Global Marketing Management
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Lecture – 32
Export/Import Management – Part I

Welcome to global marketing management and now we will talk about export and import management and I have dedicated 3 models that is module 32, 33, 34 to this Export Import management and I will let you know why the three models have been dedicated to export import management.

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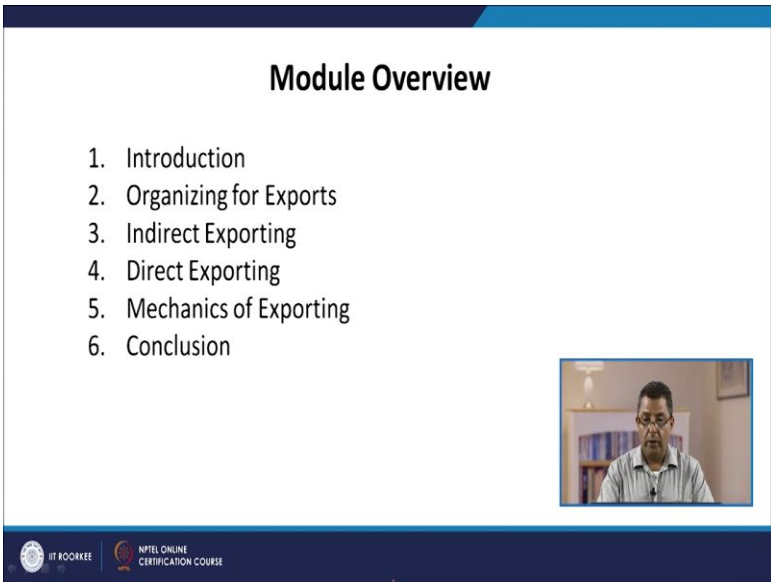

So, in this module we will talk about organizing for exporting, indirect exporting, direct exporting, mechanics of exporting. Now you see that this is the first and the easiest and the least risky mode of entering the global business arena. Most companies, almost all the companies they have or they are still using this mode for operating properly. So, even a global company maybe exporting in some countries and obviously small companies, the first step that they it take for global operations is exporting.

So, that is why we will have to understand exporting in more detail. So, this is one of the most popular way for many companies to become international.

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Exporting is obviously the first way of foreign entry used by many companies. Selling to foreign markets involves numerous high risk arising from lack of knowledge about and unfamiliarity with that environment. So that a domestic company does not know about foreign company what may be the laws and what may be the problem there what will the customers be; so that increases the risk. Therefore, this exporting provides the least risky way by which the company can take the first step towards global marketing.

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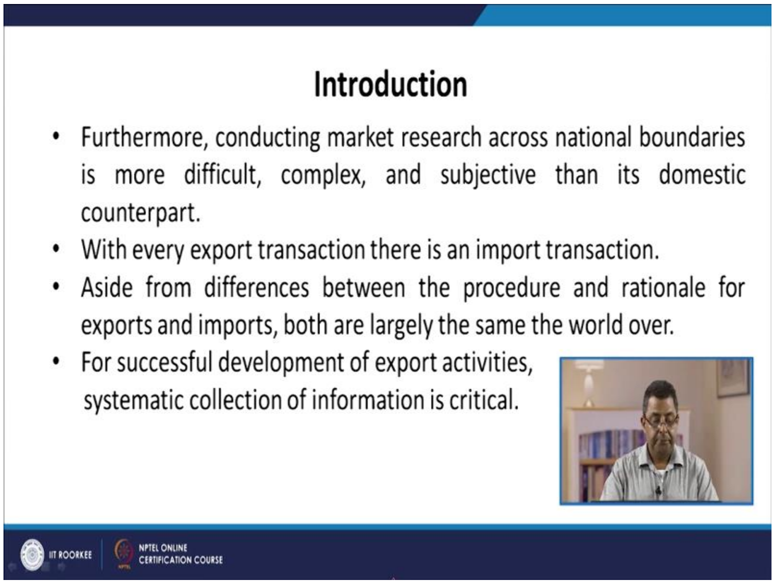

Another problem is conducting marketing research across national borders, is even more difficult than complex and subjective then it is at domestic counterparts and we have talked about the marketing research process in the in one of the earlier modules and with every export transaction there is equivalent or opposing import transaction. Aside from differences between the procedure and rationale for export and import, both are largely the same the world over. For successful development of export activities systematic collection of information is crucial and critical because now this is the first step and whether the company will globalize further or not.

