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Your Big Idea: Is It Any Good?

A lot of mediocre ideas have been turned into successful businesses, and many great ideas have fallen by the wayside. Still, you will have a better chance of succeeding if you start with a good idea rather than with a bad one. Let's look at a couple of import/export business ideas and how you might analyze them: handicrafts from Ecuador and home safes to Mexico or Central America.

IMPORTING HANDICRAFTS FROM ECUADOR

Ecuador, especially the town of Otavalo, is one of the world's greatest areas for buying handicrafts. The local people are famous for their colorful textile items, jewelry, paintings, and so on. Suppose you visit Otavalo and decide to build a business importing crafts to the United States. First, you might search on the Internet to see whether anyone else is doing this. Otavalo has been there for a long time, and it is not likely that you are the first person to be attracted by its products.

A quick search on the Internet suggests that you may not have many competitors. How can this be explained? People usually buy handicrafts when they visit a country, and aren't very interested in them if they don't. Also, crafts sell better in our materialistic society if they are utilitarian. They must be useful in some way. Of course, there is another possible explanation—that some of your competitors do not have Web sites.

If you decide that some of the Ecuadorian crafts are attractive and useful, and can probably be sold in the United States, you will want to look into the matter of finding an honest, reliable supplier. Suppose that you search on the Internet and find an Ecuadorian export promotion organization known as CORPEI, which promises (by e-mail) that you will have no trouble finding excellent suppliers.

When you look at the market, however, you find that most of the sales of similar products are made at ethnic fairs and festivals and that these markets are pretty well supplied. This worries you a little. You don't want to work on weekends.

Moving on to other details, you find that transportation of the products will be relatively easy and that import regulations on the items from Otavalo will not be especially burdensome. Still, you come back to the vital questions of how and to whom you will be able to sell the various items. If you cannot find good answers to these questions, you should probably look for another business idea.

EXPORTING HARDWARE

Now, suppose you are looking on the Internet one day and you come upon the Web site www.madeinusa.org. From the 30 categories of merchandise you select hardware because you worked for a long time at Home Depot or Lowe's and know the products well. You want a fairly high-ticket item and one that cannot be produced easily in all countries. Safes for homes and offices catch your eye. Since several companies make safes, you expect to be able to line up a supplier. You can either buy from the supplier and resell or set up a transaction between the supplier and a foreign buyer and receive a commission.

Since these products are too heavy to ship by air, you will have to find markets in countries that you can ship to by land or by sea. Also, since you cannot make money exporting just one safe at a time, you will have to find someone in each country to import a quantity of the safes and sell them to his or her customers.

You know from reading newspapers that crime has been increasing in Mexico and some Central American countries, so many people there should want to own safes. These countries can be reached by land or by sea. Maybe you even know someone in Mexico City or San Salvador who can help you find a qualified importer/distributor. If you do not know such a person, your state or federal department of commerce will help you.

You look into U.S. export controls and Mexican and Salvadoran import controls on safes and conclude that none of them will pose a significant obstacle. Then you move on to the problem of money, because you will probably have to stock the distributor's warehouse at your expense, perhaps with payment guaranteed by an instrument called a *letter of credit* (to be explained later).

If you can get over the financial hurdle, you might be able to set up a profitable business venture.

Let's look at two more examples, in a little more detail.

IMPORTING "WORLD CLOCKS"

Suppose you are looking through an export promotion catalog from Taiwan and see a small clock that tells the time in major world cities. This item seems to be functional as well as decorative, and you decide to look into it, even though you know that world times are available on the Internet. You ask for a catalog and price list and receive them immediately by e-mail. Then you show the appropriate catalog page to several friends, taking care to not reveal the supplier's name and address.

Since most of your friends seem to like the product, you decide to take the next step. Your order a half dozen items as samples. After some discussion with the supplier, you agree to pay for the clocks through PayPal, and the company in Taiwan agrees to pay to send them by airmail. You might have been able to get one sample free, but free samples have become less common and you wanted more than one.

While you wait for the samples, you go to www.usitc.gov to consult the United States tariff schedule. You become quite confused but finally determine that there is a small duty on clocks, another on clock cases, and a slightly larger duty on the batteries. You determine that each of these three pieces must be marked in a conspicuous place with the country of origin. In addition, the clock movement must be marked with the name of the manufacturer and the number of jewels, including substitutes for jewels. The tariff schedule will be explained later in this book.

