**Global Marketing Management**
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**Lecture – 34**
**Export/Import Management – Part III**

Welcome to global marketing management and we will continue with our discussion on export and import management that we started in module 32. So this in module 34 also we will continue to talk about export and import management. Now let us see that we have done the first four things in module 32 and 33 and the next four things to be done in module 34.

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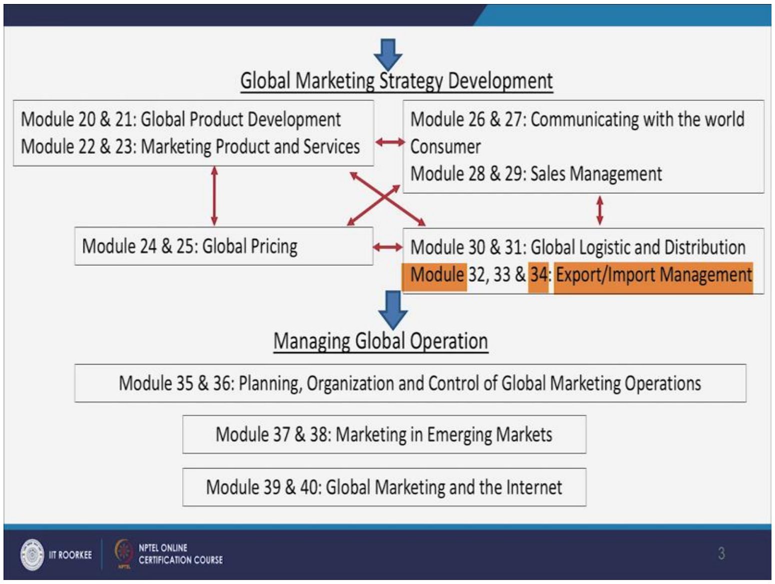


So after having understood the first four things, now there is a need to understand the role of the government in promoting the exports, what is the role and how can government promote exports? And keep in mind that Government have lots of tool by which they can they can promote exports.

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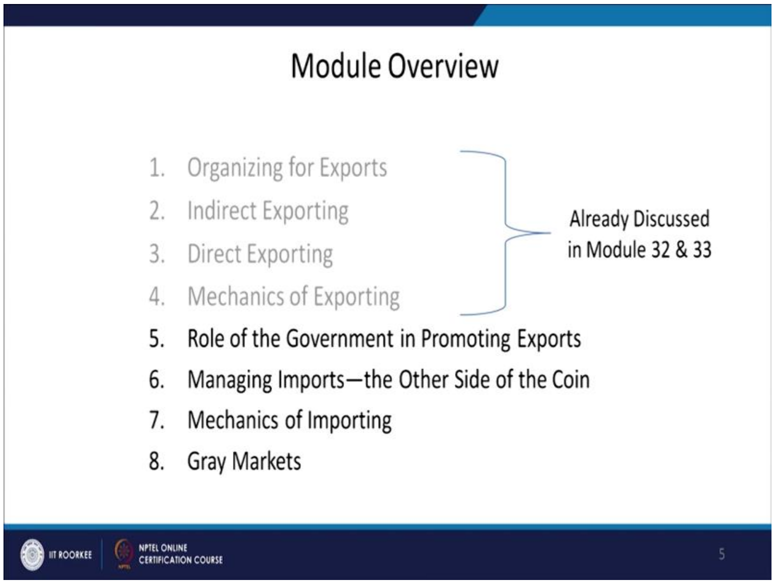


And then we will talk about this whole process in reverse. That is, managing imports which is the other side of the coin. And we will also then talk about the mechanics of importing. We will start with the role of government in promoting exports. So, the first is the export promotion schemes.

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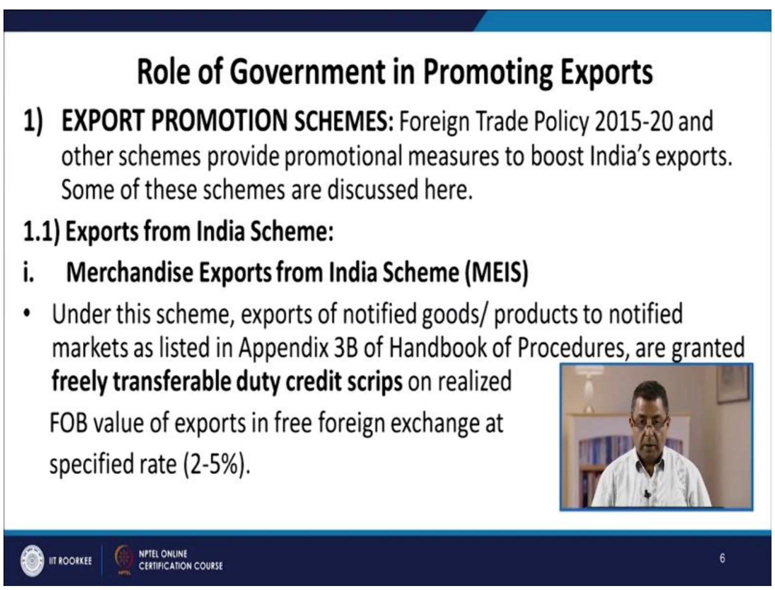


So, there are various export promotion schemes that come up from time to time. The foreign trade policy 2015 to 2020 had other scheme provide promotion measures to boost India's export. So because of every country want to export more than it imports and import will be possible only when the country is exporting. Therefore, the government they come up with the various kind of skills to promote export.

