- Letters of Credit are "risk-free" only as far as the bank that issues them guarantees (assurance) – review the Bank's assurances and be sure that you meet all documentary and other requirements.

*Note: Extensive use of LC's in international transactions mandates that one contemplating becoming a party to a transaction involving one be familiar with the laws of other countries which may have jurisdiction over a dispute.*