Chapter 1

The Whole Export

The most important difference between export and domestic trade is that in export, sellers and buyers are located in different countries. This is so obvious that it is often taken for granted and then, incredibly, overlooked.

A moment's thought will reveal the tremendous implications contained in our opening statement. Because sellers and buyers are in different countries, they are subject to different regulations from different authorities and have different procedures for settling disputes. Each country will observe its own national holidays. To some extent, their commercial practices will differ, as will their product standards. Each country will probably have its own currency.

These minimal differences apply to trade between the United States and Canada! If we go beyond our most similar trading partner and closest neighbor, we will probably encounter different languages, longer transportation to accommodate greater distances, different types of electric power, exclusive use of metric units, significant differences in times and seasons, plus entirely different social and economic cultures.

If this were not enough, the seller's and buyer's countries may belong to different common-market-type regimes. This may result in conflicting multinational regulations and discriminatory treatment of products originating from nonmember countries. Further, some countries, including the United States, embargo other countries. These prohibitions can range beyond the borders of an embargoed country to include its nationals wherever they may be and may extend to other countries, institutions, or persons known to support it.

Given these obstacles, it's amazing that foreign trade exists at all. It does for a multitude of reasons, most of which will be addressed in this book. However, successful foreign trade requires care, particularly on the part of the exporter.

WHO IS WHO?

For simplicity, we will assume that the seller is also the exporter. This is normally the case with two exceptions:

1. Some sellers engage specialized entities called export management companies (EMCs) to handle their exports. Because EMCs typically do not take title to the goods they handle, they are not, strictly speaking, sellers. However, their interests so closely match those of their seller-principals that we may group them together.
2. Some buyers appoint purchasing agents to handle exports from their sellers' countries. Because these are exports of goods that have already been purchased for the account of their overseas principal, the underlying sales transactions are really domestic business and are beyond the scope of this book.

Having accounted for these two exceptional circumstances, we will consider the "exporter" and the "seller" to be the same party for the purposes of this book unless otherwise indicated.

There are two basic approaches that a manufacturer may use for exporting. It can handle its own exports; this is called direct exporting. As we've seen, it can also engage an export intermediary, perhaps an EMC, to handle its exports. This is called indirect exporting. Many manufacturers use both approaches by directly exporting to established markets and use export intermediaries for new markets or for situations where the intermediary has particular qualifications. Once again, we will make a generalization for the sake of simplicity. Throughout this book, the "manufacturer" and the "exporter" will be considered to be the same party. The only exceptions will be found in Chapter 2, which covers export control compliance, and in Chapter 4 where export channels are considered. If this seems like an odd assumption, simply consider that most export intermediaries act as the manufacturer's "export department," because that is what they effectively do.

Combining the ideas of the two preceding paragraphs, we get a seller who is also both exporter and manufacturer. Once again, for the sake of simplicity, we will consider this party to be our seller throughout this book unless otherwise noted.

WHO IS INVOLVED?

Successful exporting requires the participation of most business-related activities found in most companies. Not only must the various departments become involved, but they must also relate to each other in different, and often closer, ways than is true of domestic business. This may require some "out-of-the-box" thinking, because most companies establish their operating procedures around domestic business models.

Let's establish the key players and their job descriptions for use in our study. Most are given expanded roles to keep the number of players manageable:

- **Sales.** The basic sales functions are recruiting trading partners or end-user buyers and communicating with them. We will also include marketing, selling, quoting, order entry, and promotional activities in support of trading partners. Depending on the type of product, Sales may work through overseas representatives and distributors in addition to its own staff.
- **Credit.** This department determines appropriate payment terms for customers (and their countries) and collects the accounts receivable. Credit usually engages credit-information providers, banks, and perhaps credit risk insurers.
- **Seller's Bank.** It can provide credit information on prospective buyers, and recommend and help implement appropriate payment terms.
- **Manufacturing.** To the basic production function we'll add product design, modification, and standards. We'll also add export packing, because this task may be handled more readily by manufacturing personnel than by others.
- **Purchasing.** The basic responsibility is obtaining goods and services for reliable delivery at competitive costs. In our study, this department does not purchase transportation or cargo insurance because these functions are done by Traffic.
- **Traffic.** This often-unsung department purchases and arranges all inward and outward transportation. It also purchases cargo insurance. Traffic selects carriers and service providers (called freight forwarders) to fulfill export shipping requirements.
- **Forwarder.** Described as a "travel agent for cargo," this outside-service provider arranges and documents export shipments.
- **Compliance.** This entity doesn't exist in most companies but probably should. It is part of the legal department and is involved with regulatory compliance, such as export control, as well as compliance with commitments (such as sales contracts) and corporate ethical policies. Equipped with sweeping powers, Compliance may stop any transaction at any time for review by top management. As part of its export control and import compliance roles, this department also classifies items in both the Harmonized System and the Commerce Control List (see Chapter 2).
- **Buyer.** Often neglected in explaining who does what, the buyer is probably the most important player in exporting. Buyers place orders that address their requirements, often including conditions imposed by their governments. Some buyers insist on selecting carriers and forwarders, and this can

create a contentious issue for well-informed sellers. Buyers may also engage purchasing agents to handle exports from the sellers' countries, but for the purposes of this book we will consider such business to be domestic transactions rather than exports.