So the first is export from India scheme that is merchandise exports from India scheme. That is M E I S which stands for Merchandise Export from India Scheme. Under this scheme, exports of notified goods or products to notified markets as listed in appendix 3b of handbook of procedures are guaranteed freely transferable duty credit scrip on realized, free-on-board value of exports in free foreign exchange at specified date, that is, 2- 5%.

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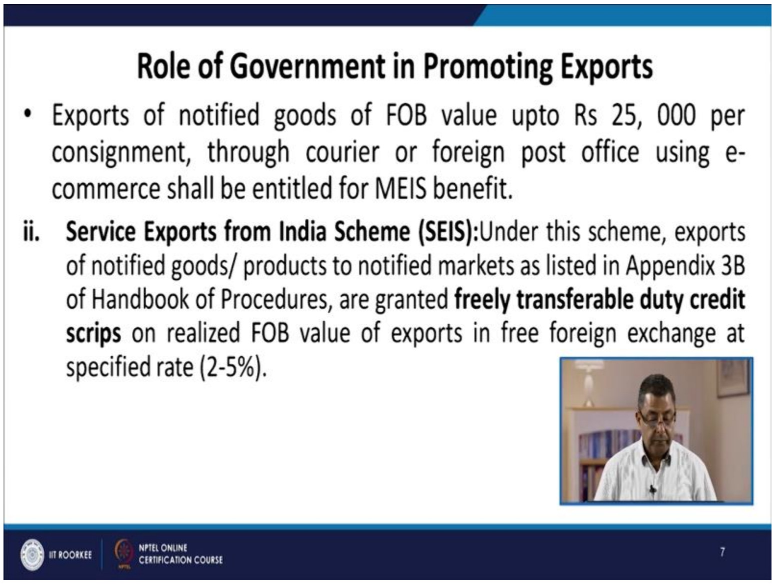


Exports of notified goods of free on board value upto rupees 25000 per consignment through courier or foreign post office using E-Commerce shall be entitled for MEIS benefit. Another is export service exports from India scheme that is S E I S. So there is goods Merchandise export from India scheme and then there is service export from India scheme. So under this scheme exports of notified goods or products to notified markets as listed in appendix 3b of handbook of procedures are guaranteed freely Transferable duty credit script on realized FOB value of exports in free foreign exchange at specified rate that is 2-5 %.

And there are some goods which are exempted from duty to notified market as listed in appendix 3b of handbook of procedures are guaranteed freely Transferable duty credit scrip on realise therefore the value of export in free foreign exchange at specified rate that is 2.5 %

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The second is duty exemption and remission. So there are certain goods which are which are exempted from the duty. SO these schemes enable duty free Import of inputs for export production with export obligation. In this duty exemption and remission these schemes enable duty free Imports of inputs for export production. So first the inputs are imported for export production with export obligation and then they are exported. So in those cases, duty exemption and remission is given.

So, there is an advance authorization scheme and under this duty free Import of inputs are allowed that are physically incorporated in the export product. So there are certain components that go into the export product itself. So under the scheme duty free Imports of inputs are allowed that are physically incorporated in the export product after making normal allowances for wastage with minimum 15% value addition.

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Another is advance authorization for annual requirements. Exporters having passed export performance in at least preceding two financial years shall be entitled for advance authorization for annual requirement. This shall only be issued using SION that is Standard Input Output Norms. Then there duty free import authorization scheme. That is DFIA scheme for DFIA is issued to allow duty free Import of inputs with the minimum value addition requirement of 20%.

In this case the minimum value addition is 20%. So DFIA shall be exempted only from the payment of basic custom duties.

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Another important scheme is duty drawback of customs or Central Excise duties or service tax. This scheme is administered by department of revenue. Under the scheme, products made out of Duty paid imports are first exported and thereafter refund of duties claimed. So first you import certain things, which goes into, into the product that is exported. And then the refund is given and it is it can be claimed in the following two ways.

The first is all Industries rates limited as per the schedule. Second is brand rate as per application on the basis of data or documents.

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Next is the rebate of service tax through all industry rates. Refund of service tax paid on specified output services used for export of goods is available at specified all industry rates.

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Another important thing is EPCG scheme. In this there is a zero duty EPCG scheme. Under this scheme import of capital goods is allowed for zero custom duty is allowed for producing quality goods and services to enhance export competitiveness. So under this scheme what happens is that you are able to import capital goods. So, otherwise you are not talking of capital goods, now we are talking of imports of capital goods.

And that too at zero custom duty, because then those goods can be used for production of other goods and that can lead to competitiveness of India's export. So import under EPCG shall be subject to export obligation equivalent to 6 times of Duty saved in 6 years. This scheme also allows indigenous sourcing of capital goods with 25% less export obligation.

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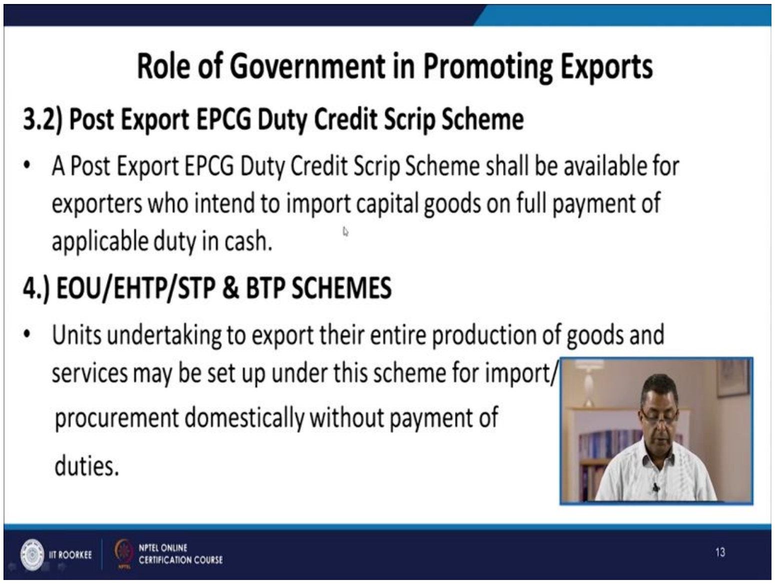


Next is the post export duty credit scrip scheme. A post export EPCG credit scrip scheme shall be available for exporters who intend to import capital goods on full payment of applicable duty in cash. So here the exporters they are importing the capital goods after making full payment of applicable duty that too in cash.

