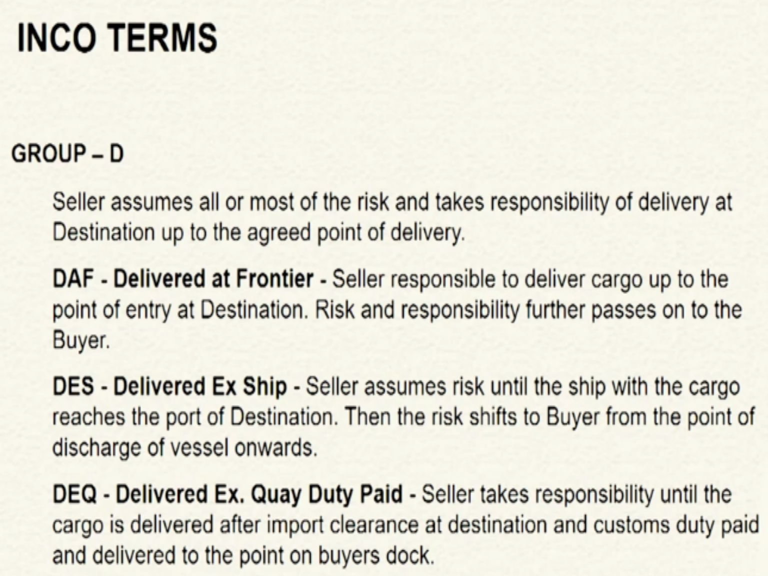
International Marketing
Prof. Biswarup Ghosh
Vinod Gupta School of Management
Indian Institute of Technology - Kharagpur

Lecture – 18
Import Export Procedures

(Refer Slide Time: 00:23)

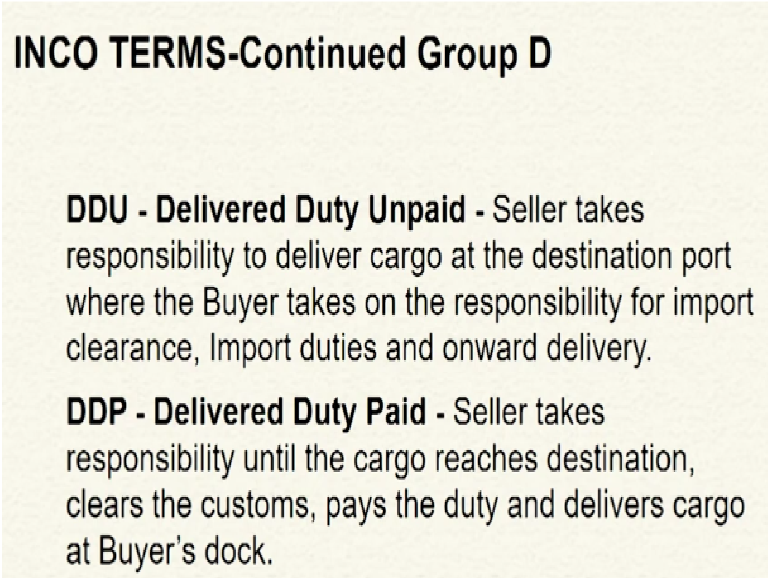


Hi, good evening. Welcome back. This is my module 4, lecture 18. So, we will continue where we left, the Incoterms. So, we discussed the Incoterms, E and C. Now, the another Incoterms under category group D category Incoterms. So, what are the group D Incoterms? Seller assumes all or most of the risk and takes responsibility of delivery at the destination up to the agreed point of delivery. So, here it is not the port.

See the first one was in the Ex Works, E terms, then the C terms that cost include that the ports, here is up to the destination. So, the D means destination. So, we say DAF, delivered at Frontier. Seller responsible to deliver the cargo up to the point of entry at destination. Risk and responsibility further passes on to the buyer. So, from the entry from that point, it is a buyer's responsibility. D is delivered Ex Ship.

Seller assumes risk until the ship with the cargo reaches to the port of destination, then the risk shifts to the buyer from the point of discharge of vessels onwards. DEQ, delivered Ex. Quay Duty Paid. Seller takes the responsibility until the cargo is delivered after import clearance at destination and customs duty paid and delivered to the point on buyer's dock. So, that is known as a DEQ.

(Refer Slide Time: 01:51)



Then the next one is Delivery Duty Unpaid. The seller takes responsibility to deliver the cargo at destination port where the buyer takes responsibility for import clearance and import duties and onward delivery. That means up to that port will be the seller's responsibility including insurance, freight, everything but from the port paying the import clearance charges, import duties and onward delivery to the buyer's destination will be the buyer's responsibility, buyer has to take care.