WHAT IS INVOLVED?

Now that we've seen the players, let's consider what must happen for exports to take place. While the following steps are presented in what is normally chronological order, they are not necessarily cause-and-effect driven.

A product or service must exist. Ideally, it will be of a kind that buyers are willing to buy at a price they are willing to pay. It should comply with applicable mandatory product standards found in major foreign markets, such as the European Union CE Mark, Mexican NOMS, Chinese CCC Mark, and so on. It should also accommodate other characteristics found in major markets (see Chapter 3). Obviously, the product or service must be legally exportable (see Chapter 2). Someone, most likely the seller, must deal with these issues before exporting can even be considered.

For the purposes of this book, we will use the term "product" to mean either a good or a service. We will also differentiate between tangible and intangible products. This will accommodate both services and a new breed of product—software capable of being both offered and delivered over the Internet.

Sellers and buyers must somehow come into contact. Sellers usually initiate contact through established marketing channels (Chapters 4 and 5 will show how this is commonly done).

Sellers and buyers must agree on how the product or service will be transferred. Incoterms 2000® provide 13 well-defined scenarios that divide seller–buyer responsibilities in international sales of goods. We will see them and their less-desirable alternatives in Chapter 7.

Sellers and buyers must agree on how payment will be transferred. As we will see in Chapter 12, exporting offers more possibilities than the "open account" or "payment with order" terms one finds in domestic business. Some payment terms commonly used for tangible exports are triggered by *documents,* a collective term for proof that specified events have happened. As we will see in Chapter 11, many export-related documents result from the performance of tasks as listed in the preceding paragraphs. For this reason, terms of sale and terms of payment should be considered together for anything other than open account or payment-with-order situations.

Some products require services such as installation, operator training, maintenance, and repair. Sellers seeking to develop and increase export markets anticipate and provide for these issues.

EVOLUTION

Many companies begin exporting almost by accident. Their product was found by an overseas buyer or its purchasing agent, or perhaps by an export intermediary. Because business people who are inexperienced in export tend to be nervous, initial sales are often made on conservative terms of sale and payment. This, of course, makes purchasing difficult for the buyer, and the fact that such business happens at all says something good about the product.

As times goes by, the accidentally exporting seller becomes more comfortable with such business. Sometimes, outside events happen to stimulate the seller's interest. Possibilities include, but are not limited to, word of a competitor's success in foreign markets, a promotional event sponsored by the U.S. Department of Commerce or a local chamber of commerce, or an overseas inquiry for a large potential deal. Perhaps the stimulus is negative—a depressed domestic market or a foreign competitor's appearance in the domestic market. There's even the possibility that a domestic competitor's success in exporting makes it a greater threat domestically. Whatever the reason, the company becomes motivated to start exporting on a more deliberate basis.

There are several possible paths available at this point. The company may "rent" an export department by engaging the services of an export intermediary, as described in Chapter 4. It may establish its own export department, either by hiring an experienced export professional or by devoting the necessary time and effort to learning how to build an export market on its own. There's no right approach. Much depends on the level of interest, available resources and type of product a company has, and how quickly it wants to penetrate overseas markets. It is also possible for a company to take several approaches simultaneously, engaging an intermediary for some parts of the world and going it alone for existing or what it perceives to be easier export markets.

A well-qualified export intermediary can usually get a new-to-export product line rolling faster than even an experienced but newly hired in-house export manager can. This is particularly true if the intermediary handles product lines that are complementary but noncompetitive, or if it has previously exported a directly competitive line. After all, the intermediary has a staff that already knows how to export. Still, as we will see in the next section, linkages must be developed before exports run smoothly. Issues such as product modification, export packing, payment policy, and the applicable level of export control must be addressed.

An experienced export manager, our second possibility, already knows how to export—perhaps even how to export that very kind of product. However, he or she does not have an export-ready staff and must acquaint the seller's domestic business people with the requirements of successful exporting. Unless our export manager is given sweeping power over all related disciplines, which seldom happens, this will necessitate selling the desirability of exporting to his or her peers. This is no easy sell, given the intensive level of detail involved. Just to make things more challenging, there will invariably be someone in the company who "knows somebody who lost a bundle at the hands of the foreigners." Then, there's the process faced by all new hires, that of earning one's spurs within the organization. Clearly, some positive linkages need to be forged.