So, this first step will determine if it is, if they have taken the right step and the and the fruits are and they are able to get benefits out of this first step then obviously the second step will follow very quickly. But if it is not so, then the company may will retreat and then again it may take a longer period of time to restart export activities and to move on to the next step.

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How to go about organizing for exports? So the first is, conducting research for exports. The first use here is available secondary data to research potential markets. So, lots of secondary data is available that should be used in the first place. The identification of an appropriate market in was the following criteria the first is the socio-economic characteristics, the political legal characteristics then there certain consumer variables that is lifestyle, culture, taste and purchasing behaviour and the financial conditions.

So, here we are talking of the external environment and here we have talked about the customers. So, first we look at the broader variables and then we move on to the narrow variable related to consumers.

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In indirect exporting how to go about doing in indirect exporting and then we will move on to the direct exporting. So, we are moving from the least risky and going upwards towards riskier options. So, this indirect exporting is the least risky it involves the use of an independent intermediary or agent to market the firm's product overseas. These agents the assume responsibility of the marketing firm's product through the network of foreign distributors and their own sales force.

So, now the company is selling to independent intermediary and then this independent intermediary. He will do exporting and he will do the rest of the thing and he may have network of foreign distributors or it may have its own sales force. So, this may include a combination export manager, export merchant, export brokers, export commission houses, trading companies and piggyback exporting.

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Major Types of Trading Companies and Their Countries of Origin

Type	Rationale for Grouping	Some Examples by Country of Origin
General Trading Company	Historical Involvement in generalized imports/exports	C. Itoh (Japan), East Asiatic (Denmark), SCOA (France), Jardine Matheson (Hong Kong)
Export Trading Company	Specific mission to promote growth of exporters	Hyundai (Korea), Interbras (Brazil), Sears World Trade (US)
Federated Export Marketing Group	Loose collaboration among exporting companies supervised by a third party and usually market specific	Fedec (UK), SBI Group (Norway), IEB Project Group (Morocco)
Trading arm of MNCs	Specific international trading operations in parent company operations	General Motors (US), IBM (US)
Bank-based or affiliated trading group	A bank at the center of a group extends commercial activities	Mitsubishi (Japan), Cobec (Brazil)
Commodity trading company	Long standing export trading in a specific market	Metallgesellschaft (Germany), Louis Dreyfus (France)

Now let us look at the major types of trading companies and their country of origin. The first type is the general trading companies and their historical involvement and they have come up, because of the historical war involvement and generalized imports and exports. So, these are the examples of these companies. For example, you have Asia East Asiatic in Denmark and C.Itoh in Japan. So, now these companies they were traditionally historical their way into exporting and importing and this is what the first type that is General Trading Company.

Second type is Export Trading Company. So the rational for the existence is they have a specific mission to promote growth of exporters. Hyundai in Korea, Interbras in Brazil, Sears World Trade is a US are examples of this kind of export trading companies. Then there are federated export marketing groups. So, these are loose collaboration among exporting companies supervised by third party and they are usually in market specific.

For example, you have said Fedec (UK), SBI group in Norway. Another type of this trading company is the trading arm of a multinational company. So, rational for the grouping is that they have a specific international trading operations in a parent companies operation. So, the parent company is there and they are trading arms of this parent company for example General Motors of US and IBM of US, they have this kind of trading arms.

Then there are bank based or affiliated trading groups so the bank is at the centre of a group and it extends commercial activities. For example Mitsubishi of Japan. Then there are certain commodity trading companies, so the longest standing export trading in a specific market. So, these are two examples for that.

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From indirect exporting, the next step is to move on to direct exporting. So, this direct exporting takes place where manufacturer or exporter sell directly to an importer or buyer located in a foreign market. Now in just keep in mind that in indirect exporting, this company was selling into an independent organization and that independent organization was doing the rest of the thing. In direct exporting, the manufacturer or the exporter sell directly to an importer or a buyer who is located in the foreign market.

Now the thing becomes more riskier. So export activities grow in a scale on complexity. Most firms they create a separate export department or export sales subsidiary or foreign sales branch.

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Now let us look at the comparison of direct and indirect exporting. So, indirect exporting there is low setup cost while in direct exporting the setup cost is high. In indirect exporting, the exporter tend not to gain good knowledge of export market because they are selling to domestic company but in directing exporting it leads to better knowledge of export market and international expertise due to this direct contact.