And the last one is Delivery Duty Paid. So, seller takes the responsibility until the cargo reaches the destination, clears customs, pays the duty and delivers a cargo at the buyer's dock. So, that means it will be delivered at the buyer's dock. So, that is known as delivery duty paid. So, these are the very important and crucial Incoterms. So, these Incoterms will be internationally followed by all the countries, whoever is doing the international business has to follow these Incoterms.

So, now you can define your price based whether it is a DDP, whether is a CIF or is a CIP, whether it is FOB or FOS price depending on the risk and the cost up to what point you want to take and how, so that is the way how Incoterms. And remember this is very fundamental in deciding your pricing and apart from the price, the Incoterms is the responsibility, who takes the responsibility from which point, whether the responsibility is the sellers, of the cargo or the inland transportation or the insurance.

All these terms and the customs duty paying and the port clearance it is whose responsibility. So typically, Incoterms decides on that. So, in case in the international business when you submit a quotation, you have to submit a quotation either CIF or CIP or FOB or DDU, all those concepts you have to make with the quote and take into consideration all the cost along with your cost of your product so that you do not make any mistake in taking whatever the cost component in each of this.

So where is, up to which point is up your responsibility, most commonly used are FOB and CIF and CIP are the most commonly used and in some cases some Ex Work is most commonly used in large equipment and others. DDP is typically used if you look at this Amazon, if you buy something from amazon.com and you pay; you buy it from amazon.com and if you say that you are from India and your delivery address is India.

They will calculate what is the insurance as well as freight and customs duty and all those they will calculate and give you the price which is delivery duty paid, it is typically used for this. When you buy spares also. suppose you have bought an equipment from US or from Japan and during the warranty the equipment had failed due to some parts component has become faulty. So, the manufacturer has to send as agreed.

As a contract they have to send you the spare parts free of cost to you up to your say in the warehouse, up to your plant or the hospital or wherever you are using that equipment. This up to that point they will send typically on DDP basis that means delivery duty paid basis they will send so that you do not have any problem. The spares will come up to your hospital or up to your factory wherever it is located duty paid, you have no headache into that.

So, the seller will take care of that. So, it is mostly the spares and the some of the smaller items these are all comes by DDP mode. So, remember Incoterms is very crucial both for buyer and seller. And as I told you, I may be repeating once again, I have repeated the same thing previous session, I am also repeating I have seen many managers in my professional career that without understanding each of these meaning has sold some equipment or some machinery.

And the company has faced several challenges and also gone through lot of financial losses. So, be careful about all these Incoterms and you understand this term and the implication of terms and then submit your quote according to this term and you take this whole of this understanding properly that is all from this Incoterms.

(Refer Slide Time: 06:54)

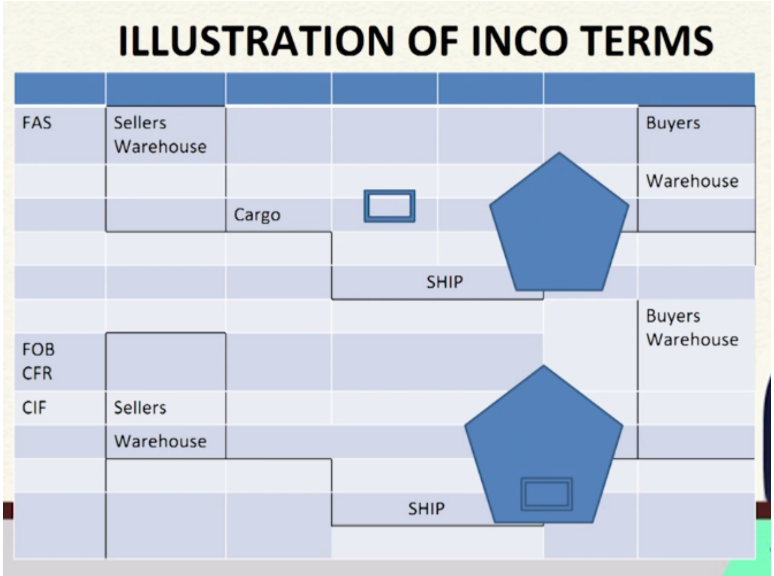


Illustration of the Incoterms, as I have just a diagram illustration. So, the first one as I said you see the consignment on the ship. So, one is FAS, this is the seller's warehouse. The cargo has moved. So seller's warehouses in the left, the cargo has moved and this is a ship. You see that it is near the ship. If it is alongside of the ship and buyer's country, buyer's warehouse, the ship will move to the buyer. His responsibility as up to the cargo is up to the alongside of the ship.