The third possibility, learning to do it oneself, is slow and may also be extremely dangerous without expert guidance. Despite this, it too has advantages. First, the novice need not learn everything about exporting products of all kinds, just those that the company offers. Second, because this process takes time, it can be gradually introduced to all other concerned parties within the organization, thereby reducing the risk of injured egos or turf battles. Finally, despite what many experienced exporters would have you believe, it is not rocket science. The new-to-export seller should establish strong linkages with qualified people who teach export basics. Such sellers should also seek out the best outside service providers such as banks and freight forwarders and rely heavily on their judgment, particularly at the start. And they should educate themselves by buying books such as this one.

Once a company becomes serious about exporting, its individual departments will often modify their own departmental procedures to accommodate exports. That these tend to work well for their intended purposes comes as no surprise, as they were developed by people who are expert within their own disciplines. The problem is that each tends to focus only on the activities of the department in which it was conceived. The result is a strange bucket brigade-type situation, where each party knows its own function, and perhaps the function of the party located immediately next in the process, but does not necessarily know where the fire is.

LINKAGES

For the purposes of this book, linkages are relationships among the parties we've seen in the "Who Is Involved?" section of this chapter. Readers may add any others that fit into a company-specific situation. These relationships involve not only knowing what each does, but also what information each needs and what information each has at its disposal.

Using the bucket brigade analogy, everyone realizes that Credit determines payment terms. However, are the people involved in Compliance aware that much or all of the buyer-specific information they need for export licensing decisions can be found right in the credit files? As we will see in Chapter 2, export licenses are sometimes required because of the place where a product is transshipped from one carrier to another. Traffic, or the forwarder it employs, may be able to avoid this by selecting a different routing or carrier, but only if they are aware of the situation. Huge freight-cost savings are often possible if products can be modified to take up less space for shipment, but this may happen only if Traffic and Manufacturing are consulted (by Sales?). Speaking of Sales, does it *ever* consult with Manufacturing when promising latest shipment dates or with Traffic when promising delivery?

Then there's drawback, the potential of recovering substantially all of the duty paid on imported items that are reexported, either in the form they came in or when used as a material to make something else. This involves coordination between Purchasing and Traffic, because drawback must be claimed by the exporting party but must reference the importation. Sales should also be interested in any cost savings.

This writer, who has instructed hundreds of public and on-site seminars, is constantly amazed at how little the employees of many huge household-word companies know about what each other does. This isn't a question of cross-training, simply a basic awareness of who does what and which tools each player has at its disposal.

As the title of this book implies, we will cover some methods of navigating the complex rules, controls, barriers, and laws found in exporting. To this end, we need all the resources our companies have to offer. Otherwise, as the famous cartoon figure Pogo the Possum said: "We have met the enemy, and they are us."

Each chapter will indicate some obvious places where one party may either assist or obtain assistance from another, such as:

- Sales—Credit
- Sales—Manufacturing
- Sales—Traffic
- Sales—Buyer
- Credit—Traffic
- Credit—Buyer
- Manufacturing—Purchasing
- Manufacturing—Traffic
- Traffic—Purchasing
- Compliance—Sales
- Compliance—Credit
- Compliance—Traffic
- Compliance—Buyer

Not surprisingly, many linkages are two-way streets, where each party has something of value for the other. The goal is to discuss each function in useful detail, and as a byproduct, to provide a bird's-eye map of a "typical" exporting company. Just follow the linkages.

Vincent G. Guinto is an export packer. In our job descriptions, his company would be engaged by manufacturing to handle a particular order of items that would be sent to him from us and from our vendors for packing and consolidation. His *JOC Week* article beautifully illustrates the need for effective linkages. His concern is processing incoming bits and pieces for large export projects that he receives piecemeal from his exporter customers and their outside vendors. However, the moral applies to shipments of all sizes and to all players in the export process. Just substitute *information* for *trucks* and maybe *Compliance, Credit, Manufacturing, Traffic,* or even *The Buyer* for the *procurement department* or *export packer.*