The credit risks mostly lies mostly with the middle man in indirect exporting. So there are no credit risks with the original company in indirect exporting. While in direct exporting credit risks higher specially in early years. In indirect exporting, since it is not in the interest of the middleman doing the exporting, customer loyalty rarely develops. So, he is not worried about you about the customer loyalty. But in direct exporting customer loyalty can be developed for the exporters brand more easily because now the manufacturer himself comes into the picture.

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Now let us look at the Export Import policy of 2015-2020. For the foreign trade in India is guided by the export and import policy of the Government of India. This policy is a five year plan and it is updated every year on 31st of March and the modifications improvements and new schemes become effective from 1st April of every year. The EXIM policy of the Indian government is regulated by the Foreign Trade Development and Regulation Act 1992. what are the key highlights of this exam policy?

So in the foreign trade policy 2015-2020, it provides a Framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country in line with make in India program.

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So, now you see that it has focus on two things. Increasing exports of goods and services 1 and the second is generation of employment and the third is increasing value addition. So these three things have to be done and this in line with the make in India program. So, the first is to increase exports of goods and services and generation of employment and increasing value addition within the country.

The policy aims to enable India to respond to the challenges of the external environment keeping in step with the rapidly evolving International trading architecture and make trade a major contributor to the country's economic growth and development. So, therefore when these three objectives are achieved, so that will lead to country's economic growth and development.

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Now this FTP 2015-20 has introduced to new schemes namely: Merchandise exports from India scheme, for exports of a specific goods to specified markets, one. The second scheme is Service export from India scheme. So in the first scheme we are we are exporting the goods and in second we are exporting the services and that is for increasing profits of notified services. 108 MSME i.e. is Micro Small Medium Enterprises clusters have been identified for focus intervention to boost exports.

So, in 108 clusters, the government will have will give special focus so that they can boost exports. Accordingly, Niryat Bandhu scheme has been galvanised and repositioned to achieve the objectives of skill India. So, in the first case we were talking about make in India, now we are talking of skill India.

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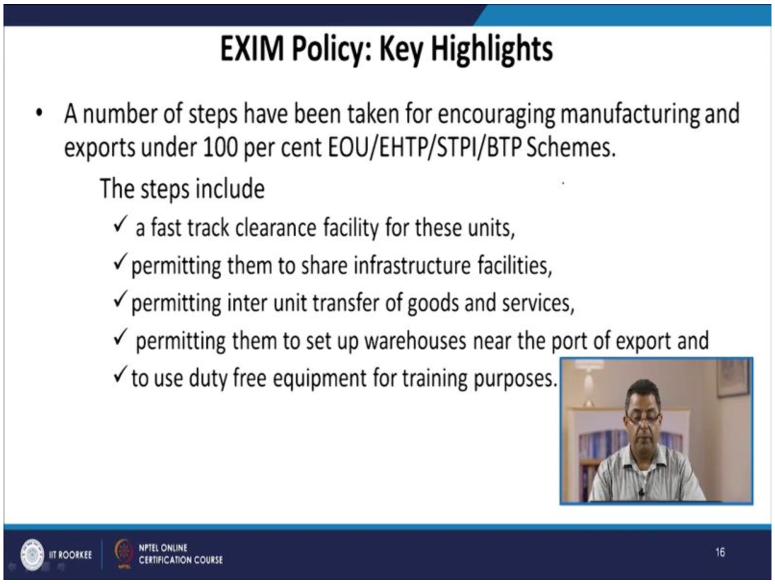

And their number of steps have been taken for encouraging manufacturing and exports under 100% export oriented units and software technology parks of India and various scheme and this is step include: a fastrack clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipments for training purposes.

