

# Chapter 1

## Introducing Import/Export

### *In This Chapter*

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

I can't 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 CAFTA-DR (Dominican Republic–Central America–United States Free Trade Agreement), 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.

In this chapter, I introduce you to the wonderful and exciting world of importing and exporting. You discover various approaches to doing business internationally and the environmental forces that make doing business with other countries different.

## *Importance of Trade to the Economy*

International trade has never been more important. Here are the two primary reasons for this change:

- ✔ **Speed of communication:** Advancements in transport and communications make people more aware of business developments elsewhere and enable them to take advantage of opportunities. Not only is it now much

cheaper to operate internationally and trade with foreign partners, but because of the Internet, potential buyers and sellers can exchange information more efficiently.

- ✓ **Lower barriers:** Trade barriers between countries have fallen and are likely to continue to fall.

The United States is the largest exporter in the world for commercial services and the second largest for merchandise. U.S. exports span more than 230 destinations, with Canada and Mexico accounting for more than one-third of the total. Canada was the top export market in 2013, at \$301.6 billion. Canada was followed by Mexico (\$226.1 billion), China (\$121.7 billion), Japan (\$65.2 billion), and Germany (\$47.4 billion). Although emerging economies make up a smaller share of the overall exports, future world exports are expected to be largely driven by growth in these economies.

The United States is the world's second biggest importer. The main imports are capital goods (29 percent) and consumer goods (26 percent). Others include industrial supplies (24 percent); automotive vehicles, parts, and engines (15 percent); and foods, feeds, and beverages (5 percent). Shipments from China represent 19 percent of the total imports, followed by Canada (14.5 percent), Mexico (12 percent), Japan (6 percent), and Germany (5 percent).

## *Defining the Import/Export Business*

Most companies begin their initial involvement in international business by exporting or importing. *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.

Both of these approaches require minimal investment and are, for the most part, free of 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 required to actually set up shop overseas. In this section, I introduce you to the main forms of importing and exporting.

### *Exporting: Do you want what I've got?*

Exporting comes in two major forms:

- ✓ **Direct exporting:** Direct exporting is a business activity occurring between an exporter and an importer without the intervention of a third party. This option is good for existing businesses that are looking for ways to expand their operations.

✔ **Indirect exporting:** Indirect exporting is easier 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 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. You'll have greater control over the sales and distribution of your products.

### ***Looking at types of 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.

#### ***Dedicated exporting: 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.



Entrepreneurs not interested in manufacturing can get involved in exporting by setting up an EMC. An EMC usually specializes in a product category. 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, when I was employed in the healthcare industry selling goods internationally, I identified customers in various countries. With that knowledge in hand, I decided to establish an EMC. So I contacted domestic medical-products manufacturers who had products that would be of interest to my clients but who weren't actively involved in exporting. I offered my services to these firms and found that they wanted to open new markets, but they'd been hesitant because they didn't want to deal with many exporting issues (payment, documentation, shipping, and so on). My EMC was able to handle those issues for them.

#### ***Piggyback exporting: Having another manufacturer export your related goods***

*Piggyback exporting* is a foreign distribution operation in which your products are sold along with those of another manufacturer. Companies that have related or complementary but noncompetitive products use this form of exporting.

For example, 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 in the Italian marketplace. In piggyback exporting, you approach the shampoo company and offer to let that company represent and sell your hairbrushes in Italy.

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

### ***Doing direct exporting***

In *direct exporting*, you do your own exporting. Companies usually export directly only 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, doesn't take title to the goods (see the earlier section "Dedicated exporting: Export management companies" for info on EMCs). You 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; the distributor purchases goods, takes title, and serves the customers on your behalf.
- ✔ **Set up an overseas sales office.** You can go 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 have?***

*Importers* 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 businesses face intense price competition, more companies are looking to the global marketplace to source products. Many nations have

a well-educated and skilled workforce that earns salaries that are less than those of comparable workers in the United States. 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.



To determine whether the item you want to import is produced in foreign markets and, if so, where to find it, look for similar products that are being sold in your country. Examining the product can tell you 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 isn't feasible. You can then use many of the resources in this book to identify suppliers — for details, see Chapters 6, 7, and 8 and Appendix A, and visit [www.dummies.com/extras/importexport](http://www.dummies.com/extras/importexport).

## *Environmental Forces That Make International Business Different*

Doing business in a global environment is very different from doing business domestically. When you cross borders, you have to deal with a variety of dynamic *environmental forces*, conditions that 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.