The fourth is EOU or EHTP or STP or BTP schemes. Units undertaking to export their entire production of goods and services will be set up under this scheme for import procurement domestically without payment of duties.

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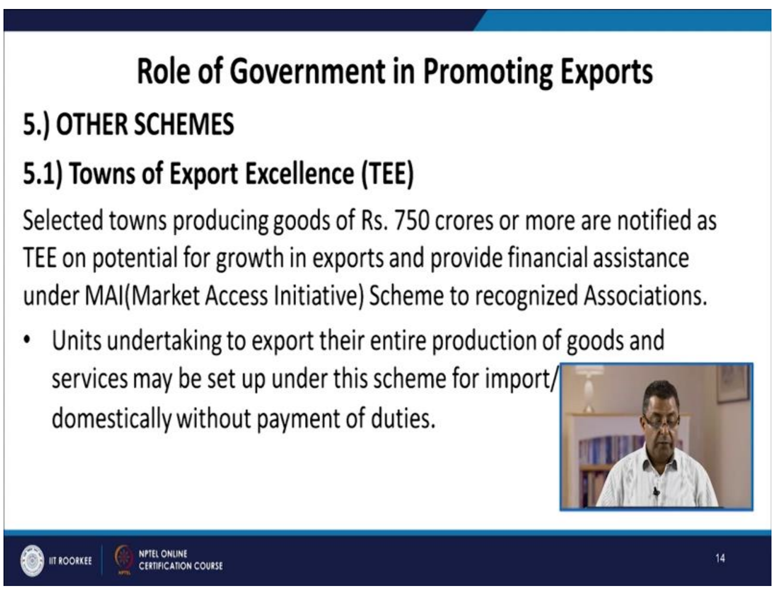

And then there are some other schemes the first of those schemes is the towns of export excellence. Selected towns producing goods of rupees 750 crores or more are notified as Towns of export excellence on potential for growth in exports and provide financial assistance. Under the MAI, that is market access initiative scheme to recognized Association. So now, there were some export processing zones etc. etc.

Now we are talking about towns of export excellence. Those towns who are producing goods of rupees 750 crores, so units undertaking to export the entire production of goods and services may be set up under this scheme for import domestically without paying in for imports or domestically without payment of duties.

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Another is rebate of duty on export goods and materials used in manufacture of such export goods. Rebate on Duty paid on excisable goods which are exported or duty paid on material used in manufacture of such goods may be claimed under the rule of 18 or Central Excise rules 2002. The next scheme is export of goods is under bond. And that is without payment of excise duty. Clearance of excisable goods for exports without payment of central excise duty from the approved factory warehouse and other premises and refer to rule 19 of the central excise rules 2002. Another is a market access initiative scheme.

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Under the scheme financial assistance is provided for export promotion activities on Focus countries, Focus product basis to EPCs industry and trade Association etc. The activities include market study, survey, setting up showrooms, warehouses participation International Trade Fair, brand promotion, testing charges for engineering products or products etc., details of this scheme is available on this website.

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Then there is a market, marketing development assistance scheme. So, financial assistance is available for exporters, having an annual export turnover upto rupees 30 crores for trade fairs, buyer seller meets organized by EPCs or trade promotion organizations. So, this market development assistance, guidelines are available at [www.commerce.nic.in](http://www.commerce.nic.in).

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Other type of scheme is Status holder scheme, upon achieving prescribed export performance. After the exporter has achieved the certain level of performance, Status recognition as 1 Star, 2 star, 3 star, 4 star, 5 star export houses is accorded to the eligible party applicants. So after the unit or a company has achieved a basic requirements and then they are recognized with 1- 5 stars.

Such status holders are eligible for various nonphysical privileges as prescribed in the foreign trade policy. In addition, facilities like 24/7 custom clearance, single window, window in customs, self-assessment of custom duty etc. are available to facilitate export, export. So as the exporter move from 1 star to 5 star, there are lots of benefit that they get from the government.

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Now let us look at the imports. That is the other side of the coin. On the one hand one side of the coin was export and the other side of the coin is import. Also keep in mind that import is very important because if a country does not import then they will not have/ there can be no export because they will not have any kind of money to pay for they will not have they will not have the money to pay for their imports and because they export, so therefore, they get money and then they use their money to import.

So these are the two sides of the same coin and for also balancing in the balance of payment both the side should be you should be equal or nearly equal. So that is why this import is very important. Import trade refers to the Purchase of goods from a foreign country the procedure for import Trade differs from country to country, depending upon their import policy its statutory requirements and custom policies of different countries.

So now if India is someone in India is importing, we are not talking of exporting, we are talking of importing, for someone in India is importing something. Now the Government of India has various kind of policies and requirements and procedure and custom policies which are to be taken care of if I want to import something from some places. Importing any good depends upon the existence of a situation in which the domestic production of the goods, in question is not sufficient to satisfy demand.