That means if this is a ship and the alongside of the ship, is not on the ship, alongside of the ship, it is FAS. That means the seller's responsibility the cost of transporting from seller's warehouse, domestics transportation up to that cargo point alongside of the ship and insurance up to that point is the seller's responsibility, FAS. If I quote FAS Kolkata sea port that means I will give it up to that alongside of the ship, putting it inside the ship and this cost is not with me.

If I am quoting FOB, then this is the free on board up to the ship. That means the cost of putting the insurance and transportation from my warehouse up to the board up to the inside the ship is also my responsibility. Now, why is this critical? You have to understand, why I am repeating why this critical. Suppose the consignment while moving from alongside to inside the ship by the crane, if some accident happens, some damage is there who will bear that cost? Who will take the responsibility of the insurance?

In this case if it is FOB, the company, the seller has to take the insurance up to inside that port, free on board up to that point is the seller's responsibility. So, if any damage happens between the seller's warehouse up to when it is put in the ship any accident happens or any damage happens, the seller will be responsible and seller has to do the insurance part of it and get the claim from the insurance company if any damage happens. Buyer has no responsibility into that.

If the seller quotes CIF that means cost inclusive of freight that means sea freight up to the buyer's nearest port wherever see CIF Yokohama port or CIF Singapore port all this will be up to CIF port so that means cost of insurance and freight up to Singapore port will be borne by the buyer. So if I am quoting for this cargo, say this is the cargo if I am putting this cargo up to a FAS 100 dollars Kolkata that means the cost includes the transportation from my warehouse.

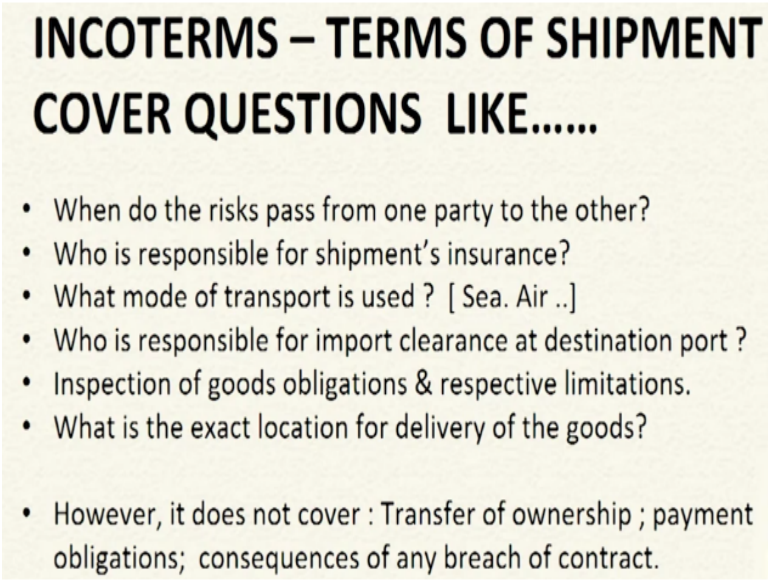
Seller's warehouse up to the Kolkata port and insurance up to the Kolkata port alongside of the ship, is not inside the ship, alongside of the ship. If I quote FOB price 100 dollars to my Singapore customer that means my cost includes the domestic transportation up to Kolkata port and up to inside the ship, the cost of putting it inside the ship and insurance up to putting it inside the ship is free on board so that up to that point is my responsibility.

From there, my Singapore importer will take care of the insurance and freight up to his port there. So, my responsibility ends there as per the Incoterms if I am quoting FOB. If I am quoting CIF that means cost, insurance and freight up to Singapore port that means my goods in the ship I should also insure this up to Singapore port I should ensure and I should also pay the freight charges for the shipping company for carrying this good from Kolkata to Singapore, so freight and insurance up to Singapore.

So, if any damage happens, say there is some damage happens during the ship voyage, if some unfortunate thing happens and the consignment is lost, then the insurance company has to pay and the insurance charges has to be borne by me, I have to bear that insurance charges prior to shipment. I have to make CIF when I quote, I have to take care. Why I take care of that? If I do not do that insurance if any incident happens, there will be total loss.

You just cannot claim anybody and so that your buyer will say that you have quoted CIF Singapore that means you have to take care of the insurance and freight up to Singapore port you have to care. So always calculate and always take care of all these costs when you quote these Incoterms.

