



Importing, Exporting, and Sourcing

Chapter 8

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Introduction



- This chapter looks at:
 - Export selling and export marketing
 - Organizational export activities
 - National policies on imports and exports
 - Tariff systems
 - Key export participants

Export selling and export marketing

- **Export selling** does not involve tailoring the product, the price, or the promotional material to suit the requirements of global markets. The only marketing mix element that differs is the “place”; that is, the country where the product is sold. It involves selling the same product, at the same price, with the same promotional tools in a different place

Export selling and export marketing

- **Export marketing** targets the customer in the context of the total market environment. The export marketer does not simply take the domestic product “as is” and sell it to international customers. To the export marketer, the product offered in the home market represents a starting point. It is modified as needed to meet the preferences of international target markets

Export Marketing Requires:

- An understanding of the target market environment
- The use of market research and identification of market potential
- Decisions concerning product design, pricing, distribution and channels, advertising, and communications

Organizational Export Activities

Exporting is becoming increasingly important as companies in all parts of the world step up their efforts to supply and service markets outside their national boundaries. Research has shown that exporting is essentially a developmental process that can be divided into the following distinct stages:

- 1.** The firm is unwilling to export; it will not even fill an unsolicited export order. This may be due to perceived lack of time (“too busy to fill the order”) or to apathy or ignorance.
- 2.** The firm fills unsolicited export orders but does not pursue unsolicited orders. Such a firm is an export seller.
- 3.** The firm explores the feasibility of exporting (this stage may bypass Stage 2).
- 4.** The firm exports to one or more markets on a trial basis.
- 5.** The firm is an experienced exporter to one or more markets.

Organizational Export Activities

6. After this success, the firm pursues country- or region-focused marketing based on certain criteria (e.g., all countries where English is spoken or all countries where it is not necessary to transport by water).
7. The firm evaluates global market potential before screening for the “best” target markets to include in its marketing strategy and plan. *All* markets—domestic and international—are regarded as equally worthy of consideration.

Potential Export Problems

Logistics

Arranging transportation
Transport rate determination
Handling documentation
Obtaining financial information
Distribution coordination
Packaging
Obtaining insurance

Legal Procedure

Government red tape
Product liability
Licensing
Customs/duty
Contract
Agent/Distributor Agreements

Servicing Exports

Providing parts availability
Providing repair service
Providing technical advice
Providing warehousing

Sales Promotion

Advertising
Sales effort
Marketing information

Foreign Market Intelligence

Locating markets
Trade restrictions
Competition overseas

National Policies Governing Exports and Imports



- Most nations encourage exports and restrict imports
- Goods and services imported into the U.S. almost doubled in seven years
- In 2008, the total was \$2.5 trillion

What four countries make up the “Four Tigers?”

- The four tigers – Singapore, South Korea, Taiwan, and Hong Kong – learned from the Japanese experience and built strong export-based economies of their own.
- Although Asia’s “economic bubble” burst in 1997 as a result of uncontrolled growth, Japan and the tigers are moving forward in the twenty-first century at a more moderate rate.

Share of U.S. Apparel Market by Exporting Country, 2010

1. China	39.1
2. Vietnam	8.2
3. Indonesia	6.1
4. Bangladesh	5.5
5. Mexico	4.9
6. India	4.3
7. Honduras	3.3
8. Cambodia	3.1
9. El Salvador	2.3
10. Pakistan	2.0



Government Programs that Support Exports

- Tax incentives
- Subsidies
- Governmental assistance
- Free trade zones



Government Programs that Support Exports

Tax incentives treat earnings from export activities preferentially either by applying a lower rate to earnings from these activities or by refunding taxes already paid on income associated with exporting.

Government Programs that Support Exports

Subsidies: Governments also support export performance by providing outright **subsidies**, which are direct or indirect financial contributions or incentives that benefit producers. Subsidies can severely distort trade patterns when less competitive but subsidized producers displace competitive producers in world markets.