So when domestically we are not able to produce something or we are not able to meet the demand then only import can be done. For example, crude oil in India we do not we do not have the crude oil. Therefore, there is a need to import all this all this crude oil into the country. Cut flowers to United States import lots of Cut flowers because of the demand there is more than the supply domestically therefore they import lot of Cut flowers.

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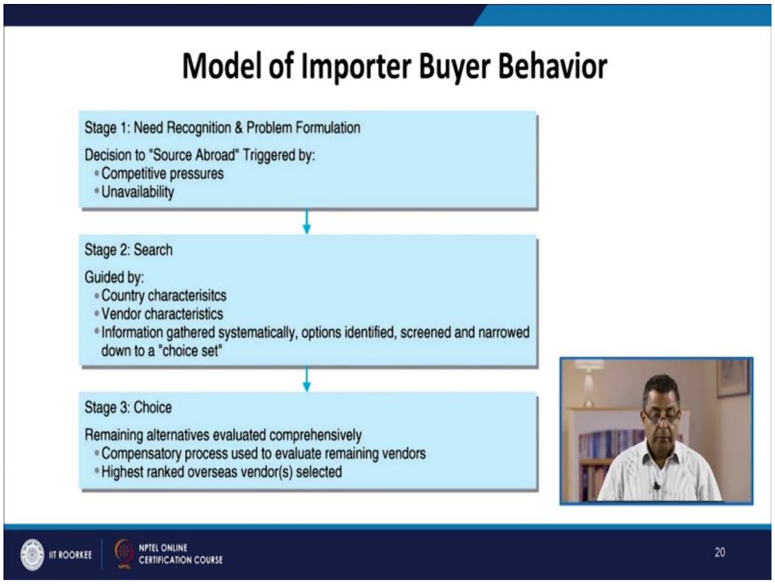


Now this is the model of importers buying behavior. Stage one is need recognition and thereafter comes problem formulation. So, the first step of this model of import buying process buying behavior is need recognition and the second step is problem formulation. So, decision to source abroad are triggered by one is the competitive pressures. So because of the competitive pressures, because of competition, this company has to keep on reducing cost.

And maybe when they buy from a form foreign country the cost is less therefore they become more competitive. Or on the other hand the raw material or the component is not available domestically. So therefore they have to import all these things from the foreign country. So these are the two main reasons for importing. Now the next stage consists of search. Search for this information, for the different alternatives, for the products, what is being produced at in which country, etc and etc.

So these are guided by country characteristics, vendor characteristics, information gathered systematically, options identified, screened and narrowed down to a choice set. So when there is there is a need to import something maybe because of competitive pressure or because of unavailability, now what importer has to do is, to look at the various countries from where this import is possible one, second they also have to look at various vendors.

So, in one country there can be four vendors, in another country there can be two vendors and in the third country there can be ten vendors. So now, they have to look for the country characteristics which is the, which is the easiest country to import from, vendor characteristics, which vendor is the most trustworthy and will give the quality components and raw material on time. And then all these things are to be narrowed down to a choice set, that is, the choice of 2, 3, 4 vendors from, from they may come from the same country or they may be coming from different countries.

So this is another important step in the buying process. This buyer process, now keep in mind that we are talking of different countries and buyers coming from and the suppliers coming from different countries. So after having made this choice set, the third stage is the choice itself. Remaining alternatives evaluated comprehensively. Now we have 4 or 5 alternatives; these four or five vendors who will be coming from the same country or different country.

Now they are to be evaluated comprehensively now. Compensatory procedure process used to evaluate remaining vendors. There are certain compensatory processes that are used to evaluate remain and there are some non-compensatory processes that are used to evaluate vendors. The highest and overseas vendor is selected. So this compensatory process is what that there are certain characteristics on which you will choose a vendor.

So one vendor will have more of one characteristic and another will have more of another characteristic. So now you have this weighted average and the vendor who gets the highest, highest score he is selected for imports.

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So let us look at what are the mechanics of importing. The first is the procedure and steps involved in Import of goods. The first is the trade; the first step of this process is the trade enquiry. So in the first stage in an import transaction like any other transaction of a purchase and sale relates to making trade enquiries. So who is selling what at what price and at what conditions etc. An inquiry is a written request from the intending buyer or his agent for information regarding the price and the other terms on which the exporter will be able to supply goods.

So what are the minimum quantity if required so many exporters they will export only when they have order for minimum quantity and also what are the various kinds of quality standard then so and so for the time they will take and the cost. For all these things, they are to be asked from the exporter.

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The second is procurement of import licence and Quota. The import Trade in India is controlled under the import and export Control Act of 1947. A person or a firm cannot import goods into the country without a valid import licence.

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So, because the payment has to be made, when you are importing, therefore, the next step is to how to go about obtaining foreign exchange. So the importer has to make arrangements for obtaining necessary foreign exchange to pay for the imports. So they will have to pay rupee and buy the currency in which of the country from where they are importing.

So for the Foreign Exchange Reserves in many countries are controlled by the government and are released through its central bank. In India, the exchange control department of The Reserve Bank of India deals with the foreign exchange.