I'll start with the good news: When you're in business — any business, whether domestic or international — certain factors *are* within your control. Internal forces include things such as

- ✓ Availability of capital
- ✓ Finances
- ✓ Personnel
- ✓ Production and marketing capabilities
- ✓ Raw materials

Your job is to coordinate these controllable forces so that you can adapt to the uncontrollable forces.

You'll be way ahead of the competition if you recognize what you *can't* control and figure out a way to adapt. In this section, I cover the main forces in international business.

## *Looking at economic and socioeconomic conditions*

Other countries' economic and socioeconomic conditions — which include factors such as population size, income levels, growth and recessions, and so on — are definitely factors you have no control over. And yet, when you're considering doing business internationally, you have to examine those conditions closely 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, the country's exchange rate, inflation, and interest rates — all of which change over time — can impact your business.

## *Considering geography and other physical factors*

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

## *Paying attention to 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 if the 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 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 countries that are political dictatorships. Look at a country's laws and how the country interprets and enforces them. You can find more information at [www.export.gov](http://www.export.gov) and in Chapter 10.



Before finalizing any purchase or sale agreement, make sure you understand the warranties and service included. You and the company you're doing business with must agree on how to handle defective or unsold products. Confirm who will register trademarks, copyrights, and patents, if applicable, and in whose name they'll 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 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 countries, 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 govern — preferably, the United States.

## *Considering culture*

If you're reading this book, you 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, culture is the thing that makes individual groups different. In this section, I cover the aspects of culture that are especially important to international businesspeople.



For information on cultures around the world and how to use cultural understanding to become more successful in the global business environment, go to [www.cyborlink.com](http://www.cyborlink.com), [www.executiveplanet.com](http://www.executiveplanet.com), and [www.businessculture.org](http://www.businessculture.org). Also check out Chapter 16, which provides detailed information on negotiating and doing business in eight world regions.

### *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, 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.

### *Attitudes and beliefs*

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

Here's an example: Although Americans tend to think that time equals money, people from the Middle East, Asia, and Latin America may feel just the opposite — they'd rather get to know you before discussing business. Arabs typically dislike deadlines, and when faced with one, an Arab may feel 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 can 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 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.

### *Material culture*

Material culture consists of technology (how people make things) and economics (who makes what and why). The aspects of technology and economics 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 people'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 many businesspeople throughout the world speak English, your ability to communicate in the local language gives you an advantage and conveys a sense of respect to your potential associates.

Although knowing the local language is a positive, you can always use a translator. And not speaking the local language isn't a reason to avoid doing business somewhere.



Nonverbal communication is often as important as written or spoken language. Gestures 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.

## *Noting currencies and exchange rates: Financial conditions*

Values of currencies do not remain fixed — they change, sometimes rapidly, as currencies are traded in the world's financial centers. Fluctuating currency values can result in major losses if a currency trader's timing is wrong, so you need to have a keen awareness of exchange rates and use them as a factor in deciding when and where to do business.

Make sure you're able to read and understand foreign exchange quotations and to recognize and understand currency exchange risks. Many newspapers list the foreign exchange table in their finance sections. You may see a quote like the one in Table 1-1.

<b>Table 1-1</b>	<b>An Example Currency Quotation</b>			
	<i>US\$ Equivalent</i>		<i>Currency per US\$</i>	
<i>Country</i>	<i>Monday</i>	<i>Friday</i>	<i>Monday</i>	<i>Friday</i>
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

The table shows 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. The table also shows 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 for delivery in the future, usually 30, 60, 90, or 180 days down the road.

Suppose that 1 U.S. dollar equals 100 Japanese yen. If you sell an item to a client in Japan for US\$10,000, the item would 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. 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.



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



The risk due to the fluctuation in the exchange rate is always assumed by the individual who's either making or receiving the payment in a foreign currency. In other words, if you don't want any risks as an exporter, invoice your client in U.S. dollars; as an importer, always request that the supplier quote you in U.S. dollars. For much more information on currencies and how currency trading works, check out *Currency Trading For Dummies*, 3rd Edition, by Kathleen Brooks and Brian Dolan (Wiley).

Also check out [www.fita.org/converter.html](http://www.fita.org/converter.html), which offers daily exchange rate quotations between more than 120 currencies. The rates, which are provided by Reuters, are updated at about 5:00 p.m. Eastern Time (U.S.).