> ### Avoid Export Packing Pitfalls
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> Whenever a major engineer-procure-construct project is awarded, one of the first events to take place at the company awarded the contract is to hold a project kick-off meeting. During the meeting, the most important goals and objectives of the project and each functional discipline are discussed and action items assigned. At these meetings, you normally hear the project manager state that the project must be completed on schedule and under budget, that delays, penalties, and liquidated damages should be avoided, and that accurate drawings and documents must be used throughout.
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> Sometimes the traffic and logistics manager is invited to these meetings. However, there are many times when attendance is limited as many people may want to participate and the conference room is not large enough. Thus, the traffic and logistic manager's immediate supervisor, usually the procurement manager, may decide to take notes and provide information to his appropriate subordinates later. This can be a fatal flaw if not handled properly.
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> Obviously, a primary concern of the project manager and the procurement manager is to purchase equipment built to the appropriate specifications and shipped on time. Here is where I still see many companies operating as if they were living in the 1960s and 1970s. Their objective is to get material and equipment shipped from their vendor on schedule, even if they have to sacrifice accuracy of the shipping documentation.
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> The next and key step for the project is to have the manufacturer ship the freight to the export packer. This is the phase of the process that normally creates problems that result in various costly delays. Any number of problems crop up at this point. Trucks arrive with no prior notification given to the packer from the manufacturer, shipper, buyer, expeditor or traffic and logistics specialist, as the case may be. Trucks arrive with no packing list or any documentation to properly identify the shipment. Trucks arrive after closing time at the packer. No accurate weights and dimensions are provided. The driver does not know the name of the project, nor is it identified on the paperwork in the driver's possession. No prior notification is provided that cranes may be needed to unload the cargo. No export markings are provided to the packer. Finally, packages and items are not properly described on the purchase order, nor do they agree with the line items on the purchase order. The packer often is told that the item is properly identified on a revision to the purchase order, but the packer is not provided with the revision.

Resolving some of these issues can take several days or even weeks, causing embarrassing and costly delays.

If root cause analysis could be done on many of these delays, the majority would reveal that the source of the delay lies in the procurement department of the company carrying out the project. Although it might do an excellent job of acquiring the specified material, similar attention is not given to the shipping and packaging clause in the purchase order. Assumptions are made that the vendor is in, or will be in, complete compliance with all the terms and conditions of the order. But as experience has shown, this is not always the case.

The primary vendor, the one receiving the original purchase order, often will subcontract a portion of the order or even involve a tertiary vendor. These subvendors will build products to required specifications, but will not be aware of the shipping and packaging requirements in the original purchase order other than the ship-to address of the export packer. This creates the situation of product arriving at the export packer without proper information.

And, of course, from the perspective of the procurement and project manager, the resulting delays always seem to be the fault of the traffic and logistics manager and his or her department.

In today's business environment, a growing number of major companies are implementing the Six Sigma program, which seeks to minimize errors throughout a company's operations. I believe Six Sigma can solve many problems associated with the shipping and packaging process. If this program or other similar programs looking to improve the shipping documentation process is followed correctly, it will be clear that major project cargo shippers must focus their attention on the upfront portion of the process. In other words, they must ensure that the shipping and packaging requirements in their purchase orders are rigidly followed.

This will result in avoidance of delays, traffic and logistics cost overruns, and finger pointing. At the end of the day, the problem rests with the entire procurement department team, and not just one specific function within that department."[1]

MEET IN THE MIDDLE

Besides two-way communications between players that can obviously be of help to each other, the possibility exists for sharing sources of multidisciplinary information. The Journal of Commerce's *JOC Online* web site (www.joc.com) and IOMA's *Managing Exports* newsletter are two obvious examples, and you will find more in Chapter 13. The following excerpts from *Managing Exports* illustrate the point:

New Free FITA Service 'Reviews' International Trade Websites

The Federation of International Trade Associations (FITA) has launched a bimonthly free service, "Really Useful Sites for the International Business Professional" (www.fita.org). The Really Useful Sites e-newsletter can save export professionals both time and headaches by guiding them to the really useful international trade websites while filtering out the "also-rans."

John McDonnell, editor, profiles sites from FITA's International Trade/Import Export Portal, which is also a great source for trade leads, news, events, and some 3,000 links (www.imakenews.com/eletra/go.cfm?z=fita,3464,43541,355)."[2]

Below is a small sampling from McDonnell's reviews in the first issue of *Really Useful Sites:*

- U.S. Department of Commerce Export Portal (www.export.gov). This easy-to-use site has a wealth of information for U.S. companies looking to export. By simply clicking on the questions you want answered, you'll find web-based resources to help you. This site can help any business make a good start in broadening its markets.
- ATMs Around the World. I can find out the locations of these ATMs in the Travel Section of FITA's Global Trade Shop (www.fita.org/travel).
- Medical Conditions Around the World. Want to get an update on medical conditions in your country of destination before you leave? Go to the Center for Disease Control's Blue Sheet (www.cdc.gov).
- Currency. Want to know how many U.S. dollars make Singapore dollars? Here's a link to FITA/Oanda Currency Converter (www.oanda.com/convert/classic?user=blehrer)."[3]