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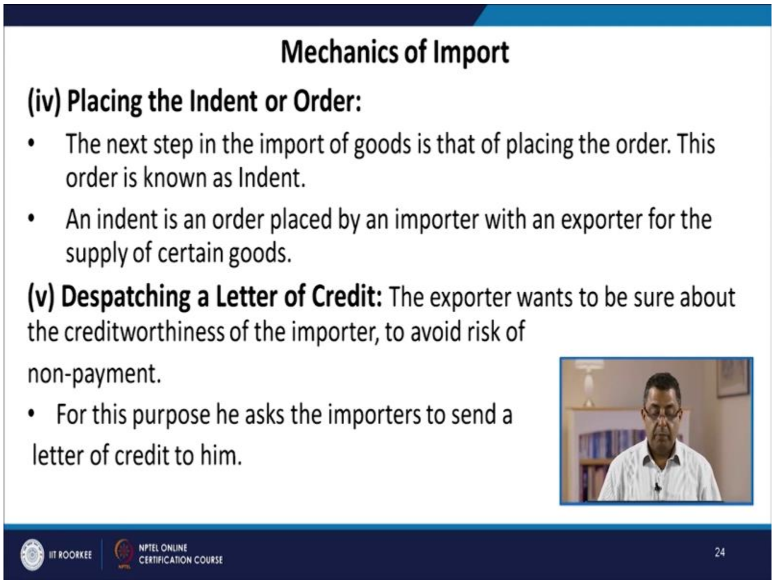


The next step is placing the indent or the order. The next step is to step in the import of goods that of placing the order. This is known as the indent. So that was that was the invoice that we have talked about, this indent becomes the invoice for the exporter while this is the indent for importer. So an indent is an order placed by the importer with the exporter for the supply of certain goods.

So for importer it is indent and for exporter it is an invoice. And then comes dispatching a letter of credit. The exporter may want to have a letter of credit in the payment terms therefore they need to need to dispatch the letter of credit and importer will dispatch the letter of credit to the exporter. So the exporter wants to be sure about the creditworthiness of the importer or to avoid risk of nonpayment.

And for this purpose he asks for the importer to send the letter of credit to them so after they have made the indent which is the, which is an invoice for the, for the exporter now exporter wants that importer should send them a letter of credit.

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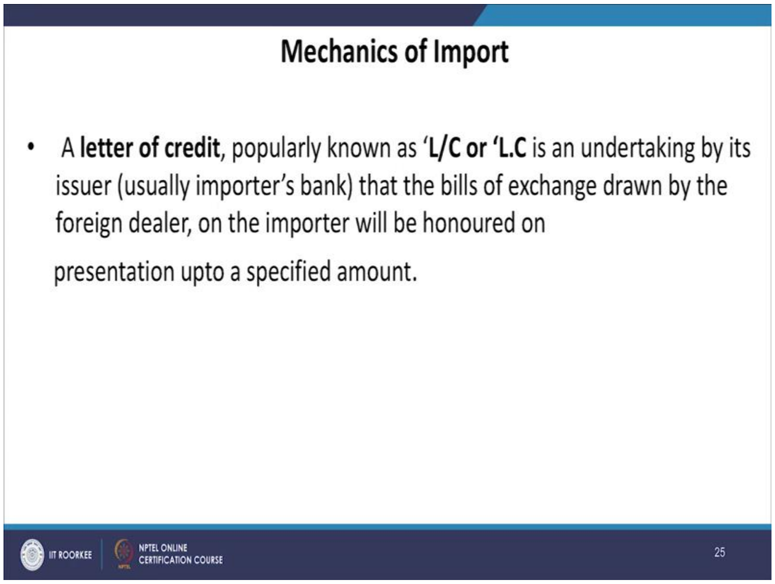


So a letter of credit popularly known as LC is an undertaking by the issuer, that is, usually importer's bank that the bill of exchange drawn by the foreign dealer on the importer will be honored on presentation of up to a specified amount.

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The next is the formalities related to the customs and clearing of goods after receiving the document or title of the goods. So here it is important to note that the documents of the title of the goods the importer has to comply with many formalities for taking custody of the goods on arrival and these documents are the first they have: to obtain endorsement for delivery or delivery order; to pay the dock dues and obtain Port Trust dues receipts and then they also have to get bill of entry.

The importer has to fill a form furnishing details about his own name and address, the name of the ship, packaging number, marks, quantity value, description of goods, the name of the country where from goods have been imported and custom duty payable.

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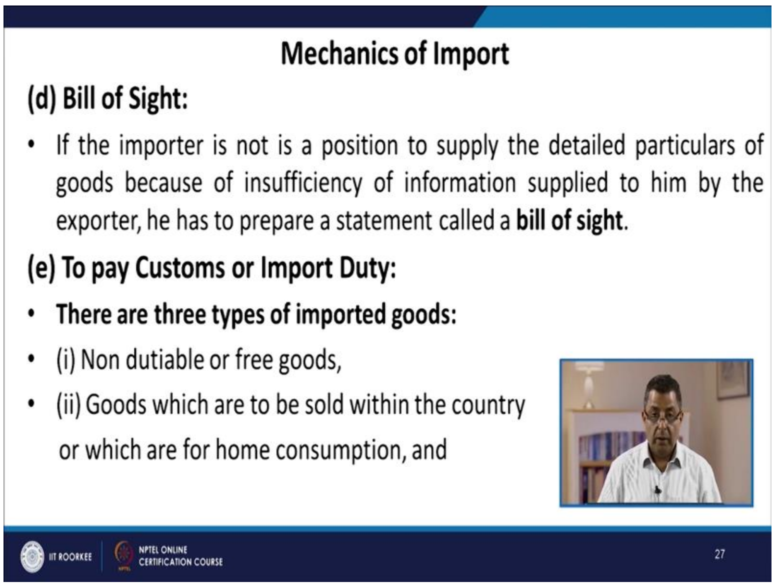


Another document that is required is the Bill of Sight. If the importer is not in a position to supply the detailed particulars of goods because of insufficiency of information supplied to him by the exporter, then he has to prepare statement called the bill of sight. So, if all the documents are prepared according to the law, according to the process, then there is no need of Bill of Sight.