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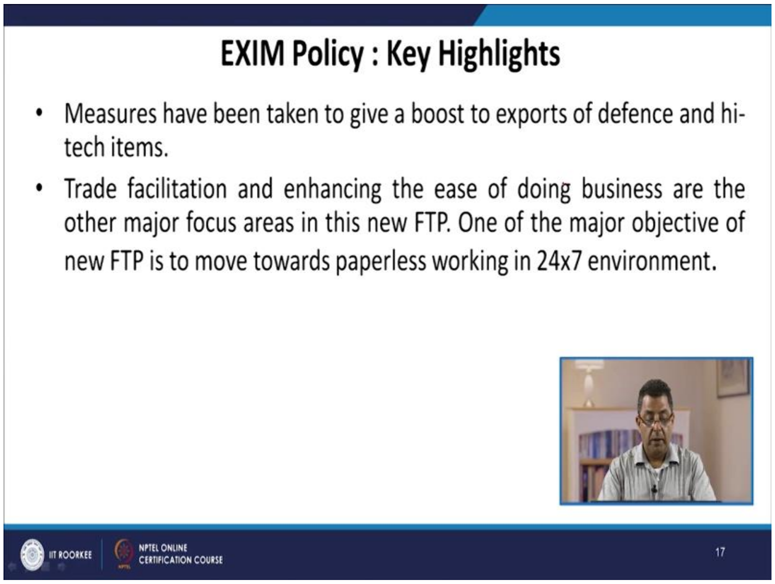

Measures have also been taken to give a boost to export of Defence and hitech items. Trade facilitation and enhancing the ease of doing business are the other major focus areas in this foreign trade policy. One of the major objective of this new foreign trade policy is to move towards paperless working in a 24/7 environment.

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Let us start with mechanics looking at the mechanics of exporting how to go out starting exports? So, exports in itself is a wide concept and lots of preparation is required by an exporter before they can start the export business. Now how to go about starting export business? So we will look at the various steps that are needed to start a export business. So, the first is to establish an organization. To start with the export business, the first as a sole proprietor concern or partnership concern or a company has to be setup as per the procedure with an attractive name and logo.

So, the first step is establish a company and idea is that it has to have attractive name and logo which is attractive or should be attractive to the customers across the world or in different countries and logo is also attractive to the people across the world. After having done that, next step is opening of a bank account and for that a current account with a bank that is authorised to deal in foreign exchange should be opened.

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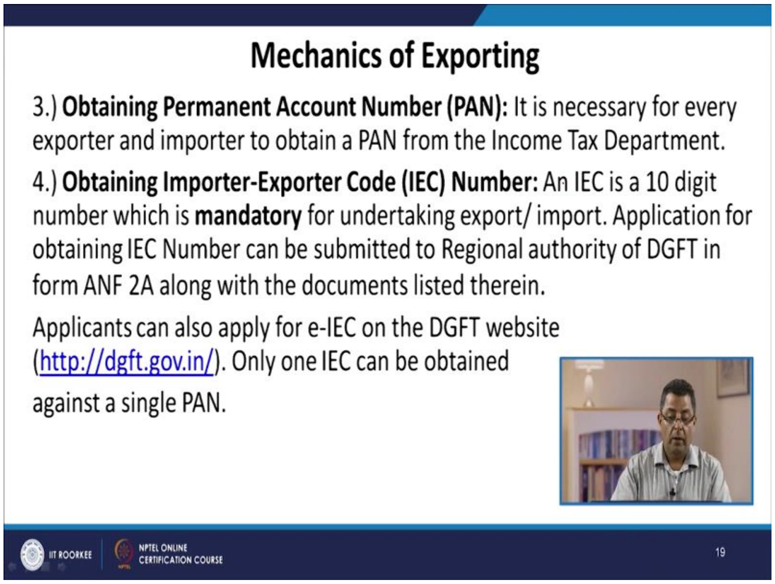

After that they will need to obtain a permanent account number. It is necessary for every exporter and importer to obtain PAN from the Income Tax Department. Fourth steps is to obtain an importer exporter code number that is IEC. So, this IEC is a 10 digit number which is mandatory for undertaking export and import. Without this number, exports and imports cannot be taken. So, if a company stops at 3rd step it will not still be able to make export and import. Application for obtaining IEC number can be submitted to the regional authority of the Directorate General of Foreign Trade in form ANF 2A along with the documents that are listed there.

Applicants can also apply for E-IEC that is Electronic importer exporter code on the DGFT website. The address of this website is given here. Only one IEC can be obtained against a single PAN.

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The next step is to have a registration-cum-membership certificate for availing authorization to import and export or any other benefit of confession under the foreign trade policy 2015-2020, is also to avail the services or guidance exporters are required to obtain a registration-cum-membership certificate granted by the concerned Export Promotion Council or the Commodity Board or there may be other authorities who will do that.

