Chapter 1

Introducing Import/Export

In This Chapter

- Finding out what the import/export business is all about
- Recognizing the differences between international business and domestic business
- Looking at the environmental forces you can control — and those you can't

It's hard to imagine a more exciting time for international trade than the present. The opportunities for exporting and importing are growing at an impressive rate — and with those opportunities come challenges. Many factors have contributed to this growth: the establishment of the World Trade Organization (WTO), the implementation of trade agreements such as the North American Free Trade Agreement (NAFTA) and the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA), the continued economic integration of Europe, and the growth of emerging markets such as India, China, Turkey, and more.

You're living in an exciting time! In the past, opportunities for many small businesses ended within the borders of their own country, and international trade was only for large multinational corporations. Today, the global marketplace provides opportunities not just for the multinational corporation, but also for small upstart companies. The Internet, affordable changes in technology, and increased access to information have all made it easier for firms of all sizes to engage in international trade.

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Defining the Import/Export Business

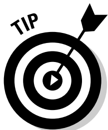
Exporting is sending goods out of your country in order to sell them in another country. *Importing* is bringing goods into your country from another country in order to sell them.

Most companies begin their initial involvement in international business by exporting or importing. Both of these approaches require minimal investment and are, for the most part, free of any major risks. They provide individuals and companies with a way of getting into international business without the commitment of significant financial resources (like the kind that would be required to actually set up shop overseas).

Exporting: Do you want what I've got?

Exporting comes in two major forms:

- **Direct exporting** is a business activity occurring between an exporter and an importer without the intervention of a third party. This option is a good one for existing businesses that are looking for ways to expand their operations.
- **Indirect exporting** is simpler than direct exporting. It involves exporting goods through various intermediaries in the producer's country. Indirect exporting doesn't require any expertise or major cash expenditures, and it's the type of exporting used most often by many companies that are new to exporting.



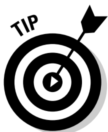
As you gain experience in doing business internationally, you may want to move from indirect exporting to direct exporting.

Indirect exporting

Indirect exporting can include the use of an export management company or something called piggyback exporting, both of which I cover in this section.

Export management companies

An export management company (EMC) is a private company based in the United States that serves as the export department for several manufacturers, soliciting and transacting export business on behalf of its clients. EMCs normally take title to the goods and assume all the risks associated with doing business in other countries. Using an EMC is helpful when you're new to exporting or you don't have a distributor or agent in a foreign country.



Many entrepreneurs not interested in manufacturing can get involved in exporting by setting up an export management company. If you have a network of overseas contacts, some general product knowledge, and a desire to start an export business, contact American manufacturers who aren't actively exporting and offer your services.

For example, I was employed in the healthcare industry selling goods internationally. During that period, I identified customers in various countries. With that knowledge in hand, I decided to establish an EMC. So I contacted medical products manufacturers who weren't actively involved in exporting. I identified several manufacturers who had products that would be of interest to my client. I offered my services to these firms and found that they were interested in exploring a business relationship with me. They wanted to open up new markets, but they'd been hesitant because they didn't want to deal with many exporting issues (payment, documentation, shipping, and so on).

Piggyback exporting

Piggyback exporting is a foreign distribution operation where your products are sold along with those of another manufacturer. This form of exporting is used by companies that have related or complementary but noncompetitive products.

For example, let's say that you have a company that manufactures hairbrushes. You're not yet exporting, but you're interested in selling your hairbrushes in Italy. You just don't want to assume any risks or deal with major headaches. Across town is a company that makes shampoos. It's a well-established manufacturer and exporter of a line of shampoo products — and it's currently selling its entire product line to the Italian marketplace. In piggyback exporting, you approach the shampoo company and offer to allow that company to represent and sell your hairbrushes in Italy.

Why would the shampoo company be interested in such a deal? Because this enables the shampoo company to offer a more complete line of products to its distributors with little to no additional investment. The shampoo company will profit either by purchasing the hairbrushes and adding on a markup or by coordinating a commission arrangement with you.

Direct exporting

In this case, you do your own exporting. Companies usually only export directly after having exported indirectly for a while. If you're interested in direct exporting, you can choose one of three routes:

- **Use an agent.** An agent is a company that acts as an intermediary but, unlike an EMC (see "Export management companies," earlier in this chapter), it does not take title to the goods. You can appoint an agent in each market (or country), and the agent solicits orders, with goods and payment for the goods happening directly between you and the customer in the other country.
- **Appoint a distributor.** You can appoint a distributor in another country who will purchase goods, take title, and service the customers on your behalf.

- **Set up an overseas sales office.** You can go over to another country, perhaps rent a warehouse, set up an office, and distribute the goods to customers. In practice, you're exporting to *yourself* overseas.

Importing: Can I sell what you've got?