(Refer Slide Time: 11:56)

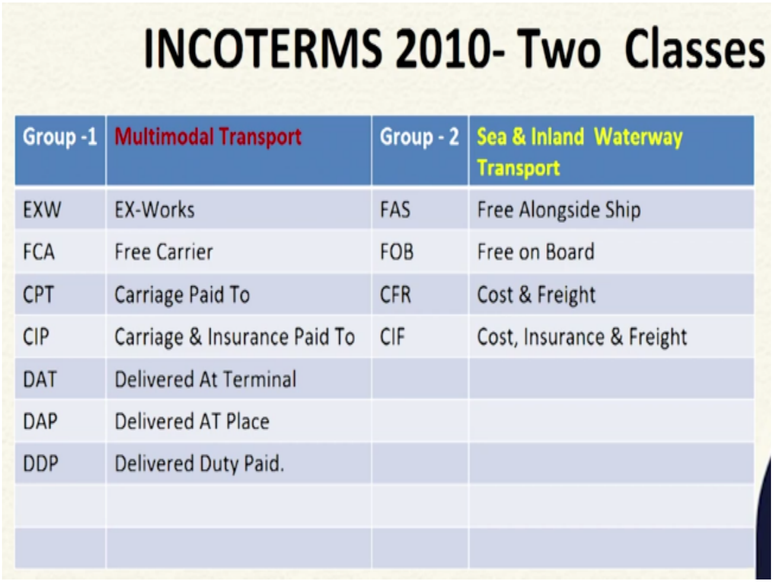


Incoterms in the shipment, when do the risks pass on to one party to another? I have explained to you. Who is responsible for the shipment of insurance? It is my responsibility, FOB, CIF, whose responsibility, Incoterms clears everything. What mode of transportation sea or air? Who is responsible for import clearance at destination port? Inspection of goods obligation and respective limitations.

What exact location of delivery of the goods? Everything is Incoterm covers. However, it does not cover the transfer of ownership and payment obligation and consequences of breach of contract. So, it covers everything except transfer of ownership and payment of obligation and consequences of any breach of contract it does not cover, but it covers the any shipment terms of shipment data questions it covers everything.

So Incoterm, as an international manager you have to understand Incoterm thoroughly and each of these Incoterms specifically where your responsibility starts, up to which point is your responsibility and which point onwards is your seller's or buyer's responsibility you have to clearly understand.

(Refer Slide Time: 13:07)

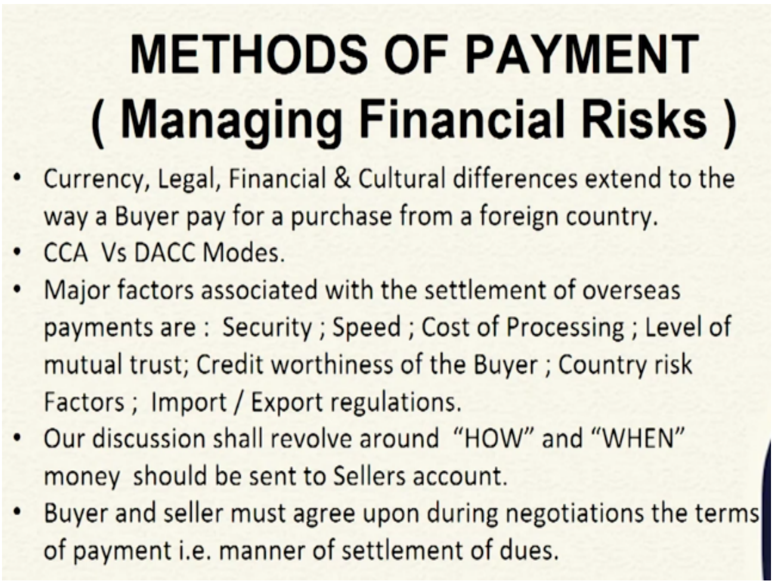


INCOTERMS 2010- Two Classes

Group -1	Multimodal Transport	Group - 2	Sea & Inland Waterway Transport
EXW	EX-Works	FAS	Free Alongside Ship
FCA	Free Carrier	FOB	Free on Board
CPT	Carriage Paid To	CFR	Cost & Freight
CIP	Carriage & Insurance Paid To	CIF	Cost, Insurance & Freight
DAT	Delivered At Terminal		
DAP	Delivered AT Place		
DDP	Delivered Duty Paid.		