The next step is, this is the procedural part, now comes more important part for the purpose of business is the selection of product. All items are fully exportable except few items which appears in the prohibited and restricted list. After studying the trends of export of different products from India, proper selection of the products to be exported will be made. So, first you have to enter what are the different products that are exported from India and then you will have to do the proper selection of which products you would like to export.

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The next step is the selection of market. So after having selected the product then comes the selection of markets. And overseas markets should be selected after research covering the market size competition, quality requirement and payment terms. Exporters can evaluate the market based on the export benefits available for a few countries. So, there are some export benefit available under the foreign trade policy. So exporters can also look at those benefits and the export promotion agencies, Indian mission abroad, colleagues, friends and relative might be helpful in gathering that information.

So, so far as business concern, first we have selected the product then we move on to selection of markets.

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And then comes finding the buyer and that can be through participation in trade fairs, the buyer seller meet, exhibition, the business to business portal, browsing the web, then your export promotion councils, Indian mission abroad, Overseas Chamber of Commerce can also be helpful creating a multilingual website with product catalogue, prices, payment terms and other related information will also be helpful.

So your website comes in several different languages and a person can choose language in which he wants to gather information.

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The next step is sampling, that is providing customised sample as per the demands of the foreign buyer. This can help in getting exports. So, after you have decided on finding the buyers, now this buyer may have some specific needs and for that you will have to provide some kind of samples. As for the foreign trade policy 2015-2020 exports of bonafide trade and technical samples of really exportable items can be allowed without any limits.

So, lots of samples can be sent. The next step is pricing and costing. Product pricing is a crucial in getting buyers attention and promoters in view of international competition. Now you see that you have made the product we have made the sample and sent to the customer. Obviously customer will ask you for the price and this pricing and costing has to be very attractive because of increased competition. The price should be worked out and taken into consideration all from the sampling to realisation of export proceeds on expenses. Then there can be various basis of terms of sales, that is free on board and CIF.

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The next step is negotiating with the buyer. Obviously buyer will have different kind of conditions, different kind of terms and the seller will have different kind of terms. So, there is a need to negotiate. So, after determining the buyers interest in the future prospects and continuity in business, demand for giving reasonable allowances and discount and price may also be considered and the 12th step is covering risk through ECGC. ECGC stands for export credit guarantee corporation, so this corporation helps in covering the risks. International trade involves risks due to the buyer or country insolvency. So, this risk is covered by appropriate policy that can be taken from Export Credit Guarantee Corporation.

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So, when the exporter and importer are negotiating at 11th step, n they come across various terms of shipment and sales. So, let us look at those terms of shipment and sales. So, the responsibility of the exporter, importer and the logistic provider should be spelt out in the export contract in terms of what is and what is not included in price quotations. Who owns the title of goods while it is in transit, while it is moving?

INCOTERMS 2002 the stands for international commercial terms are the internationally accepted standard definition for the terms of sales by the International Chamber of Commerce.

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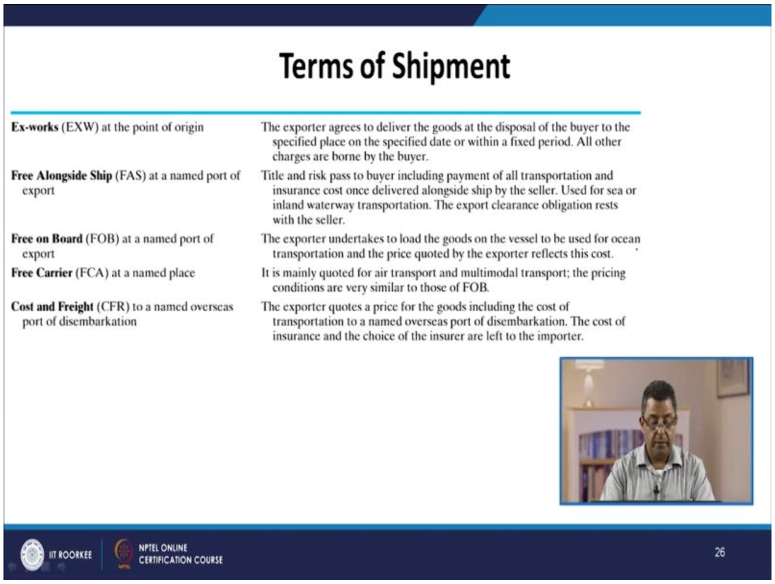

These are some terms of shipments that one of these will be there in every kind of transaction. The first is EX business that is EXW that is at the point of origin. Now what happens in this is the exporter agrees to deliver the goods at the disposal of the buyer to the specified place and on the specified date or within a fixed period. All other charges are to be borne by the buyer. Next term of shipment is free alongside ship.