Importers are the reverse of exporters. They purchase goods in foreign markets and sell them domestically. An importer can be a small company that buys goods from distributors and manufacturers in foreign markets, or it can be a global corporation for which importing components and raw materials valued at millions of dollars is just one of its functions.

Because many businesses are facing intense price competition, more companies will look into the global marketplace to source products. Many other nations have a well-educated and skilled workforce earning salaries less than comparable workers in the United States. So in a desire to remain competitive, U.S. companies import goods from suppliers in countries where costs are lower than they are domestically. This is true for both low-cost items and luxury items.

Before getting involved in importing, you may have trouble determining whether the item you want to import is produced in foreign markets and, if so, where to find them. Start by looking for similar products that are already being sold in the market. By examining the product, you can learn where it's made and, often, by whom. The U.S. Customs service requires that all goods be labeled with the country of origin on each product or on its container if product marking is not feasible. After you have the product, you can use many of the resources located in this book to identify suppliers.

Environmental Forces That Make International Business Different

Doing business in a global environment is very different from doing business domestically. When you move across your own borders, you have to deal with a variety of dynamic *environmental forces,* conditions that will have an impact on the operations of a company. Environmental forces are either internal (within the company) or external (outside the company). Internal forces are the ones you can control, and external forces are the ones you can't.

Forces you can control

Let me start off with the good news: When you're in business — any business, whether domestic or international — certain factors *are* within your control. These include things such as availability of capital, finances, raw materials, personnel, and production and marketing capabilities. Your job is to coordinate these controllable forces so that you can adapt to the uncontrollable forces (see the following section).

Forces you can't control

You can't control everything in business, but you'll be way ahead of the competition if you recognize what you *can't* control and figure out a way to adapt.

Economic and socioeconomic conditions

The economic and socioeconomic conditions in other countries are definitely factors you have no control over. And yet, when you're considering doing business internationally, you have to closely examine those conditions, because they may affect the attractiveness of the market. If you want to export goods, a potential market must have enough people with the means to purchase your products. If you want to import goods, you need to understand the country's labor costs.

Even after you've decided to do business in a particular country, your business can be impacted by the country's exchange rate, inflation, and interest rates, all of which change over time.

Physical conditions

The impact of geography and natural resources is an important factor to be considered. You need to be aware of the country's location, size, topography, and climate. The location of a country will also explain its trading relationship and political alliances.

Political and legal conditions

When you're importing or exporting, the primary political considerations are those having to do with the stability of the governments and their attitudes toward free trade. A friendly political atmosphere permits businesses to grow even though a country is poor in natural resources. The opposite is also true — some countries blessed with natural resources are poor because of government instability or hostility.

Regulations in other countries can often be quite different from those in the domestic market. When you're evaluating business opportunities around the world, determine whether the country is governed by the rule of law, and eliminate those countries that are political dictatorships. Look at a country's laws and how they interpret and enforce them.

You can find this information at www.stat-usa.gov and www.export.gov (see Chapter 9).

Prior to finalizing any purchase or sale agreement, make sure that you understand the warranties and service included. You and the company you're doing business with must agree about how defective or unsold products will be handled. Confirm who will register trademarks, copyrights, and patents, if applicable, and in whose name it will it be. Finally, make sure that any agreement includes a provision for termination and settlement of disputes.

When you conduct business in the United States, domestic laws will cover all transactions. However, questions of the appropriate law and courts of jurisdiction may arise in cases involving different countries. When a commercial dispute arises between individuals from two different counties, each person would prefer to have the matter adjudicated in his own courts and under his own laws. Insert a clause in any agreement stating that each party agrees that the laws of a particular country — preferably, for you, the United States — governs.

Cultural conditions

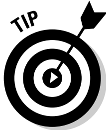
If you're reading this book, you must have at least some interest in doing business in a country other than your own. But importing/exporting isn't just about business — you also need to study the cultures of the countries you want to work with.

Culture affects all business functions, including marketing, human resource management, production, and finance. *Culture* is the total of the beliefs, values, rules, techniques, and institutions that characterize populations. In other words, it is the thing that makes individual groups different. In the following sections, I cover the aspects of culture that are especially important to international businesspeople.

Aesthetics

Aesthetics is a society's sense of beauty and good taste. In particular, you want to pay attention to color and the messages that different colors may convey. Color can mean different things in different cultures. For example, black is the color of mourning in the United States and Mexico, while white is

the color of mourning in Asia, and purple is the color of mourning in Brazil. Green is the color of good luck in the Islamic world, so any item featuring green is looked upon favorably there.



For more information on the uniqueness of cultures around the world and how to apply the skills of cultural understanding to become more successful in the global business environment, go to `www.cyborlink.com` and `www.executiveplanet.com`.

Attitudes and beliefs

This includes predispositions — either favorable or unfavorable — toward someone, someplace, or something. These attitudes and beliefs can influence most aspects of human behavior, because they bring order to a society and its individuals. The better you understand these differing attitudes and beliefs, the better you'll be able to deal with people from other countries.