Speaking of web sites, just look at the following list of uses excerpted from a Managing Exports article titled "32 Ways to Use the Internet to Improve Export Functions:"

1. Preparation of export documentation
2. Sending export documents
3. Tracking and tracing shipments
4. Researching potential customers' credit
5. Banking functions
6. Export compliance
7. Shipping information, rate quotes
8. Marketing: research and leads
9. Currency exchange information
10. Sales
11. Locating agents, distributors
12. Checking on competitors
13. Overseas sourcing
14. Filing Shippers Export Declarations
15. Researching international customs
16. Quoting pricing

17. Invoicing
18. E-mail
19. Contacting foreign government agencies
20. Customs management
21. Checking inventory
22. Advertising
23. Mileage makers, map makers
24. Product classification
25. E-business
26. Purchasing
27. International warehousing
28. Training personnel
29. Pricing and purchasing insurance
30. Translation
31. Travel information and advisories
32. Internal communication with sales staff[4]

As you can see, there's something on the Internet for every player we've mentioned. However, it took a publication aimed at every export-related discipline to point this out. The same is true of the following survey:

> **Exclusive ME Survey Reveals 16 Export Pros' Best Cost Saving Tactics**
> With world trade slowing, and corporate profits at many exporting firms taking a hit, a number of export managers have been receiving memos from top management mandating cost-cutting measures. Obviously, the CEO is not talking about simple retrenchment, but instead wants greater efficiencies and lower costs along with continued aggressive efforts to grow the company's international sales. To help export professionals facing this situation, ME recently polled 16 export pros on their most effective cost-cutting strategies. Our survey located such measures in eight areas of export administration and sales.

1. Cut Down Number of Forwarders
   - "We selected one major freight forwarder with one backup," explains the International Sales Manager at an Illinois food services company with 1,700 workers. "As a result, we consolidated shipments and utilized contracts, and savings came on commitments."
   - "We settled on one forwarder, due to its quick service and ability to handle questions in a timely manner—which has resulted in significant savings," says a Director of Exports at a 100-employee New York firm.
2. Implement Automation Solutions
   - "We automated the shipping department's generation of export documents and utilized carrier software (which is free), saving many hours per week of manual documentation," says the Logistics Specialist at a California telecom products firm with 2,500 employees.

- "Use of export documentation software has saved many hours and thousands of dollars," says the International Trade Manager of a Virginia company.

3. Consider Open-Account Terms

- "Moving to open-account terms not only resulted in faster response time to orders, but resulted in less paperwork along with a reduction of costs associated with letters of credit," says the International Customer Service Manager of a South Dakota exporter.
- "Selling on open account drastically reduced our use of letters of credit, saving hundreds of dollars in L/C costs per order. We grew our customer base and expedited order processing as well," explains the Import/Export Manager at a 250-employee New York firm.

4. Utilize Government Export Programs

- "We have used the Ohio Trade Department offices in overseas markets to do the groundwork, finding new distributors, and saving us travel costs and personnel time," says the Export Coordinator at a 1,500-employee company.
- "We initiated a drawback program, which returned $18,000.00 to the company the first year," says the Traffic Coordinator at a 33-employee Maryland industrial goods exporter.[5]

[Note: drawback is the recapture of up to 99 percent of the duty paid on an imported item that is subsequently exported. Certain conditions apply.]

5. Take Advantage of Cheap Technologies

- Use Internet, e-mail to move documents—serve customers—better, faster: The Director of a New Jersey export services company "switched from couriers to Internet e-mail to send documents. The time we've saved has added up to significant money savings."
- The Export Manager of a 100-employee tooling manufacturer in Ohio has a similar observation: "We are now using the Internet and e-mails as a primary means of communicating with our customers. This has greatly reduced the days to pay our invoices, thus requiring less manpower to follow up."

6. Negotiate Lower Rates with Providers

- With the slowdown in international trade, forwarders and carriers are fighting for business. Take advantage of this "buyer's market."
- "We changed forwarders and renegotiated contracts through a bid process, resulting in substantial savings," says the Traffic Administrator at a medical equipment supplier in Missouri, with 500 employees.
- "By switching to another freight forwarder, we saved costs by 75 percent," says the Import/Export Specialist at a California food service company with 40 employees.