Incoterms here in this mode, as I said as explained to Ex Works, FCA free carrier, CPT carrier paid to, CIP carriage insurance paid to, DAT delivery at terminal, DAP as I mentioned all and group 2 I have said that FAS, FOB, CFT, CIF. All these I have discussed and typically sea and inland we use FAS, FOB, CIF. All these are typically we use in sea and inland transportation. So, these are typically known as this.

(Refer Slide Time: 13:50)



Methods of payment, so now comes the how we make the payment. So, the payments are most important in the business as you know. You are selling the goods, your main basic objective is to get the money, the payment so that is the basic objective. Now imagine you have worked in the domestic market, you have sold some goods from your company X to one of your client company Y.

Suppose the order was for 100 rupees, you agreed that pay me, the sales contract you agreed in the quotation you say that pay me 25% advance and balance after delivery and installation. So it was typically terms you agreed. So 100 rupees, then the customer agreed. Customer said no, you take 25% advance and then take another 40% or 50% at the time of delivery, rest after you do the installation and satisfactory installation.

Now you as a company ABC Private Limited sold to XYZ Private Limited you have sold. The contract has been signed, you have signed and the buyer has also signed, seller and buyer both signed that contract and they paid you 25% advance. And then you shipped the goods to that customer and then after delivery they paid you say balance, 40% they paid or maybe 50% they paid, you got 75% already, 25 you got previously along with the order, 50% you got after you delivered the equipment to XYZ company private limited.

Balance 25% you have not got it in your hand. Then you send your technician or service engineer to install the equipment on it and then they install, they demonstrate and the customer has to pay you back balance 25%. Your customer is not making payment. Customer is telling I will pay you little later, I will come one for one again demonstration, my company is not doing well and all these problems starts and you slowly in good cases in ideal cases he pays you 25% immediately.

In some cases, he pays you 10%, then after 3 months pays another 10%, and this way he delays the payment. And then you as a manager your main responsibility is not the selling, selling is not the main important thing in sales and marketing. Selling is a contract where you agree to sell. The sale completes only when you collect the payment. So, the sale process is not completed if you do not collect the payment.

So, when you sold from ABC Private Limited to XYZ Private Limited, they made 75% payment but you could not recover, say maybe they paid 95%, but last 5% they did not pay. So you 5%. So that 5% who has lost? Your company ABC Private Limited has lost, it has gone from your profit. So, you wanted to make 30% gross margin in that product, you finally made 25% gross margin in the product, you lost. So, the payment is very crucial.

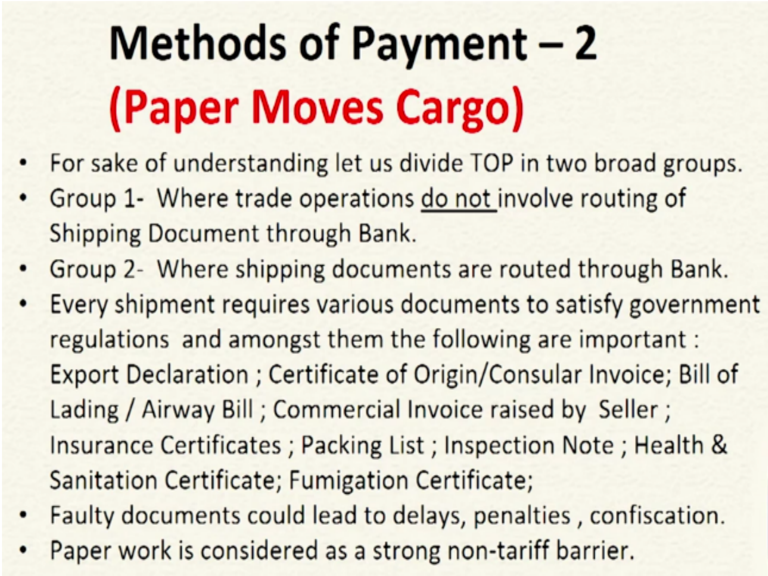
So, remember, for the practicing managers we normally become very excited when you get a sales order. When you get an order, we are very happy, we celebrate the order, a big order we have received, but this has got no meaning to the company because the celebration is good that we got an order and we will execute the order, now it is good that we will generate some revenue, we will generate some profit. But the most important part is that collect the payment.

So, most of the sales people, the successful sales people who are highly admired is not the selling, apart from selling collecting the payments, last payment of even 5% payment by submitting a bank guarantee if it is a clause you have to collect that. Now you understand this is the complications in a domestic business. Now imagine you are selling something in an international market where the customer is in Philippines or customer is in Malaysia.