Here's an example: Attitudes toward time can create problems for many Americans in other countries. Although Americans tend to think that time equals money, people from the Middle East, Asia, and Latin America may feel just the opposite. Arabs typically dislike deadlines, and when faced with one, an Arab may feel threatened or as though he's being backed into a corner.

Religion

Religion is one of the most important elements of culture. An awareness of some of the basic beliefs of the major religions of the world will help you understand why attitudes vary from country to country. As an importer/exporter, keep in mind that religion influences all aspects of business. If you don't understand and adapt to a culture's different religious beliefs, you'll fail — that's the bottom line.

For example, a company called American White Cross manufactured a variety of first-aid products and sold them throughout the United States and around the world. Because its corporate logo and packaging included a cross, it was unable to market its product line in the Islamic world, because the cross is a symbol representing Christianity.

For a primer on the major religions of the world, check out *Religion For Dummies,* by Rabbi Marc Gellman and Monsignor Thomas Hartman (Wiley).

Material culture

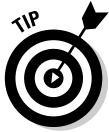
Material culture consists of *technology* (how people make things) and *economics* (who makes what and why). The aspects of culture and technology apply not just to production, but also to marketing, finance, and management. If you want to do business with other countries, and you're using new production methods and products, that may require changes in a society's beliefs and lifestyle — and change is never easy.

Language

Language is probably the most obvious cultural distinction that newcomers to international business face. Even though businesspeople all over the world speak English, if you can communicate in the local language, you'll have an advantage. Plus, you'll convey a sense of respect to your potential associates.

Although being able to communicate in the local language is a positive, you can always use a translator — and not speaking the local language isn't a reason not to do business there.

The spoken language is important, but nonverbal communication is often equally so. Gestures are a common form of communication and can have different meanings from one country to the next. For example, Americans and most Europeans understand the thumbs-up gesture to mean that everything is all right; however, in Southern Italy and Greece, it conveys the message for which Americans reserve the middle finger. Making a circle with the thumb and forefinger is the okay sign in the United States, but it's a vulgar sexual invitation in Greece and Turkey.



For more information on nonverbal communication and gestures, go to `www.cyborlink.com` and `www.executiveplanet.com`.

Financial conditions

Values of currencies do not remain fixed — they change, sometimes rapidly, as they are traded in the world's financial centers. Fluctuating currency values can result in major losses if a currency trader's timing is wrong. As an importer/exporter, you need to be able to read and understand foreign exchange quotations, and recognize and understand currency exchange risks.

Many newspapers list the foreign exchange table in their finance sections. There you may see, among others, a quote like the one shown in Table 1-1.

Table 1-1 An Example of a Currency Quotation

	US$ Equivalent		*Currency per US$*	
Country	***Monday***	***Friday***	***Monday***	***Friday***
United Kingdom (£)	1.8412	1.8498	0.5431	0.5406
1 month forward	1.8422	1.8508	0.5429	0.5403
3 months forward	1.8448	1.8534	0.5421	0.5395
6 months forward	1.8483	1.8571	0.5410	0.5385

This means that at close of business on Monday, the British pound cost in U.S. dollars was 1.8412, and at the same time on Friday, the pound cost in U.S. dollars was 1.8498. It also means that at close of business on Monday, the U.S. dollar was valued at 0.5431 British pounds, and at the same time Friday, the U.S. dollar was valued at 0.5406 British pounds.

The *spot rate* is the exchange rate between two currencies quoted for delivery within two business days. The *forward rate* is a currency for delivery in the future, usually 30, 60, 90, or 180 days down the road.

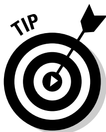
For the sake of example, let's say 1 U.S. dollar equals 100 Japanese yen. You're selling an item to a client in Japan for US$10,000. The item would then cost the client in Japan ¥1,000,000. If the rate of exchange fluctuates to ¥125 to the dollar, the same item would now cost your client ¥1,250,000.

In this example, the dollar is getting stronger. So, it's making your product more expensive and, hence, more difficult for you to export. On the other hand, a strong dollar enables you to import more goods, because the dollar has a stronger buying power.

You need to have a keen awareness of exchange rates and use them as a factor in deciding when and with which country you may consider doing business.

As a value of a currency *increases* in relation to the currency of another country, exports will decrease and imports will increase. On the other hand, as the value of the currency *decreases* in relation to the other country, imports will increase and exports will decrease. Exporters like a strong currency, and importers like a weak currency.

The risk due to the fluctuation in the exchange rate is always assumed by the individual who is either making or receiving the payment in a foreign currency. In other words, as an exporter, if you don't want any risks, when you invoice your client always do so in U.S. dollars; as an importer, always request that the supplier quote to you in U.S. dollars.



For much more information on currencies and how currency trading works, check out *Currency Trading For Dummies,* by Mark Galant and Brian Dolan (Wiley).