7. Improve Documentation Practices

- "By knowing what documentation is needed for a shipment to go smoothly, and generating it quickly, we saved money by preventing delays, returns, and

> lost customers," explains the Export Manager of a home wood-products exporter with a workforce of 80 in Wisconsin.
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> - "Ship and clear customs sooner—save on [the] manufacturing end: "Improving the accuracy and timeliness of shipping documents has allowed parts to ship sooner and clear customs much faster," explains the Logistics Manager at an exporter of water-cleaning systems in Idaho with 1,000 employees. "This change has saved $100,000 in tool down-time."
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> **8.** Increase Staff Efficiency, Responsibility
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> - Save time, money; free up personnel: "By implementing a more streamlined method of handling export orders, we have made them more routine, saving large quantities of time spent in every department throughout our facility," says the Customer Service Manager at a textile chemicals form in North Carolina.
> - "Through additional training we achieved greater staff efficiency and better customer service—saving time and money" notes the Export Compliance Director at a 500-employee Ohio exporter of consumer goods.
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> Not every one of these strategies will fit your specific export department, but many will. In addition, the experiences of these export pros can spark some creative thinking on other tactics for reducing costs, while continuing to battle for export sales in even more competitive global conditions."[6]

While some of these suggestions are very practical, the larger issue is that they provide food for thought and discussion among all departments involved in exporting. This may lead to elevating linkages into effective interdepartment procedures. When this happens, everyone—including the buyer—benefits from the better, faster, less costly, and more efficient performance that invariably results.

DON'T FORGET THE BUYER

The one player who usually doesn't get to meet in the middle with the others is the buyer. However, all export plans amount to nothing without this all-important party. Consistent with reasonable profit objectives and risk threshold, sellers should try to make purchasing their products as easy as possible for honest, credit-worthy buyers. The buyer should be kept in mind when export-related policies and procedures are considered. After all, the seller and buyer should be on the same team. Both want the buyer to get the product and the seller to get paid.

Sometimes, overseas buyers have concerns that, although not obvious to us, may be extremely important to them. For instance, some countries issue import licenses that permit importation only within a specified time period. Miss it, and the buyer will need to apply for an extension—by no means a sure thing. Fines and even confiscation of the goods are also possible. Late shipments can also increase the buyer's cost for dollar-denominated sales if the local currency were meantime to drop in value. Incorrect product descriptions on shipping documents may cause customs clearance delays, hefty fines, and even confiscation.

The attention given to a new purchase order often makes the difference between a smooth transaction and an order from hell. Savvy buyers go out of their way to state their requirements in their orders. Sadly, these are frequently overlooked. All parties concerned at the seller's company should check incoming orders for

- Product description (including any requested description for shipping documents)
- Quantity
- Price, including any transportation or insurance costs included in the pricing
- Requested terms of sale
- Product availability as compared to requested shipment time
- Requested routing
- Any country-specific documentation requirements
- Requested payment terms
- The export control status of the buyer, the buyer's country, and the ordered products

Each incoming order should also be matched with any quotation from which it came. The same goes for the documentary requirements of any covering letter of credit (bank guarantee).

Any differences between the order and the seller's understanding of the deal should be promptly brought to the buyer's attention. If there are none, the order should be acknowledged, if possible with an estimated shipping date. Nothing, but nothing, irritates overseas buyers more than placing an order and receiving silence in return. The thought process goes something like this: Have they received it? If so, did they accept it? For that matter, have they already shipped it, and are the goods incurring storage charges somewhere? Didn't their mothers teach them to say "thank you"?

It's also a good idea to keep the buyer informed on the progress of orders that do not ship immediately. While obviously a must for products requiring predelivery preparation on the buyer's part, this is a good practice for all pending orders. Keeping the buyer in the loop demonstrates sincere interest. It also reduces the likelihood of any last-minute order cancellation, especially if the seller encounters unforeseen problems that delay promised shipment dates.

When shipment is finally made details such as carrier name and estimated date and time of arrival should promptly go to the buyer. Sending nonnegotiable copies of the shipping documents clearly marked COPY is another nice touch. Consider following up air freight shipments with carriers for arrival confirmation. After all, shipments made by air are by definition time-imperative. Finally, a brief thank-you letter a week or two after the shipment should have arrived is a beautiful gesture.

All this may involve a bit more care and attention than domestic customers normally require. It is justified, because foreign buyers are naturally more nervous than their domestic counterparts. This is particularly the case with first-time buyers. There's a payoff to sellers for this little extra attention. Most cultures, and therefore most people, place a greater importance on relationships than we do. Overseas buyers often display levels of supplier-loyalty that are incomprehensible to Americans. Treat them right, and competition will not easily seduce them away.

The converse is true. What may seem to us as trivial errors or tolerable shipping delays can provide tremendous hardship and additional cost to buyers. Given enough problems, even customers of the biggest and best-known sellers of the best value-for-money products will go elsewhere where their business is more appreciated. Lack of attention is often taken as hubris, and no one wants to buy from an arrogant or disinterested seller. Given our huge domestic market and our relative lack of export-dependence, American sellers are more likely to fall into this trap than are our foreign competitors.