You have sold and the customer has given you have sold some this type 15% advance and then balance, documents through bank and all those things say agreed and the customer is not making payment, what you will do? You will go to Malaysia ten times to collect that payment, follow up that payment, it is a huge cost for you. So, there are certain mechanisms as an international manager you have to negotiate and you have to see, you have to protect, safeguard you and there are several ways how to protect your payment.

So, the major factors associated with the settlement of overseas payments are security, speed, cost of processing, level of mutual trust which is very important. How I trust my buyer or the buyer trust seller. Credit worthiness of the buyer, country risk, import export regulation these are all crucial factors. So, our discussion should revolve around how and when money should be sent to seller’s account. Buyer and seller must agree negotiation the terms of payment, manner of settlement of dues.

(Refer Slide Time: 19:11)



Method 2 of the payment, paper moves cargo. This is very important that is why I put it red. For the sake of understanding let us divide the top two broad groups. Group 1 who trade operations do not involve routing shipping documents through bank, this is a group 1 segment of customers. So, they trade operation, do not involve routing of shipping documents through the bank. Group 2 where the shipping documents are routed through the bank.

That means when I ship, I will send the invoice, copy of the invoice, packing list, airway bill or the shipping bill along with this the warranty certificate, all the documents and the quality control check all the documents I will send it through the bank. So, I will send from my bank to the buyer's bank and buyer's bank will receive that document, hand it over to the seller, and then seller makes a payment, sorry to the buyer and the buyer makes a payment to the seller that is documents through the bank.

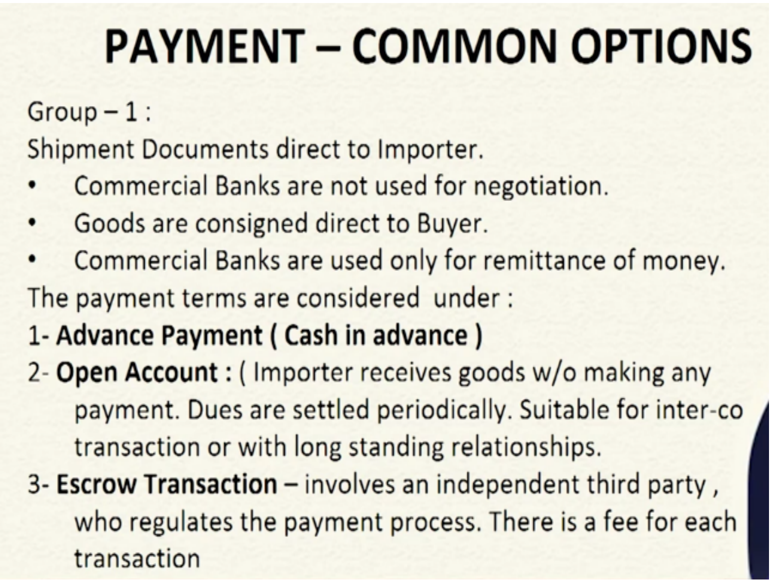
In the first channel, there is no documents through the bank. So, every shipment I send the document directly to the seller assuming that and then buyer receives all the documents like the invoice, airway bill, all the shipping documents, packing list, quality control certificate, all these certificates I receive as per the terms of the sales contract and then I make the payment to the seller. So that is the group 1 segment which is not through the bank and the group 2 is through the bank.

Every shipment requires various documents to satisfy government regulations, amongst them the following are important. Export declaration, certificate of origin which I have said, Bill of Lading or airway bill. Bill of lading, the shipping bills are known as Bill of Lading that means the shipping the documents which shows how much is the shipping charges, The shipping companies charges are known as or the bill for that is known as a bill of lading. In case of air, it is known as airway bill, AWB.

Commercial invoice raised by the seller, insurance certificate, packing list, inspection list and health and sanitation certificate, fumigation certificate if it is required by the buyer. Faulty documents could lead to the delays of payment and confiscation. If that document is mandatory for export you have to send that. If you do not send that, that good might get confiscated as per the rules of that country.

Paperwork is considered a strong non-tariff barrier because you need to be absolutely correct because here you are submitting certain papers only and these documents needs to be absolutely correct. If the documents are not correct, you will not get paid. There is a risk also. If you cannot submit certain documents as per the regulatory rules of that country, your goods might get confiscated also by the customs, so that is very important for you.