Government Programs that Support Exports

- **Governmental assistance:** The third support area is **governmental assistance** to exporters. Companies can avail themselves of a great deal of government information concerning the location of markets and credit risks. Assistance may also be oriented toward export promotion. Government agencies at various levels often take the lead in setting up trade fairs and trade missions designed to promote sales to foreign customers

Governmental Actions to Discourage Imports and Block Market Access

- Tariffs
- Import controls
- Nontariff barriers
 - Quotas
 - Discriminatory procurement policies
 - Restrictive customs procedures
 - Arbitrary monetary policies
 - Restrictive regulations



**Portland
Customs
Center**

Tariff Systems

- Single-column tariff
 - Simplest type of tariff
 - Schedule of duties in which rate applies to imports from all countries on the same basis
- Two-column tariff
 - General duties plus special duties apply

Tariff Systems

Column 1		Column 2
General	Special	Non-NTR
1.5%	Free (A, E, IL, J, MX) 0.4% (CA)	30%

- A, Generalized System of Preferences
- E, Caribbean Basin Initiative (CBI) Preference
- IL, Israel Free Trade Agreement (FTA) Preference
- J, Andean Agreement Preference
- MX, NAFTA Canada Preference
- CA, NAFTA Mexico Preference

Sample Rates of Duty for U.S. Imports



Preferential Tariff

- Reduced tariff rate applied to imports from certain countries
- GATT prohibits the use, with three exceptions:
 - Historical preference arrangements already existed
 - Preference is part of formal economic integration treaty
 - Industrial countries are permitted to grant preferential market access to LDCs

Customs Duties

- Ad valorem duty
 - Expressed as percentage of value of goods
- Specific duty
 - Expressed as specific amount of currency per unit of weight, volume, length, or other unit of measurement
- Compound or mixed duties
 - Apply both ad valorem and specific on the same items

Other Duties and Import Charges

- Anti-dumping Duties
 - Dumping is the sale of merchandise in export markets at unfair prices
 - Special import charges equal to the dumping margin
- Countervailing Duties
- Variable Import Levies
- Temporary Surcharges

Key Export Participants

- Foreign purchasing agents
- Export brokers
- Export merchants
- Export management companies
- Export distributor
- Export commission representative
- Cooperative exporter
- Freight forwarders
- Manufacturer's export representatives

Organizing for Exporting in the Manufacturer's Country

- Exports can be handled
 - As a part-time activity performed by domestic employees
 - Through an export partner
 - Through an export department
 - Through an export department within an international division
 - For multi-divisional companies; each possibility exists for each division