Sellers that have not been paid before shipment have an extra incentive for post-shipment follow-up. For instance, as we will see in Chapter 12, "sight draft-documents against payment" is a commonly used export payment term. The goods are shipped, but the covering documents are sent to a bank in the buyer's country rather than to the buyer. When done correctly, this procedure forces the buyer to pay at the local bank in order to receive the documents that are required to claim the goods. It is the international equivalent of cash on delivery (COD). The problem is that unless such shipments are followed closely, small problems can become large. In most companies, Credit is the first to know, not because something happened but because something—payment—didn't. This discovery could come weeks or months after shipment and may preclude remedies normally available if prompt action is taken.

Credit sometimes also provides a warning about unresolved supply problems with buyers on open account terms, but again usually after the damage is done. Buyers encountering problems normally contact Sales first, either directly or through the seller's local representative. If no satisfaction results, they will eventually get Credit's attention by withholding payment. It can be embarrassing when a collection letter draws an irate buyer response that the wrong product was shipped and that several previous complaints to the seller's local representative remain unanswered!

DON'T FORGET THE OTHER TRADING PARTNERS

As we will see in Chapter 4, some kinds of product are best sold through local representatives, distributors, or even branch offices of the seller's own company. These trading partners should be kept informed of developments that concern them. This includes orders received from or shipment made to their territories, product updates, and pricing changes. Although they will probably do most of their communicating with or through Sales, they should also be provided with contact persons in Credit, Traffic, and Compliance. Good local trading partners can act as the seller's "eyes and ears," by providing buyer-specific information needed by Credit for payment terms and by Compliance for export control compliance. Good trading partners can also assist with collection of overdue accounts. They also often have first-hand knowledge of local transportation conditions that Traffic may find very useful.

The Internet has magnified the need to keep representatives and distributors informed. Local buyers can often access the seller's web site, thereby instantly obtaining product information. It is embarrassing and can dangerously undercut the local trading partner's position if local buyers get information before they do. Because the Internet makes getting information easy, it tends to mask the services local trading partners bring to transactions that benefit sellers and buyers alike.

DON'T FORGET THE FACILITATORS

Freight forwarders, banks, and federal and state governments can assist exporters with shipping, financing, and locating suitable trading partners. Not only can they help avoid problems, but they can advise on strategies for increasing business.

Freight Forwarders

Freight forwarders handle international transportation arrangements and the lion's share of the documentation process. They also often help with freight cost negotiation and carrier selection. Depending on the terms of sale governing a particular transaction, the forwarder may work for either the seller or the buyer.

Generally, sellers are best served when using their own forwarder. In Chapters 7 and 10 we will see strong arguments for sellers to use sales terms that empower them to control main carriage transportation and forwarder selection. Forwarding is a heavily detailed low-profit business. In order to survive, forwarders usually handle more shipments than they can realistically manage.

Their time and effort will first go to accommodate the interests of their repeat customers who, after all, provide ongoing income. For buyer-routed shipments, the forwarder's repeat customer is the buyer, not the seller.

Most forwarders charge modest handling fees that barely cover their costs. They can do this because a substantial part of their income comes from commissions (called "brokerage") they receive from the carriers they select. Since the party that makes the booking gets the brokerage, carrier selection and forwarder selection go hand-in-hand.

Whenever possible, savvy sellers make offers including the cost of precarriage and main carriage transportation, thereby increasing their chances of controlling carrier and forwarder selection. Incidentally, doing so also makes it easier for buyers to arrive at purchasing decisions.

Sellers get these freight costs from either carriers or forwarders. Forwarders are well equipped to provide this information, because they are aware of which carriers serve which destinations and have a good feel for "typical" freight costs. They do not charge for this service, in the hope that business will result. Just look at the following synergy at work here:

- Sellers must provide their forwarders with enough shipments to make their business attractive enough for the forwarder to search for competitive freight costs, thereby increasing the odds of getting orders.
- Forwarders, for their part, must work to get competitive freight costs so their seller-customers can get orders, and must provide acceptable service and documentation to retain their business.

Of course, savvy buyers are also obtaining freight costs from their forwarders. The result is that carrier and forwarder selection can become a real taffy-pull.

Control of cargo routing is the coin of the realm in transportation. Carriers give preferential freight costs to parties that control large numbers of shipments, very large shipments, or both. Parties controlling less cargo pay higher freight costs, and thereby have less chance of controlling more. Savvy sellers try to control as much cargo as possible, both to keep their prices competitive through lower freight costs and to capture as many shipments as possible for their forwarders.