(Refer Slide Time: 22:16)

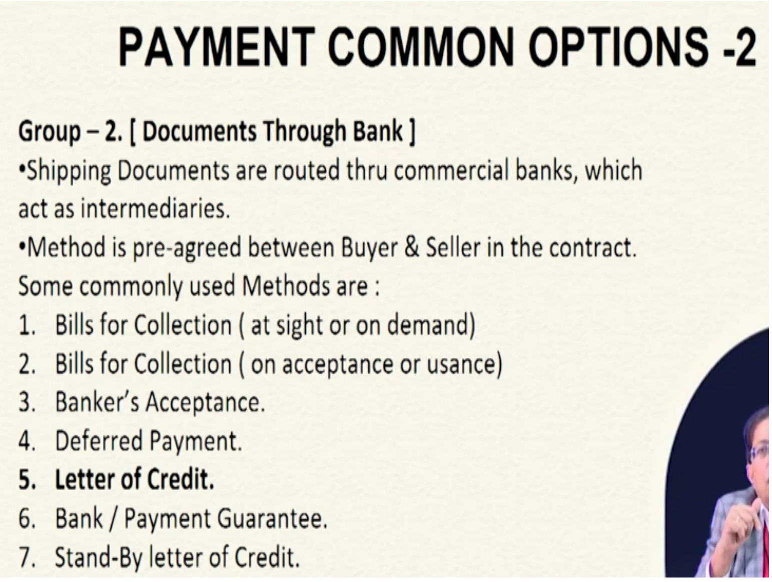


Payment, common option, group 1. Shipment documents to the importer. Commercial banks are not used in this negotiation, group one, no commercial bank is involved. Goods are consigned direct to the buyer. So, I am selling the goods directly to the buyer in Philippines or in Malaysia. Commercial banks are used only for remittance. That means a buyer will make the payment through his bank to my bank in India, so bank is only here are used for the remittance of money.

The payment terms are considered as under advanced, cash in advance, I might ask a cash in advance, you need to pay me some advance. Open account. So, the importer receives the goods without making any payment and dues are settled periodically. Suitable for intercompany transaction or with longstanding relationship. If my buyer and seller is having a longstanding relationship, you can have an open account.

Every time you do not have to make advance money, there is open account. So this is known as typically the customers where there is very frequent transactions. Escrow transactions involve the independent third party who regulates the payment process. There is a fee for this transaction. This is known as escrow transaction.

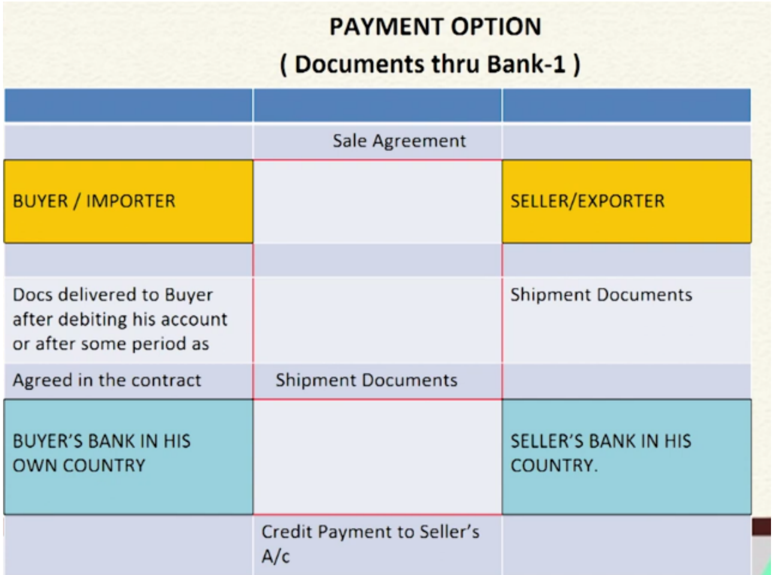
(Refer Slide Time: 23:31)



Group 2. The documents through bank. So here I will not send the documents directly to the buyer. In the previous case, all the required documents I have send it directly to the buyer. In this case, I will route it through the bank through the commercial bank which acts as intermediaries. So, I will submit the set of documents to my bank. My bank will send the documents to the customer's bank or the buyer's bank. Buyer's bank will get the documents and then will make the payment.