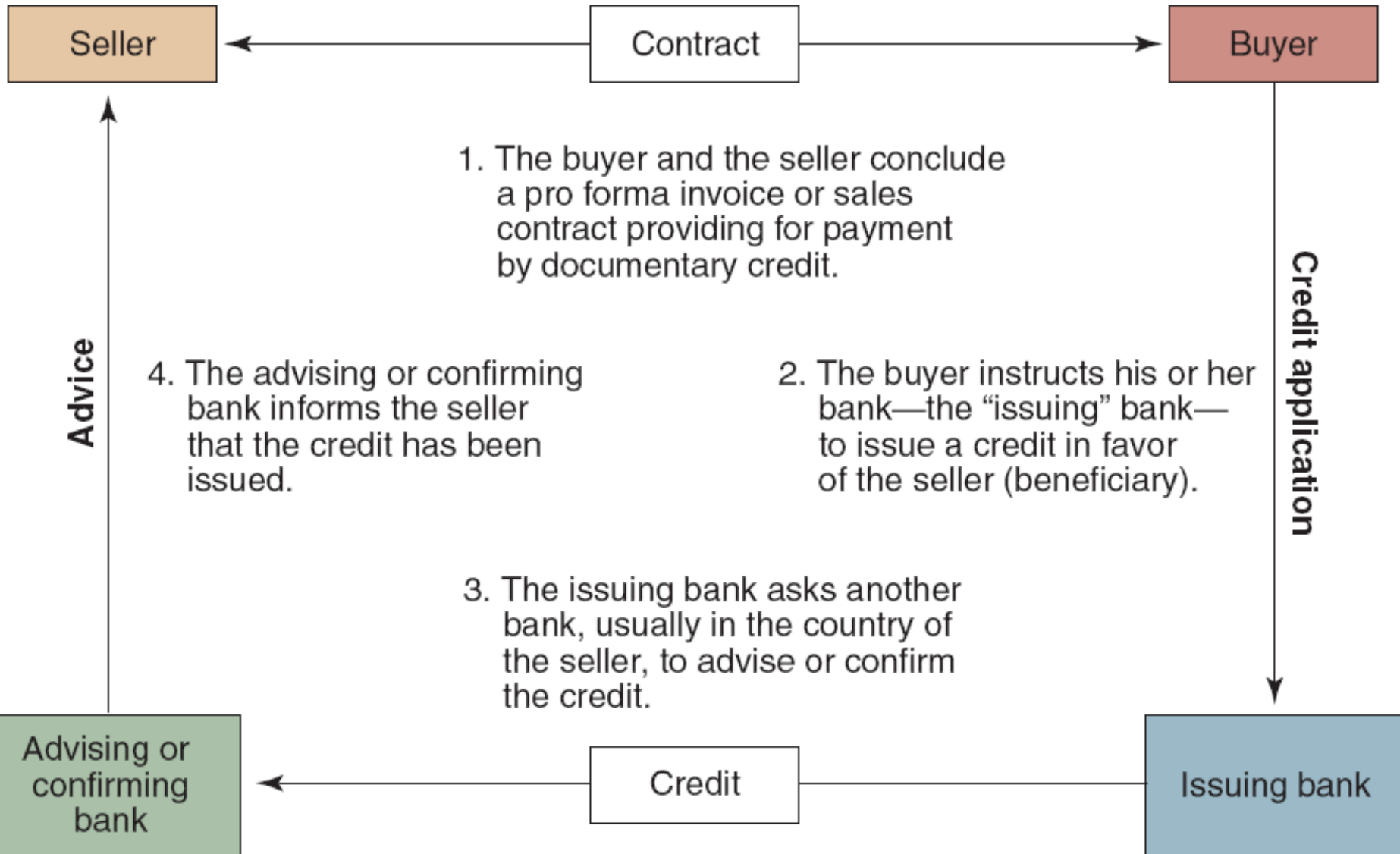
Organizing for Exporting in the Market Country