There is tremendous consolidation in the forwarding industry. For instance, two huge companies, Air Express International and Danzas, are now indirectly owned by the German Post Office. Not only are forwarders buying each other, but they are merging with carriers. Fritz is now part of UPS, and Tower is owned by Federal Express. Most large forwarders have nonvessel-operating-common-carrier (NVOCC) operations, which effectively puts them in the ocean carrier business. A similar situation exists with air cargo consolidation. The result is fewer but larger transport service providers, which increases the importance of achieving large-shipper status.

Besides capturing as many shipments as possible for their forwarders, shippers strengthen this important relationship by paying their bills promptly. Forwarders usually prepay shipping expenses for creditworthy customers and rely on prompt payment to recover these out-of-pocket costs.

Inevitably, all but the most dominant sellers will encounter some situations where the buyer will select the forwarder and carrier, usually because it obtains lower freight costs than the seller can get. This isn't the end of the world, but it requires extra attention on the seller's part. Besides the fact that buyer-appointed forwarders look out for buyer interest, there is greater potential for error since they do not have the same familiarity with seller operations that the sellers' forwarders enjoy. Filing the Shipper's Export Declaration (i.e., reporting the export) presents another awkward situation for sellers that normally delegate this task to their forwarder. Most forwarders are honest and do their best to please everyone. Still, sellers cannot assume that the same amount of attention to their instructions will come from service providers that do not owe them allegiance.

Regardless of which party appoints the forwarder, sellers help themselves and the buyers by providing shipment-specific information as soon as it is available. At a minimum, forwarders need to know weights, dimensions, shipping marks, availability time and place, and any carrier preferences in order to arrange transportation. When applicable, they also need to know of any hazardous materials or export license restrictions, and whether they are to provide insurance cover. Additional information, such as Schedule B classification and the seller's federal tax identification number may be required when the forwarder is requested to file the Shipper's Export Declaration.

Banks

Competent international banking is a must for successful exporting. The most obvious service is a place for overseas customers to wire transfer their payments. As we will see in Chapter 12, banks also process letters of credit and documentary collections, and arrange the purchase or sale of foreign currencies. They can often provide credit information on buyers and guidance on country risk. Some banks have even developed export receivable factoring programs that incorporate credit insurance or other guarantee programs such as those provided by the Small Business Administration and the Export-Import Bank.

Many commercial banks have international departments, which tend to be back-office functions. As exports often involve detailed processing, many domestic banking account officers lack sufficient operational knowledge to explain them to their customers. Conversely, the international officers who have the operational knowledge often lack lending authority. Savvy exporters make it a point to get acquainted with their banks' international staff and determine how any financing requests are handled before they are needed. Because banks are combining almost as quickly as forwarders, existing relationships should be renewed and sometimes replaced as acquiring banks merge international operations.

Another service that banks can perform is providing information about their customers to prospective foreign buyers. Sellers with good reputations can help the process along by providing the names, addresses, and contact persons of their banks of account to first-time buyers.

Governments

As we will see in Chapter 5, the federal government provides considerable assistance to exporters. It literally takes hours just to explore the possibilities on the new government one-stop portal www.export.gov, and smart exporters do just that. Most state and some municipal governments also offer export assistance, which is usually more focused on the needs of their local trade communities. However, it's up to exporters to involve themselves as none of these agencies can help you if they don't know who you are and what you do.

One thing all government export assistance programs need is feedback. They do not operate on a profit and loss basis, and they rely on their clients to tell them what works and what doesn't.

We will now visit 11 function-related chapters, building interdepartmental linkages as we go.

LINKAGES

- *Everyone:* Start the process of building linkages by sharing this book with a colleague in another export-related department once you have finished reading it. Of course, if you can't bear to part with it, there's always the better alternative of ordering another copy.

ENDNOTES

1. Guinto, Vincent G., "Avoid Export Packing Pitfalls," *JOC Week,* June 3–9, 2002, page 32.
2. "New Free FITA Service Reviews International Trade Websites," *IOMA's Report on Managing Exports,* Issue 2001-04, April 2001, page 2.
3. "New Free FITA Service Reviews International Trade Websites," Op. Cit.
4. "32 Ways to Use the Internet to Improve Export Functions," *IOMA's Report on Managing Exports,* Issue 2001-05, May, 2001, pages 1, 7, 10.
5. "Exclusive ME Survey Reveals 16 Export Pro's Best Cost Savings Tactics," *IOMA's Report on Managing Exports,* Issue 01-12, December 2001, pages 1, 13, 14.
6. "Exclusive ME Survey Reveals 16 Export Pro's Best Cost Savings Tactics," Op Cit.