Chapter 8

Exporting, Importing, and Sourcing

Power Point
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Introduction

Export Selling vs. Export Marketing

- Export selling involves selling the same product, at the same price, with the same promotional tools in a different place
- Export marketing tailors the marketing mix to international customers
Introduction

Requirements for Export Marketing

− 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

- The firm is unwilling to export; it will not even fill an unsolicited export order.
- The firm fills unsolicited export orders but does not pursue unsolicited orders. Such a firm is an export seller.
- The firm explores the feasibility of exporting (this stage may bypass Stage 2).
- The firm exports to one or more markets on a trial basis.
Organizational Export Activities

- The firm is an experienced exporter to one or more markets
- After this success, the firm pursues country- or region-focused marketing based on certain criteria
- The firm evaluates global market potential before screening for the “best” target markets to include in its marketing strategy and plan
### National Policies Governing Exports and Imports

#### Top 15 Apparel and Textile Exporting Countries to the United States, 2000

($ billions)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>$9.70</td>
</tr>
<tr>
<td>China</td>
<td>$6.52</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.71</td>
</tr>
<tr>
<td>Canada</td>
<td>3.30</td>
</tr>
<tr>
<td>South Korea</td>
<td>3.01</td>
</tr>
<tr>
<td>Taiwan</td>
<td>2.75</td>
</tr>
<tr>
<td>India</td>
<td>2.74</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>2.45</td>
</tr>
<tr>
<td>Thailand</td>
<td>2.44</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2.38</td>
</tr>
<tr>
<td>Honduras</td>
<td>2.32</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.20</td>
</tr>
<tr>
<td>Philippines</td>
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</tr>
<tr>
<td>Italy</td>
<td>2.10</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1.83</td>
</tr>
</tbody>
</table>
Government programs that support Exports

- Tax incentives
- Subsidies
- Governmental assistance
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
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

### Sample Rates of Duty for U.S. Imports

<table>
<thead>
<tr>
<th>Column 1</th>
<th>Column 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General</strong></td>
<td><strong>Special</strong></td>
</tr>
<tr>
<td>1.5%</td>
<td>Free (A, E, IL, J, MX)</td>
</tr>
<tr>
<td>0.4% (CA)</td>
<td></td>
</tr>
</tbody>
</table>

- 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
**Preferential Tariff**

- Reduced tariff rate applied to imports from certain countries
- GATT prohibits the use, with 3 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 units 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

1. The buyer and the seller conclude a pro forma invoice or sales contract providing for payment by documentary credit.

2. The buyer instructs his or her bank—the "issuing" bank—to issue a credit in favor of the seller (beneficiary).

3. The issuing bank asks another bank, usually in the country of the seller, to advise or confirm the credit.

4. The advising or confirming bank informs the seller that the credit has been issued.
6. The seller then sends the documents evidencing the shipment to the bank where the credit is available (the nominated bank).

5. As soon as the seller receives the credit, is satisfied, and can meet its terms and conditions, she or he is in a position to load the goods and dispatch them.

7. The bank checks the documents against the credit. If the documents meet the requirements of the credit, the bank will pay, accept, or negotiate, according to the terms of the credit. In the case of a credit available by negotiation, the issuing bank or the confirming bank will negotiate without recourse. Any other bank (including the advising bank if it has not confirmed the credit) that negotiates will do so with recourse.

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.
Sourcing

- Must emphasize benefits of sourcing from a country other than the home country.
- Must assess the vision and values of company leadership.
- Advantage can be gained by:
  - Concentrating some of the marketing activities in a single location.
  - Leveraging the company’s know-how.
  - Tapping opportunities for product development and R&D.
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
Looking Ahead to Chapter 9

Global Market Entry Strategies: Licensing, Investment, and Strategic Alliances