So it is required only when there the information that is supplied by the exporter to the importer is not sufficient. And the next is to pay the customer import duties. So there are three types of imported goods. The first is non duty dutiable or free goods so anybody can import them. Then there is no problem with that. The second is goods which are to be sold within the country or which are for home consumption.

So now you see that, there are three types of imported goods. So first is free goods and there are no problems in importing those, another goods are to be sold within the country or which are for the home consumption. And the third are re-exportable goods. That is goods meant for re-export.

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So first they are imported and then they are to be exported, if the goods are duty free, no import duties is to be paid at the custom office. The next is bonded and duty paid warehouses. The port trust and custom authorities maintain two types of warehouses; the first is the bonded and the second is duty paid. The goods on which the duty has already been paid by the importer can be kept in the duty paid warehouses. The bonded warehouses are meant for goods on which duty has to be paid by the importer.

So here you have already paid the duty and in the second case, there is a need to pay the duty later on.

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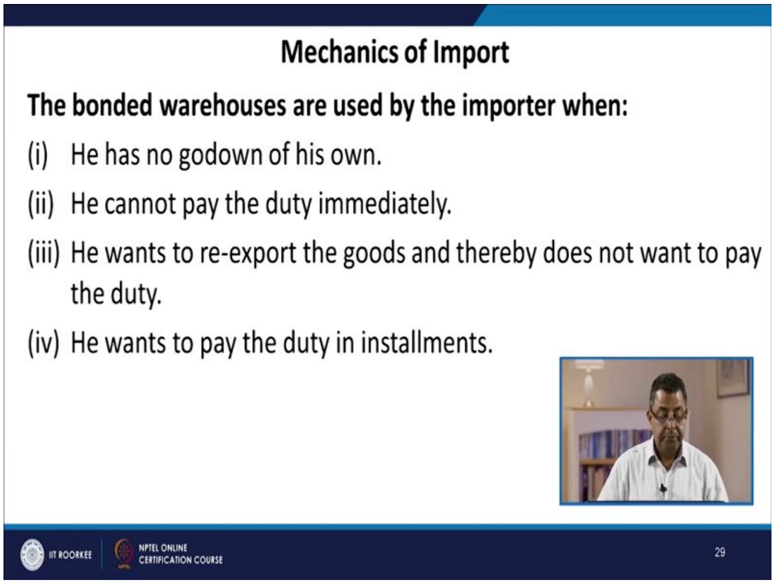


The bonded warehouse are used by the importer when there is no godown of his own. He cannot pay the duty immediately or he wants to re-export of goods and thereby does not want to pay the duty. Or he wants to pay the duty in installment. So there are various reasons why importer looks for a bonded warehouse. The next step is to is the appointment of clearing agents. The importer may appoint clearing agents to take care of lots of hassles of getting the goods from the ship to his place.

So they appoint clearing agents. So the importers may appoint Clearing agents for taking the delivery of goods on his behalf. Clearing agents are the specialized persons engaged in the work of performing various formalities required for taking the delivery of goods on behalf of others. So these are the special companies or special people who know what is to be done in order to take charge of the imported goods. And then comes the another that is making the payment.

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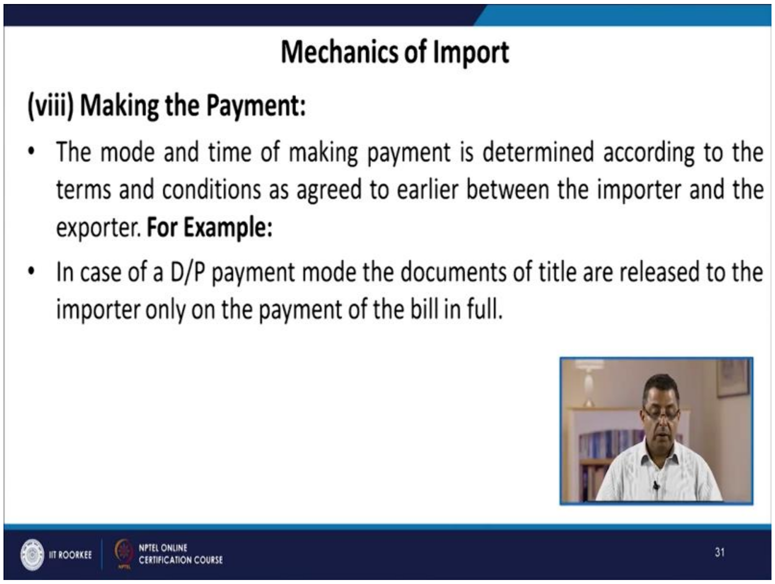


The mode and time of making payment is determined according to the terms and conditions act as agreed to earlier when the importer and the exporter. So now how the payment is to be made. There are several terms that we have talked about in module 32. So in case of a D/P payment mode, the Documents of Title are released to the importer only on the payment of the bill in full. So D/P is a kind of payment, that is, payment against documents. Documents are given only after the payment has been made. The next is the closing of the transaction. This is the last step in the import trade procedure.