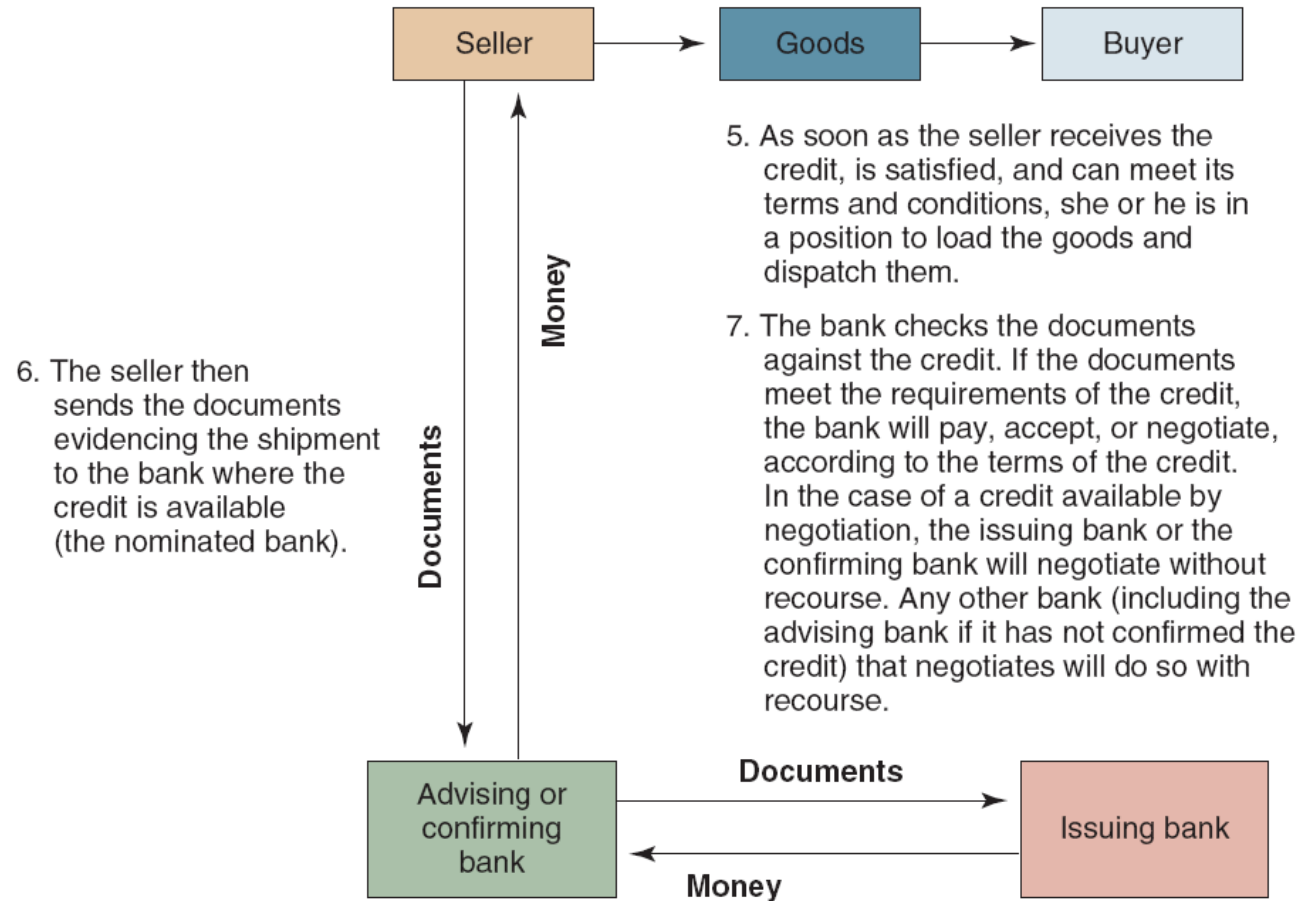
- Direct market representation
 - Advantages: control and communications
- Representation by independent intermediaries
 - Advantages: best for situations with small sales volume

Export Financing and Methods of Payment

- Documentary credits (letter of credit)
- Documentary collections (bill of exchange)
- Cash in advance
- Sales on open account
- Sales on consignment basis

Flow Chart of Documentary Credit





8. The bank, if other than the issuing bank, sends the documents to the issuing bank.
9. The issuing bank checks the documents and, if they meet the credit requirements, either (a) effects payment in accordance with the terms of the credit, either to the seller if the documents were sent directly to the issuing bank, to the bank that has made funds available to the issuing bank, or to the bank that has made funds available to the seller in anticipation, or (b) reimburses in the preagreed manner the confirming bank or any bank that has paid, accepted, or negotiated under the credit.

Customs Trade Partnership Against Terrorism



- The U.S. Customs and Border Patrol inspects cargo
- C-TPAT aims to have businesses certify their security and that of their partners
- They get inspection priority

Sourcing

- Must emphasize benefits of sourcing from country other than home country
- Must assess vision and values of company leadership
- Advantage can be gained by
 - Concentrating some of the marketing activities in a single location
 - Leveraging company's know-how
 - Tapping opportunities for product development and R&D

Duty Drawback

- Refunds of duties paid on imports that are processed or incorporated into other goods AND re-exported
- Reduce the price of imported production inputs
- Used in the U.S. to encourage exports
- After NAFTA, U.S. reduced drawbacks on exports to Canada and Mexico
- China had to reduce drawbacks in order to join the WTO

Factors that Affect Sourcing

- Management vision
- Factor costs and conditions
- Customer needs
- Logistics
- Country infrastructure
- Political risk
- Exchange rate, availability, and convertibility of local money



Exercises

1. What is the difference between export marketing and export selling?
2. Describe the stages a company typically goes through as it learns about exporting.
3. What criteria should company management consider when making sourcing decisions?