While waiting, you think hard about who might want to buy world time clocks. You decide that they will sell best as gifts for people who travel internationally. Also, you decide that gift-givers will be likely to buy such items from hard-copy and online catalog merchants, so these will become the end point of your distribution channel.

Soon the samples arrive. They are marked SAMPLES, NO COMMERCIAL VALUE, and no duty is charged. They look good but not great, and the packaging isn't as strong or as attractive as you think it should be. The instructions seem clear but have a few mistakes in English. You decide, based on prices you have seen in the market, to set the suggested retail price at $19.95.

From the Internet and a book in your local business library, you identify companies whose product lines include gifts for travelers. You send them a description of your product and ask if they would consider selling it. Since only one responds, you phone them all and find three buyers who are interested. You send each of them a sample, your suggested retail price, and your price to them of $10 including shipping. Your calculations show that you can make an acceptable profit if you sell to the buyers for $10.

Then you call the buyers again and find one who likes the product and wants to talk with you. Fortunately, she isn't far away, so you make an appointment to see her. You try to anticipate all her questions and develop a "sell sheet" that will answer them. A sell sheet contains the information that you will provide in a sales presentation. Then, you can leave it with your customer.

When you are face-to-face with the buyer, she agrees to put the item in her catalog but will purchase only a small quantity at a time. She wants you to have a larger quantity, in stock in the United States, so she can get them from you when she needs them. She wants just two cartons of 60 clocks each but wants you to have at least five cartons in stock. You quickly figure your cost for the five cartons and decide to accept her order. She offers to send it to you in writing within a week.

So, you are in business. You ask the supplier for a firm quotation on seven cases of 60 clocks, sent to you by airfreight. It arrives by e-mail: $270 per case plus $450 for shipping for a total of $2,340. You agree to pay via a sight draft, with documents provided against payment, and send your order. International payment methods and commercial documents such as orders are described later on. You ask the supplier to correct the instructions, use stronger, more attractive packaging, and ship in multiwall cardboard cartons. He agrees.

Just 10 days later you receive a call from Jumping Air Freight. Your goods are in! Unfortunately, since the value is more than $2,000, you will need to file a *formal* customs entry, and that is somewhat complicated. The airfreight company puts you in touch with a *customs broker* who can handle this, for a fee of course. You tell the broker to go ahead and to call you when the shipment is ready to pick up. Luckily, you have a vehicle large enough to hold the seven cartons.

You go to your bank and find that it has received a small package of documents from the exporter. The bank presents you with a *draft* for the cost of the clocks and the airfreight, which you agree to pay. Then you receive the documents and take them to the customs broker. The next day, the broker calls you, and the merchandise is yours for the taking. Later you will be billed for the customs duty and the broker's fee.

The clocks look good, but the instructions and the packaging have not been improved. You understand that this could not be done so quickly. The exterior packing is pretty strong, and there doesn't seem to be any damage to the merchandise.

Your cost turns out to be $1,890 for the clocks, $450 for shipping, $75 for customs duty, and $190 for the services of the customs broker—a total of $2,605. This comes to $6.20 per clock, assuming none is damaged or defective. Since you expect to get about $9.70 per clock, after paying for shipping, your *gross margin* will be $3.50, or 36 percent of your selling price. That sounds pretty good.

You realize that whether you can make money with the clocks depends on your ability to sell them through catalog dealers or other outlets. You do a quick calculation of your office, telephone, and other fixed costs and see that they will come to about $2,000 per month. That means you will have to sell 571 clocks per month to break even (2,000/3.5), which does not include any compensation for your time. If you want to make just $1,000 per month from the business, you will have to sell 857 clocks every 30 days.

Well, it's a start. If you can add other items to build a product line and market them well, you will have a going concern.

EXPORTING PRINTER PAPER

Now that you have started importing, you decide to try to export. You go to a Web site, www.export.gov, to search for trade leads and to find a company in Cameroon that wants to import several kinds of paper products. The most important of these is printer paper, about which you have some knowledge.

By corresponding with the importer, you are able to get specifications as to the types and quantities of paper she wants. You ask about shipping and payment and are told that the goods should be sent by sea to the port of Douala with shipping and insurance prepaid. The importer is willing to pay through a letter of credit issued by the Commercial Bank of Cameroon.

You start your search for suppliers with the *Thomas Register of American Manufacturers*, which you buy on a CD-ROM for about $10. There you find several companies. You call some and find, to your delight, that most of them are not represented in Cameroon and are willing to ship to that country, provided they have payment in advance or firm guarantees of payment.