That is FAS that is at a named port of export. So, now what happens is that here the goods made available at a particular point at a particular place. Now the goods are made available alongside ship. Title and risk passes to buyer including payment of all transportation and insurance cost was delivered alongside ship by the seller, use of ship alongside inland waterways transportation so, the export clearance obligation rest with the seller.

The next term of shipment is Free on board that is at a named port of export. The exporters undertaken to load the goods on the vessel to be used for ocean transportation and the price quoted by the export reflects its cost. So, as you move on, the cost that is mentioned will keep on increasing. Then comes Free Career that is FCA at a named place, now this is mainly quoted for air transit and multimodal transport.

So, here this is for ship and this is for air and multimodal transport the pricing conditions are very similar to those of FOB. The last term of shipment is the Cost and Freight that is CFR to a named overseas port of disembarkation. Exporter quotes the price for the goods including the cost of transportation to a named overseas port of disembarkation. The cost of insurance and the choice of the insurance are left to the importer.

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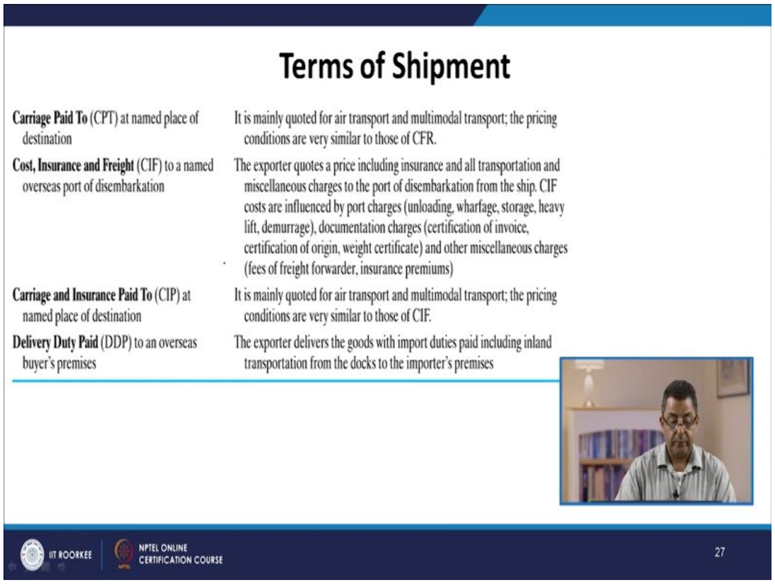

The next term is carriage paid to that is CPT at named the place of destination. It is mainly quoted for air transport and multimodal transport. The pricing conditions are very similar to those of CFR so this is the CFR. The next term of shipment is Cost Insurance and freight that is CIF and it is to be named as overseas port of disembarkation. So, the exporters quote a price including insurance and all transportation and miscellaneous charges to the port of disembarkation from the ship.

CIF cost are influenced by port charges that includes unloading, wharfage, storage, heavy lift, demurrage and they are also influenced by documentation charges that is certification of invoice, certification of origin, the weight certificate and other miscellaneous charges that include fees of the freight forwarder, insurance premium. Another term of shipment is carriage and insurance paid to that is CIP at named place of destination.

So, it is mainly quoted for air transport and multimodal transport pricing conditions that are very similar to CIF. Delivery duty paid that is DDP at an overseas buyer's premises. The exporters deliver the goods with import duty is paid including inland transportation from the docks to the importer's premises.

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Then, in addition to the terms of shipment there will also be some other terms that there will also be payment terms and these are the various types of payment and that moves from advance payment to consignment. Let us see each one of them. Advance payment means that the importer pays exporter first and exporter sends the goods afterwards. So, that is the safest mode of payment.