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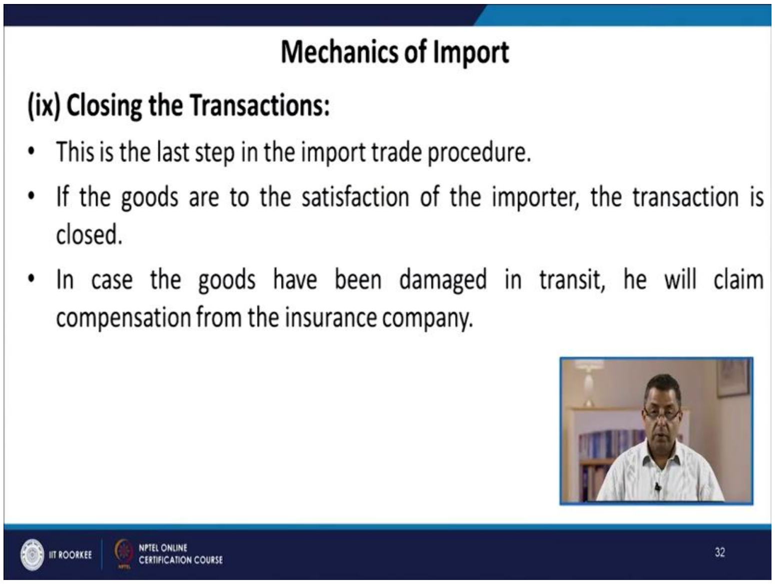

If the goods are to the satisfaction of importer, the transaction is complete and then it is closed. In case, the goods have been damaged in transit then the importer will claim compensation from the insurance company.

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The next important thing that we have to talk about in export and import management is about the gray market. We are not talking of black market, we are talking of gray market. Gray market, channels refers to the legal Export Import transactions involving genuine products into a country by intermediaries. But those intermediaries who are not authorized distributors. So the only problem in whole of this transaction is that import or export is done by people who are not authorized.

So gray market channels refers to the legal export or import transaction involving genuine products into a country by intermediaries other than the authorized distributor. From the importer side, it is also known as parallel imports. Three conditions are necessary for gray markets to develop. So we have talked about the gray markets earlier also, now to talk about them in greater detail. So there should be three conditions for gray market to develop.

The first is the products must be available in other markets, first; second is trade barriers must be low enough for parallel imports.

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And price differential among various markets that is the most important one, Price differential among various market must be great enough to provide the basic motivation for gray markets. So if the cost of transportation from one market to the other market, makes the cost of that product in that market higher then there will be no imports. No gray Markets and no parallel imports. So such price differences arise due to due to several reasons. The one reason is that of currency fluctuation, another reason is the difference in market demand.

Or there can be legal issues; the fourth one is opportunistic behavior. Segmentation strategy and World Wide Web's information transparency.

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Now how to combat the gray market activities? So if the gray market has developed then how to combat that? So there are certain reactive strategies. The first is strategic confrontation or participation cutting down the price, supply interferences, promotion of gray market product limitations, collaboration or acquisitions. So you acquire those people or you collaborate with them or tell the customers what are the limitations of the grave when the import when the by products in the gray market. Now let us look at the reactive strategy to combat gray market activities.

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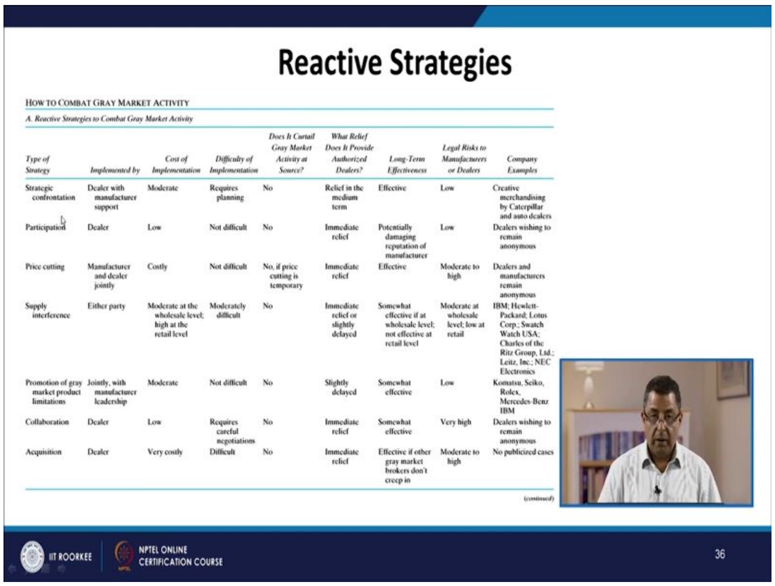


So these are the various types of strategies on the left hand inside, that is, the strategy confrontation, participation and price cutting and supplier price interferences, promotion of gray market product limitations, collaboration and activation. And there are several examples that are given on the right hand side. And then you can also go through this chart to understand the various implications.

So, where this kind of study is implemented, what will be the cost of implementation and difficulty in implementation in implementing those strategies. And then will it curtail the gray market activity at source, what relief does it provide to authorized dealers, what are the what is the long-term effectiveness of all these Strategies and the legal risk to manufacturers or dealers.

So this gives a comprehensive picture of reactive strategy to combat the gray markets. And with the reactive strategies there are certain proactive strategies also.

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The first is the product service differentiation and availability, strategic pricing, dealer development marketing information systems, long-term image reinforcement, establishing legal precedence and lobbying.