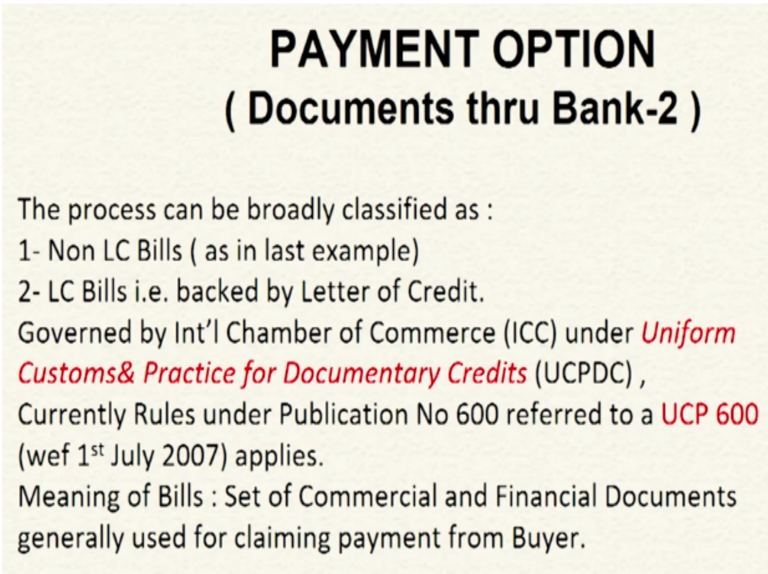
So, some commonly used method bill of collection or site so that is there, bill of collection on acceptance of the issuance, bill of acceptance, deferred payment, letter of credit, bank payment guarantee, standby letter of credit. These are the commonly various methods through bank when I am opting through bank. That means the buyer's bank, I have an arrangement with a buyer's bank. So let me explain each one, may be a little confusing at this point, but I will clear you once you go through the next few sections.

(Refer Slide Time: 24:41)



Buyer's sale agreement, there is a sale agreement between buyer and importer and seller and exporter. So, documents delivered to buyer after the debiting his account and after some period as agreed in the contract and the shipment documents. I will come to this little later on the next slide.

(Refer Slide Time: 25:00)



The process can be broadly classified non LC bills and then letter of credit bills. So, there are two different types of bills. One is non letter of credit the last one that is documents through the bank. Another is letter of credit. So, what is letter of credit? We have to understand what is letter of credit. Letter of credit is governed by International Chamber of Commerce

Uniform Customs Practice for Documentary Credit, so you will remember this is known as UCPDC.

So, the letter of credit is governed by the International Chamber of Commerce under Uniform Customs Practice for Documentary Credits. Currently rules under Publication number 600 referred as UCP 600 applies. Meaning of bills, set of commercial and financial document generally used for claiming the payment from a buyer. So, letter of credit is an arrangement which ensures your payment and guarantees your payment by the banker.

So, I will explain to you in my next session details about the various types of letter of credit and how you can use this and what type of letter of credit you typically should use while you sell or while you export your products what type of letter of credit. All these are very important for you to understand to protect your payment. I have given you an example in the domestic business where ABC a Private Limited has sold to XYZ Private Limited, he did not get paid.

An hypothetical example say last 5 or 10% is a loss, cash loss for the company that made the loss in the business. Here in the international business, the risk is much higher at least 100 times more, the risk is higher because it is very far and then you cannot get the money, you have to travel ten times. If you do not get money you have to go to the International Court of Law and it is a huge legal fees and other things, it does not make any sense for you.

So, you need to protect your payment. So, as I said most important for a domestic sales manager or an international sales manager is not the sales, it is a completion of the sale and remember completion of the sale will only happen once you collect the money and bring to your own company, then the sale circuit is complete, otherwise this circuit is incomplete, sale is not complete. There is no meaning of collecting an order without collecting a payment.

I might have collected a huge order, I have delivered to my customer, I could not collect the full 100% payment, so it is not a correct sale. Similarly, this is very important in domestic, equally important in international market, how you protect your payment and is much more challenging in international market how you protect So, what are the ways? You do not know the customer. You do not have any relationship with a foreign client.

And you are trying to sell it in a highly competitive situation and you might agree for some terms, due to looking at the attractiveness of the order and profitability, you might accept some terms and sell it at a very low price, but you never guarantee your payment. So, what has happened? You might have sent the documents to his bank or you might have sent the documents directly in the group one directly to him and he decides not to pay you, total loss for you. You have supplied already and you could not get paid.

So, guys it is very important for you to protect your payment in international business, equally in domestic business. Domestic risk is less because you can file a legal suit, you can go, you can visit ten times, not much of cost, but internationally the payment collection is a huge risk because you cannot travel ten times to Philippines or ten times to Singapore to collect the cost or collect the payment. That is all time being from me and we will come in the next session on more on letter of credit. Thank you very much.