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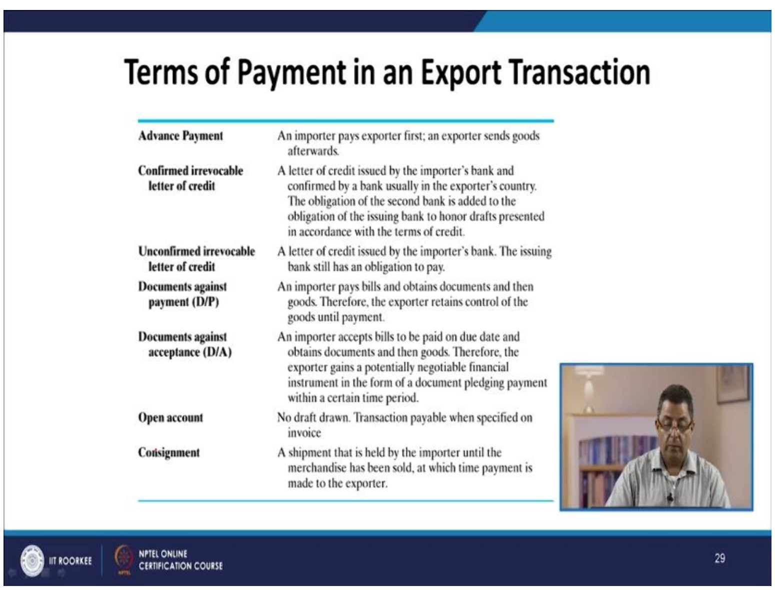

As we move down, so it becomes more and more riskier. Another mode of payment is confirmed irrevocable letter of credit. A letter of credit that is issued by importer’s bank and there is another bank that and confirmed by the bank usually in the exporter country. The obligation of the second bank is also added to the obligation of the issuing bank to honor drafts presented in accordance with the terms of credit. Now here you see that there are two banks that that get involved and also it is safer as compared to unconfirmed irrevocable letter of credit.

In this type of situation, a letter of credit is issued by the importers bank and the issuing bank has still has an obligation to be pay. The next term of payment is Document Against Payment and importers pay the bills and obtain documents and then the goods. So, first he has to obtain documents and after that the goods can be procured. Therefore, the exporters retain control of the goods until the payment is made.

The next term of payment is Documents Against Acceptance and importer accepts bills to be paid on due date and obtain documents and then the goods. So, here in this case is not making the payment while in this case where he is making the payment before obtaining the document. So, an importer accepts the bills to be paid on due date and obtain document and then the goods. Therefore, the exporter gives a potentially negotiable financial instrument in the form of document pledging payment within a certain time period.

Next type of term of payment is the Open Account. So, there is, no draft is drawn. Transaction payable when specified on the invoice. So, that is strictly between the buyer and the seller. The next term of payment is the consignment, the shipment that is held by the importer until the merchandise has been sold and after it has been sold the importer will make time payment will make payments to the export.

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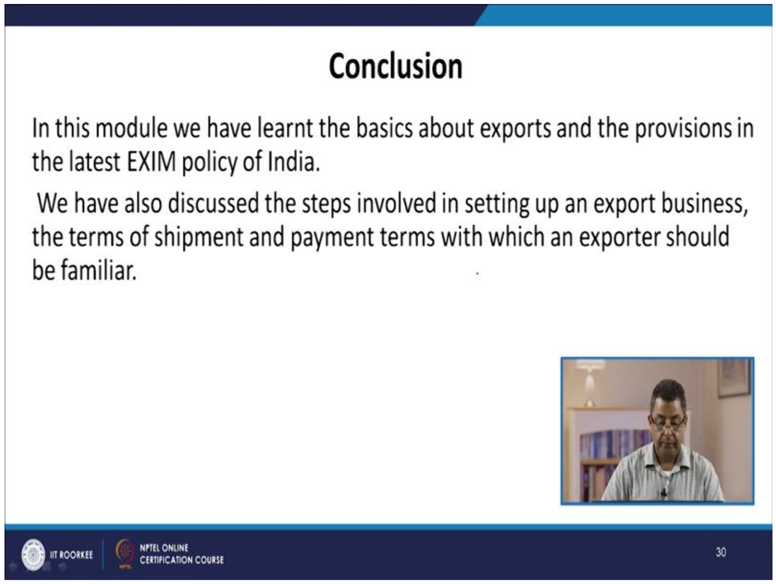

To conclude, in this first module on export and import management, we have learn the basics about exports and the provisions in the latest Exim policy of India. We have also discussed the steps involved in setting up of an export business in terms of and then we have also talked about that are the various terms that are used in those transactions that is the payment and the shipment terms and all the with these terms and exporter should be familiar with.

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And these are the one book and two web pages from which information for this module has been taken, thank you.