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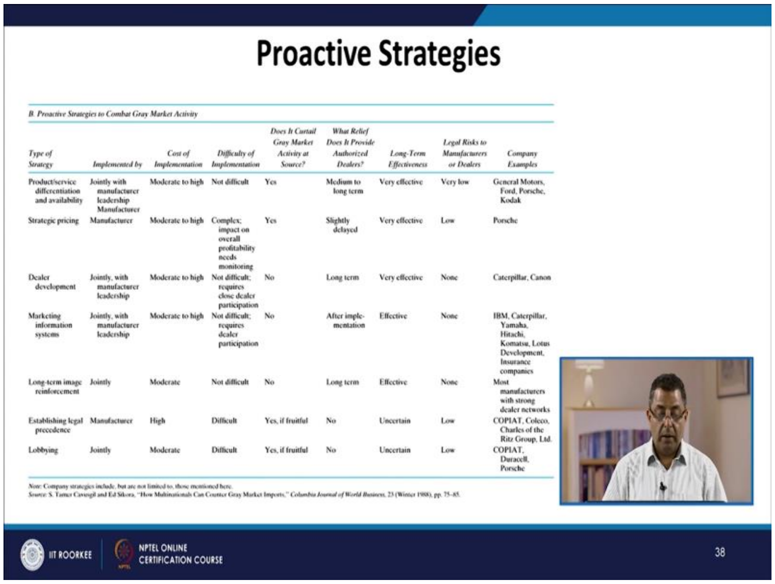

Proactive Strategies

*B. Proactive Strategies to Combat Gray Market Activity*

| *Type of Strategy* | *Implemented by* | *Cost of Implementation* | *Difficulty of Implementation* | *Does It Curtail Gray Market Activity at Source?* | *What Relief Does It Provide Authorized Dealers?* | *Long-Term Effectiveness* | *Legal Risks to Manufacturers or Dealers* | *Company Examples* |
|---|---|---|---|---|---|---|---|---|
| Product/service differentiation and availability | Jointly with manufacturer leadership Manufacturer | Moderate to high | Not difficult | Yes | Medium to long term | Very effective | Very low | General Motors, Ford, Porsche, Kodak |
| Strategic pricing | Manufacturer | Moderate to high | Complex; impact on overall profitability needs monitoring | Yes | Slightly delayed | Very effective | Low | Porsche |
| Dealer development | Jointly, with manufacturer leadership | Moderate to high | Not difficult; requires close dealer participation | No | Long term | Very effective | None | Caterpillar, Canon |
| Marketing information systems | Jointly, with manufacturer leadership | Moderate to high | Not difficult; requires dealer participation | No | After implementation | Effective | None | IBM, Caterpillar, Yamaha, Hitachi, Komatsu, Lotus Development, Insurance companies |
| Long-term image reinforcement | Jointly | Moderate | Not difficult | No | Long term | Effective | None | Most manufacturers with strong dealer networks |
| Establishing legal precedence | Manufacturer | High | Difficult | Yes, if fruitful | No | Uncertain | Low | COPIAT, Coleco, Charles of the Ritz Group, Ltd. |
| Lobbying | Jointly | Moderate | Difficult | Yes, if fruitful | No | Uncertain | Low | COPIAT, Duracell, Porsche |

*Note:* Company strategies include, but are not limited to, those mentioned here.
*Source:* S. Tamer Cavusgil and Ed Sikora, "How Multinationals Can Counter Gray Market Imports," *Columbia Journal of World Business*, 23 (Winter 1988), pp. 75–85.

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And in this chart, this gives the details about the proactive strategies that can be used to combat gray market. On the left hand side again, we have product and service differentiation and availability, strategy pricing, dealer development, the Marketing Information System, long term image reinforcement and so on. And on the extreme right hand side we have the examples of the companies that have used this is proactive strategies.

And in between we move from who implements these strategies, what may be the cost and difficult in implementation of the Strategies and whether they curtail gray market, gray market activity at the source, what the relief it will provide to the authorised dealers, what are the long-term effectiveness of these proactive strategies and legal ways to manufacturers or dealers.

So, in these two charts, in this two in this two figures, we will list out all the reactive and proactive strategies and the various examples related to those strategies. To conclude, in this module we had discussed a number of Government initiatives and measures to boost Indian exports.

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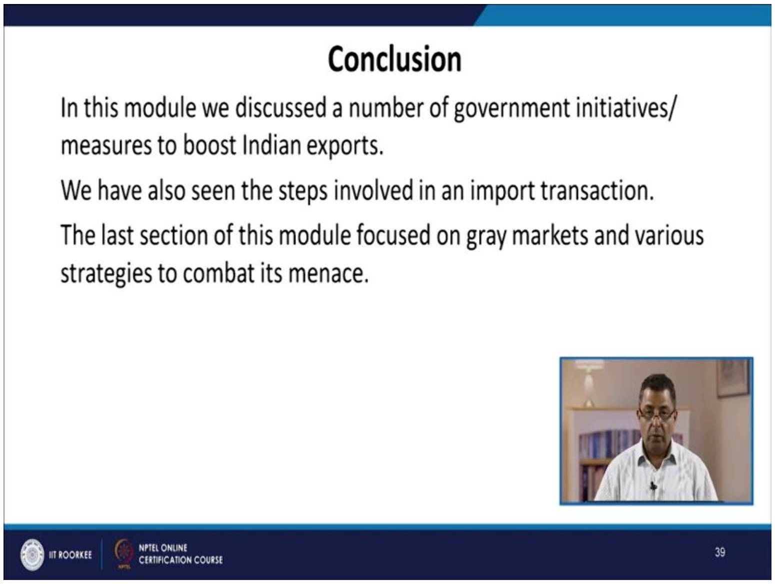


So, all these policies and initiatives that the government has, to boost Indian exports. And we have also seen the steps involved in the import transaction which is the other side of the coin the last section of this module focused on gray Markets and various strategies to combat this problem.

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And these are the websites and the book that have been used for developing this module. Thank you.