A friend tells you that because of its nature, printer paper is not subject to any special U.S. export restrictions. We will cover this subject later in the book. To find out about import restrictions, you check with the desk officer who handles Cameroon at the U.S. Department of Commerce. Also, you contact the National Technical Information Service in Washington, D.C., and order a Commercial Guide to the country. You consider contacting a commercial attaché from

Cameroon but do not find one in the United States. On the Internet you find one in Ethiopia, but that's far from Cameroon and there is no fax number or e-mail address.

Since many paper manufacturers have similar products, you select one to deal with because you know of the company and have established, by phone, a good working relationship with a person in the export sales department. You get a price of $25 per case of 10 reams of 20 pound, 96 US/108 Euro Bright paper, delivered to a U.S. port. The supplier says that each box weighs 50 pounds, and that he can load 1,150 boxes in a 20-foot container.

Then you contact a freight forwarder to help you develop a price quotation. The numbers are as follows.

Cost Item	*Amount*
1,150 boxes of paper delivered to Port Newark	$28,750
Freight forwarding and related charges	300
Ocean freight from Newark to Douala with surcharges and insurance	3,660
Banking and miscellaneous charges	300
TOTAL COST	**$33,010**

There are a couple of other important details, one of which is profit. You have to earn enough to justify the time and the risk, but you cannot quote more than other companies unless you can offer something of value besides the paper. You decide to add 10 percent to the merchandise cost, or $2,875. That makes your quotation, delivered to Douala, $35,885 (33,010 + 2,875).

The other important detail is how to arrange the payment, and this presents a problem. You could scrape up the $33,000 but are not sure you want to take the risk. The supplier, based on your very limited track record, isn't willing to give you enough credit. What to do?

Finally, the supplier suggests that you get the order written to his company. He offers to pay you a 5 percent commission, which means you will make just half as much as you counted on, but he offers to pay the 5 percent commission on any future orders you get from the same customer. Finally, he says that he wants the letter of credit guaranteed by Citibank in New York. You decide to agree to these conditions.

When you recalculate your price to the importer, it goes down, because you are changing from a 10 percent markup to a 5 percent commission. Then it goes back up a little because of the cost of confirming the letter of credit.

After more contact by phone and e-mail, your customer agrees to buy and sends her purchase order, which you forward to the supplier. The customer's bank opens a letter of credit to the supplier, who succeeds in getting it confirmed by Citibank. The supplier ships, gets paid, and sends your commission.

It all worked out pretty well. Maybe there is some future in this business of arranging export transactions—for a commission.

BROKERING COMPUTER EQUIPMENT

I have an acquaintance who advertises himself as an "international products search broker and manufacturer's representative." His idea is to help people find the best source for products they want to buy, arrange a deal, and earn a commission. He will deal with any product but specializes in laptop computers and related equipment. Will this idea work for him? Would it work for you? Read on. In a few chapters you should be able to form an opinion.

SOURCES OF INFORMATION AND HELP

This chapter is about analyzing product ideas, or product/market combinations, to determine whether the one you have in mind seems viable. This is a vital part of your preparation to do business. There are various Web sites that will help you with this process. One is NetMBA at www.netmba.com/marketing/market/analysis, and a more sophisticated one is KnowThis.com at www.knowthis.com/tutorials/marketing/marketingplan1/3.htm.

The following sources of information are given in chapter 1.

- PayPal, an online payment solutions company. Address: 2211 North First Street, San Jose, CA 95131; Phone: (402) 935-2050; Web site: www.paypal.com.

- WWW.USITC.GOV, the United States International Trade Commission, an independent federal agency. Address: 500 E Street, SW, Washington, DC 20436; Phone: (202) 205-2000; Fax: (202) 205-2340.
- WWW.EXPORT.GOV, the U.S. government's export portal, which is sponsored by several federal agencies specializing in exporting. Phone: (800) USA-TRAD(E).
- *Thomas Register of American Manufacturers*, a publication of Thomas Publishing. Address: Five Penn Plaza, New York, NY 10001; Phone: (212) 695-0500; Fax: (212) 290-7362; Web site: www.thomaspublishing.com.
- National Technical Information Service's (NTIS) publication, *Commercial Guide*. NTIS is part of the U.S. Department of Commerce. Address: 5285 Port Royal Road, Springfield, VA 22161; Phone: (703) 605-6000 or (800) 553-NTIS; Fax: (703) 487-4146; Web site: www.ntis.gov.